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 Sole Lead Manager (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 Sole Lead Manager; and (5) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the Notes.

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

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Sole Lead Manager or any affiliate of the Sole Lead Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Sole Lead Manager 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 Sole Lead Manager 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.$1,984,838,000 5.00 per cent. Notes due 2015

(to be consolidated and form a single series with the U.S.$3,000,000,000 5.00 per cent. Notes due 2015 issued on 24 December 2013)

Issue price: 100 per cent. plus accrued interest from 24 December 2013

The U.S.$1,984,838,000 5.00 per cent. Notes due 2015 (the "**New 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 20 December 2015 and will be redeemed at par at that date. The New Notes will be consolidated and form a single series with the U.S.$3,000,000,000 5.00 per cent. Notes due 2015 issued on 24 December 2013 (the "**Original Notes**" and, together with the New Notes, the "**Notes**").

Interest will accrue on the outstanding principal amount of the New Notes from and including 24 December 2013, and will be payable semi annually in arrear on 20 June and 20 December in each year, commencing on 20 June 2014. Accordingly, there will be a short first coupon (see Condition 4 of the "*Terms and Conditions of the Notes*"). The New Notes will bear interest at a rate of 5.00 per cent. per annum.

SEE "*RISK FACTORS*" FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NEW NOTES ON PAGES 1 to 24.

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

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

The European Securities and Markets Authority ("**ESMA**") is obliged to maintain on its website, www.esma.europa.eu, 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 New 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" ("**QIBs**") only (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The New 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. Original Notes which, in each case, were offered and sold in reliance on Regulation S (collectively, the "**Unrestricted Original Notes**") were initially represented by beneficial interests in a global Note (the "**Unrestricted Original Global Note**") in registered form without interest coupons attached, registered in the name of Citivic Nominees Limited, as nominee for, and was deposited on or about 24 December 2013 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**"). Original Notes which, in each case, were offered and sold in reliance on Rule 144A (collectively, the "**Restricted Original Notes**") were each represented by beneficial interests in a global Note (the "**Restricted Original Global Note**" and, together with the Unrestricted Original Global Note, the "**Original Global Notes**") in registered form without interest coupons attached, which were deposited on or about 24 December 2013 with a custodian (the "**Custodian**") for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company ("**DTC**"). On 19 February 2014 (the "**Closing Date**"), the Unrestricted Original Global Note and the Restricted Original Global Note will be exchanged for the unrestricted global note ("**Unrestricted Global Note**") and the restricted global note ("**Restricted Global Note**"), representing the Unrestricted Original Notes and Restricted Original Notes, respectively, together with the New Notes offered and sold in reliance on Regulation S (the "**Unrestricted New Notes**", and together with the Unrestricted Original Notes, the "**Unrestricted Notes**") and the New Notes offered and sold in reliance on Rule 144A (the "**Restricted New Notes**", and together with the Restricted Original Notes, the "**Restricted Notes**") (the Unrestricted Global Note and the Restricted Global Notes, the "**Global Notes**"). 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 New 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**").

Sole Lead Manager

VTB Capital

This Prospectus is dated 17 February 2014.

*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 VTB Capital plc (the "**Sole Lead Manager**"). Effective from the date of commencement of discussions concerning the Issuer or sale of New Notes, prospective purchasers of New Notes and each of their employees, representatives or other agents may not 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 New Notes and it should not be considered as a recommendation by the Issuer or the Sole Lead Manager that any recipient of this Prospectus should subscribe for or purchase any New Notes. The distribution of this Prospectus and the offering, sale and delivery of the New Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Sole Lead Manager to inform themselves about and to observe any such restrictions.

For a description of certain restrictions on offers, sales and deliveries of the New 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.

The Sole Lead Manager has not 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 the Sole Lead Manager nor any of its affiliates as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the New Notes or their distribution. Neither the delivery of this Prospectus nor the offering, sale or delivery of any New 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 New Notes.

The New 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 New Notes, VTB Capital 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 New Notes at a level higher than that which might otherwise prevail for a limited period. However, there is no obligation on the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) to undertake stabilisation action. Any stabilisation action may begin at any time on or after the adequate public disclosure of this Prospectus and, if commenced, may be discontinued at any time, but it must be no later than the earlier of 30 days after the issue of the New Notes and 60 days after the date of the allotment of the New 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 17 February 2014, the official exchange rate of the National Bank of Ukraine (the "**NBU**") was U.S.$1.00 to UAH 8.64.*

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

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

*Statistical data appearing in this Prospectus has, unless otherwise stated, been obtained from the State Statistics Service of Ukraine (the "**State Statistics Service**"), the Ministry of Finance of Ukraine (the "**Ministry of Finance**"), the Ministry of Economic Development 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 LICENCE 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; (vi) political factors in Ukraine, which affect the timing and structure of economic reforms, the climate for FDI and the pace, scale and timing of privatisations; (vii) the unpredictable outcome of the current crisis in Ukraine, which may affect the future economic, political and international policies of the Government and could lead to a period of heightened political and economic instability in Ukraine; and (viii) decisions of the Russian Federation with respect to the continued implementation of the package of economic and financial support for Ukraine announced in December 2013, including the willingness of the Russian Federation to continue extending financial support to Ukraine at and after the maturity of the Notes in December 2015.

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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

The current crisis in Ukraine creates significant political and economic uncertainty

On 21 November 2013, the Cabinet of Ministers of Ukraine issued an instruction deferring the signing of the Association Agreement between Ukraine and the EU (the "**Association Agreement**"), which was scheduled for 28 November 2013, to allow the Government to carry out a detailed analysis of the measures needed (i) to renew trade and economic relations with the Russian Federation and other CIS states, and (ii) to create a domestic market in Ukraine capable of having a relationship based on parity with the EU. Following the decision of Ukraine to defer the signing of the Association Agreement, mass rallies have taken place in Kyiv and other cities of Ukraine expressing strong public support for the political association and economic integration of Ukraine with the EU. On 3 December 2013, a motion of no-confidence in the Government was raised during the Parliamentary session, which motion was supported by 186 Members of Parliament, but fell short of the 226 votes required for approval. Protesters have pledged to continue mass rallies in Ukraine, and as at the date of this Prospectus the mass rallies are ongoing.

On 17 December 2013, the presidents of Russia and Ukraine announced a package of economic and financial support for Ukraine to be provided by Russia. Although the agreements have not been made public, the two presidents announced (i) the intention of Russia to purchase U.S.$15 billion of Ukrainian debt, which shall consist of (a) U.S.$10 billion in the form of sovereign Eurobonds having a maturity of two years and a fixed interest rate of 5 per cent. per annum (of which the Notes form a part) before the end of 2014, and (b) U.S.$5 billion (or its equivalent in SDRs) in loans to the NBU the terms of which are yet to be agreed upon and (ii) a substantial reduction in the price of gas to be supplied by OJSC Gazprom ("**Gazprom**") to NJSC "Naftogaz of Ukraine" ("**Naftogaz**"). Consequently, on 17 December 2013, a supplemental agreement to the Gas Supply Contract was signed (the "**Supplement to the Gas Supply Contract**"), as a result of which from 1 January 2014 to the end of 2019 the price of gas to be purchased from Gazprom by Naftogaz will be set at U.S.$268.5 per 1,000 cubic metres. The price of gas will be reviewed quarterly, but in any event will not exceed U.S.$268.5 per 1,000 cubic metres. In January 2014, the actual average price for imported natural gas was U.S.$268.5 per 1,000 cubic metres. 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, including as a result of the prices charged by Gazprom for natural gas supplied to Ukraine.*" The public announcement on 17 December 2013 has been seen by protesters as a shift away from the movement towards closer relations with the EU and the West. It is unclear what the political and economic ramifications will be, in the short or medium term, of the announcement of Russian economic and financial support for Ukraine described above.

The impact of continuing and escalating public protests, civil disorder or other potential unrest resulting from the decisions of the Government and the Government's reaction to them is unclear. Such protests and the Government's reaction thereto could result, among other things, in increasingly negative perceptions by Western governments, institutions and businesses of Ukraine's commitment to increased rapport with the EU or otherwise, all of which could have an adverse effect on the Ukrainian economy. See "*—Changes in relations with Western governments, the EU and multinational institutions may adversely affect the development of the Ukrainian economy*" and "*Political Framework—International Relations—Supranational Organisations—EU*".

On 16 January 2014, Parliament adopted a number of laws amending legislation in relation to, amongst others, the regulation of Parliamentary activity, unauthorised public protests, blockading public or Government buildings, access to the internet, registration of internet-based media, immunity of the Members of Parliament, status of judges, criminalisation of defamation, criminal responsibility for slandering Government officials, criminal trials in absentia and public associations receiving foreign funding. These laws were adopted by the majority by way of a show of hands without prior notification on the Parliamentary agenda and without discussion. On 17 January 2014, the President signed these bills into law. These laws took effect the day after their official publication on 21 January 2014, other than in a limited number of cases where they will not become effective until 1 May 2014. Violent protests in Kyiv followed the passing of the laws as protesters question the legitimacy of the changes as well as their intended effect, and such protests are continuing as at the date of this Prospectus. Certain Western countries and international organisations expressed deep concern in relation to the new laws as limiting the freedom of speech, assembly and association in Ukraine and contradicting Ukraine's international commitments and European aspirations.

Following the passing of these laws, protests spread beyond Kyiv to a number of regions (oblasts) across Ukraine, mostly in the West of Ukraine, but also in the East and South of the country. Government buildings were occupied in up to ten cities, and instances of civil disorder increased.

It was subsequently reported that the opposition to the Government in the current crisis, represented by the leaders of three political groupings in Parliament, articulated a set of demands for resolving the crisis which included, amongst others, the resignation of President Yanukovych, fresh elections, and the rescission of the entirety of the laws adopted on 16 January 2014. Although, the opposition to the Government in the current crisis is represented by the leaders of these three political groupings, there is no clarity as to whether these leaders represent the views of all of the protesters or can control their actions.

On 28 January 2014, at an extraordinary session of Parliament, Parliament resolved to cancel nine of the twelve laws adopted by Parliament on 16 January 2014 described above by a majority of 361 of the 412 members of Parliament present and as at the date of this Prospectus the law cancelling these laws has been published and has come into effect. The laws cancelled included, most importantly, the laws relating to the regulation of Parliamentary activity, unauthorised public protests, blockading public or government buildings, access to the internet, registration of internet-based media, immunity of the Members of Parliament, status of judges, criminalisation of defamation, criminal responsibility for slandering government officials, criminal trials in absentia and public associations receiving foreign funding. Further, at the same session, Parliament resolved to adopt four new laws by a majority of 257 of the 406 members of Parliament present. The new laws included, amongst others, amendments to the Tax Code reinstating the exemption of natural gas imports to Ukraine from VAT, which had been suspended in late 2013.

On 29 January 2014, Parliament adopted the Law of Ukraine "On Elimination of Negative Impacts and Prohibition of Prosecution and Punishment with regard to the Events during Peaceful Assemblies". This law provides for the exemption from criminal liability of persons who are suspected or accused of certain crimes committed within the period from 27 December 2013 up to and including the day of entry into force of this law, provided that such crimes are related to the mass rallies which began on 21 November 2013. This law also provides for the cessation of the relevant criminal cases and release from custodial and non-custodial sentences of persons convicted for the above-mentioned crimes. This law became effective on 2 February and shall be put into force on the date following the publication on the official website of the General Prosecutor's Office of Ukraine of the General Prosecutor's announcement on the actual performance by demonstrators of certain actions, in particular with regards to the vacation of the premises of state and local government bodies which were occupied during the mass rallies, and the unblocking of transport communications on certain streets in Kyiv and other cities in Ukraine.

On 16 February 2014, by way of an announcement on the official website of the General Prosecutor's Office, the General Prosecutor confirmed that the participants of mass rallies complied with all of the requirements stipulated by the above-mentioned law. As a result the law came into force from 17 February 2014.

Furthermore, on 28 January 2014, the Prime Minister, Mykola Azarov, tendered his resignation and the President accepted. According to Ukrainian law, the resignation of the Prime Minister triggers the automatic termination of the appointment of the other members of the Cabinet of Ministers. However, as further provided by Ukrainian law, the members of the Cabinet of Ministers continue, upon the President's instruction, to exercise their authority pending the appointment of a newly formed Cabinet of Ministers. By an order dated 28 January 2014 the President confirmed that the Cabinet of Ministers shall exercise its authority pending the appointment of a newly formed Cabinet of Ministers, and by an order dated 5 February 2014 appointed Mr Serhiy Arbuzov as acting Prime Minister, pending the appointment of the new Prime Minister. As at the date of this Prospectus, there is no certainty as to what will be the make up of the new Cabinet of Ministers or who will succeed Mr Azarov as Prime Minister. The resignation has not satisfied the demands of protesters, as evidenced by the continued demonstrations. While the appointment of a new Prime Minister and the Cabinet of Ministers with the support of the opposition may appease the demonstrators to a certain extent, there can be no assurance that any new appointments will be supported by the opposition or that such appointments alone would lead to a resolution of the crisis. It is also unclear whether the pending change of Government will have an impact on Russia's willingness to continue implementing the announced package of economic and financial support for Ukraine. Following the issue of the New Notes, it is expected that a further U.S.$10 billion of Ukrainian debt will be purchased by or on behalf of Russia, partially in the form of sovereign bonds and partially in the form of loans to the NBU, however, there can be no assurance that all or any part of this economic and financial support will be forthcoming on the same terms as the Notes or at all. As at the date of this Prospectus, discussions are ongoing with respect to the introduction of amendments to the Constitution of Ukraine with regard to a return to a parliamentary-presidential form of government.

If political instability continues or heightens or civil disorder and violence spreads in Ukraine, such factors may have a number of negative and unpredictable consequences in Ukraine. Amongst other things, such factors could adversely affect growth in the Ukrainian economy, discourage inbound investment in Ukraine and increase capital flight, restrict the Government's access to the international capital markets and borrowing from multilateral organisations and put pressure upon the stability of the hryvnia – any or all of which could have a material adverse effect on Ukraine's capacity to perform its obligations under the Notes.

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

In 2010 and 2011, industrial output recorded an upswing as Ukraine emerged from recession caused, in large part, by the global economic downturn in 2009, increasing at annual rates of 11.2 and 8.0 per cent., respectively.[1] However, in 2012, this trend reversed and industrial output declined by 0.5 per cent., with 2012 industrial output standing at 88 per cent. of the pre-downturn 2007 level. Industrial output fell in 2013 by 4.7 per cent. as compared to 2012. Of particular importance is Ukraine's reliance on exports of ferrous and non-ferrous metals and metal products (33.7 per cent., 32.3 per cent., 27.5 per cent. and 28.1 per cent. of total goods exports value in 2010, 2011, 2012 and for the eleven months ended 30 November 2013, respectively) making the country's export revenues and, by extension, its broader macroeconomic performance, vulnerable to decreases or fluctuations in global metals demand or prices. In 2010, Ukraine's real gross domestic product ("**GDP**") increased by 4.1 per cent. compared to 2009 and continued to increase in 2011 (by 5.2 per cent.). However, growth slowed considerably in 2012 dropping to 2.2 per cent. for the first quarter and 3.0 per cent. for the second quarter and even contracting by 1.3 per cent. in the third quarter and by a further 2.5 per cent.

[1] The new calculation methodology applicable to industrial output and related data was introduced in 2013. Therefore, figures for 2010 and 2011 may be incomparable to some extent.

in the fourth quarter, all on an annualised basis, as Ukraine fell back into recession. The global drop in demand for metals and metal products was a key contributor to the slowdown in 2012, impacting exports significantly as prices fell. As a result, Ukraine's GDP grew by only 0.3 per cent. for the year ended 31 December 2012, far below the 2012 growth assumption underlying the Ukraine 2012 State Budget, which assumed growth of 3.9 per cent. for the year. Ukraine's GDP continued to fall in the first three quarters of 2013, decreasing by 1.1 per cent., 1.3 per cent. and 1.3 per cent., respectively, compared to the corresponding periods in 2012. However, in the fourth quarter of 2013, real GDP increased by 3.7 per cent. as compared to the fourth quarter of 2012. As a result, real GDP growth amounted to 0.0 per cent. in 2013 as compared to 2012.

The economic crisis also contributed to an increase in Ukraine's State Budget deficit as a percentage of its GDP, which increased to 5.9 per cent. in 2010. The deficit of the State Budget decreased to 1.8 per cent. of GDP in 2011, before rising to 3.8 per cent. of GDP in 2012 (compared to the 2012 State Budget forecast of a deficit of 2.6 per cent. of GDP for the year). The 2013 State Budget Law, as amended, provided for a budget deficit of not more than UAH 70.0 billion, or 4.4 per cent. of GDP. The 2014 State Budget Law provides for a budget deficit of not more than UAH 71.6 billion (or 4.3 per cent. of GDP). See "*Public Finance and Fiscal Policy—Local Budgets*" and "*Public Finance and Fiscal Policy—The Budget Process*".

The annual rate of inflation in Ukraine, as measured by the Consumer Price Index ("**CPI**") was 9.1 per cent. in 2010 and 4.6 per cent. in 2011. In 2012, Ukraine experienced a decrease in consumer prices of 0.2 per cent. In 2013, CPI inflation was 0.5 per cent. For the month ended 31 January 2014, CPI inflation was 0.2 per cent. However, there can be no assurance that continued pressure on energy and food prices will not lead to higher levels of inflation in the future. Wholesale prices are also vulnerable to increases in world prices for metal products and grain, as well as natural gas and oil. The annual rate of inflation as measured by the Wholesale Price Index ("**WPI**") was 18.7 per cent. in 2010 and 14.2 per cent. in 2011, before dropping significantly to 0.3 per cent. in 2012 as a result of a 10.9 per cent. decrease in world prices of metals and metal products in 2012, which resulted in a 5.1 per cent. decrease in the price of metal products in Ukraine, as well as a 29.2 per cent. decrease in the price of iron ore and a 20.9 per cent. decrease in cost of coke production. In 2013, WPI inflation was 1.7 per cent. For the month ended 31 January 2014, WPI inflation was 0.5 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 limit Ukrainian borrowers' access 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 lead to a worsening of the economic and financial condition of Ukraine. Changing external or internal conditions could intensify and widen any external funding gap. Ukraine did not have to look to external sources of financing for much of 2011 and the NBU held international reserves of U.S.$24.5 billion as at 31 December 2012, equivalent to 2.8 months of import coverage. Continued widening of the current account deficit or significant net capital outflows could cause the stock of international reserves to continue to fall or prompt the devaluation of the hryvnia. In fact, international reserves have decreased from U.S.$31.8 billion as at 31 December 2011 (import coverage: 3.6 months) to U.S.$24.5 billion as at 31 December 2012 (import coverage: 2.8 months). As at 31 December 2013, international reserves amounted to U.S.$20,4 billion (import coverage: 2.4 months), a decrease of 16.8 per cent. as compared to 31 December 2012. The decrease in international reserves between 31 December 2011 and 31 December 2012 was due primarily to a 2.2 billion SDR (approximately U.S.$3.4 billion) payment to the IMF, as well as the NBU's intervention in the interbank foreign exchange market to defend the value of the hryvnia. These interventions may continue. The decrease in international reserves in 2013 was due to payments due under both state sovereign and NBU debt of U.S.$9.4 billion, including the repayment of a loan under the IMF stand-by programme. As at 1 February 2014, international reserves amounted to U.S.$17.8 billion (import coverage: 2.0 months). This decrease in the amount of international reserves was due to repayment of the State debt in foreign currency, including a payment to the IMF as well as the implementation of the measures to maintain the stability of the hryvnia in the foreign exchange market. Any such developments, including any prolonged unavailability of external funding, continued intervention in the interbank foreign exchange market and increases in world prices for goods imported to Ukraine or decreases in world prices for goods exported from Ukraine, may put pressure on the hryvnia exchange rate and 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 23 years ago and whose economy remains 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 49.0 per cent. of votes, compared to 45.5 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. On 13 December 2012, Mykola Azarov was re-appointed as the Prime Minister and on 24 December 2012 the majority of the Government was endorsed by the President. The remaining part of the Government was appointed at a later date. On 28 January 2014, following the recent events in Ukraine, described above under "*—The current crisis in Ukraine creates significant political and economic uncertainty*", the Prime Minister tendered his resignation and the President accepted. According to Ukrainian law, the resignation of the Prime Minister triggers the automatic termination of the appointment of the other members of the Cabinet of Ministers. However, as further provided by Ukrainian law, the members of the Cabinet of Ministers continue, upon the President's instruction, to exercise their authority pending the appointment of a newly formed Cabinet of Ministers. By an order dated 28 January 2014 the President confirmed that the Cabinet of Ministers shall exercise its authority pending the appointment of a newly formed Cabinet of Ministers, and by an order dated 5 February 2014 appointed Mr Serhiy Arbuzov as acting Prime Minister, pending the appointment of the new Prime Minister. As at the date of this Prospectus, there is no certainty as to what will be the make up of the new Cabinet of Ministers or who will succeed Mr Azarov as Prime Minister. The resignation has not satisfied the demands of protesters, as evidenced by the continued demonstrations. While the appointment of a new Prime Minister and the Cabinet of Ministers with the support of the opposition may appease the demonstrators to a certain extent, there can be no assurance that any new appointments will be supported by the opposition or that such appointments alone would lead to a resolution of the crisis. It is also unclear whether the pending change of Government will have an impact on Russia's willingness to continue implementing the announced package of economic and financial support for Ukraine. As at the date of this Prospectus, discussions are ongoing with respect to the introduction of amendments to the Constitution of Ukraine with regard to a return to a parliamentary-presidential form of government.

In July 2010, 252 members of Parliament requested the Constitutional Court of Ukraine to opine on the constitutionality of the Law of Ukraine "On amendments to the Constitution of Ukraine" dated 8 December 2004 (the "**2004 Constitution Amendment 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 Constitution Amendment Law. Following the CCU Ruling, certain legislation may contradict the Constitution of Ukraine (the "**Constitution**") 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.

On 1 February 2011, the 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 the term to four years. On 28 October 2012, the most recent elections to Parliament were held. In the course of the October 2012 elections, there were a number of disputes as to the results of the elections and their process. In particular, the Central Election Commission announced that it was impossible to establish the results of the elections in five single-member districts, and on 6 November 2012 Parliament issued a resolution recommending the Central Election Commission to order repeat elections in those districts. The repeat elections took place on 15 December 2013 and on 15 January 2014 five newly-elected members of Parliament took the oath. 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 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, energy policy and over the issue of the timing and implementation of closer political and economic ties with the EU;
- 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.

On 8 February 2013, the Higher Administrative Court of Ukraine declared invalid the election of two members of Parliament, Mr. Pavlo Baloga and Mr. Oleksandr Dombrovsky, on the basis of violations of the electoral process and ordered repeat elections in their respective districts. Subsequently the grounds for the judgment of the Court have been questioned by certain state officials and members of Parliament and an application was submitted to the Constitutional Court of Ukraine requesting an official interpretation of certain provisions of the Constitution relating to the termination of the status of a member of Parliament. However, the Constitutional Court of Ukraine refused to consider the application. In addition, on 1 March 2013, a lawsuit was filed with the Higher Administrative Court of Ukraine seeking to deprive Mr. Sergii Vlasenko and Mr. Andriy Verevsky of their status and authority as members of Parliament. Mr. Andriy Verevsky carried out commercial activity while acting as a member of Parliament, and accordingly, on 5 March 2013, the Higher Administrative Court of Ukraine delivered a judgment terminating his status and authority as a member of Parliament. Mr. Vlasenko is reported to have acted as a representative of Ms. Tymoshenko while carrying out his functions as a member of Parliament. Although Mr. Vlasenko asserted that he had previously made a petition to terminate his attorney's licence, on 6 March 2013, the Higher Administrative Court of Ukraine delivered a judgment terminating his status and authority as a member of Parliament. Reportedly, as at the date of this Prospectus, Mr. Vlasenko vacated his seat as a member of Parliament. Although the ultimate effect of the judgments of the Higher Administrative Court of Ukraine is not yet clear, such precedents may have an adverse effect on the operation of the Parliament and result in further negative reactions and adverse effects on international relations.

Recent events in Ukraine, described above under "*—The current crisis in Ukraine creates significant political and economic uncertainty*", have called the stability of the Government into further question.

If political instability continues or heightens or civil disorder and violence spreads in Ukraine, such factors may have a number of negative and unpredictable consequences in Ukraine. Amongst other things, such factors could adversely affect growth in the Ukrainian economy, discourage inbound investment in Ukraine and increase capital flight, restrict the Government's access to the international capital markets and borrowing from multilateral organisations and put pressure upon the stability of the hryvnia – any or all of which could have 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, including those required by the IMF as conditions to the release of further funding to the country. 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 helped the Government to achieve a significant increase in tax collection in 2011. In 2011 tax collection amounted to UAH 334.7 billion. In 2012, tax collection increased by 7.7 per cent. compared to 2011 and amounted to UAH 360.6 billion. In 2013, tax collection decreased by 1.8 per cent. as compared to the corresponding period in 2012 and amounted to UAH 354.0 billion. These measures may not, however, continue to increase tax revenues at the same rate or achieve the results expected by the Government in 2013 or beyond.

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, Securities and Financial Services Markets—Measures Taken to Stabilise 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 of the hryvnia in 2008 (52.5 per cent. against the U.S. 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. Since 2009, the level of the money supply in circulation in Ukraine denominated in U.S. dollars, has remained fairly constant, amounting to 29.1 per cent. in 2010, 30.3 per cent. as at 31 December 2011 and 32.1 per cent. as at 31 December 2012. In 2013 the money supply denominated in U.S. dollar was 27.2 per cent. As at 1 February 2014, the level of the money supply denominated in U.S. dollar was 27.2 per cent. Non-performing loans are another factor affecting the asset quality of Ukrainian banks. The proportion of loans represented by doubtful and bad loans was 13.1 per cent., 14.9 per cent. and 14.3 per cent. as at 31 December 2009, 2010 and 2011, respectively. As at 1 January 2013, following a change in the methodology used to account for non-performing loans (see "*The Banking System, Securities and Financial Services Markets—Performance and Balance Sheet of the Banking System—Assets*"), the NBU calculated loans in the "high risk" and "default" categories as a percentage of the aggregate loan portfolio of Ukrainian banks and as at 31 December 2012 such proportion amounted to 16.5 per cent. In 2013, the volume of loans in the "high risk" and "default" categories decreased by 11.4 per cent. (UAH 19.7 billion) and amounted to UAH

154.0 billion (or 12.9 per cent. of the aggregate bank loan portfolio) as at 1 January 2014. The restructured bad assets are included in this calculation. Although the share of loans in the "high risk" and default" categories in banks' loan portfolios has decreased, a future increase in this share, or a failure to continue to decrease this share further, could place additional strain on the banking system. 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 November 2012, 39.1 per cent. of loans held by Ukrainian banks were non-performing as at 31 March 2012, 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 14.9 per cent. of loans were non-performing as at 31 March 2012. 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 1 December 2012, the aggregate share of substandard, doubtful and bad loans in the banking sector was equal to 39.2 per cent. with substandard loans equal to 26.7 per cent.

Ukrainian banks made provisions of UAH 148,839 million, UAH 157,907 million and UAH 141,319 million as at 31 December 2010, 2011 and 2012, respectively. As at 31 December 2013, provisions of Ukrainian banks amounted to UAH 131,252 million.

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 increased funding. A continuing stagnation of credit conditions within Ukraine, resulting from bank profitability remaining low and the anticipated recovery being slow to materialise, is likely to continue to have a negative effect on Ukraine's GDP growth. Furthermore, increased domestic borrowing by the Government is likely to reduce the availability of domestic credit for Ukrainian businesses, exacerbating the effect on GDP levels. In addition, depreciation of the hryvnia can have a negative effect on the bank balance sheets.

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 the 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 4.7 and a high of U.S.$1.00 to UAH 8.9. See "*The Monetary System—Exchange Rates*".

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. In 2012, the hryvnia depreciated against the dollar by 0.04 per cent. and depreciated against the euro by 2.32 per cent. In 2012 and in 2013, the average official hryvnia to U.S. dollar exchange rate was UAH 7.99 to U.S.$1.00. As at 17 February 2014, the official hryvnia to U.S. dollar exchange rate was UAH 8.64 to U.S.$1.00.

Amid concerns that the worsening economic environment in the Eurozone might lead to hryvnia depreciation, the NBU has renewed intervention 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.

The passing of a foreign currency exchange bill in November 2012 has given the NBU the authority at its discretion to require Ukrainian companies with foreign currency income to mandatorily exchange 50 per cent. of the foreign currency into local currency. This requirement was originally intended to expire in May 2013 but was extended to November 2013 due to continuing concerns over the risk of the depreciation of the hryvnia. On 14 November 2013, the NBU extended this requirement until 17 May 2014. The NBU intends to use this power as required to support the hryvnia and may use further currency control measures in future if deemed necessary. On 6 February 2014, the NBU adopted a resolution amending the mechanism by which it supports bank liquidity within the NBU's standard monetary procedure. See "*The Monetary System—Monetary Policy.*" Further, on 6 February 2014, to maintain the exchange rate of the hryvnia, the NBU approved a resolution aimed at protecting the interests of depositors and other bank creditors. See "*The Banking System, Securities and Financial Services Markets—Banking Sector Regulation*."

Government borrowing in the international markets has increased markedly over the last several years. Total State and State guaranteed external debt has risen from approximately U.S.$18.5 billion as at 31 December 2008 to U.S.$38.7 billion as at 31 December 2012. As at 31 December 2012, the total outstanding amount of domestic debt denominated in a foreign currency, which take the form of U.S. dollar and euro denominated T-bills sold domestically, was U.S.$2,427.8 million in respect of U.S. dollar denominated T-bills and EUR275.0 million in respect of euro denominated T-bills. In 2013, the Government had issued U.S.$5.3 billion and EUR 110.0 million in T-bills. In January 2014, the Government had issued U.S.$200 million in T-bills. Regarding total loans, both internal and external, as at 31 December 2012, 57.9 per cent. were denominated in foreign currency. The increases in both external debt and U.S. dollar and euro denominated domestic debt, as well as the declining level of the Ukrainian foreign exchange reserves, 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 difficult by the increased size of the debt and the larger number of lenders and sources of credit involved.

It is possible that the current crisis in Ukraine may put pressure on the UAH exchange rate to the extent the population loses confidence in the local currency and seeks to acquire foreign currencies as a hedge against political and economic risk.

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 (or obtaining them at a significant cost) 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*".

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.

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. No further disbursements were made under the 2010 SBA in 2011 and 2012, and the 2010 SBA terminated in December 2012.

In 2011, there were a number of meetings between the IMF and Ukrainian officials, which resulted in, among other things, the identification of certain additional budgetary measures to be implemented by Ukraine and the agreement of a revised schedule of gas tariff increases charged to consumers. 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 Gazprom. 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, including as a result of the prices charged by Gazprom for natural gas supplied to Ukraine*". 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. In December 2012, electricity tariffs levied on households represented 24.7 per cent. of actual costs of electricity production, transfer and supply, creating pressure for further Government support. The 2010 SBA for Ukraine was terminated in December 2012. However, further meetings with the IMF began on 29 January 2013, with the goal of renewing the programme of cooperation between the IMF and Ukraine and discussing the possibility of a new stand-by arrangement in the amount of 10 billion SDR. From 27 March to 10 April 2013, an IMF delegation visited Kyiv for further discussions with the Government. From 17 October to 29 October 2013, a further IMF delegation visited Kyiv in order to discuss the economic policy of Ukraine. Provision of the IMF financing to Ukraine was not discussed during this visit. As at the date of this Prospectus, the negotiations with the IMF continue. 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 a portion of IMF financing under the 2010 SBA. A failure by official creditors and of multilateral organisations to grant adequate financing, of itself or combined with any inability to access the international capital markets, 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, which may be exacerbated by Ukraine's higher debt service obligations and higher cost of funding over the next several years compared to the recent past.

According to the Budget Code of Ukraine, as defined in this Prospectus, the volume of the total state debt and state guaranteed debt at the end of the budget period (31 December of each year) should not exceed 60 per cent. of the annual nominal gross domestic product of Ukraine. Furthermore, the terms and conditions of the Original Notes include a restriction, which will also apply to the New Notes, on the total state debt and state guaranteed debt exceeding 60 per cent. of GDP at any time.

Ukraine's total debt as a percentage of GDP, including both State debt (direct debt) and State guaranteed debt (contingent liabilities), has increased generally since 2009, from 34.8 per cent. as at 31 December 2009 to 39.9 per cent. as at 31 December 2010, and although it decreased to 36.3 per cent. as at 31 December 2011, it then increased again slightly to 36.6 per cent. as at 31 December 2012, and further increased to 40.5 per cent. as at 31 December 2013, which includes the Original Notes.

Accordingly, 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 1.0 per cent. for 2010, 1.6 per cent. for 2011, 2.6 per cent. for 2012, and was estimated to be approximately 3.3 per cent. for 2013. Total State external debt service (including principal and interest payments but excluding payments to the IMF by the NBU) was approximately U.S.$1,367.3 million in 2010, U.S.$2,560.0 million in 2011, U.S.$4,540.0 million in 2012, and U.S.$5,982 million in 2013. Total IMF debt service and repayment was approximately U.S.$238.0 million in 2010, U.S.$336.1 million in 2011, U.S.$3,754.1 million in 2012, and U.S.$5,736.7 billion in 2013 (in each case, including payments to the IMF by the NBU). See "*Public Debt— External Debt—Commercial Creditors*".

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 2014 to 2016. Total State external debt service is expected to be approximately U.S.$5,874.9 million for 2014, U.S.$7,054.5 million for 2015 (this figure includes the issue of the Original Notes, but does not include the issue of the New Notes or any future borrowings that may fall due in 2015) and U.S.$4,339.9 million for 2016. This includes a scheduled repayment of debt owed to the IMF by the Government of U.S.$2,881.2 million in 2014, U.S.$974.0 million in 2015, and U.S.$2.3 million in 2016, as well as a repayment of U.S.$3 billion on 20 December 2015 (which may rise as high as U.S.$10 billion if the anticipated amount of the announced Russian financial support for Ukraine is provided by way of purchases of Ukrainian Eurobonds on the same terms and with the same maturity as the Original Notes). All of the foregoing excludes debt owed to the IMF by the NBU, which is expected to be approximately U.S.$1,134.2 million in 2014, U.S.$644.7 million in 2015 and U.S.$0.1 million in 2016.

Ukraine was only able to meet its external debt service requirements for 2013 through a combination of international Eurobond issues, a significant level of domestic borrowing and the issue of the Original Notes (the latter having been issued on concessional terms that do not reflect market terms or pricing).

While the Original Notes, the New Notes and any further issues of bonds to be subscribed as part of the Russian financial support package over the course of 2014 will likely provide Ukraine with sufficient liquidity to cover its international obligations in the short term, such measures will result in a substantial debt refinancing requirement at the end of 2015 (which may amount to as much as U.S.$15 billion, depending on the tenor of the remaining expected tranches of Russian financial support). Given the size of this external financing requirement in 2015, there is a significant risk that funds available in the domestic and international capital markets will be insufficient to cover this requirement in full, and therefore Ukraine's ability to refinance or repay this debt will in large measure be dependent on relations with Russia at the time and Russia's willingness to refinance the debt as it matures. There can be no assurance that Russia will be willing to refinance such maturing debt on similar terms or at all, and in the absence of such refinancing (unless financing is then available to Ukraine in the domestic or international capital markets and/or an IMF or other programme of official support has been negotiated by Ukraine in the meantime) there is a risk that Ukraine may be unable to meet its external debt obligations. Any default on Ukraine's external debt would be likely to have severe consequences on the Ukrainian economy, including a significant devaluation of the hryvnia.

Furthermore, it has been reported that the opposition to the Government in the current crisis (see "—*The current crisis in Ukraine creates significant political and economic uncertainty*"), represented by the leaders of three political groupings in Parliament, have demanded, among other things, the resignation of President Yanukovych, fresh elections and the rescission of the entirety of the laws adopted on 16 January 2014. As a result, on 28 January 2014, the Prime Minister, Mykola Azarov, tendered his resignation and the President accepted, and on the same day, at an extraordinary session of Parliament, Parliament resolved to cancel nine of the twelve laws adopted by Parliament on 16 January 2014 by a majority of 361 of the 412 members of Parliament present and as at the date of this Prospectus the law cancelling these laws has been published and has come into effect. However, as further provided by Ukrainian law, the members of the Cabinet of Ministers continue, upon the President's instruction, to exercise their authority pending the appointment of a newly formed Cabinet of Ministers. By an order dated 28 January 2014 the President confirmed that the Cabinet of Ministers shall exercise its authority pending the appointment of a newly formed Cabinet of Ministers, and by an order dated 5 February 2014 appointed Mr Serhiy Arbuzov as acting Prime Minister, pending the appointment of the new Prime Minister. As at the date of this Prospectus, there is no certainty as to what will be the make up of the new Cabinet of Ministers or who will succeed Mr Azarov as Prime Minister. The resignation has not satisfied the demands of protesters, as evidenced by the continued demonstrations. While the appointment of a new Prime Minister and the Cabinet of Ministers with the support of the opposition may appease the demonstrators to a certain extent, there can be no assurance that any new appointments will be supported by the opposition or that such appointments alone would lead to a resolution of the crisis. Accordingly, the direction of the new Government cannot be foreseen, however if Government policy for any reason changes as a consequence of the current crises or as part of a political compromise reached in response to the current crises, there can be no assurance that Russia's relations with Ukraine, including Russia's willingness to continue implementing the announced package of economic and financial support of Ukraine and/or to roll over any Ukrainian sovereign debt which is under its control, will not be affected thereby. Any such developments could have a material adverse effect on the ability of Ukraine to service its obligations under the Notes as they fall due. As at the date of this Prospectus, discussions are ongoing with respect to the introduction of amendments to the Constitution of Ukraine with regard to a return to a parliamentary-presidential form of government.

The Ministry of Finance of Ukraine is considering a number of strategies, including raising longer term debt in both domestic and international markets and extending the maturities of its existing domestic bonds and T-bills, to alleviate some of the anticipated refinancing risk in 2015 and 2018.

The increased level of debt service described above does not include guarantees of debt by Ukraine. While debt service on contingent liabilities is difficult to anticipate, guaranteed debt is significant. The total outstanding State debt of Ukraine as at 31 December 2013 amounted to approximately U.S.$73.1 billion (including the IMF debt owed by the NBU), of which approximately U.S.$13.0 billion was State guaranteed debt. For further information on total debt service on IMF debt, see "*Public Debt—Estimated IMF Debt Service for 2013 to 2016*". Furthermore, the substantial payment obligations of some State-owned companies falling due from 2013 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.

In addition to these factors, Ukraine is vulnerable to the effect of any potential increases in interest rates in the Eurozone and the United States, as and when the monetary authorities in those jurisdictions decide to pursue more restrictive monetary policies, as Ukraine's reliance on external financing to fund its current account deficit and refinance existing external debt stocks means that any such increases may result in a higher cost of funding and could put further pressure on the hryvnia.

However, liquidity risk is not solely driven by external pressure nor does it solely relate to foreign currency liquidity. For instance, the external pressure on Ukraine's liquidity is intensified by the State's failure to meet its budgeted revenue targets or stay within its expenditure targets. In 2010, revenues of the Consolidated Budget were approximately UAH 314.5 billion, or UAH 10.9 billion below the budgeted target, whereas expenditures amounted to UAH 377.8 billion or UAH 26.5 billion over the budgeted target. In 2011, revenues of the Consolidated Budget were UAH 398.6 billion, or UAH 2.5 billion over the budgeted target, whereas expenditures amounted to UAH 416.9 billion or UAH 27.4 billion over the budgeted target. In 2012 the revenues of the Consolidated Budget amounted to UAH 445.5 billion or UAH 33.5 billion below the budgeted target, whereas expenditures amounted to UAH 492.4 billion or UAH 40.7 billion below the budgeted target. In 2013, the revenues of the Consolidated Budget amounted to approximately UAH 442.7 billion, whereas expenditures amounted to UAH 505.8 billion. See "*Public Finance and Fiscal Policy*". With respect to expenditure, in 2010 and 2011, the State budget costs to support the coal industry amounted to UAH 7,712.2 million and UAH 10,496.3 million, respectively, and were UAH 13,220.4 million in 2012. In 2013, State financing of the coal industry amounted to UAH 15,352.9 million (UAH 15,351.0 million out of the State Budget general fund and UAH 1.9 million out of the special fund). See "*Economy of the Ukraine—Mining*". The State budget expenditure to support Naftogaz in 2010 and 2012 amounted to UAH 3.4 billion and UAH 3.9 billion, respectively, although there were no comparable payments in 2011. In addition, the State provided support to Naftogaz in 2011 and 2012 through indirect subsidies of UAH 2.8 billion and UAH 9.8 billion granted to local governments to assist in covering payment shortfalls with local utilities. The 2013 State Budget (as amended) provided for a further UAH 0.37 billion to be provided to support Naftogaz in the form of indirect subsidies. The provision of this support was postponed until 2014. The 2014 State Budget provides for a further UAH 3.8 billion to be provided to support Naftogaz in the form of indirect subsidies. In addition, Naftogaz was supported by share capital increases (funded with T-bills) of UAH 7.4 billion in 2010, UAH 12.5 billion in 2011, UAH 6.0 billion in 2012 and UAH 8.0 billion in 2013. The 2014 State Budget provides for support to Naftogaz by share capital increases (funded with T-bills) of UAH 11.0 billion. According to the resolution of the Cabinet of Ministers dated 12 February 2014, the share capital of Naftogaz was increased by UAH 11 billion. On 14 February 2014, Naftogaz repaid the gas debt to Gazprom for 2013 in the amount of U.S.$1.28 billion and the gas debt accrued since the beginning of 2014 in the amount of U.S.$191.0 million. See "*Economy of Ukraine—Principal Sectors of the Economy—Electricity and Natural Gas Tariffs—Gas Tariffs*".

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 have and may continue to experience difficulty accessing new financing. Although private sector debt, unlike State debt, does not have a direct negative effect on the Government's foreign exchange liquidity, high levels of indebtedness of, and limited availability of new credit to, the private sector may complicate economic recovery and pose a significant risk in an already challenging economic environment.

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 refinancing risk.

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, including as a result of the prices charged by Gazprom for natural gas supplied to Ukraine.

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. Furthermore, in 2012, approximately 26.0 per cent. of all Ukrainian exports of goods went to Russia (although this decreased to 24.2 per cent. for the eleven months ended 30 November 2013).

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.

Ukraine's relations with Russia strengthened following the election of President Yanukovych in 2010 and his inauguration as the new President on 25 February 2010. Shortly after, 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. However, despite the recent announcement by the Ukrainian and Russian presidents referred to below in relation to Russian economic and financial support, a number of important bilateral issues remain unresolved and the precise terms of the implementation of the promised Russian economic and financial support have not been agreed. See "*Political Framework—International Relations—Foreign States—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.

Recently, pressure was placed on Russia-Ukraine bilateral relations arising out of the prospect of Ukraine signing the Association Agreement with the EU, including the threat of restrictive trade measures by Russia. For the eleven months ended 30 November 2013, exports of Ukrainian goods to Russia decreased by 14.1 per cent. as compared to the corresponding period in 2012. As at the date of this Prospectus, discussions are ongoing between Russia and Ukraine in relation to restoring industrial cooperation and trade and economic relations between the two countries, following the decision of Ukraine to defer the signing of the Association Agreement with the EU. The work on the preparation of a "road map" for continuing negotiations between Ukraine and the EU remains in progress. If for any reason the announced economic and financial support is not forthcoming from Russia and Ukraine in the future signs the Association Agreement with the EU, this could impact trade and other aspects of Ukraine's bilateral relations with Russia and could lead to the imposition of trade and other punitive measures by Russia. These factors, in turn, could have a material adverse effect on the Ukrainian economy.

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 "**Gas Supply Contract**"), the price for natural gas supplied to Ukraine for domestic consumption and the tariff for its transit through Ukraine are to be determined pursuant to formulae included in these contracts. 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 per 1,000 cubic metres in 2010 and 2011, respectively. The price for such imported natural gas being paid in 2012 was U.S.$424.5 per 1,000 cubic metres. In 2013, the actual average price for imported natural gas was U.S.$396.99 per 1,000 cubic metres.

On 17 December 2013, the Supplement to the Gas Supply Contract was signed, as a result of which from 1 January 2014 to the end of 2019 the price of gas to be purchased from Gazprom by Naftogaz will be set at U.S.$268.5 per 1,000 cubic metres. The price of gas will be reviewed quarterly, but in any event will not exceed U.S.$268.5 per 1,000 cubic metres. In January 2014, the actual average price for imported natural gas was U.S.$268.5 per 1,000 cubic metres. Nevertheless, the Government intends to continue its cooperation with global companies which are party to existing agreements on the allocation of Black Sea oil and gas. See "*Economy of Ukraine—Principal Sectors of the Economy—Fuel and Energy*".

In addition, Naftogaz and its subsidiaries accounted for approximately 8.6 per cent. (or UAH 29.6 billion), 11.4 per cent. (or UAH 36.0 billion) and 10.9 per cent. (or UAH 26.3 billion) of revenues to Ukraine's State Budget in 2012, 2011 and 2010, 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. In addition to direct and indirect 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 future drawdowns from IMF and other financing programmes 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 23.7 per cent. of all gas transported from one foreign country to another via Ukraine in 2012. In 2012, transit of natural gas through Ukraine decreased to 84.3 billion cubic metres from 104.2 billion cubic metres in 2011, due to the combined effects of Nord Stream and generally lower demand in the EU. In 2013, 86.1 billion cubic metres of gas were transported via Ukraine as compared to 84.3 billion cubic metres in 2012. In January 2014, 7.5 billion cubic metres of gas were transported via Ukraine as compared to 7.1 billion cubic metres for the corresponding period in 2013. Ukraine is seeking to minimise any potential adverse effect of Nord Stream to Naftogaz and its economy in general, including through assurances on transport volumes. As at the date of this Prospectus, the issue of gas tariffs for the transit of Russian gas through Ukraine is under discussion between Ukraine and Russia. Such efforts and negotiations 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.

In January and in September 2013, Gazprom submitted demands for payment of U.S.$7 billion in respect of gas not purchased by Naftogaz in 2012 under the "take or pay" gas supply contract signed by the parties in 2009. Naftogaz paid for all gas actually delivered by Gazprom in 2012 and does not accept the validity of the demands by Gazprom in respect of the allegedly uncollected volumes. In accordance with the terms of the gas supply contract, Naftogaz has proposed discussions with Gazprom in order to resolve this issue. Accordingly, there remains substantial uncertainty as to the legal, commercial and other consequences of the Gazprom demands. If the matter is not resolved amicably and to the satisfaction of Naftogaz, it is possible that there could be an adverse effect on (i) the commercial relationship between Gazprom and Naftogaz and/or (ii) the financial condition of

Naftogaz, which in turn could have implications for the State should further support for Naftogaz appear or become necessary.

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.

On 17 December 2013, the presidents of Russia and Ukraine announced a package of economic and financial support for Ukraine to be provided by Russia. Although the agreements have not been made public, the two presidents announced (i) the intention of Russia to purchase U.S.$15 billion of Ukrainian debt, which shall consist of (a) U.S.$10 billion in the form of sovereign Eurobonds having a maturity of two years and a fixed interest rate of 5 per cent. per annum (of which the Notes form a part) before the end of 2014, and (b) U.S.$5 billion (or its equivalent in SDRs) in loans to the NBU the terms of which are yet to be agreed upon and (ii) a substantial reduction in the price of gas to be supplied by Gazprom to Naftogaz. Consequently, on 17 December 2013, the Supplement to the Gas Supply Contract was signed, as described above, and financial support has been provided in the form of the Original Notes and the New Notes. Despite the agreement in relation to gas prices and the financial support already provided, if the other forms of economic and financial support contained in the announcement by the two presidents do not materialise as indicated, then the continued existence of, or increase in, the above-mentioned pressures on the State Budget and the Ukrainian economy may have a material adverse effect on the Ukrainian economy and Ukraine's ability to perform its obligations under the Notes.

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

The State Budget is dependent to a significant extent on receipts from privatisations. Privatisation receipts for the year ended 31 December 2010 amounted to UAH 1,093.0 million, or 17.22 per cent. of the revised annual target. The significant shortfall in privatisation receipts in 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 2009 and 2010 due to decrees of the President of Ukraine prohibiting or suspending these privatisations. See "*Economy of Ukraine—Privatisation*". However, on 10 December 2010, a previous presidential decree of 16 May 2008 restricting the privatisation of certain assets was repealed, thereby allowing those assets to be added to the list of assets subject to privatisation.

The 2011 State Budget aimed for privatisation proceeds totalling UAH 10.0 billion and, primarily due to the successful privatisation of the OJSC "Ukrtelecom", the State Budget received privatisation proceeds equal to UAH 11.5 billion, thereby exceeding the target. The 2012 State Budget Law contemplated privatisation receipts of UAH 7.0 billion as a source of financing to help cover the budget deficit. In 2012, privatisation receipts amounted to UAH 6.76 billion, more than 96 per cent. of the target set for that year. The 2013 State Budget Law forecasted privatisation proceeds of UAH 10.9 billion. This amount was further amended by the instruction of the Cabinet of Ministers of Ukraine to UAH 1.455 billion and the difference between the initial and final forecasts on privatisation proceeds was substituted by the proceeds obtained from the debt financing. As at 31 December 2013, privatisation receipts amounted to UAH 1.485 billion, which represented more than 102.1 per cent. of the final target, but less than 15 per cent. of the initial target revenues for the year 2013 as included in the original 2013 State Budget Law. This was caused mainly by the delay in the transfer of assets subject to privatisation from the authorised governing bodies to the State Property Fund of Ukraine, which had an adverse effect on the sale of assets. The 2014 State Budget assumes total proceeds from privatisation of state assets of UAH 19.4 billion. In addition, as at the date of this Prospectus, the Law of Ukraine "On the List of State-owned Assets which are not Subject to Privatisation" includes a list of approximately 1,500 state assets not subject to privatisation. Recently, amendments have been introduced to the Law of Ukraine "On the Privatisation of State Property".

According to this law, a number of criteria based on which enterprises are included in this list of State-owned assets which are not subject to privatisation was significantly reduced. At the same time, respective amendments to the Law of Ukraine "On the List of State-owned Assets which are not Subject to Privatisation" have not yet been enacted, however, once the law comes into force, the current list of state assets not subject to privatisation will be reduced to approximately 300 assets. These amendments are expected to allow for privatisation of coal mining enterprises, assets of railway infrastructure and assets of chemical and machinery manufacturing industries. Failure to achieve targeted privatisation proceeds in 2014 and beyond could have a material impact on Ukraine's budget performance and put further pressure on the budget deficit.

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**"). In addition, on 27 February 2013, the Cabinet of Ministers of Ukraine approved the State Programme of the Economic Development for 2013-2014. See "*Economy of Ukraine —Economic Programmes*". Failure to fully implement the 2010 to 2014 Economic Reform Programme or the State Programme of the Economic Development for 2013-2014 may hinder the Government's ability to fulfil its privatisation goals. 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*".

Ukrainian tax law and practice are not fully developed and are subject to frequent change and reinterpretation

Ukrainian tax legislation is subject to frequent changes and amendments, which may result in either a more favourable environment or complexities for tax payers. With effect from 1 January 2011, the Ukrainian tax system was significantly reformed by the adoption of a new Tax Code of Ukraine (the "**Tax Code**"). Apart from the Tax Code, the system of taxation is frequently varied by other statutory enactments. There may be significant uncertainty in the future as to the implementation or interpretation of the new legislation in practice. On 4 July 2013, the Parliament adopted two amendments to the 2013 State Budget Law that allow the Cabinet of Ministers to issue T-bills with a maturity of five years and a 5 per cent. coupon to restructure Ukraine's fiscal debt which arose as of 1 January 2013 and during 2013 and to finance VAT refunds from the State Budget.

As a result of the ambiguity of certain tax regulations and discrepancies in their interpretation by taxpayers and Government control agencies, a large amount of explanation and clarification has been published on the application of such regulations. Furthermore, the complicated process of tax inspections and the contradictory rules on when they should be held create serious barriers to the proper administration of taxes.

Due to the budget deficit, taxpayers may not receive VAT refunds to which they are entitled or may not be able to offset them against future tax liabilities because of the absence of an effective legislative mechanism to offset the sums of the amounts of the VAT against taxes and duties. The difficulties in refunding VAT remain an obstacle for investing in the export oriented sectors of economy.

These factors negatively impact the predictability of the country's taxation system and, therefore, have an adverse effect on business activity, reducing the attractiveness of the national economy for foreign investors.

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 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 sometime 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.

On 19 January 2013, a number of amendments to the bankruptcy and insolvency law of Ukraine became effective. These amendments made significant changes to the bankruptcy and insolvency law which are directed at creating a more streamlined and efficient insolvency process and remedying defects existing in the current law. However, the entry into force of these amendments may lead to uncertainties in implementation and interpretation of the bankruptcy and insolvency law by Ukrainian courts and Government officials.

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 is 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. Ukraine produces 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, the EU and multinational institutions may adversely affect the development of the Ukrainian economy.

Ukraine has made significant moves over recent years 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 be of importance, accounting for 29.7 per cent. of all exports in 2010, 26.3 per cent. in 2011, 25.4 per cent. in 2012 and 26.3 per cent. in the first nine months of 2013. 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. Further, the international press has reported various voting irregularities in connection with the 28 October 2012 Ukrainian parliamentary elections. Following these elections, Ukrainian courts have overturned certain election results, including the election of Sergii Vlasenko, who is reported to have continued to act as a representative for Yuliya Tymoshenko after his election as a member of Parliament. Such reports and actions contribute adversely to the perception of Western governments and multinational institutions regarding the State's commitment to democratic reform. See "*Description of Ukraine—Political Developments since the 2010 Presidential Election*". Furthermore, the execution of the Association Agreement was originally scheduled for 28 November 2013, however the signing was deferred in accordance with the Instruction of the Cabinet of Ministers of Ukraine dated 21 November 2013, to allow the Government to carry out a detailed analysis of the measures needed (i) to renew trade and economic relations with the Russian Federation and other CIS states and (ii) to create a domestic market in Ukraine capable of having a relationship based on parity with the EU. This decision of the Government was precipitated by the weakening economic indicators in recent months and in particular the threat of restrictive trade measures on the part of the Russian Federation, which the Government concluded could result in losses to Ukrainian exporters and have a negative impact on the State's balance of payments. However, in announcing the deferral of the signing of the Association Agreement Ukraine stressed that it remained committed to closer ties with the European Union. See "*Political Framework—International Relations—Supranational Organisations—EU*".

The public announcement on 17 December 2013 by the presidents of Russia and Ukraine of a package of economic and financial support for Ukraine may be seen by Western governments as a shift away from the movement towards closer relations with the EU and the West. See "*The current crisis in Ukraine creates significant political and economic uncertainty*". In addition, there is no indication at the date of this Prospectus that the announcement by the two presidents has diminished public support for deeper EU-Ukrainian political association and economic integration.

On 16 January 2014, Parliament adopted a number of laws amending previous legislation. See "*The current crisis in Ukraine creates significant political and economic uncertainty*". Violent protests in Kyiv followed the passing of the laws as protesters question the legitimacy of the changes as well as their intended effect, and, despite the subsequent repeal of a number of these laws, such protests are continuing as at the date of this Prospectus. Certain Western countries and international organisations expressed deep concern in relation to the new laws as limiting the freedom of speech, assembly and association in Ukraine and contradicting Ukraine's international commitments and European aspirations.

There have been reports that in response to the economic and financial support promised by Russia, the United States, the European Union and the IMF have suggested that, in the context of potential changes in policy resulting from the appointment of a more pro-European government, they may be willing to provide economic and financial support through the IMF or otherwise. However, no formal offer or announcement of any support has been made as at the date of this Prospectus and there can be no assurance that an offer may be forthcoming or the conditions that may be attached thereto met.

It is unclear what impact, if any, the announced package of Russian economic and financial support for Ukraine will have on the prospect of closer EU integration. Any further major changes in Ukraine's relations with Western governments and institutions may have a negative effect on the successful execution of the Association Agreement. Any negative change in the perceptions of Ukraine's commitment to the rapport represented by the Association Agreement or any prolonged delay in signing the Association Agreement, as a result of the recent events referred to above, or otherwise, could have a material adverse effect on trade and other economic relations (including access to financial support) with the EU and its members, which, in turn, could have a material adverse effect on the Ukrainian economy and Ukraine's ability to service its obligations under the Notes. See "*Political Framework—International Relations*".

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

In December 2010, Parliament repealed the package of earlier adopted anti-corruption laws, the repeal taking effect from 5 January 2011, and a new anti-corruption law was passed by Parliament on 7 April 2011, which became fully effective from 1 January 2012. This law has been substantially amended since, including in April and May of 2013, to reflect certain conditions associated with the EU integration process and recommendations provided by the Council of Europe's Group of States against Corruption (GRECO) following its periodic evaluation of the anti-corruption efforts in Ukraine. From 18 May 2013, further amendments to the anti-corruption legislation in Ukraine took effect in order to harmonise the national legislation with the Council of Europe's Criminal Law Convention on Corruption of 1999. On 13 July 2012, the Law of Ukraine "On Rules of Ethical Conduct" came into effect. This law provides the rules of conduct for individuals during the performance of their official duties and prescribes the procedure by which individuals who breach the law are held responsible for their actions. Although the new legislation facilitates anti-corruption efforts in Ukraine, there has been no quantifiable recorded increase in the level of prosecutions or an overall decrease in the 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 in Ukraine and its immunity from economic and political influences remains 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 limited 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. On 16 January 2009, the arbitral tribunal was constituted and a series of submissions, hearings and document exchanges followed. On 16 December 2012, Ukraine submitted its response to Tatneft's written submission of 10 August 2012. From 18 to 27 March 2013, oral hearings took place in The Hague. As at the date of this Prospectus, the final decision of the arbitration tribunal is expected in early 2014. 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*".

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

On the Closing Date, the Sole Lead Manager anticipates that it may sell the total aggregate principal amount, or a substantial majority, of the Notes (potentially amounting to in excess of 75 per cent. of the total aggregate principal amount of the Notes) to a single investor. In such case, there may be little or no liquidity in the Notes until the relevant investor disposes of a significant portion of its holding of the Notes, which may never occur. Furthermore, if, and for so long as, the relevant investor owns all or a substantial majority of the Notes, it will have the ability to agree with Ukraine, and/or influence, changes to any of the terms of the Notes, including maturity, coupon and other commercial provisions. Subject to compliance with applicable law, the relevant investor shall not have any restrictions on its ability to freely dispose of all or any of such Notes in the market at any time.

Further, 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. Even if a trading market for the Notes develops, it may not provide sufficient liquidity to allow Noteholders to sell or trade the Notes easily, and the difference between bid and ask prices for the Notes in any secondary market could be substantial. Therefore an investment in the Notes may be characterised by a lack of liquidity and price volatility.

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

The market for securities issued by Ukraine is also influenced by economic and market conditions in Ukraine and, to a varying degree, economic conditions in other CIS and Eastern European markets as well as global, emerging and developed markets generally. 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.

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

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

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.$1,984,838,000 5.00 per cent. Notes due 2015 (the " **New 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 consolidated and form a single series with the U.S.$3,000,000,000 5.00 per cent. Notes due 2015 issued on 24 December 2013 (the "**Original Notes**", and together with the New Notes, the "**Notes**"). The Notes are constituted by, subject to, and have the benefit of, a trust deed dated 24 December 2013 (as amended or supplemented from time to time, the "**Original 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) and as supplemented by a supplemental trust deed dated 19 February 2014 (the "**Supplemental Trust Deed**", and together with the Original Trust Deed, the "**Trust Deed**"). The Notes are the subject of an agency agreement dated 24 December 2013 (as amended or supplemented from time to time, the "**Original 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), and as supplemented by a supplemental agency agreement dated 19 February 2014 (the "**Supplemental Agency Agreement**", and together with the Original Agency Agreement, the "**Agency Agreement**").

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 are in registered form, without interest coupons. The Notes will be issued in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each 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. Covenants

(a) ***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 of Ukraine 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:

(A) owed to the Noteholder or to any entity controlled or majority-owned by the Noteholder; or

(B) 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, 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*)).

(b) ***Debt Ratio***

So long as the Notes remain outstanding the Issuer shall ensure that the volume of the total state debt and state guaranteed debt should not at any time exceed an amount equal to 60 per cent. of the annual nominal gross domestic product of Ukraine.

(c) ***No Set-Off***

All payment obligations in respect of any Note shall be made in full on the due date in respect thereof (subject to any applicable grace period in accordance with Condition 8 below) and the Issuer undertakes not to claim or exercise any right of set-off in respect of such payments.

4. Interest

The Notes bear interest from and including 24 December 2013 at the rate of 5.00 per cent. per annum (the "**Rate of Interest**"), payable semi annually in arrear on 20 June and 20 December in each year (each an "**Interest Payment Date**"), commencing on 20 June 2014 (the "**First Interest Payment Date**"). There will be a short first coupon (with a broken amount of U.S.$4,888.89 being payable in respect of each denomination of U.S.$200,000 and U.S.$24.44 payable in respect of each integral multiple of U.S.$1,000 thereafter) payable on the First 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 20 December 2015, 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 of Ukraine 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 of

Ukraine 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.$1,999,999,979.04 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 45.5 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 and other applicable legislation.

Recent Political Developments

On 28 October 2012, elections to Parliament were held on the basis of mixed voting system, according to which 225 Members of Parliament are elected on the basis of majority voting and other 225 Members of Parliament are elected through a proportional representation of the parties. Out of 21 political parties participating in the elections through proportional representation, five political parties reached the five per cent. threshold required to gain seats in Parliament and out of 87 political parties participating in the elections through majority voting, representatives of nine political parties received a majority of votes in their respective districts and gained seats in Parliament. See "*Risk Factors—Risk Factors Relating to Ukraine—Changes in relations with Western governments, the EU and multinational institutions may adversely affect the development of the Ukrainian economy*".

The table below shows the breakdown of the number of seats in Parliament won by each of the parties in the 2012 elections:

Parliamentary Faction	**Total seats won in 2012 elections**	**Number of seats as a Percentage**
Party of Regions	185	41.11
VO Batkyvschyna	101	22.44
Communist Party of Ukraine	32	8.89
Party UDAR	40	7.11
Party Svoboda	37	8.22
Other, including self-nominated	50	11.11
Total	**445**	**98.89**

In the course of the elections, there have been a number of disputes as to the results of the election and their process. In particular, the Central Election Commission announced that it was impossible to establish the results of the elections in five single-member districts and on 6 November 2012 the Parliament issued a resolution recommending the Central Election Commission to order a repeat election in those districts. Pursuant to the law adopted on 5 September 2013, the date for the repeat elections has been set for 15 December 2013 and on 15 January 2014, five newly-elected members of Parliament took the oath. The new Parliament convened its first session on 12 December 2012, its second session on 22 February 2013, its third session on 3 September 2013 and its fourth session on 4 February 2014. See "*Risk Factors—Risk Factors Relating to Ukraine—Ukraine's Government may be unable to sustain political consensus, which may result in political instability*".

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 the 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 the 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. On 13 December 2012, Mykola Azarov was re-appointed as the Prime Minister and on 24 December the Government was endorsed by the President.

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 could not participate in the 2012 parliamentary elections, held 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. In January 2013, Yuliya Tymoshenko was also named a suspect in an investigation of the assassination of Member of Parliament and businessman Yevhen Shcherban in 1996. There have been reports that the timing and circumstances of the arrest, subsequent imprisonment of the former Ukrainian Prime Minister for abuse of power, and further accusations have 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 in the future 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, the EU and multinational institutions may adversely affect the development of the Ukrainian economy*".

On 8 February 2013, the Higher Administrative Court of Ukraine declared invalid the election of two members of Parliament, Mr. Pavlo Baloga and Mr. Oleksandr Dombrovsky, on the basis of violations of the electoral process and ordered repeat elections in their respective districts. Subsequently the grounds for the judgment of the Court have been questioned by certain state officials and members of Parliament and an application was submitted to the Constitutional Court of Ukraine requesting an official interpretation of certain provisions of the Constitution relating to the termination of the status of a member of Parliament. However, the Constitutional Court of Ukraine refused to consider the application. In addition, on 1 March 2013, a lawsuit was filed with the Higher Administrative Court of Ukraine seeking to deprive Mr. Sergii Vlasenko and Mr. Andriy Verevsky of their status and authority as members of Parliament. Mr. Andriy Verevsky carried out commercial activity while acting as a member of Parliament, and accordingly, on 5 March 2013, the Higher Administrative Court of Ukraine delivered a judgment terminating his status and authority as a member of Parliament. Mr. Vlasenko is reported to have acted as a representative of Ms. Tymoshenko while carrying out his functions as a member of Parliament. Although Mr. Vlasenko asserted that he had previously made a petition to terminate his attorney's licence, on 6 March 2013, the Higher Administrative Court of Ukraine delivered a judgment terminating his status and authority as a member of Parliament. Reportedly, as at the date of this Prospectus, Mr. Vlasenko vacated his seat as a member of Parliament.

On 16 January 2014, Parliament adopted a number of laws amending legislation in relation to, amongst others, the regulation of Parliamentary activity, unauthorised public protests, blockading public or Government buildings, access to the internet, registration of internet-based media, immunity of the Members of Parliament, status of judges, criminalisation of defamation, criminal responsibility for slandering Government officials, criminal trials in absentia and public associations receiving foreign funding. These laws were adopted by the majority by way of a show of hands without prior notification on the Parliamentary agenda and without discussion. On 17 January 2014, the President signed these bills into law. These laws took effect the day after their official publication on 21 January 2014, other than in a limited number of cases where they will not become effective until 1 May 2014. Violent protests in Kyiv followed the passing of the laws as protesters question the legitimacy of the changes as well as their intended effect, and such protests are continuing as at the date of this Prospectus.

Following the passing of these laws, protests spread beyond Kyiv to a number of regions (oblasts) across Ukraine, mostly in the West of Ukraine, but also in the East and South of the country. Government buildings were occupied in up to ten cities, and instances of civil disorder increased.

It was subsequently reported that the opposition to the Government in the current crisis, represented by the leaders of three political groupings in parliament, articulated a set of demands for resolving the crisis which included, amongst others, the resignation of President Yanukovych, fresh elections, and the rescission of the entirety of the laws adopted on 16 January 2014. Although, the opposition to the Government in the current crisis is represented by the leaders of these three political groupings, there is no clarity as to whether these leaders represent the views of all of the protesters or can control their actions.

On 28 January 2014, at an extraordinary session of Parliament, Parliament resolved to cancel nine of the twelve laws adopted by Parliament on 16 January 2014 described above by a majority of 361 of the 412 members of Parliament present and as at the date of this Prospectus the law cancelling these laws has been published and has come into effect. The laws cancelled included, most importantly, the laws relating to the regulation of Parliamentary activity, unauthorised public protests, blockading public or government buildings, access to the internet, registration of internet-based media, immunity of the Members of Parliament, status of judges, criminalisation of defamation, criminal responsibility for slandering government officials, criminal trials in absentia and public associations receiving foreign funding. Further, at the same session, Parliament resolved to adopt four new laws by a majority of 257 of the 406 members of Parliament present. The new laws included, amongst others, amendments to the Tax Code reinstating the exemption of natural gas imports to Ukraine from VAT, which had been suspended in late 2013.

On 29 January 2014, Parliament adopted the Law of Ukraine "On Elimination of Negative Impacts and Prohibition of Prosecution and Punishment with regard to the Events during Peaceful Assemblies". This law provides for the exemption from criminal liability of persons who are suspected or accused of certain crimes committed within the period from 27 December 2013 up to and including the day of entry into force of this law, provided that such crimes are related to the mass rallies which began on 21 November 2013. This law also provides for the cessation of the relevant criminal cases and release from custodial and non-custodial sentences of persons convicted for the above-mentioned crimes. This law became effective on 2 February and shall be put into force on the date following the publication on the official website of the General Prosecutor's Office of Ukraine of the General Prosecutor's announcement on the actual performance by demonstrators of certain actions, in particular with regards to the vacation of the premises of state and local government bodies which were occupied during the mass rallies, and the unblocking of transport communications on certain streets in Kyiv and other cities in Ukraine.

On 16 February 2014, by way of an announcement on the official website of the General Prosecutor's Office, the General Prosecutor confirmed that the participants of mass rallies complied with all of the requirements stipulated by the above-mentioned law. As a result the law came into force from 17 February 2014.

Furthermore, on 28 January 2014, the Prime Minister, Mykola Azarov, tendered his resignation and the President accepted. According to Ukrainian law, the resignation of the Prime Minister triggers the automatic termination of the appointment of the other members of the Cabinet of Ministers. However, as further provided by Ukrainian law, the members of the Cabinet of Ministers continue, upon the President's instruction, to exercise their authority pending the appointment of a newly formed Cabinet of Ministers. By an order dated 28 January 2014 the President confirmed that the Cabinet of Ministers shall exercise its authority pending the appointment of a newly formed Cabinet of Ministers, and by an order dated 5 February 2014 appointed Mr Serhiy Arbuzov as acting Prime Minister, pending the appointment of the new Prime Minister. As at the date of this Prospectus, there is no certainty as to what will be the make up of the new Cabinet of Ministers or who will succeed Mr Azarov as Prime Minister. The resignation has not satisfied the demands of protesters, as evidenced by the continued demonstrations. While the appointment of a new Prime Minister and the Cabinet of Ministers with the support of the opposition may appease the demonstrators to a certain extent, there can be no assurance that any new appointments will be supported by the opposition or that such appointments alone would lead to a resolution of the crisis. It is also unclear whether the pending change of Government will have an impact on Russia's willingness to continue implementing the announced package of economic and financial support for Ukraine. As at the date of this Prospectus, discussions are ongoing with respect to the introduction of amendments to the Constitution of Ukraine with regard to a return to a parliamentary-presidential form of government. See "*Risk Factors–Risk Factors Relating to Ukraine–The current crisis in Ukraine creates significant political and economic uncertainty*".

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—Fuel and Energy—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 United Nations Commission on International Trade Law 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 a series of submissions, hearings and document exchanges followed. On 16 December 2012, Ukraine submitted its response to Tatneft's written submission of 10 August 2012. From 18 to 27 March 2013, oral hearings took place in The Hague. As at the date of this Prospectus, the final decision of the arbitration tribunal is expected at the beginning of 2014.

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 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. At a meeting of the parties on 26 September 2012, it was decided that the Ministry of Transport of Ukraine and the State Road Service of Ukraine will consult the Cabinet of Ministers with respect to further actions in this matter. On 1 July 2013, Torno/Beta submitted their response and the second written submission. As at the date of this Prospectus, the Ministry of Transport of Ukraine and Ukravtodor have submitted their responses to Torno/Beta's submission and the court hearing is scheduled to take place on 14 June 2014.

Universal Trading & Investment Company/Foundation Honesty International, Inc.

On 26 November 2010, Universal Trading & Investment Co., Inc (UTICo) and Foundation Honesty International, Inc. filed a claim against the Ministry of Justice of Ukraine, the General Prosecutor Office and Ukraine with the Massachusetts District Court in the United States. The grounds for the claim are an alleged violation by defendants of their 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.$422 million.

On 19 September 2012, the Massachusetts District Court dismissed most of the plaintiffs' claims and refused to permit Foundation Honesty International, Inc. to act as a plaintiff in the case. However, the court confirmed its authority to examine the case on the merits with regard to the violation of an agreement between UTICo and the General Prosecutor Office. On 3 October 2012, the decision of the Massachusetts District Court was appealed, and the hearing took place on 6 June 2013. On 12 August 2013, the appeal court dismissed the appeal of Ukraine and confirmed the lawfulness of the refusal of the Massachusetts District Court to satisfy the motion to dismiss. On 24 September 2013, the Massachusetts District Court satisfied the motion of Ukraine to extend the terms of submission of the defence to the claim. The new schedule of the proceedings in the case, proposed by Ukraine, was approved by the court on 4 October 2013. On 25 October 2013, Ukraine submitted the defence to the claim, and on 28 October 2013, Ukraine received the first request of documents from UTICo. As at the date of this Prospectus, Ukraine is preparing a document request to be sent to UTICo.

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 Constitution Amendment 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 Constitution Amendment Law. As a result of the CCU Ruling, Ukraine has become a "presidential-parliamentary" republic once again 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 as a coordinating body on national security and defence which reports to 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, three 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. 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 subject to consent of more than one-half of constitutional composition of the Parliament 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, administrative reforms were 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. A further reorganisation of the central governmental agencies was made by presidential decrees on 24 December 2012 and 28 February 2013. Within this reform, the State Agency of Ukraine for Management of State Corporate Rights and Property was reorganised into the Ministry of Industrial Policy; the State Service of Ukraine on Emergencies was established on the basis of the Ministry of Emergencies and the State Inspection on Technological Safety; the Ministry of Income and Fees was established on the basis of the State Customs Service and the State Tax Service and the Ministry of Education and Science of Ukraine and the Ministry of Youth and Sport of Ukraine were established on the basis of the Ministry of Education and Science, Youth and Sports of Ukraine and the State Youth and Sports Service of Ukraine. As at the date of this Prospectus, Ukraine had 18 ministries and 52 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.

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 that took place on 28 October 2012) 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 Chairman 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 organisation, purpose and size 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. On 14 May 2012, the new Code of Criminal Procedure received presidential approval and came into force on 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 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 and on 15 August 2012, the new Law "On Advocacy" became effective.

As at the date of this Prospectus, Parliament is considering the draft Law of Ukraine "On Amendments to the Constitution of Ukraine on strengthening the guarantees of independence of judges" which is intended to implement the recommendations of the Venice Commission, in particular in relation to the procedure of formation and dissolution of courts and selection of judges, the candidate's age and experience requirements, the appointment and election of judges, and also the role of the High Council of Justice and the order of its formation. On 10 October 2013, this draft law received preliminary approval by Parliament. On 22 January 2014, the Law of Ukraine "On "Amendments to the Law of Ukraine on 'Judicial System and Status of Judges' and Procedural Laws regarding Additional Measures for Public Safety" became effective. This document, *inter alia*, establishes additional measures for protection of judges and members of their families. On 28 January 2014, this law was cancelled by Parliament. See "*Risk Factors—Risk Factors Relating to Ukraine—The current crisis in Ukraine creates significant political and economic uncertainty*."

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 is 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 was 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 1,140 multilateral treaties and 4,400 bilateral treaties, including treaties on promotion and mutual protection of investments entered into with 80 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 to 2014 Economic Reform Programme provides the following targets for Ukrainian foreign policy in the period 2010 to 2014:

- by the end of 2010, Ukraine was to have implemented comprehensive reforms required for the introduction of a free trade area 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 was to, among other things, complete negotiations on the introduction of the Ukraine-EU Deep and Comprehensive Free Trade Agreement (the "**FTA**"), which is intended to become a part of the Association Agreement between Ukraine and the EU. In 2012, the negotiations relating to the FTA were completed, and the FTA was initialled on 30 March 2012. The FTA forms an integral part of the Association Agreement between Ukraine and the EU;

- in accordance with the conclusions of the EU Foreign Affairs Council of 10 December 2012, the Association Agreement was expected to be signed at the Eastern Partnership Summit in Vilnius on 28 November 2013, however the signing was deferred in accordance with the Instruction of the Cabinet of Ministers of Ukraine dated 21 November 2013, to allow the Government to carry out a detailed analysis of the measures needed (i) to renew trade and economic relations with the Russian Federation and other CIS states and (ii) to create a domestic market in Ukraine capable of having a relationship based on parity with the EU. See "*Political Framework—International Relations—Supranational Organisations—EU*";

- Ukraine also intends to implement a free trade agreement with other CIS member states in line with the WTO requirements, and to develop a cooperation programme 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 free trade agreements 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. Since Ukraine's accession to the WTO, Ukraine is in negotiations regarding the creation of free trade areas with the EU, Canada, Israel, Serbia, Vietnam and Turkey and is currently considering commencement of negotiations on free trade areas with a number of other countries. See "*—EU*". On 1 June 2012, a free trade agreement became effective between Ukraine and the European Free Trade Association, whose members are Iceland, Lichtenstein, Norway and Switzerland. On 18 November 2011, a free trade agreement was also signed between Ukraine and Montenegro, which came into force on 1 January 2013.

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 Armenia, Moldova and Australia.

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 the Association Agreement with the EU. Under the terms of the PCA it will be extended automatically on an annual basis until the execution of the Association Agreement.

The execution of 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, the Association Agreement creates the necessary legal and institutional framework for Ukraine's entrance into the EU domestic market through the gradual implementation of principles of free movement of goods, services and capital, and partially free movement of the labour force, based on free market principles. The draft Association Agreement provides for a strengthening of cooperation in the regulatory sphere and continuation of Ukraine's work in conforming Ukrainian laws to EU legislation. The draft Association Agreement also provides for a broad spectrum of obligations of Ukraine regarding aligning the national legislation with the EU legislation. The Association Agreement, excluding the sections on the FTA, was initialled on 30 March 2012 and the sections relating to the FTA were initialled on 19 July 2012. The execution of the Association Agreement was originally scheduled for 28 November 2013 at the Eastern Partnership Summit in Vilnius, subject to implementation by Ukraine of the criteria stated in the conclusions of the Council of the European Union of 10 December 2012. These criteria included: the reform of the election legislation including steps to establish a reliable electoral system; addressing the issue of selective justice and preventing its recurrence; judicial reform and reform of the police; fight against corruption and public finance management reform; improving the business and investment climate in Ukraine; and regulation of trade relations between Ukraine and the EU.

While Ukraine remains committed to the goal of political association and economic integration with the EU, the planned signing of the Association Agreement on 28 November 2013 was deferred by Ukraine, in accordance with the Instruction of the Cabinet of Ministers of Ukraine dated 21 November 2013, to allow the Government to carry out a detailed analysis of the measures needed (i) to renew trade and economic relations with the Russian Federation and other CIS states, and (ii) to create a domestic market in Ukraine capable of having a relationship based on parity with the EU. This decision of the Government was precipitated by weakening economic indicators in recent months, and in particular the threat of restrictive trade measures on the part of the Russian Federation, which the Government concluded could result in losses to Ukrainian exporters and have a negative impact on the State's balance of payments. In announcing the deferral of the signing of the Association Agreement, Ukraine stressed that it remained committed to closer ties with the European Union and the European Union has confirmed that the door remains open for Ukraine and the European Union to sign the Association Agreement in the format that has previously been agreed.

Following the decision of Ukraine to defer the signing of the Association Agreement, mass rallies have taken place in Kyiv and other cities of Ukraine expressing strong public support for the political association and economic integration of Ukraine with the EU. On 3 December 2013, a motion of no-confidence in the Government was raised during the Parliamentary session, which motion was supported by 186 Members of Parliament, but fell short of the 226 votes required for approval. Protesters have pledged to continue mass rallies in Ukraine, and as at the date of this Prospectus the mass rallies are ongoing.

On 2 December 2013, during a telephone call between the President of Ukraine and the President of the European Commission, the President of Ukraine asked the European Commission to receive a delegation from Ukraine to discuss certain aspects of the Association Agreement and the FTA. The President of the European Commission confirmed the readiness of the European Commission to receive such a delegation at the appropriate level. He underlined that the European Commission stands ready to discuss aspects of implementation related to the agreements already initialled, but not to re-open any kind of negotiations. These terms were accepted by President Yanukovych and it was decided that the timing and the level of this consultation should be arranged through the appropriate diplomatic channels.

On 17 December 2013, the presidents of Russia and Ukraine announced a package of economic and financial support for Ukraine to be provided by Russia. Although the agreements have not been made public, the two presidents announced (i) the intention of Russia to purchase U.S.$15 billion of Ukrainian debt, which shall consist of (a) U.S.$10 billion in the form of sovereign Eurobonds having a maturity of two years and a fixed interest rate of 5 per cent. per annum (of which the Notes form a part) before the end of 2014, and (b) U.S.$5 billion (or its equivalent in SDRs) in loans to the NBU the terms of which are yet to be agreed upon and (ii) a substantial reduction in the price of gas to be supplied by Gazprom to Naftogaz. Consequently, on 17 December 2013, the Supplement to the Gas Supply Contract was signed, as a result of which from 1 January 2014 to the end of 2019 the price of gas to be purchased from Gazprom by Naftogaz will be set at U.S.$268.5 per 1,000 cubic metres. The price of gas will be reviewed quarterly, but in any event will not exceed U.S.$268.5 per 1,000 cubic metres. In January 2014, the actual average price for imported natural gas was U.S.$268.5 per 1,000 cubic metres. However, as at the date of this Prospectus other than the Supplement to the Gas Supply Contract, there has been no formal agreement or memorandum of understanding signed between the two countries, but the relevant ministries of the two countries are working towards the finalisation of these arrangements. See "*Risk Factors—Risk Factors Relating to Ukraine—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, including as a result of the prices charged by Gazprom for natural gas supplied to Ukraine*".

Ukraine remains committed to its stated intention to execute the Association Agreement with the EU, and the Government of Ukraine is proceeding with the reforms contained in the EU-Ukraine Association Agenda aimed at the implementation of the Association Agreement. See "*Risk Factors—Risk Factors Relating to Ukraine—Changes in relations with Western governments, the EU and multinational institutions may adversely affect the development of the Ukrainian economy*" and "*Description of Ukraine—Political Developments since the 2010 Presidential Election*".

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.

In 2005, Ukraine was given market economy status by the EU which better protected Ukraine 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 2010, 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 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, and 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 2012, exports of goods and services from Ukraine to the EU amounted to U.S.$20.9 billion (25.4 per cent. of total exports of goods and services) or a 3.0 per cent. decrease compared to 2011, and imports of goods and services from the EU to Ukraine amounted to U.S.$29.8 billion (32.7 per cent. of total imports of goods and services), or a 2.4 per cent. increase compared to 2011. In the first nine months of 2013, exports of goods and services from Ukraine to the EU amounted to U.S.$14.6 billion (26.3 per cent. of total exports of goods and services), or a 3.7 per cent. decrease compared to the same period in 2012, and imports of goods and services from the EU to Ukraine amounted to U.S.$22.4 billion (36.4 per cent. of total imports of goods and services), or a 3.5 per cent. increase, as compared to the corresponding period in 2012.

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 carries 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. As at the date of this Prospectus, Ukraine is at the closing phase of the first stage of the Action Plan. The key issues remaining to be resolved before finalisation of the first stage of the Action Plan are the improvement of legislative regulation of anti-corruption measures taking into account the EU recommendations and the improvement of anti-discrimination legislation. The realisation of the second stage of the Action Plan will be initiated once the above recommendations have been implemented.

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. On 15 May 2013, Ukraine and EU exchanged the ratification documents and the agreement became effective on 1 July 2013.

As part of its cooperation with the EU, Ukraine expects to receive financial support amounting to up to €610 million from the EU. A memorandum of understanding (the "**2013 EU-Ukraine Memorandum of Understanding**") and a loan agreement in respect of a €610.0 million loan (the "**2013 EU-Ukraine Loan Agreement**") were executed during the EU-Ukraine Summit held on 25 February 2013 in Brussels. As at the date of this Prospectus, the Ministry of Finance of Ukraine is preparing these documents for ratification by Parliament. The aim of this support is to help to maintain the stability of the Ukrainian economy. The EU's disbursement of funds under the 2013 EU-Ukraine Loan Agreement may be subject to discretion on their part, and may include consideration of compliance with IMF requirements. This support is expected to be provided in four separate tranches amounting to €100 million, €10 million, €250 million and €250 million, respectively, and is likely to have a maturity of 15 years. Each tranche will be provided regardless of whether the previous tranche is repaid by the time of disbursement. The first tranche will be allocated following the ratification by Parliament of the Memorandum of Understanding and the EU-Ukraine Loan Agreement. Before each further tranche is granted, the European Commission along with the representatives of the IMF and Ukraine will appraise the progress of Ukraine's compliance with certain reform criteria set out in Annex 1 of the Memorandum of Understanding in the spheres of public finance management, trade, energy, tax policy and financial sector.

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. In March 2011, the EIB opened its first permanent EIB representation in Kyiv, confirming the EIB's commitment to the region, and on 1 June 2012 the permanent representative of the EIB in Ukraine was appointed. As of 1 November 2013, investment projects pursuant to such cooperation amounting to €1.6 billion were being implemented in Ukraine.

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. 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—External 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". Under this law and in accordance with obligations of Ukraine as a member of the Energy Community, the Ministry of Energy and Coal Industry is currently in the process of developing proposals on the reform of Naftogaz.

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 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. This intention was further confirmed in the Chicago Summit Declaration of 20 May 2012. In addition, as at the date of this Prospectus, approximately 30 agreements have been signed between NATO and Ukraine governing their cooperation on various practical issues.

By way of a decree of 18 November 2010, the President of Ukraine established the Commission for Ukraine's Partnership with NATO (the "**Ukraine-NATO Partnership Commission**") which consists of five coordinators of different areas corresponding to the areas of Ukraine's NAP. The Ukraine-NATO Partnership Commission's designated role is to oversee effective cooperation with NATO.

On 24 February 2011, the NATO Secretary Anders Rasmussen visited Ukraine, meeting with the Ukrainian President to discuss enhanced cooperation between NATO and Ukraine. 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. On 24 September 2013, a meeting between the Ukrainian President and the NATO Secretary took place in New York. In the course of the meeting the Ukrainian side confirmed that Ukraine is in compliance with all of its undertakings in the context of cooperation with the NATO.

A delegation of the NATO Parliamentary Assembly consisting of 20 official observers participated with other international observers in the monitoring of the Parliamentary elections of 2012. The NATO Parliamentary Assembly observers have also been invited to monitor the repeat elections to Parliament in 5 single-member districts which took place on 15 December 2013.

Since 2009, in cooperation with NATO within the framework of the Ukraine-NATO Partnership Commission, Ukraine develops national annual programmes ("**NAPs**") for implementing necessary reforms. The NAPs are signed by the President of Ukraine and contain five sections: political, defense and military, resources, security and legal issues. At a meeting held on 7 December 2010, NATO positively appraised Ukraine's performance under the 2010 NAP. 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. The 2012 NAP, which was approved by the President on 19 April 2012, has encouraged further reform in Ukraine. In November 2012, the NATO Political and Partnerships Committee positively appraised the performance of the 2012 NAP by Ukraine. On 21 January 2013, during the meeting of the Ukraine-NATO Partnership Commission at the NATO headquarters, the new NAP for Ukraine for 2013 was presented. The 2013 NAP was approved by the President on 5 July 2013.

On 5-8 November 2013, the delegation of the NATO International Secretariat visited Ukraine. In the course of this visit the 2013 NAP performance was discussed at a formal meeting with representatives of the Government.

On 22 February 2013, the Ukraine-NATO Commission approved the priorities for cooperation in the defense sector for the medium term, and also signed an agreement between Ukraine and NATO confirming Ukraine's participation in the anti-piracy operation "Ocean Shield". Ukrainian Navy's flagship with a helicopter and group of special forces on board has already been sent to take part in operation "Ocean Shield".

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.

Ukraine is involved in all current NATO operations, including operations in Afghanistan, Kosovo, the Mediterranean and the Horn of Africa. Ukraine and NATO also cooperate in such areas as military and technical cooperation, counter terrorism, counter piracy, rehabilitation and social adaptation of retired military personnel, fighting cyber-crimes and corruption, utilisation of excessive ammunition supplies and personnel mines, 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, 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 2012, 8 international and 36 intergovernmental agreements were signed by Ukraine within the framework of the CIS, including the Action Plan for 2012 to 2014 on the implementation of the CIS Interstate Programme for Innovative Cooperation until 2020. The following documents were signed in 2011: the Agreement on a Free Trade Zone, executed on 18 October 2011 between Ukraine, Russia, Belarus Armenia, Kazakhstan, Kyrgyzstan, Moldova and Tajikistan (the "**Agreement on the Free Trade Zone**"), the CIS Interstate Programme for Innovative Cooperation until 2020 and the Cooperation Atom CIS, a framework for the peaceful use of nuclear energy until 2020. On 30 July 2012, Ukraine ratified the Agreement on the Free Trade Zone and this agreement became effective on 20 September 2012 for Ukraine, Russia and Belarus.

During 2013, 9 international and 58 intergovernmental agreements were signed by Ukraine within the framework of the CIS, including the Agreement on Coordination of Intergovernmental Relations in Use of Atomic Energy for Peaceful Purposes; the Concept of Establishment of Bank for Patents and Innovations; the Amended Regulation on Coordination Council of Officers of Tax (Finance) Investigations of the CIS States and others.

Starting from 1 January 2014, Ukraine commenced its presidency of the CIS. Ukraine's activity as a presiding state will be based on the principles of implementing the decisions taken by the CIS authorities previously and strengthening mutual cooperation of the CIS states taking into account European and Asian integration processes.

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. On 1 May 2013, the United States Trade Representative designated Ukraine as a

"Priority Foreign Country" (the least favourable classification given to foreign countries that deny adequate and effective protection of intellectual property rights or fair and equitable market access to U.S. persons relying upon intellectual property rights protection under the U.S. Trade Act of 1974) within the programme on the protection of intellectual property rights, as a result of which Ukraine may be suspended from the "Generalised System of Preferences" (a formal system of exemption from the more general rules of the WTO). Ukraine is currently taking action to avoid such suspension and to get its classification as a "Priority Foreign Country" removed. 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 2.7 per cent. of overall FDI in 2010, 2.1 per cent. in 2011 and 1.7 per cent. in 2012. The relative share of FDI provided by the United States decreased from 2010 through 2012, in 2012 the United States was the twelfth largest contributor and, in absolute terms, investment from the United States has also decreased. As of 31 August 2013, the United States was the thirteenth largest contributor.

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, as of 1 November 2013, more than 130 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. On 15 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.

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.

According to the United States International Trade Commission, the total trade turnover between Ukraine and the United States in the first five months of 2013 equalled U.S.$1,186.8 million, a decrease of U.S.$234.8 million, or 17.0 per cent., as compared to the corresponding period in 2012. The United States remain the biggest international technical assistance donor to Ukraine. In 2012, the allocation of the United States government for technical assistance to Ukraine was equal to U.S.$113.9 million. In the 2013 financial year (1 October 2012 – 30 September 2013) such assistance amounted to approximately U.S.$104.4 million. The work on the execution of agreements on production and distribution of natural gas with Exxon and Chevron may open new prospects in the relations between Ukraine and the United States.

On 6 to 11 May 2013, during the visit of Minister of Foreign Affairs of Ukraine to the United States, a number of meetings, including meetings with the United States Secretary of State, the Secretary- General of the UN and Congressional representatives, took place. The United States declared its support of the Ukraine's European integration.

Following the political events in Ukraine since November 2013, the United States has been closely monitoring events and has reportedly considered both economic sanctions and financial support depending on the outcome of events. However, no formal announcement has been made as at the date of this Prospectus. See "*Risk Factors—Risk Factors Relating to Ukraine—Changes in relations with Western governments, the EU and multinational institutions may adversely affect the development of the Ukrainian economy*".

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, 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 and inventory of land plots and real estate leased by Russian Fleet.

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. As at 1 November 2013, sixteen meetings of the Ukrainian Russian Interstate Commission have taken place, and the documentation required for the demarcation of Ukraine's land border has been prepared. As at 1 January 2014, Ukraine set approximately 150 demarcation marks.

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—Fuel and Energy*".

In January 2013, Gazprom submitted a demand for payment of U.S.$7 billion in respect of gas not purchased by Naftogaz in 2012 under the "take or pay" gas supply contract signed by the parties in 2009. Naftogaz paid for all gas actually delivered by Gazprom in 2012 and does not accept the validity of the demand by Gazprom in respect of the allegedly uncollected volumes. In accordance with the terms of the gas supply contract, Naftogaz has proposed discussions with Gazprom in order to resolve this issue. Accordingly, there remains substantial uncertainty as to the legal, commercial and other consequences of the Gazprom demand. If the matter is not resolved amicably and to the satisfaction of Naftogaz, it is possible that there could be an adverse effect on (i) the commercial relationship between Gazprom and Naftogaz and/or (ii) the financial condition of Naftogaz, which in turn could have implications for the State should further support for Naftogaz appear or become necessary.

On 17 December 2013, the Supplement to the Gas Supply Contract was signed between Naftogaz and Gazprom, as a result of which from 1 January 2014 to the end of 2019 the price of gas to be purchased from Gazprom by Naftogaz was set at U.S.$268.5 per 1,000 cubic metres. The price of gas will be reviewed quarterly, but in any event will not exceed U.S.$268.5 per 1,000 cubic metres. In January 2014, the actual average price for imported natural gas was U.S.$268.5 per 1,000 cubic metres. Naftogaz estimates that the introduction of this price will result in savings between U.S.$2.55 billion and U.S.$5.94 billion per year depending on the volume of supply.

The export duty has decreased substantially since the end of 2008 due to the decrease in global crude oil prices. As at 1 January 2014, the Russian oil export duty was U.S.$394.8 per tonne.

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 regular 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 12 July 2012, as part of the official visit of the President of the Russian Federation to Ukraine, the Declaration on the Content of Ukrainian-Russian Strategic Partnership was signed. This document creates a framework for further mutually advantageous cooperation between Ukraine and Russia and reflects the priorities of such cooperation between the countries.

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.

Recently, pressure was placed on Russia-Ukraine bilateral relations arising out of the prospect of Ukraine signing the Association Agreement with the EU, including the threat of restrictive trade measures by Russia. For the eleven months ended 30 November 2013, exports of Ukrainian goods to Russia decreased by 14.1 per cent. as compared to the corresponding period in 2012. As at the date of this Prospectus, the discussions are ongoing between Russia and Ukraine in relation to restoring industrial cooperation and trade and economic relations between the two countries, following the decision of Ukraine to defer the signing of the Association Agreement with the EU. The work on preparation of the "road map" of the negotiations between Ukraine and the EU remains in progress.

On 17 December 2013, the presidents of Russia and Ukraine announced a package of economic and financial support for Ukraine to be provided by Russia. Although the agreements have not been made public, the two presidents announced (i) the intention of Russia to purchase U.S.$15 billion of Ukrainian debt, which shall consist of (a) U.S.$10 billion in the form of sovereign Eurobonds having a maturity of two years and a fixed interest rate of 5 per cent. per annum (of which the Notes form a part) before the end of 2014, and (b) U.S.$5 billion (or its equivalent in SDRs) in loans to the NBU the terms of which are yet to be agreed upon and (ii) a substantial reduction in the price of gas to be supplied by Gazprom Naftogaz. See "*Risk Factors—Risk Factors Relating to Ukraine— 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, including as a result of the prices charged by Gazprom for natural gas supplied to Ukraine.*"

On 17 December 2013, during the working visit of the President of Ukraine to Moscow, the 6th meeting of the Ukraine-Russia Interstate Commission took place. A number of pertinent issues were discussed by the two Presidents, including trade, cooperation in fuel and energy industry, transport, industrial policy and nuclear energy. The agreements reached by the two Presidents are aimed at maintaining a dialogue and developing further relations between Russia and Ukraine, as well as developing joint manufacturing and sales programmes for certain types of products in the high tech industries and simplifying mutual access to the markets of the two countries. These agreements also aim to assist in the recovery of the competitiveness of Ukrainian products on the world markets through cost reductions and other mechanisms.

In December 2013, a bilateral Ukraine-Russia commission established in 2005 held its sixth session. At this session Ukraine and Russia agreed, *inter alia*, to renew the development, production, supply, maintenance and modernisation of aircraft AN-124 "Ruslan"; to cooperate towards establishment of joint ventures for the implementation of missile projects "Sea Start", "Land Start" as well as the "Dnipro" programme; to maintain cooperation between Ukrainian and Russian enterprises in the production of scientific space modules and navigation equipment; to exchange information on the state of nuclear and radiation safety in the two countries and cooperate in case of nuclear accidents.

In addition, Ukraine and Russia discussed possible cooperation in connection with the financing of certain economic projects. As at the date of this Prospectus, no official document in relation to this cooperation was signed, but the negotiations between the two countries are ongoing.

Customs Union

Ukraine is interested in the extension of its cooperation with the Customs Union and is seeking forms of possible cooperation which would be advantageous to national interests but would take into account Ukraine's interests and interests of other members of this organisation. This cooperation shall be based on the WTO rules and shall not contradict future obligations of Ukraine under the Association Agreement with the EU.

On 31 May 2013, the "Memorandum On Deepening the Cooperation between Ukraine and the Eurasian Economic Commission" was signed. Under this Memorandum, Ukraine is entitled to attend the meetings of the Supreme Eurasian Economic Council, Council and Board of the EEC, without the right to participate in decision making. Ukraine is also entitled to make proposals to the EEC. Under the Memorandum, Ukraine intends to obtain the status of observer of the Eurasian Economic Union (once such organisation is established, as expected, in 2015). Ukraine considers the status of observer as an acceptable format for its relations with the Customs Union.

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, growth slowed considerably in 2012 dropping to 2.2 per cent. for the first quarter and 3.0 per cent. for the second quarter and with real GDP even contracting by 1.3 per cent. in the third quarter and by a further 2.5 per cent. in the fourth quarter, all on an annualised basis, as Ukraine fell back into recession. The global drop in demand for metals and their products was a key contributor to the slow down in 2012, impacting exports significantly as prices fell. As a result, Ukraine's GDP grew by only 0.3 per cent. for the year ended 31 December 2012, far below the 2012 growth assumption underlying the Ukraine 2012 State Budget, which assumed growth of 3.9 per cent. for the year. This trend continued in the first three quarters of 2013, during which real GDP decreased by 1.1 per cent., 1.3 per cent. and 1.3 per cent., respectively, compared to the corresponding periods in 2012. However, in the fourth quarter of 2013, real GDP increased by 3.7 per cent. as compared to the fourth quarter of 2012. As a result, real GDP growth amounted to 0.0 per cent. in 2013 as compared to 2012.

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 the Agreement of Formation of the 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 to 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 was completed in 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 to 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 to 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 was intended 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. See "*Risk Factors—Risk Factors Relating to Ukraine—Changes in relations with Western governments, the EU and multinational institutions may adversely affect the development of the Ukrainian economy*".

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

On 12 March 2013, the President approved a national action plan for 2013 (the "**2013 Action Plan**") for the further implementation of the 2010 to 2014 Economic Reform Programme and reforms in other public and governmental spheres in 2013. According to the 2013 Action Plan, a number of reforms are planned for 2013 with the aim of ensuring economic growth, the establishment of an attractive investment environment and an increase in social standards and wages.

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 to 2014. Practical implementation of the 2010 to 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 to 2014 Economic Reform Programme as its objectives are being achieved. On 27 February 2013, the Cabinet of Ministers of Ukraine approved the State Programme On Promotion of the Economic Development for 2013-2014 (the "**State Programme 2013-2014**"), which is intended to facilitate accelerated economic growth. The State Programme 2013-2014 contains analysis of the recent economic environment in Ukraine and defines the priorities for economic policy. Such priorities focus primarily on the modernisation of the main sectors of the economy (including industries such as machinery manufacturing, chemical industry, light industry (consumer goods manufacturing), agriculture and pharmaceuticals) and increasing the competitiveness of domestic goods and services, with a view to reducing demand for imported goods as the quality of domestically produced goods improves.

Gross Domestic Product

In 2011, Ukraine's nominal GDP increased to UAH 1,302.1 billion from UAH 1,082.6 billion in 2010 constituting a real growth rate of 5.2 per cent. following real GDP growth of 4.1 per cent. in 2010. 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. According to a resolution of the Cabinet of Ministers dated 31 August 2011, as amended, real GDP growth was forecast to be between 3.9 and 6.5 per cent. in 2012. However, real GDP growth slowed considerably in 2012 dropping to 2.2 per cent. for the first quarter and 3.0 per cent. for the second quarter, with real GDP even contracting by 1.3 per cent. in the third quarter and by a further 2.5 per cent. in the fourth quarter, all on an annualised basis, as Ukraine fell back into recession. The global drop in demand for metals and their products was a key contributor to the slowdown in 2012, impacting exports significantly as prices fell. As a result, Ukraine's real GDP grew by only 0.3 per cent. for the year ended 31 December 2012, far below the 2012 growth assumption underlying the Ukraine 2012 State Budget, which assumed real growth of 3.9 per cent. for the year. In 2012, Ukraine's nominal GDP amounted to UAH 1,411.2 billion. Factors influencing the slowdown in GDP growth in 2012, compared to 2011, include seasonal disparities, adverse weather conditions, low levels of bank lending and external economic issues, such as the renewed downturn in the EU. In addition, GDP growth in the first half of 2012 was mainly due to temporary factors such as an early harvest and the UEFA Euro 2012 Football Championships (the "**Euro 2012 Championships**"). In the third quarter of 2012, decreases in export demand from both the EU and CIS states, as well as lower harvests (than in 2011) and the end of construction and other activity related to Euro 2012 Championships all contributed to contraction of 1.3 per cent. over that period. Further decreases in the fourth quarter and overall in 2012 can be attributed to recession in the EU, a drop in demand for, and resulting lower prices of, metals and their products and chemical products, low harvest and a less than expected positive effect of the Euro 2012 Championships. This trend continued in the first three quarters of 2013, during which real GDP decreased by 1.1 per cent., 1.3 per cent. and 1.3 per cent., respectively, compared to the corresponding periods in 2012. However, in the fourth quarter of 2013, real GDP increased by 3.7 per cent. as compared to the fourth quarter of 2012. The negative trend in GDP at the end of 2012 and in the first three quarters of 2013 was due to various conditions which prevailed in the second half of 2012, in particular, unfavourable external economic environment and lack of financial resources in the economy, and the growth in the fourth quarter of 2013 was largely attributable to a significant increase in agricultural production and increased domestic consumer demand.

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

	Year ended 31 December			
	2010	2011	2012	2013
GDP				
Nominal GDP (UAH millions)	1,082,569.0	1,302,079.0	1,411,238.0	1,444,000.0
Nominal GDP (U.S.$ millions)(1)	136,419.3	163,422.5	176,602.8	180,658.1
Real GDP (% change)	4.1	5.2	0.3	0.0
Nominal per capita GDP (U.S.$)(1)	2,974.0	3,575.5	3,873.4	3,971.7

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

	1st quarter ended 31 March		2nd quarter ended 30 June		3rd quarter ended 30 September	
	2012	2013	2012	2013	2012	2013
GDP						
Nominal GDP (UAH millions)	293,493.0	301,598.0	349,212.0	351,896.0	387,620.0	392,630.0
Nominal GDP (U.S.$ millions)(1)	36,741.0	37,732.8	43,706.1	44,025.5	48,495.2	49,121.7
Real GDP (% change)	2.2	(1.1)	3.0	(1.3)	(1.3)	(1.3)
Nominal per capita GDP (U.S.$)(1)	805.6	828.7	958.6	967.3	1,063.6	1,079.4

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					
	2010		2011		2012	
	(UAH millions)	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*
GDP	**1,082,569.0**	**100.0**	**1,302,079.0**	**100.0**	**1,411.238.0**	**100.0**
Industry[(1)]	259,018.0	23.9	298,471.0	23.0	315,997.0	22.4
Agriculture, hunting and forestry	82,641.0	7.6	110,564.0	8.5	112,799.0	8.0
Construction	32,518.0	3.0	37,232.0	2.9	39,127.0	2.8
Transport and communication	111,013.0	10.3	133,196.0	10.2	129,794.0	9.2
Trade and services	164,826.0	15.2	203,755.0	15.6	216,659.0	15.3
Other economic activity[(2)]	349,957.0	32.3	382,232.0	29.3	440,032.0	31.2
Services of financial agents	(45,814.0)	(4.2)	(45,649.0)	(3.5)	(40,109.0)	(2.8)
Net taxes on products excluding subsidies	128,410.0	11.9	182,278.0	14.0	196,939.0	13.9

Notes:

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

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

Source: State Statistics Service

	1st quarter ended 31 March				2nd quarter ended 30 June				3rd quarter ended 30 September			
	2012		2013		2012		2013		2012		2013	
	(UAH millions)	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*
GDP	**293,493.0**	**100.0**	**301,598.0**	**100.0**	**349,212.0**	**100.0**	**351,896.0**	**100.0**	**387,620.0**	**100.0**	**392,630.0**	**100.0**
Industry[(1)]	72,354.0	24.6	69,054.0	22.9	86,730.0	24.8	82,005.0	23.3	81,577.0	21.0	78,199.0	19.9
Agriculture, hunting and forestry	8,861.0	3.0	9,746.0	3.2	14,898.0	4.3	18,345.0	5.2	53,749.0	13.9	53,300.0	13.6
Construction	6,676.0	2.3	6,310.0	2.1	9,835.0	2.8	8,602.0	2.4	10,262.0	2.6	9,677.0	2.5
Transport and communication	31,905.0	10.9	31,503.0	10.4	36,268.0	10.4	35,733.0	10.2	36,745.0	9.5	36,671.0	9.3
Trade and services	44,648.0	15.2	47,642.0	15.8	55,301.0	15.8	57,820.0	16.4	58,868.0	15.2	62,646.0	16.0
Other economic activity[(2)]	94,456.0	32.2	102,348.0	34.0	105,223.0	30.2	112,086.0	31.9	107,545.0	27.8	114,357.0	29.1
Services of financial agents	(10,255.0)	(3.5)	(8,849.0)	(2.9)	(10,627.0)	(3.0)	(9,078.0)	(2.6)	(9,895.0)	(2.6)	(9,385.0)	(2.4)
Net taxes on products excluding subsidies	44,848.0	15.3	43,844.0	14.5	51,584.0	14.7	46,383.0	13.2	48,769.0	12.6	47,165.0	12.0

Notes:

(1) Consists of extractive industries (such as mining), manufacturing (the processing industry), 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					
	2010		2011		2012	
	(UAH millions)	*(%)*	*(UAH millions)*	*(%)*	*UAH millions)*	*(%)*
GDP	**1,082,569.0**	**100.0**	**1,302,079.0**	**100.0**	**1,411,238.0**	**100.0**
Consumption	914,230.0	84.5	1,113,008.0	85.5	1,247,293.0	88.3
Private Sector	686,082.0	63.4	865,860.0	66.5	962,627.0	68.2
Non-profit organisations serving private sector	8,222.0	0.8	9,716.0	0.8	9,164.0	0.6
Government	219,926.0	20.3	237,432.0	18.2	275,502.0	19.5
Gross fixed investment	195,927.0	18.1	241,785.0	18.6	275,347.0	19.5
Change in stock	3,616.0	0.3	27,714.0	2.1	2,325.0	0.2
Net acquisition of valuables	375.0	0.0	520.0	0.0	756.0	0.1
Net export	(31,579.0)	(2.9)	(80,948.0)	(6.2)	(114,483.0)	(8.1)
Export of goods and services	549,365.0	50.8	707,953.0	54.4	719,480.0	51.0
Import of goods and services	580,944.0	53.7	788,901.0	60.6	833,963.0	59.1

Source: State Statistics Service

	1st quarter ended 31 March				2nd quarter ended 30 June				3rd quarter ended 30 September			
	2012		2013		2012		2013		2012		2013	
	(UAH millions)	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*
GDP	**293,493.0**	**100.0**	**301,598.0**	**100.0**	**349,212.0**	**100.0**	**351,896.0**	**100.0**	**387,620.0**	**100.0**	**392,630.0**	**100.0**
Consumption	272,970.0	93.0	291,388.0	96.7	311,851.0	89.3	338,712.0	96.2	328,173.0	84.7	347,511.0	88.5
Private Sector	210,464.0	71.7	224,315.0	74.4	239,011.0	68.4	262,082.0	74.5	263,580.0	68.0	282,220.0	71.9
Non-profit organisations serving private sector	2,543.0	0.9	2,568.0	0.9	2,563.0	0.7	2,678.0	0.7	2,547.0	0.7	2,629.0	0.7
Government	59,963.0	20.4	64,505.0	21.4	70,277.0	20.2	73,952.0	21.0	62,046.0	16.0	62,662.0	15.9
Gross fixed investment	48,148.0	16.4	51,293.0	17.0	64,743.0	18.5	53,718.0	15.3	66,089.0	17.0	65,483.0	16.7
Change in stock	(7,285.0)	(2.5)	(22,894.0)	(7.6)	6,222.0	1.8	(23,241.0)	(6.6)	18,984.0	4.9	19,477.0	5.0
Net acquisition of valuables	173.0	0.1	91.0	0.0	74.0	0.0	84.0	0.0	271.0	0.1	28.0	0.0
Net export	(20,513.0)	(7.0)	(18,280.0)	(6.1)	(33,678.0)	(9.6)	(17,377.0)	(4.9)	(25,897.0)	(6.7)	(39,869.0)	(10.2)
Export of goods and services	165,810.0	56.5	162,250.0	53.8	181,413.0	52.0	165,391.0	47.0	188,467.0	48.6	180,186.0	45.9
Import of goods and services	186,323.0	63.5	180,530.0	59.9	215,091.0	61.6	182,768.0	51.9	214,364.0	55.3	220,055.0	56.1

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 31 January	
	2010	2011	2012	2013	2013	2014
	(increase/decrease against 31 December of the previous year in %)				*(increase/decrease against 31 December of the previous year in %)*	
Consumer Price Index (CPI)	9.1	4.6	(0.2)	0.5	0.2	0.2
Food and non-alcoholic beverages(1)	10.6	1.7	(2.3)	(0.7)	0.3	0.4
Wholesale Price Index (WPI)	18.7	14.2	0.3	1.7	0.3	0.5

Note:
The State Statistics Service uses international COICOP classification and does not calculate non-foods and paid services indices.
(1) Does not include alcoholic beverages and tobacco.
Source: State Statistics Service

Ukraine's CPI inflation has gradually fallen over the past three years, registering CPI inflation of 9.1 per cent. in 2010 and 4.6 per cent. in 2011 as well as deflation of 0.2 per cent. in 2012. In 2013, CPI inflation was 0.5 per cent. For the month ended 31 January 2014, CPI inflation was 0.2 per cent.

Falling levels of inflation are also reflected in the WPI index, WPI inflation registering 18.7, 14.2 per cent. and 0.3 per cent. in 2010, 2011 and 2012, respectively. In 2013, WPI inflation was 1.7 per cent. For the month ended 31 January 2014, WPI inflation was 0.5 per cent. The main factors affecting the WPI index were price movements in the international commodity markets.

The main factor exerting upward pressure on inflation in previous periods was rising fuel prices. While this was a global trend, it particularly impacted Ukraine due to increasing Russian gas tariffs. There were similar increases in the price of other utilities and transport. The devaluation of the hryvnia in 2008 and the rising value of commodities exported from Ukraine further exacerbated inflation.

To establish a long-term decrease in inflation in Ukraine, the Government of Ukraine together with the NBU developed, and since 2010 have been implementing, the Joint Plan of the Cabinet of Ministers and the NBU on transition to a regime based on price stability (the "**Joint Plan**"). Measures provided for by the Joint Plan are divided into monetary and non-monetary measures. The monetary measures include stabilisation of the Ukrainian financial system through the establishment of a liquid and efficient domestic financial market and non-monetary measures include improvement of legislation on price formation through gradual reduction of prices and tariffs regulated by the State to economically reasonable levels, regulation of commodity market through the effective intervention policy in case of disbalance between supply and demand and improvement of regulation of import and export of agricultural products based on the EU and WTO requirements.

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.

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, 4 to 7 per cent. in 2010, 12 to 20 per cent. in 2011, and 3.7 to 6.5 per cent. in 2012, although over this period the cost of central heating and water decreased by 0.5 per cent. In 2013, rates for municipal services have increased from 0.2 to 2.9 per cent., and the cost of central heating and hot water decreased by 0.2 per cent. 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 "*—Principal Sectors of the Economy—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 "*—Principal Sectors of the Economy—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 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 2010 to 2012.

	Year ended 31 December		
	2010*	**2011**	**2012**
	(Increase (decrease) over comparable period of previous year, in %)		
Total industry[(1)]	**11.2**	**8.0**	**(0.5)**
of which:			
Extractive industry	3.7	6.8	1.9
Manufacturing (processing)	13.9	9.6	(2.0)
of which:			
Food, beverages and tobacco industry	3.2	2.9	1.0
Light industry (consumer goods manufacturing)	8.9	7.6	(6.6)
Woodworking industry (other than furniture)[(2)]	9.6	-	-
Pulp, paper and publishing industry[(2)]	2.8	-	-
Woodworking industry, paper and publishing industry[(2)]	-	7.0	0.9
Coke and oil refining industry	(0.2)	(3.6)	(18.4)
Chemical and petrochemical industry[(3)]	22.5	-	-
Chemical industry[(3)]	-	23.7	(3.8)
Pharmaceutical industry[(3)]	-	(1.4)	7.2
Non-metallic mineral industry	8.5	15.3	(8.0)
Metallurgy and metal products	12.2	11.0	(3.6)
Machinery manufacturing	36.1	15.9	(3.3)
Energy, gas and water production and distribution[(3)]	9.5	-	-
Energy, gas, steam and conditioned air production and distribution[(4)]	-	3.6	2.0

Notes:

* The data for year 2010 is presented based on the classification of the types of economic activities introduced in December 2005.

(1) From 1 January 2013, the index of industrial production is calculated on the basis of new national classification. The indices of industrial production are calculated on the basis of 2010, instead of 2007.

(2) On 1 January 2012, a new classification of the types of economic activities became effective, following which "Woodworking industry (other than furniture)" and "Pulp, paper and publishing industry have been merged into the category entitled "Woodworking industry, paper and publishing industry". The data for 2011-2012 was recalculated based on this new classification.

(3) On 1 January 2012, a new classification of the types of economic activities became effective, following which the "Chemical and Petrochemical Industry" category was divided into "Chemical industry" and "Pharmaceutical industry" categories.

(4) Under the new classification of the types of economic activities in effect since 1 January 2012, a new category entitled "Energy, gas, steam and conditioned air production and distribution" was introduced instead of "Energy, gas and water production and distribution" category used previously. The data for 2011-2012 was recalculated based on this new classification.

Source: State Statistics Service

The table below shows percentage changes in the rates of industrial production in 2013, compared to 2012.

	Year ended 31 December
	2013
	(Increase (decrease) over comparable period of previous year, in %)
Total industry*	(4.7)
of which	
Extractive industry	0.4
Manufacturing (processing)	(7.7)
of which	
Food, beverages and tobacco industry	(5.5)
Light industry (consumer goods manufacturing)	(6.2)
Woodworking industry, paper and publishing industry	2.6
Coke and oil refining process	(11.2)
Chemical industry	(17.5)
Pharmaceutical industry	11.6
Non-metallic mineral industry	(4.0)
Metallurgy and metal products	(5.8)
Machinery manufacturing	(13.8)
Energy, gas, steam and conditioned air production and distribution	(1.3)

Notes:
* The data has been calculated based on the new classification of the types of economic activities in effect since 1 January 2012.

The table below shows the annual volume of realised industrial production (goods and services sold) in each sector from 2010 to 2012.

	Year ended 31 December					
	2010		2011		2012**	
	(UAH millions)	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*
Total industry*	**1,065,850.5**	**100.0**	**1,331,887.6**	**100.0**	**1,400,680.2**	**100.0**
of which:						
Extractive industry	106,055.1	10.0	146,085.7	11.0	146,588.5	10.5
Manufacturing (processing)	716,400.6	67.2	868,392.4	65.2	889,496.6	63.5
of which:						
Food, beverages and tobacco industry	193,055.6	18.1	222,387.8	16.7	254,459.9	18.2
Light industry (consumer goods manufacturing)	8,425.4	0.8	9,679.3	0.7	9,867.1	0.7
Woodworking industry, paper and publishing industry	27,128.8	2.6	31,865.9	2.4	34,297.8	2.4
Coke and oil refining industry	75,004.1	7.0	77,783.4	5.8	63,129.5	4.5
Chemical industry	35,503.0	3.3	57,315.2	4.3	60,011.1	4.3
Pharmaceutical industry	7,404.3	0.7	8,888.1	0.7	10,465.4	0.7
Non-metallic industry	46,629.1	4.4	56,624.3	4.3	59,767.1	4.3
Metallurgy and metal products	200,635.8	18.8	242,525.9	18.2	223,832.5	16.0
Machinery manufacturing	99,270.5	9.3	133,469.0	10.0	143,533.1	10.2
Furniture and other production, repair of equipment	23,344.0	2.2	27,853.5	2.1	30,133.1	2.2
Energy, gas, steam and conditioned air production and distribution	221,808.4	20.8	295,164.8	22.1	344,067.1	24.5
Water production and distribution, sewage	21,586.4	2.0	22,244.7	1.7	20,528.0	1.5

Notes:
* The data has been calculated based on the new classification of the types of economic activities in effect since 1 January 2012.
** The data has been calculated taking into account the change of main type of economic activities by certain enterprises in 2012.

The table below shows the volume of realised industrial production (goods and services sold) in each sector for the years ended 31 December 2012 and 2013.

	Year ended 31 December			
	2012		2013	
	(UAH millions)	*(%)*	*(UAH millions)*	*(%)*
Total industry*	**1,115,224.5**	**100.0**	**1,109,423.2**	**100.0**
of which:				
Extractive industry	134,330.7	12.0	145,669.1	13.1
Manufacturing (processing)	752,583.0	67.6	738,337.1	66.6
of which:				
Food, beverages and tobacco industry	182,339.5	16.4	217,053.4	19.6
Light industry (consumer goods manufacturing)	6,253.3	0.5	8,010.9	0.7
Woodworking industry, paper and publishing industry	8,204.1	0.7	31,969.2	2.9
Coke and oil refining industry	54,837.2	4.9	44,144.8	4.0
Chemical industry	82,887.0	7.4	49,075.6	4.4
Pharmaceutical industry	-	-	11,721.3	1.1
Non-metallic industry	16,499.1	1.9	51,563.9	4.6
Metallurgy and metal products	209,367.8	18.8	198,266.3	17.9
Machinery manufacturing	140,569.3	12.6	108,842.8	9.8
Energy, gas, steam and conditioned air production and distribution	228,310.8	20.5	219,251.2	19.7
Water production and distribution	-	-	6,165.8	0.6

Notes:

* The data has been recalculated based on the new classification of the types of economic activities in effect since 1 January 2012.

Industrial growth resumed in 2010, with volumes of industrial production rising by 11.2 per cent. as compared to 2009. 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 8.0 per cent. compared to 2010, including an increase in extractive industry of 6.8 per cent., and manufacturing industry of 9.6 per cent. In 2011, industrial production increased in all sectors of the processing industry other than: coke and oil refining and main pharmaceutical products. 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-metallic industry, the woodworking industry and paper and publishing industry. The main industries contributing to growth in 2011, were the machinery manufacturing, metallurgy and chemical industry. In 2012, industrial production decreased by 0.5 per cent. as compared to 2011 due to weakening trade and reduced access to credit following the downturn in the USA and the EU and decrease in prices for Ukrainian goods on external markets. In 2012, production in the extractive industry increased by 1.9 per cent. and energy, gas, steam and conditioned air production and distribution increased by 2.0 compared to 2011. A the same time, processing industry output decreased by 2.0 per cent. and agricultural output decreased by 4.5 per cent. in 2012 compared to 2011. In 2013, industrial production decreased by 4.7 per cent. as compared to 2012, including an increase in extractive industry of 0.4 per cent., a decrease in the processing industry of 7.7 per cent. and in production and distribution of electricity, gas, steam and conditioned air a decrease of 1.3 per cent. The decrease in industrial production was due to the worsening of external economic conditions in the global markets, decline of external demand and low production activity.

In 2010, production in the light industry (consumer goods manufacturing) 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 (consumer goods manufacturing) sector increased by 7.6 per cent. as compared to 2010. In 2012, production in the light industry (consumer goods manufacturing) sector decreased by 6.6 per cent. as compared to 2011. This decrease resulted from large quantities of cheap imports mainly from Turkey and China, "second hand" goods, as well as shadow manufacturing, creating unfair competition with domestically produced products. In addition, the decline in the production of leather and leather goods was caused by a reduction in the amount of cattle livestock. In 2013, the production of textiles, garments, leather and other materials decreased by 6.2 per cent. as compared to 2012.

In 2010, year on year growth in the woodworking (other than furniture production) industry and in the pulp, paper and publishing industry increased by 9.6 per cent. and 2.8 per cent., respectively. In 2011 and in 2012, production in the woodworking, paper and publishing industry increased by 7.0 per cent. and 0.9 per cent., respectively.

In 2013, production in the woodworking, paper and publishing industry increased by 2.6 per cent. as compared to 2012.

In 2010 and in 2011, production in the other non-metallic mineral industry grew at a year-on-year rate of 8.5 per cent. and 15.3 per cent., respectively, largely as a result of an increase in output of construction related products. In 2012, however, production decreased by 8.0 per cent. as compared to 2011, as a consequence of reduced demand from the construction industry and increasingly competitive imports. In 2013, production in the other non-metallic mineral industry decreased by 4.0 per cent. as compared to 2012.

In 2010 as compared to 2009, chemical and petrochemical production increased by 22.5 per cent. In 2011 as compared to 2010, chemical production increased by 23.7 per cent. and pharmaceutical production decreased by 1.4 per cent. The increase in chemical production was due to the increased external demand, higher achievable export prices and increased domestic demand for fertilisers. In 2012, production in the chemical industry decreased by 3.8 per cent. and pharmaceutical production increased by 7.2 per cent. compared to 2011. In 2013, production in the chemical industry decreased by 17.5 per cent. as compared to the corresponding period in 2012 as global demand for certain components continued to drop and world prices remained unfavourable. In 2013, pharmaceutical production increased by 11.6 per cent. as compared to 2012. This increase was due to an increase in external and domestic demand and expansion of the range of products.

In the metallurgy and metal products industry, production increased by 12.2 per cent. and 11.0 per cent., in 2010 as compared to 2009 and in 2011 as compared to 2010, 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 11.0 per cent. included an increase in the production of cast iron and steel (not including semi-finished products produced using continuous casting) by 5.7 per cent. and 0.8 per cent., respectively. However, production in 2012, decreased by 3.6 per cent. compared to 2011. In 2013, production in the metallurgy and metal products industry decreased by 5.8 per cent. as compared to 2012. The factors currently hindering the development of the industry are: low external demand for metallurgical products, low prices for steel and high level of competition from the metal producers in China, Turkey and Brazil.

Production in the coke and oil refining industry decreased by 0.2 per cent. in 2010 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 3.6 per cent. as compared to 2010, a trend which has continued in 2012, production in the coke and oil refining industry decreasing by 18.4 per cent. compared to 2011. As coke production is linked to oil refining, movements in the oil refining industry are reflected in the coke production industry. The decline in the coke and oil refining industries primarily reflect the relatively low level of competitiveness of the

Ukrainian economy and recent problems with oil supply as well as the ceasing of operations at PJSC "Lynik" one of the largest oil refinery plants in Ukraine. In 2013, production in the coke and oil refining industry decreased by 11.2 per cent. as compared to 2012.

In the food, beverages and tobacco industry, production increased by 3.2 per cent. in 2010 as compared to 2009. This increase was largely due to a 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, beverages and tobacco industry increased by 2.9 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, in 2012, production in the food, beverages and tobacco industry increased by 1.0 per cent. compared to 2011. In 2013, production in the food, beverages and tobacco industry decreased by 5.5 per cent. as compared to 2012.

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 15.9 per cent., including increases in machinery and equipment production of 10.2 per cent., electric, optical and electronic production of 28.6 per cent. and production of vehicles and transport equipment of 19.0 per cent. In 2012, production in the machinery manufacturing industry decreased by 3.3 per cent. compared to 2011. The main reasons for the negative trend in the machinery manufacturing industry in 2012 were the low levels of lending, increased competition in the Russian market and the low technical level of Ukrainian goods compared to imported goods. In 2013, production in the machinery manufacturing industry decreased by 13.8 per cent. as compared to 2012. This decrease was due to a higher level of competition from the Russian Federation and lower level of investment activity.

In 2010, as compared to 2009, production in the extractive 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 6.8 per cent. In 2012, production in the extractive industry increased by 1.9 per cent. compared to 2011. In 2013, production in the extractive industry increased by 0.4 per cent. as compared to 2012.

In 2010 as compared to 2009, production in energy, gas and water production and distribution 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, steam and conditioned air production and distribution increased by 3.6 per cent. compared to 2010. In 2012, energy, gas and steam and conditioned air production and distribution increased by 2.0 per cent. as compared to 2011. In 2013, energy, gas, steam and conditioned air production and distribution decreased by 1.3 per cent. as compared to 2012. This decrease was due to the decline in the level of electricity consumption by the production sector of the economy.

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 nickel, titanium and aluminium. Ukraine exported approximately U.S.$3.1 billion and U.S.$4.6 billion of non-metallic minerals and approximately U.S.$712.3 million and U.S.$790.5 million of non-ferrous metals in 2010 and 2011, respectively. In 2012, Ukraine exported approximately U.S.$4.0 billion of non-metallic minerals and approximately U.S.$712.3 million of non-ferrous metals. For the eleven months ended 30 November 2013, Ukraine exported approximately U.S.$4.2 billion of non-metallic minerals and approximately U.S.$601.8 million of non-ferrous metals.

In 2010, 35.2 million tonnes of coal were produced by state owned coal mining companies, a 0.2 per cent. increase compared to 2009. In 2011, 38.4 million tonnes of coal were produced by these companies, a 8.5 per cent. increase compared to 2010. In 2012, 24.9 million tonnes were produced by state owned coal mining companies, an increase of 1.4 per cent. compared to previous year. In 2013, 24.1 million tonnes of coal were produced by state owned coal mining companies, which represents a 2.9 per cent. decrease compared to the corresponding period in 2012. For the month ended 31 January 2014, 2.2 million tonnes of coal were produced by state owned coal mining companies, an increase of 8.7 per cent. as compared to the corresponding period in 2013. Exports of coal in 2010, 2011 and 2012 were 6.2 million, 6.9 million tonnes and 6.1 million tonnes, respectively, with values of U.S.$544.4 million, U.S.$755.4 million and U.S.$600.5, respectively. For the eleven months ended 30 November 2013, exports of coal totalled 7.6 million tonnes, with a total value of U.S.$660.3 million.

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 for private heating locally, progress on the closure of coal producing enterprises has been delayed. The Government continues to view coal as an important source of energy for Ukraine. In addition, many coal mines are seen as "social assets", as they are the only or largest source of employment for certain communities. As at 1 January 2014, there were 152 coal mining companies operating in Ukraine of which 82 were in the process of liquidation and 11 of which were preparing for liquidation proceedings.

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 million out of the State Budget general fund and UAH 704.5 million out of the special fund). In 2012, State financing of the coal industry equalled UAH 13,220.4 million (UAH 13,220.16 million out of the State Budget general fund and UAH 0.24 million out of the special fund). In 2013, State financing of the coal industry amounted to UAH 15,352.9 million (UAH 15,351.0 million out of the State Budget general fund and UAH 1.9 million out of the special fund).

Priority tasks of the coal sector reform include increasing private investment in the coal sector and the reconstruction and modernisation 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 to 2014 Economic Reform Programme, Parliament passed a law on the specifics of privatisation of coal mining companies (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 their privatisation, taking into account the social as well as economic impact. In particular, investment obligations must be fulfilled and required social guarantees to workers must be provided. The list of coal mining companies owned by the State which are subject to privatisation in 2012 to 2014 was approved by the Resolution of the Cabinet of Ministers of Ukraine No. 987 dated 19 September 2012. To prepare the coal mining companies for privatisation, the Ministry of Energy and Coal Industry of Ukraine issued Order No. 1004 dated 13 December 2012 "On the Implementation of the Pre-Privatisation Measures".

In 2013 and 2014, the State Property Fund of Ukraine issued several orders declaring 56 structural subdivisions of the 13 state-owned coal mining companies and state-owned shareholdings in two coal mining joint-stock companies, PJSC "Lysychanskvuhillya" and PJSC "Shakhtoupravlinnia 'Donbas'", to be available for privatisation in 2014.

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.

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 were spent on the modernisation and updating of the Melnikov coal mine, which is owned by PJSC "Lysychanskvuhillya".

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

- during 2012-2013, 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.

Fuel and Energy

Imports/Production/Consumption

Ukraine imports a significant portion of its primary energy needs, mainly in the form of natural gas and crude oil from Russia and certain other CIS countries. 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. 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. 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. In 2012, Ukraine imported 32.9 billion cubic metres of natural gas, compared to 44.8 billion cubic metres of natural gas during 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 of price rises in the near term. In 2013, 28.0 billion cubic metres of natural gas were imported, as compared to the 32.9 billion cubic metres for 2012. For the month ended 31 January 2014, according to preliminary data, 2.5 billion cubic metres of natural gas were imported, as compared to 2.5 billion cubic metres for the corresponding period in 2013. The rate of gas imports has increased since July 2013 primarily due to the need to replenish reserves before winter.

In January 2013, President Yanukovych signed an agreement with Royal Dutch Shell PLC to explore for shale gas on the territory of Ukraine. Should substantial volumes of shale gas be found to be commercially recoverable, Ukraine considers that domestic production of shale gas may help reduce its dependence on imported Russian gas.

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 the following years. Naftogaz has applied to Gazprom several times in order to decrease the price for natural gas and annual volume of gas supplies in 2012 and to obtain guarantees from Gazprom on the transit of natural gas through the territory of Ukraine to the EU. In addition, respective supplements to the Gas Supply Contracts were sent to Gazprom. In particular, 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 was partially offset by gas held in underground gas stores. In January and in September 2013, Gazprom submitted demands for payment of U.S.$7 billion in respect of gas not purchased by Naftogaz in 2012 under the “take or pay” gas supply contract signed by the parties in 2009. Naftogaz paid for all gas actually delivered by Gazprom in 2012 and does not accept the validity of the demands by Gazprom in respect of the allegedly uncollected volumes. In accordance with the terms of the gas supply contract, Naftogaz has proposed discussions with Gazprom in order to resolve this issue. Accordingly, there remains substantial uncertainty as to the legal, commercial and other consequences of the Gazprom demands. If the matter is not resolved amicably and to the satisfaction of Naftogaz, it is possible that there could be an adverse effect on (i) the commercial relationship between Gazprom and Naftogaz and/or (ii) the financial condition of Naftogaz, which in turn could have implications for the State should further support for Naftogaz appear or become necessary.

On 17 December 2013, the Supplement to the Gas Supply Contract was signed, as a result of which from 1 January 2014 to the end of 2019 the price of gas to be purchased from Gazprom by Naftogaz will be set at U.S.$268.5 per 1,000 cubic metres. The price of gas will be reviewed quarterly, but in any event will not exceed U.S.$268.5 per 1,000 cubic metres. In January 2014, the actual average price for imported natural gas was U.S.$268.5 per 1,000 cubic metres. Nevertheless, the Government intends to continue its cooperation with global companies which are party to existing agreements on the allocation of Black Sea oil and gas.

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 2012, domestic consumption of gas in Ukraine was 54.8 billion cubic metres, a 7.6 per cent. decrease compared to 2011. In 2013, domestic consumption of gas in Ukraine was 50.4 billion cubic metres, as compared to 54.8 billion cubic metres in 2012. In the month ended 31 January 2014, domestic consumption of gas in Ukraine was 7.3 billion cubic metres. In 2010, domestic production of gas was 20.0 billion cubic metres, a decrease of 5.3 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 20.1 billion cubic metres, an increase of 0.2 per cent. compared to 2010. In 2012, domestic production of gas in Ukraine increased by 0.4 per cent. to 20.2 billion cubic metres. In 2013, domestic production of gas constituted 21.4 billion cubic metres, as compared to 20.2 billion cubic metres in 2012. In the month ended 31 January 2014, domestic production of gas constituted 1.9 billion cubic metres.

Ukraine imports oil from Russia, Kazakhstan and Azerbaijan. Ukraine imported 7.7 million tonnes, 5.6 million tonnes and 1.5 million tonnes of oil in 2010, 2011 and 2012, respectively. The decline in 2012 was due to the fact that one of the largest oil refinery plants in Ukraine PJSC “Lynik” stopped its operational activity on 4 March 2012. In 2013, Ukraine imported 0.67 million tonnes of oil. Total domestic demand for oil is approximately 20 million tonnes per annum, which is substantially less than the consumption of similar sized countries in Western Europe. 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 6.2 per cent. or 0.2 million tonnes compared to 2010. In 2012, domestic production of oil and gas condensate was 3.3 million tonnes, a 0.6 per cent. increase compared to 2011. In 2013, domestic oil and gas condensate production amounted to approximately 3.05 million tonnes as compared to 3.17 million tonnes in 2012. In the month ended 31 January 2014, domestic production of oil and gas condensate was 0.3 million tonnes compared to 0.3 million tonnes for the corresponding period in 2013. The decrease in domestic oil and gas condensate production 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 the great depths at which the oil is located.

Oil and Gas Transit

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, 73 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 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. In 2012, 84.3 billion cubic metres of gas were transported from one country to another via Ukraine, compared to 104.2 billion cubic metres for 2011. This decrease was partly a consequence of reduced Italian transit amounts, as well as the impact of the Nord Stream pipeline. In 2013, 86.1 billion cubic metres of gas were transported via Ukraine as compared to 84.3 billion cubic metres in 2012. In

January 2014, 7.5 billion cubic metres of gas were transported via Ukraine as compared to 7.1 billion cubic metres for the corresponding period in 2013.

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 2012, 14.6 million tonnes of oil were transported through Ukraine, a decrease of 3.2 million tonnes compared to 2011. In 2013, 15.6 million tonnes of oil were transported via Ukraine, an increase of 1.0 million tonnes of oil as compared to 2012. In the month ended 31 January 2014, 1.3 billion million tonnes of oil were transported through Ukraine, an increase of 0.06 million tonnes as compared to the corresponding period in 2013. Pumping of oil for domestic use 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 2012, pumping of oil for domestic use was 2.7 million tonnes, a decrease of 4.8 million tonnes compared to the corresponding period in 2011. In 2013, pumping of oil for domestic use was 2.0 million tonnes, a decrease of 0.6 million tonnes as compared to 2012. In the month ended 31 January 2014, pumping of oil for domestic use was 0.2 million tonnes, an increase by 0.9 per cent. as compared to the corresponding period in 2013.

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 in 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 23.7 per cent. of all gas transported from one foreign country to another via Ukraine in 2012. 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 to 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). These measures have been implemented, as planned;
- by the end of 2012, Ukraine was to gradually bring natural gas prices for consumers up to economically reasonable levels. However, due to the hardship such increase would impose, this part of the measures has not been implemented to date. Various plans are under consideration regarding achieving such implementation without causing undue hardship for lower income sectors of the gas consuming public; 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 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. In 2012, the Cabinet of Ministers and the Ministry of Energy and Coal Industry of Ukraine adopted several regulations resulting in the establishment of two Naftogaz subsidiaries - PJSC "Ukrtransgaz" and PJSC "Ukrgazvydobuvannia", which were registered as legal entities on 27 December 2012. Further, following the open auction, on 15 February 2013 a service agreement was signed with "Ernst and Young" LLC as advisors on restructuring of Naftogaz. In 2012, Naftogaz transferred its shares in gas supply companies to the State Property Fund of Ukraine for further privatisation.

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.

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 to 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 to 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 2012, the average price (after the application of discounts) for imported natural gas was U.S.$424.5 per 1,000 cubic metres. In 2013, the actual average price for imported natural gas was U.S.$396.99 per 1,000 cubic metres.

The tariff for natural gas transit through Ukrainian territory remained fixed at U.S.$1.70 per 1,000 cubic metres for each 100 km 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 and May 2012 to U.S.$3.11 and to U.S.$3.12 in June December 2012. For the six months ended 30 June 2013, tariff for natural gas transit through Ukraine amounted to U.S.$3.08 per 1,000 cubic metres for each 100 km. In July-September 2013, the tariff for natural gas transit through Ukraine amounted to U.S.$3.04 per 1,000 cubic metres for each 100 km. In October – December 2013, the tariff for natural gas transit through Ukraine amounted to US$3.03 per 1,000 cubic metres for each 100 km. In January 2014, the tariff for natural gas transit through Ukraine amounted to U.S.$2.73 per 1,000 cubic metres for each 100 km.

In January and in September 2013, Gazprom submitted demands for payment of U.S.$7 billion in respect of gas not purchased by Naftogaz in 2012 under the "take or pay" gas supply contract signed by the parties in 2009. Naftogaz paid for all gas actually delivered by Gazprom in 2012 and does not accept the validity of the demands by Gazprom in respect of the allegedly uncollected volumes. In accordance with the terms of the gas supply contract, Naftogaz has proposed discussions with Gazprom in order to resolve this issue.

On 17 December 2013, the Supplement to the Gas Supply Contract was signed, as a result of which from 1 January 2014 to the end of 2019 the price of gas to be purchased from Gazprom by Naftogaz will be set at U.S.$268.5 per 1,000 cubic metres. The price of gas will be reviewed quarterly, but in any event will not exceed U.S.$268.5 per 1,000 cubic metres. In January 2014, the actual average price for imported natural gas was U.S.$268.5 per 1,000 cubic metres. Nevertheless, the Government intends to continue its cooperation with global companies which are party to existing agreements on the allocation of Black Sea oil and gas. See "*Risk Factors—Risk Factors Relating to Ukraine—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, including as a result of the prices charged by Gazprom for natural gas supplied to Ukraine.*"

Natural Gas Supply from Turkmenistan

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 2013. 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.

Poland and the EAOTC Project

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.

As at the date of this Prospectus, due to the position of Poland, the work under this project has been suspended.

Electricity Generation and Nuclear Power

As at 1 January 2014, the total electricity generating capacity of Ukraine was approximately 54.5 gigawatts. Production in 2010, 2011, 2012 and 2013 was recorded at 187.9 billion kwh, 194.1 billion kwh, 198.1 billion kwh and 193.6 billion kwh, respectively, of which 89.2 billion kwh, 90.2 billion kwh, 90.1 billion kwh and 83.2 billion kwh, respectively, was provided by nuclear energy.

In 2010, 47.4 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, 41.5 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.In 2012, 45.5 per cent. of energy generated by United Energy System of Ukraine was provided by nuclear power stations, 44.7 per cent. was provided by thermal power stations, 5.5 per cent. was provided by hydropower stations, 4.0 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 0.3 per cent. was provided by alternative sources of energy. In 2012, thermal power stations, alternative sources of energy and hydropower stations increased production by 3.8 billion kwh, 0.6 billion kwh and 0.06 billion kwh, respectively, and production at nuclear power stations and low-capacity thermal-fired block stations decreased by 0.1 billion kwh and 0.3 billion kwh, respectively, compared to 2011. In 2012, 9.7 billion kwh was exported from Ukraine, an increase of 3.3 billion kwh, or 51.5 per cent., compared to 2011.

In 2013, 43.0 per cent. of the energy generated by the United Energy System of Ukraine was provided by nuclear power stations, 44.7 per cent. was provided by thermal power stations, 7.3 per cent. was provided by hydropower stations, 4.3 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 0.7 per cent. was provided by alternative sources of energy. In 2013, as compared to 2012, alternative sources of energy, hydropower stations and low capacity thermal fired block stations have increased production by 0.6 billion kwh, 3.4 billion kwh and 0.4 billion kwh, respectively, while thermal power stations and nuclear power stations have decreased production by 2.0 billion kwh and 6.9 billion kwh, respectively. In 2013, 9.9 billion kwh was exported, an increase of 0.1 billion kwh or 1.2 per cent., as compared to 2012. Ukraine currently exports electricity to Hungary, Slovakia, Poland, Moldova and Belarus.

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 presented their analysis on 4 October 2012. This analysis acknowledged Ukrainian efforts to date and outlined additional measures for improving the safety of the NPSs.

At the beginning of 2013 negotiations between the EBRD and Euroatom took place in order to issue guarantees with respect to the project entitled "Consolidated Programme on the Enhancement of Safety at the Ukrainian NPSs" (the total amount of the loan from the EBRD and Euroatom equals €600 million). On 25 March 2013, a guarantee agreement was signed between Ukraine and the EBRD, and a loan agreement was executed between the EBRD and Energoatom. On 7 August 2013, a further guarantee agreement was signed between Ukraine and Euroatom and a loan agreement was executed between Energoatom and Euroatom. The aim of the above project is to ensure the level of safety at the Ukrainian NPSs which meets the national and international safety standards and the fulfillment of the obligations of Ukraine to international organisations (EBRD, EU and the International Atomic Energy Agency) and national control agencies related to the implementation of measures on the enhancement of the NPS safety. On 7 November 2013, the draft law on the ratification of the guarantee agreement between Ukraine and Euroatom was submitted to Parliament.

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 2012, Ukrainian NPSs produced 90.1 billion kwh of electricity (compared to 90.2 billion kwh in the corresponding period of 2011), equal to 45.5 per cent. of the total electricity produced in Ukraine. The NPS capacity use ratio amounted to 74.2 per cent., a 0.3 per cent. decrease as compared to 2011, due to the reduced time required for repairs and maintenance. In 2013, Ukrainian nuclear power stations produced 83.2 billion kwh of electricity (or 43.0 per cent. of total electricity produced in Ukraine). The NPS capacity use ration amounted to 68.7 per cent., a 5.5 per cent. decrease as compared to the corresponding period in 2012.

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 February and October 2008, respectively, the Government signed a €150.0 million loan agreement with the EBRD and a €150.0 million loan agreement with the EIB under a joint EBRD EIB Ukraine "*Construction of the 750 kV Rivne NPP—Kyiv Overhead Transmission Line*" Project. Ukrenergo, Ukraine's energy company is a beneficiary under this project. 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 30 December 2013, €41.5 million in EBRD funds and €25 million in EIB 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 750 kV 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 under the Financial Agreement on the Procurement of Funds. On 19 November 2013, the draft Law "On the Ratification of the Financial Agreement" was approved by Parliament. See "*Public Debt—External Debt—International Financial Institutions—EIB*".

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 the IBRD was signed on 9 November 2007 (in effect from 5 December 2008) and as at 31 December 2013, U.S.$111.5 million had been disbursed.

The 2010 to 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 was to have abolished the single tariff system, completed the process of bringing the tariffs to economically reasonable levels and privatised energy distribution companies. The timing for implementation of this measure was extended until the end of 2013; and

● by the end of 2014, Ukraine is to have privatised thermal energy generating companies.

Due to social pressures, Ukraine has not yet been able to implement portions of the tariff reform described above.

The Cabinet of Ministers approved a list of State owned shareholdings in energy production and energy distribution companies that were intended to be sold during 2011-2013. As at the date of this Prospectus, the list includes 4 energy production and 14 energy distribution companies.

As at the date of this Prospectus, the SPF has carried out auctions for shareholdings in three energy production companies (selling stakes of 25.0 per cent., 45.1 per cent. and 60.77 per cent. in PJSC "Dniproenergo", PJSC "Zahidenergo" and PJSC "Donbasenergo", respectively), as well as eight energy distribution companies (where stakes ranging in size from 25.0 per cent. to 75.0 per cent. have been sold).

Electricity and Natural Gas Tariffs

Electricity Tariffs

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 2010 and 2011, the wholesale market price for electricity was UAH 0.5025 per kwh and UAH 0.5846 per kwh, respectively. In 2012, the wholesale market price for electricity was UAH 0.676 per kwh. The wholesale market price for electricity was UAH 0.7300 per kwh in 2013, and UAH 0.7484 per kwh in January 2014. It is expected to remain at the same level in February 2014.

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 25.5 per cent. and 25.1 per cent., respectively, of the actual cost of electricity production, transfer and supply. In December 2012, the electricity tariffs levied on households represented 24.7 per cent. 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. As at the date of this Prospectus, tariffs for households remained unchanged.

In Ukraine there is a standard tariff for consumers, with a number of specified exceptions. The National Commission for Electrical Power Industry Regulation has been gradually increasing the single tariffs since November 2009. In June to December 2012, the first class voltage single tariff was UAH 0.7437 per kwh, while the second class voltage single tariff was UAH 0.9467 per kwh (excluding VAT). For the two months ended 28 February 2013, the single tariff for the first voltage class was UAH 0.7511 per kwh, and for second class it was UAH 0.9561 per kwh (excluding VAT). In March to April 2013, the first class voltage single tariff was UAH 0.7797 per kwh (excluding VAT), while the second class voltage single tariff was UAH 0.9924 per kwh (excluding VAT). In May-July 2013, the first class voltage single tariff was UAH 0.7952 per kwh (excluding VAT) and the second class voltage single tariff was UAH 1.0122 per kwh (excluding VAT). In August-December 2013, the first class voltage single tariff and the second class voltage single tariff were UAH 0.8111 and UAH 1.0324 per kwh (excluding VAT), respectively. These tariffs remained unchanged in January and February 2014.

Gas Tariffs

During 2009 and the four months ended 30 April 2010, the threshold price was 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). Since January 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) and has remained unchanged during the first half of 2013. From July 2013, the threshold price decreased to UAH 3,459.0 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges) and remained unchanged until the end of 2013.

From 1 January 2014, the threshold price for State financed consumers decreased to UAH 2,448.0 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges), for industrial consumers and other commercial entities the threshold price decreased to UAH 3,113.0 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges). The threshold price is expected to decrease further in the second and third quarters of 2014 for industrial consumers and other commercial entities in line with the reduced price of gas from the Russian Federation, following the signing on 17 December 2013 of the Supplement to the Gas Supply Contract between Naftogaz and Gazprom.

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). 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, this threshold price remained unchanged as at 1 February 2014.

Ukraine uses differentiated threshold retail prices for households depending on the volumes of consumption. 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 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, which remains effective as at the date of this Prospectus.

The threshold prices charged to municipal heating enterprises have been subsidised from the State Budget. In particular, in 2010, UAH 3.4 billion was 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 did 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 IMF mission visited Kyiv from 27 March through 10 April 2013 to continue negotiations with the Ukrainian authorities on a new stand-by agreement. As at the date of this prospectus, the negotiations with the IMF continue. From 17 October to 29 October 2013, a further IMF delegation visited Kyiv in order to discuss economic policy of Ukraine. Provision of the IMF financing to Ukraine was not discussed during this visit.

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, 2012 and 2013, natural gas retail prices for households and the threshold price for municipal heating enterprises remained unchanged. The signing of the Supplement to the Gas Supply Contract is not expected to have any effect on the current natural gas retail price or the threshold price for municipal heating enterprises. However, on 30 December 2013, the Cabinet of Ministers issued a resolution recommending the municipal bodies to review the tariffs for hot water and heating for households and municipal heating enterprises in line with the new threshold prices for natural gas.

The State budget expenditure to support Naftogaz in 2010 and 2012 amounted to UAH 3.4 billion and UAH 3.9 billion respectively, although there were no comparable payments in 2011. In addition, the State provided support to Naftogaz in 2011 and 2012 through indirect subsidies of UAH 2.8 billion and UAH 9.8 billion granted to local governments to assist in covering payment shortfalls with local utilities. The 2013 State Budget (as amended) provided for a further UAH 0.37 billion to be provided to support Naftogaz in the form of indirect subsidies. The provision of this support was postponed until 2014. The 2014 State Budget provides for a further UAH 3.8 billion to be provided to support Naftogaz in the form of indirect subsidies. In addition, Naftogaz was supported by share capital increases (funded with T-bills) of UAH 7.4 billion in 2010, UAH 12.5 billion in 2011, UAH 6.0 billion in 2012 and UAH 8.0 billion in 2013. The 2014 State Budget provides for support to Naftogaz by share capital increases (funded with T-bills) of UAH 11.0 billion. According to the resolution of the Cabinet of Ministers dated 12 February 2014, the share capital of Naftogaz was increased by UAH 11 billion. On 14 February 2014, Naftogaz repaid the gas debt to Gazprom for 2013 in the amount of U.S.$1.28 billion and the gas debt accrued since the beginning of 2014 in the amount of U.S.$191.0 million.

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 2013, 2012, 2011 and 2010 were 97.8 per cent., 99.9 per cent., 97.2 per cent. and 98.5 per cent. respectively. According to preliminary data, the average cash collection rate for electricity consumption for the month ended 31 January 2014 was 86.9 per cent. The rate of cash collection for gas consumption was 86.5 per cent. in 2010 and 86.2 per cent. in 2011. In 2012, the average collection rate for gas consumption remained the same at 86.2 per cent. In 2013, the average collection rate for gas consumption was 63.6 per cent. According to preliminary data, in the month ended 31 January 2014, the average collection rate for gas consumption was 31.5 per cent.

Agriculture

The State Statistics Service has modified the methodology for calculating agricultural production, now assuming constant prices, and the figures for previous years have been adjusted accordingly.

In 2010, agricultural production decreased by 1.5 per cent. compared to 2009. This decrease reflected a decrease of 2.3 per cent. in the production of agricultural enterprises (both State owned and private) and a decrease of 0.9 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 4.1 per cent., while livestock production showed an increase of 3.4 per cent. The 4.1 per cent. decrease in crop production was due to a decrease of 6.3 per cent. in the production of agricultural enterprises (both State owned and private) and a decline in production of household plots of 1.5 per cent. The 3.4 per cent. increase in livestock production reflected a of 9.1 per cent. increase in the production of agricultural enterprises (both State owned and private) and a minor 0.1 per cent. increase in the production of household plots.

In 2011, compared to 2010, overall agricultural production increased by approximately 19.9 per cent., including an increase in the production of agricultural businesses of 28.7 per cent. and an increase in household production of 11.8 per cent. In 2012, as compared to 2011, overall agricultural production decreased by 4.5 per cent., the production of agricultural enterprises (both State owned and private) decreasing by 6.6 per cent. primarily as a result of the record crop yields in 2011, and household plot production decreasing by 2.2 per cent. According to preliminary data, in 2013, as compared to 2012, overall agricultural production increased by 13.7 per cent., including an increase in the production of agricultural enterprises (both State owned and private) by 20.7 per cent., and household plot production by 6.4 per cent. For the month ended 31 January 2014, overall agricultural production increased by 6.0 per cent. compared to the corresponding period in 2013, including an increase in the production of agricultural enterprises (both State owned and private) by 11.3 per cent., and household plot production by 0.9 per cent.

The increase in agricultural production in 2011 included a 30.4 per cent. increase in crop production and 1.3 per cent. increase in livestock production. The 30.4 per cent. increase in crop production reflected an increase of 37.9 per cent. in the production of agricultural enterprises (both public and private) and a 21.7 per cent. increase in the production of household plots. The 1.3 per cent. increase in livestock production reflected an increase of 6.0 per cent. in the production of agricultural enterprises (both State owned and private) and a minor decline in the production of household plots of 1.7 per cent.

In 2011, there were record crop yields, grain production reaching 56.7 million tonnes, potato production 24.2 million tonnes, sugar beet production 18.7 million tonnes, sunflower production 8.7 million tonnes and vegetable production 9.8 million tonnes. The reasons for the record crop yields include increases in arable land and the use of mineral fertilisers, as well as favourable weather conditions.

Grain production in 2012 reached 46.2 million tonnes. Ukraine estimates grain production to have reached approximately 63 million tonnes in 2013.

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 tax 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 to 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 was to have created 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 the date of this Prospectus, these measures have not yet been fully implemented, however, a single land cadastre system was established.

As at 1 December 2013, approximately 31.0 per cent. of Ukraine's total population lived in rural areas.

Construction

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.

Starting from 1 January 2013, the State Statistics Service calculates index of construction output based on a new methodology introduced by the Order of the State Statistics Service No. 200 dated 5 August 2011. The figures for 2011 and 2012 were recalculated based on this new methodology as well.

In 2011, construction increased by 18.6 per cent. compared to 2010, which included a 14.6 per cent. increase in the construction of residential and non-residential buildings and an increase of 22.1 per cent. in the construction of engineering structures. 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 Euro 2012 Championships.

In 2012, construction volumes decreased by 8.3 per cent. compared to 2011, which included a 6.5 per cent. decrease in the construction of residential and non-residential buildings, a 9.8 per cent. decrease in the construction of engineering structures. In 2013, construction decreased by 14.5 per cent. (as compared to a 8.3 per cent. decrease in 2012), which included a 9.3 per cent. decrease in the construction of residential and non-residential buildings (as compared to a 6.5 per cent. decrease in 2012) and a 18.8 per cent. decrease in the construction of engineering structures (as compared to a 9.8 per cent. decrease in 2012). Several factors contributed to the decrease in construction volumes in 2012 and in 2013, including slow growth of lending for long term projects and limited credit financing, the completion of Euro 2012 Championships construction (which contributed to the high comparison base of the previous year), the high cost of transport services, gas and electricity as well as decreased demand from domestic businesses. Residential construction has increased by 6.6 per cent. in 2013, as compared to 2012.

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. The 2009 decrease in output in the transport and communication sectors of 12.7 per cent. was followed by an increase of 2.0 per cent. in 2010. In 2011, output in the transport sector increased by 10.6 per cent. compared to 2010 and in 2012, output in this sector decreased by 2.4 per cent. compared to 2011.

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. In 2012, transport companies transported 771.9 million tonnes of cargo and 6.8 billion passengers, a decrease of 5.1 per cent. and 2.4 per cent., respectively, compared to 2011. In 2013, transport companies, transported 759.4 million tonnes of cargo and 6.6 billion passengers, a decrease of 1.6 per cent. and 2.8 per cent., respectively, as compared to 2012. This decrease resulted from reduced cargo transportation in the metallurgy and metal products industry, coke and oil refining industry and other non-metallic industries. In 2012 transit of natural gas through Ukraine decreased to 84.3 billion cubic metres from 104.2 billion cubic metres in the same period of 2011, due to the combined effects of Nord Stream and a generally lower demand in the EU. In 2013, 86.1 billion cubic metres of gas were transported via Ukraine, compared to 84.3 billion cubic metres in 2012.

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 61.5 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. In 2012, mobile communication services accounted for 60.4 per cent. of all communication services. In 2013, mobile communication services accounted for 59.8 per cent. of all communication services.

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 Middle East. The new passenger terminal became operative on 18 May 2012. The total cost of this project was UAH 1.742 billion.

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 in the first quarter of 2015. The Aerial Express will be financed by a U.S.$372.3 million credit facility granted by Export Import Bank of China pursuant to an agreement signed in 2011, the Cabinet of Ministers issuing a sovereign guarantee in favour of the State entity coordinating the project. In 2011 and 2012, Ukraine raised a further U.S.$690.0 million and U.S.$1,250.0 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.

In January 2009, State Enterprise "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. On 11 December 2012, the amount of credit was extended to U.S.$125 million.

As at 1 February 2014, approximately €885.6 million had been spent on the repair of Kyiv Chop highway, including €573.3 million in EBRD and EIB loans, as well as €312.3 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 and on 7 February 2012, respectively. The total value of the project is €1,150.0 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 1 February 2014, €332.7 million had been drawn down under the EBRD and EIB agreements, as well as approximately €53.2 million from the State Budget. 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 1 February 2014, according to data provided by the Ukravtodor, U.S.$343.5 million had been drawn down under this agreement from the IBRD funds, U.S.$64.7 million was provided from the State Budget and the reconstruction of a segment of the Kyiv Kharkiv Dovzhanski highway was underway. On 11 October 2012, Ukraine and the World Bank signed a U.S.$450 million facility agreement for the Second Roads and Safety Improvement Project, the facility agreement took effect on 24 December 2012. As at 1 February 2014, U.S.$82.1 million had been spent on this project from the IBRD funds and U.S.$7.1 million from the State Budget.

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 an eight 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 OJSC "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.

In December 2012, the Cabinet of Ministers issued a guarantee to Ukravtodor, which issued bonds in the total amount of UAH 14.0 billion for financing of the construction, reconstruction and repair of roads in general usage. Within the term for placement of bonds prescribed by the Cabinet of Ministers, bonds in the total nominal amount of UAH7.2 billion were placed with Ukrainian banks. The rest of the bonds were cancelled.

In July 2013, the Cabinet of Ministers of Ukraine issued a guarantee to Ukravtodor, which issued bonds in the total amount of UAH 5.0 billion for financing of the construction, reconstruction and repair of roads in general use, including implementation of the project on the construction of the bridge across the Dnipro river in Zaporizhzhya and acquisition of road building machinery for subsidiaries of State Joint Stock Company "Highways of Ukraine". Within the term for placement of bonds prescribed by the Cabinet of Ministers, the bonds in the total amount of UAH 2.75 billion (out of UAH 5.0 billion) were placed in Ukrainian banks. The rest of the bonds were cancelled.

Within the framework of preparations for the Euro 2012 Championships, the Government set out a plan 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 Championships and Ukrainian border checkpoints, as well as to implement a programme for comprehensive development of airports and railways. From 2008 to 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 2012, as part of the implementation of the programme, UAH 7,307.76 million was spent on transport infrastructure projects.

In addition, in November and December 2009, the Cabinet of Ministers avalised (guaranteed) certain bills of exchange due 2013 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 Championships in Ukraine, liquidation of the consequences of certain natural disasters and other road construction, reconstruction and capital repair projects. On 13 November 2010, 21 April 2011 and 7 December 2012 and the Cabinet of Ministers issued sovereign guarantees for the obligations of State Enterprise "Financing of Infrastructural Projects" as issuer of U.S.$568 million, U.S.$690 million notes and U.S.$1,250 million notes, respectively (approximately UAH 4.5 billion, UAH 5.5 billion and UAH 10.0 billion respectively), made available for the purpose of establishing infrastructure required to host a successful Euro 2012 Championships. 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. As at the date of this Prospectus, all ten trains are in operation.

The 2010 to 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. Ukraine has collected UAH 63.27 billion in privatisation receipts as of 1 January 2014. In 2011, UAH 11.480 billion was contributed to the State Budget as privatisation proceeds, exceeding the target by 14.8 per cent. In 2012, 169 assets initially owned by the State and 1,347 assets initially in communal (municipal) ownership were privatised. In 2012, annual privatisation receipts amounted to UAH 6.76 billion, more than 96 per cent. of the target set for that year. In 2013, 160 assets initially owned by the State and 952 assets initially in communal 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, 111,797 small scale entities were privatised between 1992 and 1 January 2014. During the same period 11,544 entities were converted into joint stock companies, and as at 1 January 2014, 571 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. Furthermore, the State has the right to retain an ownership interest in such enterprises, enabling it to block certain management decisions.

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 forecasted privatisation proceeds in the amount of UAH 7.0 billion. In 2012, privatisation receipts amounted to UAH 6.76 billion, more than 96 per cent. of the target set for that year. In 2012, shareholdings in 30 State-owned companies, including State-owned minority shareholdings in 17 gas distribution companies were sold at auctions. The 2013 State Budget Law forecasted privatisation proceeds of UAH 10.9 billion. This amount was further amended by the instruction of the Cabinet of Ministers of Ukraine to UAH 1.455 billion and the difference between the initial and final forecasts on privatisation proceeds was substituted by the proceeds obtained from the debt financing. As at 31 December 2013, privatisation receipts amounted to UAH 1.485 billion, which represented more than 102.1 per cent. of the final target, but less than 15 per cent. of the initial target revenues for the year 2013 as included in the original 2013 State Budget Law. This was caused mainly by the delay in the transfer of assets subject to privatisation from the authorised governing bodies to the State Property Fund of Ukraine, which had an adverse effect on the sale of assets. The 2014 State Budget assumes total proceeds from privatisation of state assets of UAH 19.4 billion. As at 4 February 2014, privatisation receipts so far in 2014 amounted to UAH 44.93 million. In addition, as at the date of this Prospectus, the Law of Ukraine "On the List of State-owned Assets which are not Subject to Privatisation" includes a list of approximately 1,500 state assets not subject to privatisation. Recently, amendments have been introduced to the Law of Ukraine "On the Privatisation of State Property". According to this law a number of criteria based on which enterprises are included in this list of State-owned assets which are not subject to privatisation was significantly reduced. At the same time, respective amendments to the Law of Ukraine "On the List of State-owned Assets which are not Subject to Privatisation" have not yet been enacted, however, once the law comes into force, the current list of state assets not subject to privatisation will be reduced to approximately 300 assets. These amendments are expected to allow for privatisation of coal mining enterprises, assets of railway infrastructure and assets of chemical and machinery manufacturing industries.

The Cabinet of Ministers approved a list of State owned shareholdings in energy production and energy distribution companies, planned for partial privatisation in 2011-2013, some of which have now been sold at auction. Privatisation is still ongoing in respect of remaining State-owned shareholdings in energy production and energy distribution companies. As at the date of this Prospectus, the list includes energy production and energy distribution companies with shareholdings of between 25 per cent. and 50 per cent., which have been sold at auctions. See "*—Principal Sectors of the Economy—Electricity Generation and Nuclear Power*".

The 2010 to 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;
- in 2013, 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 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 1 January 2014, 331 privatised assets (by cumulative total) had been returned to State ownership, including 84 shareholding stakes, 58 integral property complexes and

189 construction projects. In total 164 of the assets returned to State ownership, have been resold, the proceeds from their resale amounting to UAH 99.63 million. Claims are in progress with regard to the termination (invalidation) of 118 privatisation agreements, and also with regard to the return of assets sold pursuant to such agreements. Such claims relate to 13 shareholding stakes, 15 integral property complexes and 90 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 April 2012, Ukraine adopted the Law "On the Peculiarities of Privatisation of Coal Mining Enterprises" which introduced a moratorium on the bankruptcy of mining enterprises. This moratorium envisages that bankruptcy proceedings could be initiated not earlier than three years after the end of the privatisation.

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 and, in May 2013, it was further extended to 1 January 2014.

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 (these include harmful substances released by motor, railway, air and water transport), representing a 3.0 per cent. increase compared to 2010. In 2012, 4.3 million tonnes of harmful substances were released into the atmosphere by stationary sources of pollution, representing a 0.9 per cent. decrease compared to 2011. In 2012, 2.5 million tonnes of harmful substances were released by "mobile" sources of pollution, 90.5 per cent. of which were harmful substances released by cars. For the nine months ended 30 September 2013, 3.2 million tonnes of harmful substances were released into the atmosphere by the stationary sources of pollution, a 81,000 tonnes or 2.5 per cent. decrease as compared to the corresponding period in 2012.

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. The State Budget expenditures on mitigating the consequences of the Chernobyl incident amounted to UAH 776.9 million in 2010, UAH 759.5 million in 2011 and UAH 741.8 million in 2012, respectively. 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 spent in 2010, including expenditure on the operation and maintenance of environmental facilities totalling UAH 12.0 billion, investments in fixed assets in the amount of UAH 5.6 billion and expenditure on capital repairs in the amount of UAH 843.6 million. Of these amounts, 9.7 per cent. of capital investments and 3.0 per cent. of current expenditure was financed out of the State Budget and local budgets, while 91.3 per cent. of capital investments and 97.0 per cent. of current expenditure was financed by private enterprises and organisations. In total, UAH 20.5 billion was spent on environmental protection in 2012, an increase of 11.0 per cent. or UAH 2.0 billion as compared to 2011, including expenditure on the operation and maintenance of environmental facilities totalling UAH 13.9 billion (68.0 per cent.), investments in fixed assets in the amount of UAH 5.9 billion (29.0 per cent.) and expenditure on capital repairs of environmental equipment in the amount of UAH 635.0 million (3.0 per cent.). Of these amounts, 7.0 per cent. of capital investments and 3.0 per cent. of current expenditure was financed out of the State Budget and local budgets, while 59.0 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 2011 and 2012 receipts to these funds were UAH 2,091 million and UAH 2,142 million, respectively, of which receipts to the State Fund for Environmental Protection amounted to UAH 627.4 million and UAH 678.1 million, respectively. In 2013 receipts to these funds were UAH 3.06 billion, of which receipts to the State Fund for Environmental Protection amounted to UAH 1.74 billion. As at 1 February 2014, receipts to these funds were UAH 32.8 million, of which receipts to the State Fund for Environmental Protection amounted to UAH 17.2 million. The Ministry of Ecology and Natural Resources of Ukraine ("**MENR**") intends to streamline the organisation of these funds and to utilise resources from other sources (including grants and loans from foreign sources). To increase financial resources for the implementation of environmental protection measures, Ukraine is reviewing alternative sources of funding, including introduction of investments and EC funds. As at 1 January 2014, Ukraine is a party to 22 international conventions, 15 protocols and 52 bilateral agreements on environmental protection.

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 1,915,907,909 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, 707 "green projects" in 24 regions of Ukraine for a total cost of UAH 4.6 billion have been agreed with Japan. Agreements on trade in AAUs have been signed with Japan, Spain, the Netherlands, Denmark, Canada, France, Italy, the 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. In 2012, Ukraine and Ukrainian enterprises did not sell ERUs. In 2013, Ukraine and Ukrainian enterprises had sold AAUs amounting to the equivalent of 85,681,786 million tonnes of carbon dioxide under "green investment" schemes and "early credits" under joint implementation projects, as well as 490,274,626 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 28 November 2011 to 11 December 2011 in Durban (South Africa) and further negotiations from 26 November 2012 to 7 December 2012 in Doha (Qatar), Ukraine was added to the group of countries participating in the second stage of the Kyoto Protocol from 2013 to 2020.

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. Ukraine's eligibility to participate in the Kyoto Protocol Mechanisms was restored on 9 March 2012 and it is one of the countries proceeding with the fulfilment of the second stage of obligations under Kyoto Protocol.

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 MENR, were enacted to implement the environmental audit system. In addition, the MENR 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. As at 13 January 2014, 87 environmental auditors are certified in Ukraine and 35 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 "**National Environmental Policy Strategy**"). 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, Ukraine and the European Commission have entered into an agreement on support for implementation of Ukraine's National Environmental Policy Strategy Programme (the "**Support Programme**"). Under the Support Programme, the EU is to provide €35 million of budget support. The National Plan of Measures for Environmental Protection in Ukraine for 2011 to 2015 (the "**National Plan**"), 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 4,879.8 million, comprising UAH 2,608.9 million from the State Budget and UAH 409.5 million from the EU budget support mechanism during 2011 to 2015.

Under the Support Programme, MENR together with EU representatives in Ukraine launched a new project entitled "Complementary Support to the Ministry of Ecology and Natural Resources of Ukraine for the Implementation of Sectoral Budget Support" (the "**Complementary Support Project**"). The overall objective of the Complementary Support Project is to contribute to achievement of the National Environmental Policy Strategy priorities in line with the EU-Ukraine Association Agenda and environmental cooperation agreements. The purpose of the Complementary Support Project is to provide assistance to MENR, other stakeholders and the members of society in the implementation, coordination, management of and reporting under the Complementary Support Programme.

State control is exercised over management and protection of land, environmental and radiation safety, protection and management of territories and objects of natural reserve funds, management and disposal of waste products (other than radioactive waste products), hazardous chemical substances, pesticides and agrochemicals, the management, protection and use of the ecological network, as well as over compliance with environmental security standards. In addition, the State exercises geological and geodesic monitoring and control. However, the damages payable for the breach of environmental legislation tend to be low, which reduces their deterrent value and is inadequate compared to the sums required to remedy pollution. From 1 January 2007, damages paid for breaches of environmental legislation (environment tax) are indexed to the CPI for the preceding year. As a result of indexing to the CPI, these damages were expected to increase in line with the inflation rate, but the CPI inflation rate is now falling. In 2013 damages paid for breaches of environmental legislation (environmental tax) amounted to UAH 56.64 million, including UAH 16.99 million to the State Fund on the Environmental Protection. As at 1 February 2014, damages paid for breaches of environmental legislation (environmental tax) amounted to UAH 4.74 million, including UAH 1.42 million to the State Fund on the Environmental Protection.

THE LABOUR MARKET

Wages

The average monthly wage of the workforce in the Ukrainian labour market has steadily increased over the last three years. Since 2010, the average monthly nominal wage has increased from UAH 2,239.2 to UAH 2,633.2 in 2011, UAH 3,026.0 in 2012, and further to UAH 3,265.0 in 2013. In 2013 the average monthly real wage (which takes into account the effect of inflation) increased by 8.2 per cent. as compared to the corresponding period in 2012. This trend of consistently rising wages is primarily due to an increase in the efficiency of production and the amount of the minimum wage under the tariff rates and salaries provided by the Law of Ukraine on Remuneration of Labour.

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 State Budget Law for 2010, 2011 and 2012 provides for increases in the minimum hourly and monthly wage regularly throughout the year, increasing the minimum monthly wage from UAH 869 from 1 January 2010 to UAH 941 from 1 January 2011, to UAH 1,073 from 1 January 2012.

The 2013 State Budget Law provides for a minimum monthly wage of UAH 1,147 from 1 January and UAH 1,218 from 1 December. The minimum hourly wage is set at UAH 6.88 from 1 January and UAH 7.3 from 1 December.

In 2010, available household income increased by 28.1 per cent., nominal household income increased by 23.1 per cent. and real available household income increased by 17.1 per cent., each as compared to 2009.

In 2012, the nominal income of the population increased by 14.5 per cent. as compared to the corresponding period in 2011, available income of the population increased by 14.6 per cent. and real available income of the population increased by 13.9 per cent. In 2011 available income per capita amounted to UAH 21,637.9 an increase of 17.1 per cent. as compared to 2010. In 2012, available income per capita amounted to UAH 25,206.4, an increase of UAH 3,568.5 or 14.9 per cent. as compared to 2011. For the nine months ended 30 September 2013, the nominal income of the population increased by 2.9 per cent. as compared to the corresponding period on 2012, available income of the population increased by 1.6 per cent. and real available income of the population increased by 1.9 per cent. For the nine months ended 30 September 2013, available income per capita amounted to UAH 6,671.6 an increase of 1.8 per cent. as compared to the corresponding period in 2012.

Wage Arrears

As at 31 December 2010, wage arrears to employees of all enterprises, institutions and organisations (both operating and bankrupt) (total wage arrears) amounted to UAH 1,218.1 million a 17.3 per cent. decrease compared to UAH 1,473.3 million as at 31 December 2009. This decline in wage arrears 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 December 2012, total wage arrears amounted to UAH 893.7 million, a decrease of UAH 83.7 million or 8.6 per cent. as compared to total wage arrears as at 31 December 2011. As at 31 December 2012, of total wage arrears, UAH 451.0 million (or 50.5 per cent.) were arrears related to operating enterprises, UAH 391.8 million (or 43.8 per cent.) were arrears related to enterprises subject to bankruptcy or readjustment proceedings and UAH 50.9 million (or 5.7 per cent.) were arrears related to non-operating enterprises. As at 31 December 2013, total wage arrears amounted to UAH 808.2 million, a decrease of UAH 85.5 million or 9.6 per cent. as compared to total wage arrears as at 31 December 2012. As at 31 December 2013, of total wage arrears, UAH 438.3 million (or 54.2 per cent.) were arrears related to operating enterprises, UAH 333.1 million (or 41.2 per cent.) were arrears related to enterprises subject to bankruptcy or readjustment proceedings and UAH 36.7 million (or 4.6 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 2013, wage arrears of operating enterprises in the public sector were UAH 120.3 million. Of public sector wage arrears as at 31 December 2013, wage arrears of State owned operating enterprises were UAH 101.6 million (a decrease of UAH 70.1 million, or 40.8 per cent., as compared to 31 December 2012), wage arrears of municipal enterprises were UAH 18.7 million (a decrease of UAH 20.9 million, or 52.8 per cent., as compared to 31 December 2012). As at 31 December 2013, wage arrears of operating enterprises payable out of the State Budget were UAH 0.5 million (a decrease of UAH 2.0 million, or 79.7 per cent. as compared to 31 December 2012), there were no wage arrears of operating enterprises payable out of the local budgets as compared to UAH 108 thousand as at 31 December 2012). As at 31 December 2013, the wage arrears of operating enterprises in the private sector were UAH 317.9 million (a decrease of UAH 78.4 million, or 32.7 per cent., as compared to 31 December 2012). 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 the annual average employment data for 2010, 2011 and 2012 and employment data for the nine months ended 30 September 2012 and 2013:

	Year ended 31 December			Nine months ended 30 September	
	2010	**2011**	**2012**	**2012**	**2013**
Economically active population, millions	22.1	22.1	22.0	22.1	22.1
Employed, millions	20.3	20.3	20.4	20.5	20.5
Unemployed, millions	1.79	1.73	1.66	1.63	1.55
Unemployment rate(1)	8.1	7.9	7.5	7.4	7.0

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 remains elevated in Ukraine. Unemployment stood at 8.1 per cent. in 2010, 7.9 per cent. in 2011, 7.5 per cent. in 2012 and 7.0 per cent. for the nine months ended 30 September 2013.

In 2010, the employed population in Ukraine was 20.3 million persons. In 2011, the employed population in Ukraine was 20.3 million persons. In 2012, the employed population slightly increased to 20.4 million. Trends in unemployment mirror those in employment, so in 2010 there was a decrease in the unemployed population to 1.79 million persons, which decreased further to 1.70 million persons in 2011. In 2012, unemployment fell to 1.66 million persons an annual average basis and further decreased to 1.55 million persons in the nine months ended 30 September 2013.

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. 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. In 2012, the average unemployment rate under ILO methodology decreased slightly to 7.5 per cent., with 7.4 per cent. in rural areas and 7.6 per cent. in urban areas. For the nine months ended 30 September 2013, unemployment rate under ILO methodology was 7.0 per cent., with 7.0 per cent. in rural areas and 7.0 per cent. in urban areas.

In September 2010, the Government approved the Principles of the State Employment Policy for 2010 to 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 to 2014, adopted by the resolution of the Cabinet of Ministers of Ukraine No. 1008 dated 15 October 2012, is to further reduce unemployment to the level of 7.1 to 7.4 per cent. in 2014 and to the level of 6.3 to 6.6 per cent. in 2017.

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. In 2012, the number of persons employed part time was 736,800 (a decrease of 18.9 per cent. as compared to 2011) and the number of persons on involuntary unpaid leave was 137,800 (a decrease of 27.3 per cent. as compared to 2011). For the six months ended 30 June 2013, the number of persons employed part time was 649,900 (an increase of 5.9 per cent. as compared to the corresponding period in 2012) and the number of persons on involuntary unpaid leave was 82,000 (a decrease of 27.6 per cent. as compared to the corresponding period in 2011).

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 to 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 2013, 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 2013, 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 have further diversified 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 1 January 2013, this Register contained information on approximately 13.0 million persons.

On 8 July 2011, a law was passed, which became effective on 1 October 2011, capping the maximum pension 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 2010, social insurance and pension expenditure amounted to UAH 210.7 billion, including pension expenditure of UAH 192.3 billion. In 2011, social insurance and pension expenditure amounted to UAH 231.5 billion, including pension expenditure of UAH 209.0 billion. In 2012, social insurance expenditure amounted to UAH 21.9 billion and pension expenditure amounted to UAH 233.7 billion. It is preliminarily estimated that in 2013 pension expenditure amounted to UAH 252.0 billion and social insurance expenditure amounted to UAH 29.0 billion. This increase is expected to be covered through funding from social insurance funds.

Pensions and Pension Reform

The average pension, for all categories of pensioners, was UAH 1,123.58, UAH 1,151.93, UAH 1,253.28 per month, UAH 1,470.73 and UAH 1,526.09 as at 1 July 2010, 2011, 2012, 2013 and as at 1 January 2014, respectively. The minimum retirement pension was increased in several stages from UAH 695.0 as at 1 January 2010 to UAH 800.0 as of 1 December 2011 and up to UAH 884.0 as at 1 December 2012. 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. The 2013 Budget Law provides for increases in the level of the minimum pension to UAH 894 from 1 January and UAH 949 from 1 December 2013. As at 1 January 2014, the minimum pension amounted to UAH 949.

Pension Fund deficits were UAH 26.6 billion and UAH 17.8 billion in 2010 and 2011, respectively. In 2012 the Pension Fund deficit amounted to UAH 15.3 billion. See "*Public Finance and Fiscal Policies—The Consolidated Budget—Pensions*". It is expected that in 2013 the Pension Fund deficit will amount to UAH 21.8 billion, resulting from a combination of higher level of benefits and lower anticipated returns on Pension Fund investments, due, in turn to more modest assumptions regarding economic growth in Ukraine in 2013.

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 and 2012, the pay as you earn system is funded by employer unified contribution for mandatory State pension insurance 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 3.6 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 of 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 31 December 2012, the National (formerly State) Commission on the Regulation of Financial Services Markets had information on 89 non-State pension funds. As at 31 December 2010, non-State pension funds held total assets of UAH 1,144.3 million, and had approximately 569,200 individual participants. 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 595,600 individual participants, an increase of 26,000 participants, or 4.4 per cent., as compared to 31 December 2010. As at 31 December 2012, non-State pension funds held total assets of UAH 1,660.1 million, an increase of 20.0 per cent. as compared to the corresponding period in 2011. As at 31 December 2012, private pension funds had approximately 584,800 participants. As at 30 September 2013, non-State pension funds held total assets of UAH 1,933.6 million, an increase of 19.5 per cent. as compared to the corresponding period in 2012 and had approximately 588,500 participants.

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 revenues of the Unemployment Fund are determined in accordance with the law of Ukraine "On Mandatory State Social Unemployment Insurance" and the Law of Ukraine "On the Collection and Accounting for a Single Contribution to the Mandatory State Social Insurance". 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, and to UAH 544 and to UAH 762 as of 1 December 2011, respectively.

In 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, UAH 847, UAH 860 and UAH 872 per month for insured persons, from 1 April, 1 July, 1 October and 1 December 2012, respectively.

In December 2011 and September 2012, respectively, the amount of unemployment benefit was, on average for each unemployed person, UAH 879 per month and UAH 948 per month, an increase of 13.0 per cent. and 7.0 per cent. as compared to December 2010 and July 2011.

From 1 January 2013, the minimum unemployment benefit for persons with length of pensionable service of more than six months during the year, following the registration as unemployed, and for young persons who ended or suspended their studies, amounted to UAH 544 per month, and for special categories of insured persons (for which amount is fixed on the basis of length of pensionable service and wage) amounted to UAH 882 per month. As at 31 January 2014, the average unemployment benefit was UAH 1,174.8, as compared to UAH 1,088.9 for the corresponding period in 2013.

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 a subsistence wage for an employed person (UAH 1,147 as of 1 January 2013 to be increased to UAH 1,218 from 1 December 2013, according to the 2013 State Budget Law).

The major categories of social services rendered to the unemployed include professional training (including re-training and advanced training) and assistance in finding employment, including through subsidies to employers for creation of additional jobs in new workplaces, providing citizens over 45 with a special voucher for professional training 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.

From 1 March 2010, 2011 and 2012, monthly insurance payments to employees injured at work as a result of accidents and professional illnesses increased by 1.0 per cent., 1.1 per cent. and 17.6 per cent., respectively. Furthermore, in 2012 the average monthly insurance payments to employees injured at work and members of their families increased by 54.6 per cent. or by UAH 427.5, as compared to 2011. In March 2013, the amount of insurance payment to employees injured at work and members of their families increased by 14.9 per cent. to UAH 1,383.3.

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 2012, childbirth benefits increased by 10.5 per cent., amounting to UAH 28,830 for the first child, UAH 57,660 for the second child and UAH 115,320 for the third and each additional child. The total budgeted amount of childbirth and child adoption benefits in the State Budget for 2011 was UAH 12,841.5 million, increasing to UAH 13,903.3 million in the State Budget for 2012.

In 2013, childbirth benefits increased by 7.4 per cent., as compared to 31 December 2012, amounting to UAH 30,960.0 for the first child, UAH 61,920.0 for the second child and UAH 123,840 for the third child and each additional child.

In 2014, childbirth benefits are expected to increase by 6.8 per cent., as compared to 31 December 2013, and amount to UAH 33,060.0 for the first child, UAH 66,120.0 for the second child and UAH 132,240 for the third child and each additional child.

Childbirth benefits totalled UAH 10,173.2 million in 2010. 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, UAH 13,903.3 million in the State Budget for 2012, and UAH 19,047.9 million in the State Budget for 2013.

Child care benefits are available until a child is three years old. In 2010, 2011, 2012 and 2013, the average amount of monthly child care benefit was UAH 306.3, UAH 377.6, UAH 432.2 and UAH 432.6, respectively. The number of recipients of such benefits has remained steady at approximately 1.3 million as at each of 31 December 2010, 2011, 2012 and as at 1 December 2013. The aggregate amount of these benefits was approximately UAH 4,645.1 million, UAH 5,751.6 million, UAH 6,572.8 million and UAH 6,633.2 million in 2010, 2011, 2012 and 2013, respectively. Certain additional benefits are available to children under guardianship and to single mothers.

In 2010, 2011, 2012 and 2013, the average amount of monthly subsidies to low income families was UAH 882.2, UAH 1,129.2, UAH 1,771.3 and UAH 2,092.3, respectively. As at 31 December 2010, 2011, 2012 and 2013, approximately 74.2 thousand, 82.4 thousand, 143.4 thousand and 187.0 thousand families, respectively, were recipients of these subsidies to low income families, with approximately UAH 808.5 million, UAH 1,063.1 million, UAH 2,095.6 million and UAH 4,041.2 million in benefits given in 2010, 2011, 2012 and 2013, respectively.

In 2010, the average amount of cash subsidy for the purchase of fuel and gas was UAH 391.0. In 2011, the average amount of cash subsidy for the purchase of fuel and gas was UAH 536.6. In 2012 and 2013 the average amount of cash subsidy for the purchase of fuel and gas was UAH 696.2 and UAH 764.8 respectively. In 2010, 2011, 2012 and 2013, 300,300, 314,280, 293,361 and 281,641 families, respectively, received these subsidies.

In 2010, 2011, 2012 and 2013, the average amounts of subsidy for the payment of housing and communal services were UAH 100.6, UAH 132.4 and UAH 142.5 and UAH 124.0, respectively. As at 31 December 2013, approximately 1,267,127 families received these subsidies.

As at 1 February 2014, there were no social benefit arrears for subsidies to families with children and low income subsidies.

In 2013, the social expenditure increased and amounted to UAH 7.1 billion. This increase is driven by macroeconomic factors and an increase in monthly wages, which requires an increase in payments to the social insurance fund from the State budget.

EXTERNAL SECTOR

Balance of Payments

In 2010, the current account deficit of Ukraine 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 35.5 per cent. increase in goods imports, compared to a 29.2 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.$10.2 billion (6.3 per cent. of GDP). This was mainly caused by increased internal demand, leading to a 41.4 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 Championships, and a revival in domestic production.

In 2011, Ukraine had a capital and financial account surplus of U.S.$7.8 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.

In 2012, according to NBU data, the current account deficit increased to U.S.$14.3 billion (or 8.1 per cent. of GDP) as compared to U.S.$10.2 billion (or 6.3 per cent. of GDP) in 2011. In 2012, the goods trade deficit increased to U.S.$19.5 billion, compared to U.S.$16.3 billion in 2011. In adverse conditions in the global commodity markets (excluding agricultural products) and the corresponding slowdown to 1.2 per cent. in the growth of exports of goods in 2012 as compared to 2011, high investment needs of Ukrainian economy and the increase in real income of population have resulted in continued growth of imports of goods of up to 4.7 per cent. in 2012 as compared to 2011.

In 2012, Ukraine had a capital and financial account surplus of U.S.$10.1 billion. This surplus was due to high volumes of foreign direct investment (U.S.$7.8 billion in 2012 compared to U.S.$7.0 in 2011), most of which was directed at the real sector of the economy. At the same time, direct investments abroad were significant and amounted to U.S.$1.2 billion. In 2012 net borrowings to the real sector amounted to U.S.$6.6 billion as compared to U.S.$5.2 billion in 2011.

In 2013, consolidated balance surplus amounted to U.S.$2.0 billion, as compared to the consolidated balance deficit of U.S.$4.2 billion for the corresponding period in 2012.

Current account deficit in 2013 increased to U.S.$16.1 billion or 8.9 per cent. of GDP, as compared to U.S.$14.3 billion or 8.1 per cent. of GDP for the corresponding period in 2012. This increase was due to active reduction of demand for and increased prices of Ukrainian export goods due to the low economic activity in countries which are Ukraine’s main trade partners.

Considerable surplus of the financial and capital account in 2013 (U.S.$18.2 billion in 2013 as compared to U.S.$10.1 billion in 2012) was achieved mainly due to Eurobond placements in private sector (in the principal amount of U.S.$5.2 billion) and reduced demand for cash foreign exchange due to maintained stability in the foreign exchange market.

The volumes of net foreign direct investment in 2013 amounted to U.S.$3.3 billion and the real sector was the main recipient of such investments.

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

	Year ended 31 December			
	2010	2011	2012	2013
	(in U.S.$ millions)			
Current account	(3,018)	(10,245)	(14,315)	(16,141)
Goods and services (balance)	(3,984)	(10,157)	(14,326)	(15,235)
Export of goods and services	69,255	88,844	90,035	85,400
Import of goods and services	(73,239)	(99,001)	(104,361)	(100,635)
Goods (balance)	(8,388)	(16,252)	(19,478)	(19,602)
Income (balance)	(2,009)	(3,796)	(2,965)	(3,149)
Current transfers (balance)	2,975	3,708	2,976	2,243
Capital and financial account	**8,049**	**7,790**	**10,140**	**18,162**
Capital account	**187**	**98**	**38**	**(83)**
Direct investment (balance)	5,759	7,015	6,627	3,267
Portfolio investment (stock capital)	294	511	493	1,193
Loans and bonds	6,762	2,598	6,035	7,978
Medium and long term loans	3,930	709	9,320	6,413
Short term loans	2,832	1,889	(3,285)	1,565
Other capital	(4,953)	(2,432)	(3,053)	5,807
including foreign currency cash outside banks	(5,600)	(11,408)	(7,961)	(3,771)
Overall balance	**5,031**	**(2,455)**	**(4,175)**	**2,021**
Financing	(5,031)	2,455	4,175	(2,021)
Reserves assets[(1)]	(8,460)	2,455	7,594	3,553
Loans from IMF (NBU)	1,401	—	(2,631)	(3,061)
IMF loan to Ukraine	2,028	—	(788)	(2,513)
SDR	—	—	—	—

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 2011, Ukrainian exports of goods and services increased from 24.0 per cent. to 54.4 per cent. of GDP, and imports increased from 22.0 per cent. to 60.6 per cent. of GDP. The increasing proportion of exports and imports between 1992 and 2011 as a percentage of GDP reflects, among other factors, the gradual integration of Ukraine into the world economy.

In 2010, volumes of exported goods and services amounted to U.S.$69.3 billion (or 50.7 per cent. of GDP), 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 (or 53.7 per cent. of GDP), 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 39.9 per cent., 27.9 per cent., and 39.9 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 balance went into deficit and equalled U.S.$16.3 billion as compared to U.S.$8.4 billion in 2010. This was due to the fact that goods import rates (at 41.1 per cent.) exceeded relevant export rates (at 33.0 per cent.) in 2011.

In 2011, exports of goods and services increased by 28.1 per cent. (or U.S.$19.5 billion) compared to 2010 and equalled U.S.$88.8 billion (54.4 per cent. of GDP). Exports of goods amounted to U.S.$69.4 billion, an increase of 33.0 per cent., as compared to 2010. This increase was due to increase in demand from Ukrainian trade partners, favourable conditions in the international food markets and the record-breaking grain crop in Ukraine in 2011 with grain export increasing by 46.9 per cent. in 2011 compared to 2010.

Imports of goods and services in 2011 increased by U.S.$25.8 billion (or 35.2 per cent.) as compared to 2010, and reached U.S.$99.0 billion (60.6 per cent. of GDP). Imports of goods increased in 2011 by 41.4 per cent. as compared to 2010, due to revival of domestic demand, increased energy imports, as well as launch of investment projects aimed at facilitating both preparation to Euro 2012 Championships and expansion of domestic production capacities.

In 2012, the trade balance deficit increased to U.S.$19.5 billion as compared to U.S.$16.3 billion in 2011. At the same time, the service trade surplus went down to U.S.$5.2 billion in 2012 as compared to U.S.$6.1 billion in 2011.

In 2012, export of goods and services increased by 1.3 per cent. to U.S.$90.0 billion (51.1 per cent. of GDP). Export of goods in 2012 was U.S.$70.2 billion, an increase of 1.2 per cent. as compared to 2011. This increase was achieved almost entirely due to the actual volume of export, while average prices remained flat.

Raw materials, namely metallurgy and chemical products, saw the most significant decline in exports (by 14.6 per cent. and 3.1 per cent. in 2012, respectively, compared to 2011). The agricultural sector, on the other hand, was subject to more favourable conditions in Ukraine. Sufficient crops in 2012 and 2011 crop carry-over, as well as poor corn crops in the United States, resulted in record-breaking grain exports since 2000, 27.2 million tonnes of grain for the total amount of U.S.$7.0 billion (1.9 times more than 2011 results). Exports of oil seeds and their by-products increased by 23.5 per cent. in 2012 as compared to 2011. Exports of agricultural products increased by 39.6 per cent., and their share in the total export of goods reached 25.6 per cent. in 2012, as compared to 18.4 per cent. in 2011.

Import of goods and services increased by 5.4 per cent. in 2012 as compared to 2011 and reached U.S.$104.4 billion (or 59.2 per cent. of GDP).

Import of goods in 2012 increased by 4.7 per cent. as compared to 2011 and reached U.S.$89.7 billion. Over 50 per cent. of the import growth was achieved due to the increase in supply of engineering goods of 12.1 per cent. The highest growth rate of 32.0 per cent. was observed during the first two quarters of 2012 due to the implementation of the Euro 2012 Championships infrastructure projects and energy diversification projects in Ukraine, while the rest of 2012 saw significant import slowdown. Imports of consumer goods, such as agricultural and industrial products, also grew significantly (by 18.5 per cent. and 27.3 per cent., respectively) in 2012, as compared to 2011. In

2012, annual chemical products import growth rates reached 4.3 per cent., partially due to an increase in trade of pharmaceutical products. The total non-energy products import rates increased by 10.9 per cent.

In 2013, trade balance deficit of goods and services amounted to U.S.$15.2 billion compared to U.S.$14.3 billion during the same period in 2012.

The trade balance deficit in 2013 amounted to U.S.$19.6 billion (as compared to U.S.$19.6 billion in 2012). The service trade surplus was U.S.$4.4 billion as compared to U.S.$5.2 billion in 2012.

In 2013, exports of goods decreased by 7.6 per cent. to U.S.$64.9 billion, as compared to the corresponding period in 2012. Reduction in export volumes was primarily due to the continuing unfavourable situation in the world commodity markets. Export of engineering products in 2013 saw a 20.1 per cent. decrease as compared to 2012 due to decrease in railcars exports to the Russian Federation as a result of oversupply in the Russian railway market. Exports of metallurgical products decreased by 7.0 per cent. in 2013 as compared to 2012 due to the preservation of low prices in the world markets of ferrous metals and decrease in demand of pipes from the Russian Federation. Export of chemical products decreased by 13.8 per cent. in 2013 as compared to 2012 due to lower exports of fertilizers in the second half of 2013 (a decrease by 2.4 times) after reorientation of domestic producers towards the domestic market. Export of agricultural products decreased by 4.8 per cent. in 2013 as compared to 2012 due to a decrease in the world prices for cereal crops.

In 2013, the import of goods decreased by 5.8 per cent. to U.S.$84.5 billion, as compared to 2012. Imports of energy sources decreased by 17.2 per cent. in the same period due to introduction of energy-saving technologies and decrease in the production volumes of natural gas by 4.7 per cent. Imports of machinery manufacturing products decreased by 12.6 per cent. in 2013 as compared to 2012 as a result of decrease in the capital expenditure of the Government, a decrease in internal investment demand in general and introduction of customs duty on cars.

Trade Agreements

A trade regime open to competition is being codified in a number of trade agreements. Most notably 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. 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. On 30 March and 19 July 2012 the text of the Association Agreement between Ukraine and EU, which includes provisions on the establishment of a comprehensive free trade zone, was initialled. The planned signing of the Association Agreement on 28 November 2013 was deferred by Ukraine, in accordance with the Instruction of the Cabinet of Ministers of Ukraine dated 21 November 2013, to allow the Government to carry out a detailed analysis of the measures needed (i) to renew trade and economic relations with the Russian Federation and other CIS states and (ii) to create a domestic market in Ukraine capable of having a relationship based on parity with the EU. As at the date of this Prospectus, the Government continues to work towards the ultimate goal of signing the Association Agreement with the EU. See "*Political Framework—International Relations—Supranational Organisations—EU*". Regarding the former CIS countries, a free trade zone was agreed in 2011 and ratified on 30 July 2012.Ukraine's accession to the WTO facilitated the signing in June 2010 of the Free Trade Agreement between Ukraine and the European Free Trade Association (Norway, Switzerland, Iceland and Liechtenstein), which came into force on 1 June 2012. This agreement contributes to the liberalisation of the trade regime of Ukraine and development of Ukraine's bilateral trade and economic relations and further increases Ukraine's volume of trade with European countries.

In September 2012, Ukraine and Laos entered into the bilateral Protocol on market access for goods. At the same time, Ukraine intensified its bilateral negotiations with applicant countries for accession to the WTO, namely with Yemen, Serbia and Bosnia and Herzegovina.

On 16 October 2012, the Verkhovna Rada of Ukraine ratified the Free Trade Agreement between the Government of Ukraine and the Government of Montenegro, which was signed on 18 November 2011.

As at the date of this Prospectus, negotiations and consultations in relation to entering into free trade agreements are being held with Canada, Turkey and Serbia.

Anti-Dumping Measures

As at the date of this Prospectus, a number of countries are conducting three anti-dumping investigations, one special investigations and six procedures relating to the review of the anti-dumping measures concerning Ukrainian products. The investigations relate to hot rolled metal, caustic ash, welded tubes, hollow sections, tyres, flour, steel fittings, hollowware and textiles. The jurisdictions undertaking investigations are Brazil, India, USA, Argentina, the Customs Union, Mexico and the EU.

As at the date of this Prospectus, as a result of previous investigations, there are 25 anti-dumping restrictions and five 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, three anti-dumping measures imposed by the EU, four anti-dumping measures imposed by Mexico, two anti-dumping measures imposed by each of the Customs Union and Canada and one anti-dumping measure imposed by each of Thailand, Turkey, Argentina, India and Indonesia. In addition, four reviews of previously imposed anti-dumping and special measures are in progress, including reviews by the United States, the Customs Union, Argentina and Mexico.

As at the date of this Prospectus, Ukraine is conducting three anti-dumping investigations concerning seamless stainless tubes imported from China, PVC suspension from the United States, rubber conveyor belts imported from Russia, a special investigation concerning imported hollowware and cutlery and five reviews of anti-dumping measures concerning ammonium nitrate imported from Russia, ferrous metals (except for stainless steel and goods for aviation industry) imported from China, railroad switches imported from Russia, hardboard imported from Belarus and one interim revision concerning ammonium nitrate imported from Russia. As at the date of this Prospectus, 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 in 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 2010, 2011, 2012 and for the eleven months ended 30 November 2013, ferrous and non-ferrous metals and their products accounted for approximately 33.7 per cent., 32.3 per cent., 27.5 per cent. and 28.1 per cent., respectively, of the value of exports, and the combined trade surplus on these items was U.S.$13.2 billion, U.S.$16.4 billion, U.S.$13.7 billion and U.S.$11.5 billion, respectively. Chemicals accounted for a further 8.1 per cent., 9.3 per cent., 8.9 per cent. and 8.3 per cent. of exports in 2010, 2011, 2012 and for the eleven months ended 30 November 2013, respectively. In 2010, world prices increased generally, leading to the reduced aggregate value of exports.

Agricultural products accounted for 19.3 per cent., 18.8 per cent., 26.0 per cent. and 26.2 per cent. of exports in 2010, 2011, 2012 and for the eleven months ended 30 November 2013, respectively. In 2010, demand for agricultural products increased, following a decrease in demand in 2009 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 2012, export of grain and processed food increased due to good harvest and increased demand for these products. In the eleven months ended 30 November 2013, the increase was due to the favourable market conditions in the agricultural market.

In addition, machinery and equipment accounted for 11.0 per cent., 9.9 per cent., 10.2 per cent. and 11.0 per cent. of exports in 2010, 2011, 2012 and for the eleven months ended 30 November 2013, respectively. 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 2012, the volume of machinery exports increased by 19.2 per cent. and by 4.0 per cent. as compared to 2010 and 2011, respectively. For the eleven months ended 30 November 2013, the volume of machinery exports decreased by 1.5 per cent. as compared to the corresponding period in 2012. 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. In 2012, fuel and energy exports decreased by 36.0 per cent. as compared to 2011. For the eleven months ended 30 November 2013, the volume of fuel and energy exports increased by 23.4 per cent. as compared to the corresponding period in 2012.

Regarding the breakdown of imports, the largest grouping for 2010 and 2011 was fuel and energy products (representing 32.3 per cent. and 34.6 per cent. of imports, respectively). In 2012, fuel and energy products also represented the largest grouping at 30.9 per cent. of imports and for the eleven months ended 30 November 2013 this sector represented 27.6 per cent. of imports. Machinery and equipment also accounted for a significant share of Ukrainian imports (representing 13.5 per cent., 15.5 per cent., 15.5 per cent. and 16.4 per cent. of imports for 2010, 2011, 2012 and for the eleven months ended 30 November 2013, 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.$15.9 billion in 2010 and U.S.$22.9 billion in 2011, U.S.$22.6 billion in 2012 and U.S.$16.7 billion for the eleven months ended 30 November 2013. The trade deficit relating to goods and services was U.S.$4 billion, U.S.$8.9 billion and U.S.$9.1 billion in 2010, 2011 and 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						Eleven months ended 30 November			
	2010		2011		2012		2012		2013	
	(U.S.$ millions)	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*
Fuel and Energy Products	3,661.3	7.1	5,691.1	8.3	3,639.7	5.3	3,355.5	5.3	2,569.2	4.5
Machinery and Equipment	5,670.7	11.0	6,759.0	9.9	7,026.7	10.2	6,404.6	10.1	6,305.9	11.0
Wood and Paper Products	1,768.6	3.4	2,183.6	3.2	2,192.7	3.1	2,025.7	3.2	2,178.8	3.8
Chemical Related Products	4,164.6	8.1	6,328.0	9.3	6,058.5	8.9	5,618.0	8.9	4,767.4	8.3
Agriculture Products	9,936.0	19.3	12,804.1	18.8	17,880.6	26.0	16,095.1	25.5	15,061.1	26.2
Ferrous Metals and their Products	16,607.0	32.3	21,310.4	31.2	18,177.6	26.4	16,908.7	26.7	15,509.8	27.0
Non Ferrous Metals and their Products	712.4	1.4	790.5	1.2	712.3	1.0	653.8	1.0	601.8	1.0
Mineral Products	3,069.9	6.0	4,568.7	6.7	4,010.7	5.8	3,773.9	6.0	4,221.4	7.4
Textiles and shoes	910.8	1.8	1,072.7	1.6	959.7	1.4	883.7	1.4	926.3	1.6
Other	4,903.9	9.5	6,886.1	9.8	8,151.3	11.9	7,499.4	11.9	5,291.6	9.2
Total	**51,405.2**	**100.0**	**68,394.2**	**100.0**	**68,809.8**	**100.0**	**63,218.4**	**100.0**	**57,433.3**	**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						Eleven months ended 30 November			
	2010		2011		2012		2012		2013	
	(U.S.$ millions)	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*
Fuel and Energy Products	19,602.7	32.3	28,605.3	34.6	26,192.8	30.1	24,080.7	31.3	19,312.4	27.6
Machinery and Equipment	8,174.4	13.5	12,795.1	15.5	13,178.7	15.5	11,963.1	15.6	11,513.7	16.4
Wood and Paper Products	2,007.0	3.3	2,229.7	2.7	2,182.2	2.5	1,999.8	2.6	2,107.0	3.0
Chemical Related Products	10,137.7	16.7	12,519.2	15.1	13,053.5	15.4	11,783.6	15.3	11,778.2	16.8
Agriculture Products	5,763.6	9.4	6,346.7	7.8	7,519.7	8.9	6,715.0	8.7	7,270.6	10.4
Ferrous Metals and their Products	2,806.3	4.6	3,961.6	4.8	3,582.5	4.2	3,334.2	4.3	3,181.3	4.5
Non Ferrous Metals and their Products	1,322.4	2.2	1,735.5	2.1	1,656.4	2.0	1,510.7	2.0	1,426.6	2.0
Mineral Products	1,525.2	2.5	1,424.3	1.7	1,349.5	1.6	1,255.2	1.6	1,051.1	1.5
Textiles and shoes	1,984.4	3.3	1,989.9	2.4	2,563.7	3.0	3,118.5	4.1	3,004.2	4.3
Other	7,418.5	12.2	11,000.9	13.3	13,379.1	16.0	11,087.8	14.5	9,394.7	13.5
Total	**60,742.2**	**100.0**	**82,608.2**	**100.0**	**84,568.1**	**100.0**	**76,848.6**	**100.0**	**70,039.8**	**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 44.0 per cent. in 2010, 45.0 per cent. in 2011, 40.7 per cent. in 2012 and 36.3 per cent. for the eleven months ended 30 November 2013. Imports from Russia accounted for 36.5 per cent. in 2010, 35.3 per cent. in 2011, 32.4 per cent. in 2012 and 30.2 per cent. for the eleven months ended 30 November 2013.

The CIS countries also remain Ukraine's main export destinations, accounting for 36.5 per cent. in 2010, 38.3 per cent. in 2011 and 36.8 per cent. in 2012 and 35.5 per cent. for the eleven months ended 30 November 2013, of which exports to Russia accounted for 26.0 per cent. in 2010, 29.0 per cent. in 2011, 25.6 per cent. in 2012 and 24.2 per cent. for the eleven months ended 30 November 2013. A large share of Ukraine's services exports originate from transit charges for Russian oil, gas, ammonia and electricity, which comprised approximately 28.2 per cent. in 2010, 24.5 per cent. in 2011 and 23.8 per cent. in 2012. Exports of goods to Russia increased by 58.1 per cent. in 2010 as compared to 2009, increased by 47.6 per cent. in 2011 as compared to 2010 and decreased by 11.0 per cent. in 2012, as compared to 2011. For the eleven months ended 30 November 2013, exports of goods to Russia decreased by 14.1 per cent. as compared to the corresponding period in 2012. 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. For the eleven months ended 30 November 2013, exports of goods to Russia decreased by 14.1 per cent. due to decreased export of the mineral products by 45.7 per cent. and decreased volumes of export of land, air and water transport by 37.5 per cent. The decrease in exports in 2013 was partly due to the imposition of restrictive trade sanctions by Russia arising out of concerns of the impact of Ukraine's planned signing of the Association Agreement.

Exports of goods to Asia increased year-on-year by 13.1 per cent. in 2010, 29.3 per cent. in 2011, but decreased by 0.3 per cent. in 2012, and decreased by 7.0 per cent. for the eleven months ended 30 November 2013, as compared to the corresponding period in 2012. Exports of goods to the EU increased by 37.4 per cent. in 2010, as compared to the previous year, increased by 37.7 per cent. in 2011 as compared to 2010, but decreased by 4.9 per cent. in 2012 and decreased by 3.5 per cent. for the eleven months ended 30 November 2013 compared to the same period in 2012. 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 14.3 per cent. in 2010, 10.8 per cent. in 2011 and 68.6 per cent. in 2012, all as compared to the previous year, and decreased by 13.0 per cent. for the eleven months ended 30 November 2013 compared to the same period in 2012.

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 31.5 per cent. increase compared to 2010, accounting for a 32.8 per cent. share of Ukraine's external trade turnover. In 2012, exports of goods and services from Ukraine to the EU amounted to U.S.$20.9 billion (25.4 per cent. of total exports of goods and services) or a 3.0 per cent. decrease as compared to 2011. For the nine months ended 30 September 2013, exports of goods and services to the EU amounted to U.S.$14.6 billion (26.3 per cent. of total exports of goods and services), or a 3.7 per cent. decrease as compared to the corresponding period in 2012. In 2012, import of goods and services to Ukraine from EU amounted to U.S.$29.8 billion (32.7 per cent. of total imports of goods and services), or a 2.4 per cent. increase as compared to 2011. For the nine months ended 30 September 2013, imports of goods and services from EU amounted to U.S.$22.4 billion (36.4 per cent. of total imports of goods and services), or a 3.5 per cent. increase as compared to the corresponding period in 2012. Bilateral trade in goods and services with the EU amounted to a deficit of U.S.$5.9 billion and U.S.$7.5 billion for 2010 and 2011, respectively. In 2012, the bilateral trade in goods and services with the EU amounted to a U.S.$8.9 billion deficit. For the nine months ended 30 September 2013, the bilateral trade in goods and services with the EU amounted to a U.S.$7.8 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 2010 the consolidated trade balance for goods showed a deficit totalling U.S.$9.3 billion an increase of 62.7 per cent. compared to 2009. In 2011, the consolidated trade balance for goods showed a deficit of U.S.$14.2 billion. In 2012, the consolidated trade balance amounted to a deficit of U.S.$15.8 billion, due to rapid growth in imports of various machinery-related products, particularly for agricultural and light industrial uses. For the eleven months ended 30 November 2013, the consolidated trade balance amounted to a deficit of U.S.$12.6 billion.

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.$4.0 billion in 2010. In 2012, the consolidated deficit for trade in goods and services amounted to U.S.$9.1 billion. This decrease was due to decrease in demand for traditional Ukrainian exports in the external commodity markets, insufficient domestic production and large proportion of mineral products in total imports.

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

	Year ended 31 December						Eleven months ended 30 November			
	2010		**2011**		**2012**		**2012**		**2013**	
	(U.S.$ millions)	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*
China	1,316.6	2.6	2,180.0	3.2	1,777.2	2.6	1,657.8	2.6	2,489.1	4.3
Germany	1,499.5	2.9	1,763.8	2.6	1,645.0	2.4	1,533.9	2.4	1,480.3	2.6
Turkey	3,024.0	5.9	3,748.6	5.5	3,685.1	5.4	3,379.1	5.3	3,471.2	6.0
United States	807.3	1.6	1,113.8	1.6	1,014.7	1.5	943.6	1.5	777.9	1.4
Italy	2,412.4	4.7	3,039.5	4.4	2,480.0	3.6	2,240.0	3.5	2,113.1	3.7
Poland	1,787.2	3.5	2,794.1	4.1	2,576.2	3.7	2,390.9	3.8	2,270.2	4.0
Hungary	860.1	1.7	1,340.7	2.0	1,510.2	2.2	1,395.5	2.2	1,428.7	2.5
Thailand	432.6	0.8	312.8	0.5	237.9	0.3	204.2	0.3	225.7	0.4
Slovak Republic	568.2	1.1	843.0	1.2	672.6	1.0	630.9	1.0	689.2	1.2
Syria	646.8	1.3	920.6	1.3	578.9	0.8	546.0	0.9	385.1	0.7
Lebanon	1,031.9	2.0	1,362.2	2.0	1,423.9	2.1	1,370.6	2.2	337.3	0.6
Czech Republic	626.2	1.2	842.4	1.2	707.0	1.0	657.9	1.0	747.6	1.3
Netherlands	563.2	1.1	833.4	1.2	829.9	1.2	669.3	1.1	905.7	1.6
Greece	164.1	0.3	291.2	0.4	209.2	0.3	192.9	0.3	206.6	0.4
Spain	411.7	0.8	970.6	1.4	1,539.0	2.2	1,304.2	2.1	800.6	1.4
Lithuania	264.4	0.5	317.1	0.5	279.1	0.4	256.1	0.4	295.4	0.5
Latvia	180.2	0.4	221.5	0.3	299.8	0.4	265.1	0.4	167.5	0.3
CIS	18,740.6	36.5	26,177.0	38.3	25,302.6	36.8	23,311.9	36.9	20,367.6	35.5
Russian Federation	13,428.1	26.1	19,819.6	29.0	17,631.7	25.6	16,184.2	25.6	13,896.4	24.2
Moldova	713.5	1.4	874.4	1.3	822.7	1.2	753.0	1.2	819.3	1.4
Kazakhstan	1,300.4	2.5	1,857.5	2.7	2,459.3	3.6	2,336.0	3.7	2,022.8	3.5
Belarus	1,899.2	3.7	1,922.3	2.8	2,251.1	3.3	2,073.4	3.3	1,844.9	3.2
Turkmenistan	208.9	0.4	241.9	0.4	528.2	0.8	500.2	0.8	333.7	0.6
Azerbaijan	610.8	1.2	708.3	1.0	766.6	1.1	695.3	1.1	798.9	1.4
Uzbekistan	228.5	0.4	353.8	0.5	435.9	0.6	411.6	0.7	301.5	0.5
Other CIS states	351.7	0.7	399.2	0.6	407.1	0.6	358.2	0.5	350.1	0.7
Other	16,068.3	31.2	19,321.9	28.3	22,041.5	32.1	20,268.5	32.1	18,274.5	31.6
Total	**51,405.2**	**100.0**	**68,394.2**	**100.0**	**68,809.8**	**100.0**	**63,218.4**	**100.0**	**57.433.3**	**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						Eleven months ended 30 November			
	2010		2011		2012		2012		2013	
	(U.S.$ millions)	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*
Germany	4,605.3	7.6	6,865.7	8.3	6,807.1	8.0	6,151.5	8.0	6,286.0	9.0
United States	1,766.8	2.9	2,591.2	3.1	2,905.2	3.4	2,693.0	3.5	2,564.8	3.7
Poland	2,788.8	4.6	3,183.4	3.9	3,567.1	4.2	3,251.3	4.2	3,711.1	5.3
Italy	1,390.3	2.3	2,005.8	2.4	2,234.6	2.6	2,026.7	2.6	1,878.8	2.7
France	1,106.7	1.8	1,501.5	1.8	1,664.4	2.0	1,504.1	2.0	1,548.4	2.2
Czech Republic	747.9	1.2	1,181.3	1.4	1,246.7	1.5	1,143.5	1.5	908.1	1.3
Slovak Republic	442.6	0.7	603.9	0.7	587.7	0.7	538.7	0.7	585.4	0.8
Hungary	1,214.6	2.0	1,326.7	1.6	1,159.6	1.4	1,059.5	1.4	1,253.8	1.8
United Kingdom	821.0	1.4	1,128.6	1.4	1,149.5	1.4	1,039.9	1.4	1,019.0	1.5
Netherlands	837.9	1.4	1,186.8	1.4	1,122.0	1.3	1,012.7	1.3	952.5	1.4
Austria	697.6	1.1	713.3	0.9	733.4	0.9	630.9	0.8	889.0	1.3
Turkey	1,298.3	2.1	1,481.2	1.8	1,951.9	2.3	1,737.9	2.3	1,633.8	2.3
Japan	801.7	1.3	1,014.1	1.2	1,197.8	1.4	1,092.4	1.4	890.0	1.3
Switzerland	508.2	0.8	709.0	1.0	764.3	0.9	691.6	0.9	822.3	1.2
China	4,700.4	7.7	6,268.3	7.6	7,899.6	9.3	7,118.0	9.3	7,295.9	10.4
Lithuania	637.5	1.0	822.8	1.0	911.9	1.1	801.2	1.0	855.9	1.2
Latvia	88.1	0.1	98.5	0.1	100.7	0.1	89.3	0.1	93.4	0.1
CIS	26,697.4	44.0	37,212.4	45.0	34,452.6	40.7	31,720.6	41.3	25,439.0	36.3
Russian Federation	22,198.0	36.5	29,132.2	35.3	27,418.3	32.4	25,242.1	32.8	21,136.7	30.2
Turkmenistan	31.4	0.1	736.0	0.9	123.4	0.1	113.4	0.1	98.2	0.1
Belarus	2,567.6	4.2	4,211.8	5.1	5,068.6	6.0	4,706.2	6.1	3,298.9	4.7
Kazakhstan	766.2	1.3	1,675.9	2.0	1,494.9	1.8	1,346.7	1.8	629.3	0.9
Uzbekistan	81.7	0.1	643.9	0.8	109.0	0.1	102.1	0.1	80.9	6.1
Moldova	73.6	0.1	130.4	0.2	122.0	0.1	109.6	0.1	92.2	0.3
Other CIS states	978.9	1.6	682.3	0.8	116.4	0.1	100.5	0.3	102.8	0.1
Other	9,591.1	15.8	12,713.7	15.4	14,202.0	16.8	12,545.8	16.3	11,412.6	16.2
Total	**60,742.2**	**100.0**	**82,608.2**	**100.0**	**84,658.1**	**100.0**	**76,848.6**	**100.0**	**70,039.8**	**100.0**

Source: State Statistics Service; International Trade Bulletin

Foreign Investment[1]

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 11.9 per cent. in 2010, by 12.3 per cent. in 2011, by 8.2 per cent. in 2012 and by 2.3 per cent. for the nine months ended 30 September 2013. As at 31 December 2010, 31 December 2011 and 31 December 2012 cumulative FDI (including foreign interests in privatisations) was U.S.$44.8 billion, U.S.$50.3 billion and U.S.$54.5 billion, respectively. For the nine months ended 30 September 2013, cumulative FDI (including foreign interests in privatisations) amounted to U.S.$56.6 billion.

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.$5,527.9 million, respectively. In 2012 and for the nine months ended 30 September 2013, FDI capital growth amounted to U.S.$4,128.5 million and U.S.$1,270.2 million, respectively. 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 2012 and 30 September 2013, cumulative foreign currency FDI was approximately U.S.$1,199.3 per capita and U.S.$1,245.6 per capita, respectively.

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

Year ended 31 December	**FDI (cumulative total)**[2]	**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	50,333.9	5,527.9
2012	54,462.4	4,128.5
Nine months ended 30 September 2013	56,565.2	1,270.2

Note:

(1) The data on direct investment is a component of foreign direct investment balance of payments and international investment position.

(2) 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						Nine months ended 30 September			
	2010		2011		2012		2012		2013	
	(U.S.$ millions)	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*
United States	1,158.1	2.6	1,000.7	2.0	936.7	1.7	975.7	1.9	985.8	1.7
Cyprus	10,044.9	22.4	13,355.2	26.5	17,275.1	31.7	15,075.5	28.6	18,712.0	33.1
Russian Federation	3,403.2	7.6	3,600.4	7.2	3,785.8	7.0	3,706.1	7.0	3,842.1	6.8
United Kingdom	2,287.1	5.1	2,593.4	5.2	2,556.5	4.7	2,396.0	4.5	2,724.4	4.8
Netherlands	4,683.3	10.5	4,898.0	9.7	5,168.6	9.5	5,040.8	9.6	5,504.0	9.7
Germany	7,083.0	15.8	7,391.8	14.7	6,317.0	11.6	7,432.7	14.1	6,194.8	11.0
Austria	2,731.4	6.1	3,418.8	6.8	3,401.4	6.2	3,300.7	6.3	3,216.4	5.7
France	2,368.1	5.3	2,260.4	4.5	1,765.3	3.2	1,796.8	3.4	1,843.0	3.3
Other(1)	9,595.4	21.4	10,149.2	20.1	11,371.1	20.9	1,805.7	3.4	2,452.4	4.3
British Virgin Islands	1,451.5	3.2	1,666.0	3.3	1,884.9	3.5	11,143.8	21.2	11,090.3	19.6
Total	**44,806.0**	**100.0**	**50,333.9**	**100.0**	**54,462.4**	**100.0**	**52,673.8**	**100.0**	**56,565.2**	**100.0**

Notes:
(1) Includes countries whose cumulative FDI contribution did not exceed 3.2 per cent. of the total (other than the United States, which is included in a separate line) as at 31 December 2012.
Source: State Statistics Service

In 2010, 2011 and 2012, Cyprus was the largest contributor of FDI to Ukraine. As at 30 September 2013, Cypriot investments in Ukraine amounted to U.S.$18,712.0 million, constituting 33.1 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. Cyprus, Germany, the Netherlands, Russia, Austria, France, the United Kingdom, Switzerland, the British Virgin Islands, Belize, Italy, Poland 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.$5,684.8 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.$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 insurance sector, wholesale trade, repair of cars and household goods, real estate, professional, scientific and technical activities. The industrial sector was the largest recipient of FDI in 2012 (31.5 per cent.) and as at 30 September 2013 the industrial sector remains the largest recipient of FDI (31.4 per cent.).

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

	Year ended 31 December						Nine months ended 30 September	
	2010		2011		2012		2013	
	(U.S.$ millions)	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*
Food Industry	1,990.2	4.4	2,221.9	4.4	3,039.9	5.6	3,239.7	5.7
Wholesale Trade	4,723.5	10.5	5,401.3	10.7	5,996.9	11.0	6,908.3	12.2
Finance/Insurance	14,956.9	33.4	16,334.4	32.5	16,273.9	29.9	15,063.3	26.6
Machinery manufacturing	1,016.1	2.3	1,080.2	2.1	1,103.8	2.0	1,091.7	1.9
Coke Petroleum derivatives	438.5	1.0	520.4	1.0	520.4	1.0	403.7	0.7
Transport, post and courier services	1,096.0	2.4	1,145.4	2.3	1,520.6	2.8	1,598.6	2.8
Chemical and Petrochemical Industry	865.4	1.9	941.6	1.9	981.5	1.8	1,050.1	1.9
Manufacture of rubber and plastic products and other non-metallic mineral products	1,130.5	2.5	1,209.2	2.4	1,332.9	2.4	1,455.0	2.6
Information and Telecommunications	1,895.9	4.2	2,144.4	4.3	2,090.6	3.8	2,082.3	3.7
Real estate activities	3,135.0	7.0	3,624.5	7.2	3,847.4	7.1	4,260.5	7.5
Metallurgy	5,913.6	13.2	6,112.0	12.1	6,169.8	11.3	6,207.5	11.0
Professional, scientific and technical activities	1,215.5	2.7	2,114.2	4.2	2,584.0	4.7	3,316.0	5.9
Electricity, gas, steam and conditioned air supply	310.9	0.7	722.3	1.4	1,496.1	2.7	1,466.3	2.6
Other	6,118.0	13.8	6,762.1	13.5	7,504.6	13.9	8,422.2	14.9
Total	**44,806.0**	**100.0**	**50,333.9**	**100.0**	**54,462.4**	**100.0**	**56,565.2**	**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 which came into effect on 1 January 2013. The Budget Code, as restated, focuses on, among other things, further development of the programme target method of the budget process 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

The budget policy for 2012 targeted 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 envisaged revenues of UAH 374.0 billion, expenditure in the amount of UAH 413.6 billion, proceeds of loans repaid to the State Budget totalling UAH 13.1 billion, loans granted from the State Budget of UAH 12.3 billion and a budget deficit in the amount of UAH 38.8 billion (or 2.6 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 the continued impact of the global economic downturn.

The 2012 State Budget Law contemplated privatisation receipts of UAH 10.0 billion as a source of financing to cover the budget deficit. In 2012, privatisation receipts amounted to UAH 6.76 billion, more than 67.6 per cent. of the target set for that year. In 2012, shareholdings in 30 utilities companies, including state-owned minority shareholdings in 17 gas distribution companies were sold at auctions. Actual revenues and expenditures of the 2012 State Budget amounted to UAH 346.1 billion and 395.7 billion respectively. Actual deficit of the 2012 State Budget amounted to UAH 53.4 billion (or 3.8 per cent. of GDP).

2013 State Budget

The budget policy for 2013 was approved by the Resolution of the Cabinet of Ministers of Ukraine No.212-p as of 5 April 2012 and by the Resolution of the Verkhovna Rada of Ukraine No. 4824-VI as of 22 May 2012. The 2013 budget policy guidelines are based on the provisions of the National Plan of Action to implement the programme of economic reforms for 2010 to 2014 and on the Annual Message of the President of Ukraine to the Verkhovna Rada of Ukraine on the internal and external situation of Ukraine dated 3 July 2012.

The 2013 State Budget Law, adopted on 6 December 2012, as amended, envisaged revenues of UAH 351.2 billion, expenditure in the amount of UAH 419.8 billion and financing to cover the budget deficit in the amount of UAH 70.0 billion (or 4.4 per cent. of GDP) including privatisation receipts of UAH 10.9 billion. The amount of the privatisation receipts was further amended by the instruction of the Cabinet of Ministers of Ukraine to UAH 1.5 billion. The 2013 State Budget Law is based on the following assumptions: real GDP growth rate of 3.4 per cent., nominal GDP of UAH 1,576.0 billion, annual CPI inflation of 4.8 per cent., annual WPI inflation of 5.5 per cent. and an average annual exchange rate of UAH 8.4 to U.S.$1.00 in 2013.

The 2013 State Budget Law envisaged an implementation of a new UAH 30 billion programme under which local banks will provide loan funding to small projects (up to UAH 10 million each) with repayment being guaranteed by the Ministry of Finance. The loans extended under the programme will support capital projects in the following areas (and will replace direct state funding of such projects): energy efficiency and conservation, import replacement, support of national producers and social programmes.

On 4 July 2013, the Parliament adopted two amendments to the 2013 State Budget Law that allow the Cabinet of Ministers to issue T-bills with a maturity of five years and a 5 per cent. coupon to restructure Ukraine's fiscal debt which arose as of 1 January 2013 and during 2013 and to finance VAT refunds from the State Budget.

2014 State Budget

The 2014 State Budget Law was adopted by Parliament on 16 January 2014. It envisages revenues of UAH 395.3 billion, expenditure in the amount of UAH 462.2 billion and financing to cover the budget deficit in the amount of UAH 71.6 billion (or 4.3 per cent. of GDP). The 2014 State Budget Law is based on the following assumptions: real GDP growth rate of 3.0 per cent., nominal GDP of UAH 1,653.0 billion, annual CPI inflation of 4.3 per cent., annual WPI inflation of 8.3 per cent. and an average annual exchange rate of UAH 8.5 to U.S.$1.00 in 2014.

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 2010 to 2012 are set out in the table below:

	2010[1]		**2011[2]**		**2012[3]**	
	Budget (as amended)	**Actual**	**Budget (as amended)**	**Actual**	**Budget (as amended)**	**Actual**
	(in UAH millions)					
Revenues[4]						
Tax revenue	243,748.9	234,447.7	330,618.0	334,691.9	397,504.3	360,567.2
of which:						
Personal income tax	52,266.2	51,029.3	61,172.4	60,224.5	70,204.3	68,092.4
Corporation tax	40,566.0	40,359.1	47,937.2	55,097.0	58,633.0	55,793.0
VAT	90,692.5	86,315.9	128,457.5	130,093.8	164,125.6	138,826.8
Excise duty on domestic goods	26,031.0	23,715.3	31,641.9	26,097.1	32,586.1	28,661.0
Excise duty on imported goods	4,374.0	4,600.8	5,948.9	7,822.1	10,284.0	9,767.8
Non tax revenue	73,840.9	73,837.0	58,986.7	60,003.7	75,286.3	80,923.3
Capital revenue	4,797.8	3,143.2	4,454.1	2,347.5	4,649.7	2,985.8
Official transfers	680.5	305.6	898.3	481.4	762.6	222.9
Special funds[5]	2,344.7	2,772.7	1,138.9	1,029.1	817.0	826.1
Total revenues	**325,412.7**	**314,506.3**	**396,095.9**	**398,553.6**	**479,019.9**	**445,525.3**
Expenditure						
State function	46,942.7	44,902.5	52,033.6	49,874.7	87,811.8	54,590.2
of which:						
Public and local administration, financial and foreign economic activity	22,447.4	21,643.4	21,138.1	20,389.1	22,222.3	20,788.4
Sovereign debt service[6]	16,457.6	16,395.4	24,198.1	23,949.0	25,690.3	25,191.4
Fundamental research	2,863.3	2,729.6	3,098.6	2,954.2	3,846.3	3,694.7
National defence	13,591.6	11,347.1	14,468.5	13,242.2	17,376.1	14,486.9
Law enforcing activity and State security and court power	29,554,6	28,825.6	33,534.3	32,637.7	38,396.1	36,681.2
Economic activity	52,387.6	43,832.4	70,293.4	57,124.1	77,678.6	62,377.4
of which:						
General economic, trade and labour activity	1,108.1	992.0	2,398.3	2,107.0	3,764.7	3,449.9
Agriculture, forestry, fishery and hunting	7,841.1	7,326.9	11,028.5	7,642.8	10,885.1	7,486.3
Fuel and energy complex	13,216.1	12,055.0	12,454.0	10,995.9	19,538.0	17,448.5
Transport	18,467.0	15,283.4	20,774.2	18,489.3	19,766.7	16,700.9
Communication, telecommunication and informatics	185.7	174.3	209.2	184.6	236.0	200.3
Education	82,302.3	79,826.0	88,786.5	86,253.6	104,743.0	101,560.9
Health	44,638.4	44,745.4	49,140.0	48,961.6	60,012.6	58,453.9
Social protection and insurance	106,947.7	104,534.9	107,006.8	105,434.8	128,683.9	125,306.9
Housing and communal services	8,782.0	5,431.3	11,282.9	8,679.3	22,979.5	20,059.6
Intellectual and physical development	11,947.1	11,525.4	11,348.8	10,754.9	15,138.4	13,639.6
of which:						
Culture and art	6,301.4	6,046.5	6,928.8	6,615.5	8,961.7	8,017.9
Mass media	1,208.4	1,147.9	1,191.6	1,078.0	1,782.3	1,604.3
Physical culture and sport	4,382.1	4,290.5	3,162.0	3,012.3	4,300.4	3,933.1
Protection of environment	7,247.0	2,872.4	6,355.1	3,890.7	10,304.2	5,297.9
Total expenditure	**404,341.1**	**377,842.8**	**444,250.0**	**416,853.6**	**533,124.2**	**492,454.7**
Domestic lending	1,077.1	1,348.4	(1,921.3)	4,757.9	(983.2)	3,856.3
External lending	—	—	—	—	—	—
Total lending	1,077.1	1,348.4	(1,921.3)	4,757.9	(983.2)	3,856.3
Balance (surplus/deficit)	(80,068.5)	(64,684.9)	(46,232.7)	(23,057.9)	(53,121.1)	**(50,785.7)**
Balance (% of GDP)	(7.4)	(6.0)	—	—	(3.54)	
Domestic financing[7]	52,822.6	17,510.3	25,594.2	8,556.3	42,246.4	40,081.5

	2010(1)		2011(2)		2012(3)	
	Budget (as amended)	**Actual**	**Budget (as amended)**	**Actual**	**Budget (as amended)**	**Actual**
of which: Receipts from privatisation of State property	1,051.7	1,093.4	7,000.0	11,480.3	7,000.0	6,763.5
External financing(8)	27,245.9	47,174.6	20,638.5	14,501.6	10,874.7	10,704.2
Total financing(9)	**80,068.5**	**64,684.9**	**46,232.7**	**23,057.9**	**53,121.1**	**50,785.7**

Notes:

(1) 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.

(2) 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.

(3) Basic assumptions underlying the 2012 Consolidated Budget, as amended, included 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 annual exchange rate of UAH 8.10 to U.S.$1.00.

(4) 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.

(5) 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.

(6) Does not include repayments of principal.

(7) "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).

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

(9) "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 2012 and the Consolidated Budget (as represented) for 2013 and the actual Consolidated Budget performance for 2012 and 2013 are set out in the table below:

	2012		**2013**	
	Budget (as amended)	**Actual**	**Budget (as amended)**	**Actual**
	(in UAH millions)			
Revenues				
Tax revenue	397,508.0	360,567.2	378,994.2	353,968.1
of which:				
Personal income tax	70,203.9	68,092.4	78,170.7	72,151.1
Corporate income tax	58,632.5	55,793.0	58,449.7	54,993.8
VAT	164,125.6	138,826.8	135,679.8	128,269.3
Excise duty on domestic goods	32,586.1	28,661.0	32,041.2	27,721.3
Excise duty on imported goods	10,284.0	9,767.8	10,028.0	8,946.8
Non-tax revenue	75,559.6	80,852.4	92,892.9	84,935.3
Capital revenue	4,667.2	2,985.8	3,457.4	1,637.0
Official transfers	762.6	222.9	1,047.7	1,529.3
Special funds[(1)]	817.0	826.1	607.0	673.3
Total revenues	**479,314.5**	**445,454.3**	**476,999.3**	**442,742.9**
Expenditure				
State function	57,815.4	54,550.6	65,554.7	61,659.9
of which:				
Public and local administration financial and foreign economic activity	22,221.7	20,781.6	22,861.5	21,655.7
Sovereign debt service[(2)]	25,690.3	25,191.4	34,099.5	33,172.1
Fundamental research	3,847.7	3,681.7	3,980.2	3,717.3
National defence	17,387.5	14,486.6	16,281.3	14,834.7
Law enforcing activity and State security and court power	38,431.5	36,679.9	41,741.4	39,413.6
Economic activity	77,748.5	62,379.6	72,712.9	50,757.8
of which:				
General economic, trade and labour activity	3,765.1	3,452.1	1,757.4	1,490.4
Agriculture, forestry, fishery and hunting	10,953.5	7,486.3	9,892.5	7,705.1
Fuel and energy complex	19,538.0	17,448.5	16,307.2	15,421.5
Transport	19,769.9	16,700.9	29,952.3	17,893.2
Communication, telecommunication and informatics	235.1	200.3	215.9	185.6
Education	104,682.5	101,547.5	112,253.2	105,534.1
Health	60,031.3	58,446.0	65,167.3	61,569.5
Social protection and insurance	128,689.3	125,306.7	147,576.2	145,062.4
Housing and communal services	22,977.6	20,059.6	12,589.3	7,704.7
Intellectual and physical development	15,141.1	13,640.5	15,424.3	13,661.0
of which:				
Culture and art	8,962.4	8,018.8	9,780.3	8,444.2
Mass media	1,783.7	1,604.3	1,386.9	1,247.0
Physical culture and sport	4,301.0	3,933.1	4,151.2	3,869.4
Protection of environment	10,515.8	5,298.0	11,170.2	5,594.2
Total expenditure	**533,420.8**	**492,394.9**	**560,470.8**	**505,791.9**
Domestic lending	(980.8)	3,789.7	2,675.8	542.4
External lending	-	-	-	-
Total lending	(980.8)	3,789.7	2,675.8	542.4
Balance (surplus/deficit)	(53,125.5)	(50,730.3)	(86,147.3)	(63,591.3)
Balance (% GDP)	(3.5)	(3.6)	(5.5)	(4.4)
Domestic financing[(3)]	44,016.8	40,131.9	70,103.3	49,931.7
of which: Receipts from privatisation of State property	7,000.0	6,763.5	1,455.0	1,480.0
External financing[(4)]	9,108.8	10,598.4	16,044.0	13,659.5
Total financing[(5)]	**53,125.5**	**50,730.3**	**86,147.4**	**63,591.3**

Notes:

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

(2) Does not include repayments of principal.

(3) "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).

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

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

The 2012 Consolidated Budget, as amended, contemplated revenues of approximately UAH 479.04 billion, expenditure of approximately UAH 533.1 billion and a budget deficit of approximately UAH 53.1 billion (or 3.5 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 2012, actual revenues and expenditure amounted to approximately UAH 445.5 billion and UAH 492.4 billion, with the actual budget deficit amounting to UAH 50.8 billion.

The 2013 Consolidated Budget contemplated revenues of approximately UAH 477.0 billion, expenditure of approximately UAH 560.8 billion and a budget deficit of approximately UAH 86.7 billion (or 5.5 per cent. of GDP). Basic assumptions underlying the 2013 Consolidated Budget include a real GDP growth rate of 3.4 per cent., nominal GDP of UAH 1,576.0 billion, annual CPI inflation of 4.8 per cent., WPI inflation of 5.5 per cent. and an average exchange rate of UAH 8.40 to U.S.$1.00. In 2013, actual revenues and expenditure amounted to approximately UAH 442.7 billion and UAH 505.8 billion, respectively, with the actual budget deficit amounting to UAH 63.6 billion.

The 2014 Consolidated Budget contemplates revenues and repayment of the loans of approximately UAH 506.3 billion, expenditure and granting of the loans of approximately UAH 577.8 billion and a budget deficit of approximately UAH 71.6 billion (or 4.3 per cent. of GDP). Basic assumptions underlying the 2014 Consolidated Budget include a real GDP growth rate of 3.0 per cent., nominal GDP of UAH 1,653 billion, annual CPI inflation of 4.3 per cent., WPI inflation of 8.6 per cent. and an average exchange rate of UAH 8.5 to U.S.$1.00.

The following table sets out the actual revenues, expenditure, lending, deficit/surplus, and deficit/surplus as a percentage of GDP as calculated by the Ministry of Finance for the Consolidated and State Budgets between 2010 and 2013:

	As at 31 December			
	2010(1)	**2011(2)**	**2012(3)**	**2013(4)**
GDP	1,082,569.0	1,302,079.0	1,411,238.0	1,444,000.0
Consolidated Budget				
Revenues	314,506.3	398,553.6	445,454.3	442,742.9
Expenditure	377,842.8	416,853.6	492,394.9	505,791.9
Lending	1,348.4	4,757.9	3,789.7	524.4
Surplus (Deficit)	(64,684.9)	(23,057.9)	(50,730.3)	(63,591.3)
Surplus (Deficit)(% of GDP)	(6.0)	(1.8)	(3.6)	(4.4)
State Budget				
Revenues	240,615.2	314,616.9	346,025.5	339,180.3
Expenditure	303,588.7	333,459.5	395,661.8	403,403.2
Lending	1,292.0	4,715.0	3,751.1	484.7
Surplus (Deficit)	(64,265.5)	(23,557.6)	(53,387.4)	(64,707.6)
Surplus (Deficit)(% of GDP)	(5.9)	(1.8)	(3.8)	(4.5)

Notes:

(1) 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.

(2) 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.

(3) Basic assumptions underlying the 2012 Consolidated Budget, as amended, included 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 annual exchange rate of UAH 8.10 to U.S.$1.00.

(4) Basic assumptions underlying the 2013 Consolidated Budget include a real GDP growth rate of 3.4 per cent., nominal GDP of UAH 1,576.0 billion, annual CPI inflation of 4.8 per cent., WPI inflation of 5.5 per cent. and an average exchange rate of UAH 8.40 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, contemplated social expenditure at 57.8 per cent. of the Consolidated Budget. Of this amount, the 2012 State Budget Law made provision for State Budget social expenditure of 43.2 per cent. In 2012, actual social expenditure amounted to 60.7 per cent. of Consolidated Budget expenditure and 45.1 per cent. of State Budget expenditure. This included healthcare (11.9 per cent. of Consolidated Budget expenditure and 4.2 per cent. of State Budget expenditure) and education (20.6 per cent. and 11.2 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.

The 2013 Consolidated Budget, as amended, contemplated social expenditure at 60.7 per cent. of the Consolidated Budget. Of this amount, the 2013 State Budget Law as amended made provision for State Budget social expenditure of 46.2 per cent. In 2013, actual social expenditure amounted to 64.4 per cent. of Consolidated Budget expenditure and 47.8 per cent. of State Budget expenditure.

The 2014 Consolidated Budget contemplates social expenditure at 60.2 per cent. of the total amount of expenditures of Consolidated Budget. The 2014 State Budget Law makes provision for State Budget social expenditure of 43.0 per cent of the total amount of expenditures of the State Budget.

Revenues

The following table sets out sources of revenue for the Consolidated Budget (consisting of the State Budget and local budgets) from 2010 to 2013:

	Year ended 31 December			
	2010	**2011**	**2012**	**2013**
Tax revenues	**234,447.7**	**334,691.9**	**360,567.2**	**353,968.1**
Direct taxes	104,729.1	128,684.0	141,967.9	147,165.0
of which:				
Personal income tax	51,029.3	60,224.5	68,092.4	72,151.1
Corporation tax	40,359.1	55,097.0	55,793.0	54,993.8
Land tax	9,539.9	10,700.9	12,581.7	12,802.9
Property tax (motor vehicle tax)	1,905.4	673.7	685.2	576.7
Uniform tax for small business(1)	1,895.4	1,987.9	4,815.6	6,640.5
Indirect taxes	**129,718.6**	**206,007.9**	**218,599.3**	**206,803.1**
of which:				
VAT	86,315.9	130,093.8	138,826.8	128,269.3
Excise tax on domestic goods	23,715.3	26,097.1	28,661.0	27,721.3
Excise tax on imported goods	4,600.8	7,822.1	9,767.8	8,946.8
Import duty	8,556.4	10,462.8	12,985.8	13,264.6
Export duty	294.8	1,311.3	200.8	77.9
Other taxes	6,235.4	30,220.9	28,157.1	28,523.1
Non tax revenues	**73,837.0**	**60,003.7**	**80,923.3**	**84,935.3**
of which:				
Entrepreneurial and property income	30,629.5	17,662.0	32,808.6	33,744.2
Administrative fees and charges non-commercial sale income	2,638.1	4,459.1	7,174.0	7,088.8
Other non-tax revenue(2)	40,569.4	37,882.6	40,940.6	6,245.1
Capital revenue	**3,143.2**	**2,347.5**	**2,985.8**	**1,637.0**
Official transfers	**305.6**	**481.4**	**222.9**	**1,529.3**
Special funds	**2,772.7**	**1,029.1**	**826.1**	**673.3**
Payments to Fund of Social Insurance of Disabled of Ukraine	187.5	206.4	254.6	202.7
Collection for pollution of the environment (environmental tax)(3)	1,932.4	-	-	3,899.5
Special funds established by parliament of Auto governmental bodies and authorities	652.7	822.7	571.6	470.6
Total revenues(4)	**314,506.3**	**398,553.6**	**445,525.3**	**442,742.9**

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 (environmental tax) includes tax revenues from 2011 as "ecology tax".
(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 2012 were UAH 360.6 billion, an increase of UAH 25.9 billion (or 7.7 per cent.) as compared to the corresponding period of 2011. 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 2012 were UAH 274.7 billion, an increase of 5 per cent. as compared to 2011.

In 2013, tax revenues of the Consolidated Budget amounted to UAH 354.0 billion, a decrease of UAH 6.6 billion (or 1.8 per cent.) as compared to 2012.

In 2013, tax revenues of the State Budget amounted to UAH 262.8 billion a decrease of 4.3 per cent. as compared to 2012.

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. 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 8.3 billion at year end 2012. This decrease was mainly due to the measures taken by the State tax administration to ensure repayment of tax arrears.

On 1 September 2013 the Law of Ukraine "On Amendments to the Tax Code of Ukraine relating to environmental tax payments on sale of out of service transport vehicles and improvement of certain tax rules" came into force. The law contemplates to expand the tax base of environmental tax by withholding it on sale of out of service transport vehicles. The taxpayers for the purposes of this tax will be the individuals and entities importing transport vehicles into Ukraine, or manufacturing transport vehicles in Ukraine for sale in Ukraine, or acquiring transport vehicles from individuals or entities which do not pay environmental tax for these transport vehicles.

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, to 18 per cent., effective 1 January 2014, to 17 per cent., effective 1 January 2015 and to 16 per cent., effective 1 January 2016. 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 20,706 per employee as from 1 December 2013. 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. The minimum wage multiplied by a factor of 10 equalled UAH 9,410 from 1 January 2011, UAH 10,730 from 1 January 2012, UAH 11,470 from 1 January 2013.

The personal income tax revenues of local budgets increased from UAH 44.5 billion in 2009 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. In 2012 such revenues amounted to UAH 61.1 billion and UAH 7.0 billion respectively. In 2013, personal income tax revenues of local budgets and the State Budget amounted to UAH 64.6 billion and UAH 7.6 billion, respectively.

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 2015. 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 and 40.1 per cent. of total revenue and 50.5 per cent. of total tax revenues of the 2012 State Budget. In 2013, VAT collection constituted approximately 37.8 per cent. of total revenue of the State Budget and 48.8 per cent. of total tax revenue.

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 and 2012, no T-bills for VAT reimbursement were issued, and currently no T-bills are due to be issued under the 2011 State Budget Law and 2012 State Budget Law. As at 31 December 2011, the total amount of VAT refunds in arrears amounted to UAH 21.5 billion. As at 31 December 2012, there was no VAT refund indebtedness, however, as at 1 January 2013, the balance of unrecovered VAT amounted to UAH 11.7 billion, UAH 6.4 billion of which are subject to court proceedings. The amounts subject to court proceedings, if confirmed, are expected to be refunded through the issue of promissory notes.

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 to 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 as described above under *"Public Finance and Fiscal Policy—Consolidated Budget—Revenues—Corporation Tax"*. 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 to 2014 Economic Reform Programme, by the end of 2012, Ukraine was to reduce the number of inefficient taxes and duties through the introduction of a real estate tax. The number of taxes and duties reduced from 42 to 22 in 2012. A property tax was implemented in 2011 and became operational in 2013.

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.

On 24 December 2012, the State Tax Service of Ukraine and the State Customs Service of Ukraine were reorganised into the Ministry of Income and Fees of Ukraine. The Ministry of Income and Fees of Ukraine regulates the establishment and implementation of the single state tax policy and the customs policy covering the administration of (i) taxes and duties, (ii) custom payments and (iii) single contributions for mandatory state social insurance, as well as the promotion of the prevention of crime relating to tax and customs law.

Pensions

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. These loans are expected to be repaid using proceeds from the Pension Funds. In 2012, the Pension Fund deficit amounted to UAH 15.3 billion. It is expected that in 2013 the Pension Fund deficit will amount to UAH 21.8 billion. As at 31 December 2013, the outstanding principal amount of loans extended to the Pension Fund amounted to UAH 49.4 billion. 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 11,395 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.

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 96.5 billion. In 2011 actual interbudgetary transfers from the State Budget to local budgets amounted to UAH 94.8 billion. The 2012 State Budget Law (as amended) estimated interbudgetary transfers in 2012 totalling UAH 128.4 billion. In 2012, actual interbudgetary transfers from the State Budget to local budgets amounted to UAH 123.7 billion. The 2013 State Budget Law estimates interbudgetary transfers to local budgets totalling UAH 118.6 billion in 2013. In 2013, interbudgetary transfers to local budgets were UAH 115.8 billion. As at 31 January 2014, interbudgetary transfers to local budgets were UAH 7.7 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.

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 to 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;
- further reduction 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 300,000 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. Local governments also manage a number of companies that are in the process of being privatised, such as hotels and restaurants.

PUBLIC DEBT

General

When calculating its public debt figures (including for the purposes of this section) Ukraine takes into account only liabilities of the State (the Government) for which specific bonds or loans have been issued. The data relating to borrowings and repayments in this section do not include borrowings disbursed to the Special Fund of the State Budget in 2013 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*". According to the Budget Code, the volume of the total state debt and state guaranteed debt at the end of the budget period (31 December of each year) should not exceed 60 per cent. of the annual nominal gross domestic product of Ukraine.

The total outstanding State debt of Ukraine as at 31 December 2013 amounted to approximately U.S.$73.1 billion (including the IMF debt owed by the NBU), of which approximately U.S.$13.0 billion was State guaranteed debt.

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 424.0 billion, while the limit for 2013 is UAH 502.5 billion.

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

	As at 31 December							
	2010		**2011**		**2012**		**2013**	
	(in U.S.$ billions)	*(% of GDP)*	*(in U.S.$ billions)*	*(% of GDP)*	*(in U.S.$ billions)*	*(% of GDP)*	*(in U.S.$ billions)*	*(% of GDP)*
Total debt	54.30	39.5	59.22	36.3	64.50	36.6	73.11	40.5
State debt (direct debt)	40.63	29.6	44.72	27.4	49.95	28.3	60.08	33.3
Internal debt (direct debt)[(1)]	17.79	12.9	20.21	12.4	23.81	13.5	32.15	17.8
External debt (direct debt)	22.84	16.6	24.51	15.0	26.14	14.8	27.93	15.5
of which: debt to the IMF owed by the Government	6.86	5.0	6.84	5.3	6.05	4.3	3.54	1.9
State guaranteed debt (contingent liabilities)	13.67	9.9	14.50	8.8	14.55	8.3	13.03	7.2
Internal debt[(1)]	1.75	1.3	1.53	0.9	2.03	1.2	3.39	1.9
External debt	11.92	8.7	12.97	7.9	12.52	7.1	9.64	5.3
of which: debt to the IMF owed by the NBU	7.38	5.4	7.36	5.7	4.73	3.4	1.65	0.9

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			
	2010	**2011**	**2012**	**2013**
	(in U.S.$ millions)			
Total State debt service	**5,145**	**8,537**	**11,450**	**13,932**
Internal State debt service(1)	3,778	5,977	6,910	7,950
Principal	2,483	4,028	4,749	5,238
Interest	1,295	1,949	2,161	2,712
External State debt service	1,367	2,560	4,540	5,982
Principal	781	1,603	3,672	4,750
of which: debt to the IMF owed by the Government	—	—	786	2,503
Interest	587	957	868	1,232
of which: debt to the IMF owed by the Government	120	188	158	101
Total State borrowings incurred	**10,220**	**10,227**	**12,795**	**19,635**
Internal borrowing(1)	3,695	6,801	7,945	13,635
External borrowing	6,525	3,427	4,850	6,000
Securities issued by the State	2,500	2,850	4,850	5,250
Multilateral creditors	2,025	—	—	—
of which: IMF loans to the Government	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:

	Year ended 31 December		
	2013	**2014**	**2015**
	(in U.S.$ millions)		
Principal payments	9 988,4	11,233.0	13,497.5
Internal debt(1)	5 238,4	6,965.5	7,681.8
External debt	4 750,0	4,267.5	5,815.7
Interest payments	3 943,3	5,277.2	6,357.2
Internal debt(1)	2 711,4	3,669.8	4,445.0
External debt	1 231,9	1,607.4	1,912.2
Total payments	**13 931,7**	**16,510.2**	**19,854.7**

Note:
(1) Hryvnia amounts have been converted to dollar amounts using an assumed average UAH/U.S.$ exchange rate of UAH 8.5 to U.S.$1.00 for 2014 and UAH 8.8 to U.S.$1.00 for 2015. For 2013, the official exchange rate established by the NBU on the due dates was used.
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 39.9 per cent. as at 31 December 2010, 36.3 per cent. as at 31 December 2011, 36.6 per cent. as at 31 December 2012, and 40.5 per cent. as at 31 December 2013, which includes the Original Notes. 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. The subsequent decrease in this ratio in 2011 was due to a combination of GDP growth and significant repayments of IMF debt.

Of these amounts, State external debt (direct debt) as a percentage of GDP was 16.8 per cent. as at 31 December 2010, 15.0 per cent. as at 31 December 2011 and 14.8 per cent., as at 31 December 2012, and 15.5 per cent. as at 31 December 2013. 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 1.0 per cent. for the year ended 31 December 2010 and 1.6 per cent. for the year ended 31 December

2011 and 2.6 per cent. for the year ended 31 December 2012, and approximately 3.3 per cent. for 2013. See "*Risk Factors—Risk Factors Relating to Ukraine—Ukraine has experienced liquidity difficulties in the past and continues to be subject to a significant liquidity risk, which may be exacerbated by Ukraine's higher debt service obligations and higher cost of funding over the next several years compared to the recent past.*"

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.

Actual 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. Actual 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) anticipated total State debt service payments (including principal and interest payments, but excluding debt owed to the IMF by the NBU) of UAH 91,498.6 million. In 2012, payments of principal amounted to UAH 67,302.0 million, 53.2 per cent. of which (or UAH 37,950.3 million) are internal debt payments and 46.8 per cent. (or UAH 29,351.7 million) of which are external debt payments. Payments of interest amounted to UAH 24,196.6 million. State borrowing for the General Fund of the State Budget was budgeted at approximately UAH 97,030.4 million, which was UAH 12,192.9 million more than the amended plan for 2011. In 2012, State borrowing for the General Fund of the State Budget amounted to UAH 102,998.4, including external borrowing for the General Fund of UAH 38,766.1 million and internal borrowing for the General Fund of approximately UAH 64,232.4 million. In 2012, 37.6 per cent. of borrowing was external and 62.4 per cent. internal.

The 2013 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 116,035.0 million. Payments of principal amounted to UAH 81,068.4 million, 56.1 per cent. of which (or UAH 45,473.9 million) were internal debt payments and 43.9 per cent. (or UAH 35,594.5 million) of which were external debt payments. Payments of interest amounted to UAH 34,966.5 million. State borrowing for the General Fund of the State Budget was budgeted at approximately UAH 148,798.9 million, which is UAH 51,768.5 million more than the amended plan for 2012, including external borrowing for the General Fund of UAH 41,115.4 million and internal borrowing for the General Fund of approximately UAH 107,683.5 million. In 2013, 27.6 per cent. of borrowing was external and 72.4 per cent. internal.

The 2014 State Budget Law provides for anticipated total State debt service payments (including principal and interest payments, but excluding debt owed to the IMF by the NBU) of UAH 140,336.6 million. Payments of principal are expected to amount to UAH 95,480.3 million, 62 per cent. of which (or UAH 59,207.0 million) are internal debt payments and 38 per cent. (or UAH 36,273.3 million) of which are external debt payments. Payments of interest are expected to amount to UAH 44,856.2 million. State borrowing for the General Fund of the State Budget is budgeted at approximately UAH 157,312.4 million (including the New Notes), which is UAH 347,715 million more than the amended plan for 2013, including external borrowing for the General Fund of UAH 45,992.0 million and internal borrowing for the General Fund of approximately UAH 111,320.4 million. It is envisaged that 29.2 per cent. of borrowing will be external and 70.8 per cent. will be 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, in 2012, the Government had issued U.S.$2.9 billion and EUR 275.0 million in T-bills. In 2013, the Government had issued U.S.$5.3 billion and EUR 110.0 million in T-bills. In January 2014, the Government had issued U.S.$200 million in 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			
	2010	**2011**	**2012**	**2013**
	(in UAH thousands)			
State internal debt (direct debt)	141,662,098.1	161,467,006.3	190,299,297.7	256,959,575.7
of which:				
Obligations under T-bills	138,355,785.0	158,292,945.7	187,257,489.7	254,050,020.2
of which denominated in foreign currency	-	412,649.6	2,814,475.0	-
Obligations to the NBU(1)	3,306,313.1	3,174,060.5	3,041,808.0	2,909,555.5
State guaranteed debt (contingent liabilities)	13,895,395.4	12,240,693.2	16,211,415.9	27,129,149.8
Total internal debt	**155,557,493.5**	**173,707,699.5**	**206,510,713.6**	**284,088,725.5**
Budget cap for State debt (direct debt)(2)	315,715,906.3	375,643,401.9(3)	424,004,313.2(4)	502,480,767.0(5)

Notes:

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

(2) Including the hryvnia denominated and dollar denominated State internal debt. The dollar denominated State internal debt is converted to the 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 424,004,076.2 thousand, making no distinction between internal and external State debt.

(5) The 2013 State Budget Law limits State debt in 2013 to UAH 502,480,767 thousand, making no distinction between internal and external State debt.

Source: Ministry of Finance

As at 31 December 2010, 2011, 2012 and 2013, the ratio of State internal debt (direct debt) to total State internal and external debt (direct debt) was approximately 43.8 per cent., 45.2 per cent., 47.7 per cent. and 53.5 per cent., respectively. This shows a trend toward an increasing proportion of State internal debt within total State debt that Ukraine anticipates will continue in 2014.

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 19.9 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 PJSC "Rodovid Bank" ("**Rodovid Bank**"), the State Savings Bank of Ukraine and PJSC "UkrGasBank" ("**UkrGasBank**") in the principal amounts of UAH 3.95 billion, UAH 604 million and UAH 4.3 billion, respectively. On 22 February 2012 the Cabinet of Ministers increased the share capital of Naftogaz by UAH 6.0 billion, facilitated by a 6 March 2012 T-bill issuance of UAH 6.0 billion. On 23 July the Cabinet of Ministers increased the share capital of "Ukrgidroenergo" PJSC by UAH 1.0 billion, facilitated by a 11 September 2012 T-bill issuance of UAH 1.0 billion. On 9 January 2013, the Cabinet of Ministers increased the share capital of Naftogaz by UAH 8.0 billion. On 3 September 2013, UAH 5.0 billion in T-bills were issued to capitalise the public joint stock company "Agrarnyi Fond" pursuant to the resolution of the Cabinet of Ministers number 364 dated 22 April 2013. On 10 December 2013, Ukraine issued T-bills to further capitalise the State Savings Bank of Ukraine in the principal amount of UAH 1.4 billion and issued further T-bills to capitalise PJSC

"Ukrainian Danube Shipping" in the amount of UAH 300 million. See "*The Banking System, Securities and Financial Services Markets—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 November 2013, the outstanding amount of this debt was U.S.$0.37 billion.

The average annual weighted T-bill yield, across all types of T-bill, was 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 2012, the average weighted T-bill yield was 13.57 per cent. in hryvnia, 8.9 per cent. in U.S. dollars and 4.8 per cent. in euro. As at 31 December 2013, the average annual weighted T-bill yield was 13.13 per cent. in hryvnia, 7.63 per cent. in U.S. dollars and 4.80 per cent. in euro. As at 31 January 2014, the average annual weighted T-bill yield was 12.23 per cent. in hryvnia and 5.00 per cent. in U.S. dollars.

International investment in T-bills is currently limited. As at 31 December 2012, non-residents held approximately 2.93 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 2010 Ukraine issued State savings bonds, totalling approximately UAH 1.6 million. In 2012, a new issue of the State saving bonds denominated in U.S. dollars was made and as at 31 December 2012 and as at 31 December 2013, such debt obligations were sold to the public in the amount of U.S.$103.7 million and U.S.$100.0 million, respectively.

The table below sets out the total amount of State internal debt through T-bills and State savings bonds issued in each of the periods presented:

	Year ended 31 December			
	2010	**2011**	**2012**	**2013**
	(in UAH million)			
Security (maturity)				
T-bills (twelve year maturity)	1,500.0	1,500.0	1,500.0	1,500.0
T-bills (eleven year maturity)	3,850.0	3,850.0	3,850.0	3,850.0
T-bills (ten year maturity)	13,312.2	19,412.2	19,412.2	19,742.2
T-bills (nine year maturity)	13,774.4	14,874.4	14,874.4	14,874.4
T-bills (eight year maturity)	9,316.2	10,416.2	10,416.2	10,416.2
T-bills (seven year maturity)	19,870.0	28,424.0	36,980.0	51,028.9
T-bills (six year maturity)	3,000.0	5,500.0	5,500.0	5,500.0
T-bills (five year maturity)	28,747.3	27,440.7	32,665.7	74,105.4
T-bills (four year maturity)	1,598.0	1,598.3	1,598.3	6,518.2
T-bills (three year maturity)	19,477.9	28,905.6	28,454.3	37,835.8
T-bills (two year maturity)	4,478.2	6,544.3	11,078.4	18,403.5
T-bills (18 month maturity)	2,800.0	2,100.0	5,709.0	2,803.4
T-bills (12 month maturity)	10,127.3	4,628.8	14,392.8	2,958.7
T-bills (9 month maturity)	3,198.0	383.4	—	—
T-bills (6 month maturity)	2,866.0	2,065.2	—	553.8
T-bills (3 month maturity)	440.0	650.0	—	—
T-bills (1 month maturity)	—	—	—	2,361.0
State savings bonds	—	—	826.2	1,598.6

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 2012, a number of regulations were enacted for this purpose, including the Concept for Development of the Domestic Market for State Securities for 2009 to 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 to 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 April 2009, the primary dealer institute was established on the State securities market. The primary dealers are the banks specified by the Ministry of Finance of Ukraine which cooperate with the Ministry of Finance in the development of the domestic state securities market in exchange for exclusive right to participate in the placement of T-bills in the primary market. As at 31 December 2013, there were 17 primary dealers. In addition, T-bills may be sold in the primary market under non-competitive applications to the NBU acting on instruction and at the expense of its clients.

As of 15 December 2011, Article 10 of the Law of Ukraine "On Securities and Stock Market" was supplemented by the provision which provides for an option to sell T-bills denominated in foreign and national currency. Accordingly, on 12 December 2011, the Cabinet of Ministers adopted resolution number 1280 (effective as of 16 December 2011) by which approved the main terms and conditions of the issue and order of the placement of the short-term and middle-term state bonds denominated in foreign and national currency. New financial instruments denominated in U.S. Dollars and Euro can be purchased by banks, non-residents, legal entities and individuals through cooperation on the state securities market with primary dealers of the Ministry of Finance of Ukraine. On 5 September 2012, the Cabinet of Ministers of Ukraine adopted resolution number 836 "On issue of State savings bonds" which expanded the range of financial instruments, optimised the structure of state debt and raised the limit of financing to the State Budget from the public in cash.

The 2013 State Budget Law authorised the Cabinet of Ministers to issue a number of sovereign guarantees in 2013 with the cumulative total not exceeding UAH 50.0 billion. In 2013, Ukraine granted sovereign guarantees in the amount of UAH 21.9 billion.

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 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. As at 31 December 2012, Ukraine's external debt was approximately U.S.$38.6 billion, including State debt (direct debt) of US.$26.1 billion and State guaranteed debt of U.S.$12.5 billion. As at 30 November 2013 Ukraine's external debt was U.S.$35.1 billion, including State debt (direct debt) of U.S.$26.0 billion and State guaranteed debt of U.S.$9.1 billion. In addition, on 24 December 2013, Ukraine issued the U.S.$3.0 billion 5.0 per cent. notes due 2015. The cap for State debt (direct debt) was set by the 2012 State Budget Law at UAH 424.0 billion (U.S.$52.3 billion), and by the 2013 State Budget Law (as amended) at UAH 502.5 billion (U.S.$62.0 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 2010, 2011, 2012 and 2013; (ii) actual external debt service for the year 2013; (iii) estimated payments of State external debt service for the years 2014 to 2020; and (iv) estimated IMF debt service for 2013 to 2016:

State External Debt Structure

	As at 31 December			
	2010	**2011**	**2012**	**2013**
	(in U.S.$ millions)			
State external debt (direct debt)	22,836.0	24,507.1	26,137.7	**27,931.8**
of which:				
Multilateral borrowings (IFI loans)	10,432.3	10,556.5	10,020.9	7,744.7
of which:				
EBRD	331.3	444.7	533.8	596.3
EIB	196.5	257.8	400.8	535.9
Debt to the IMF owed by the Government	6,860.9	6,839.6	6,054.5	3,542.4
World Bank	3,043.6	3,014.4	3,031.8	3,070.1
Bilateral borrowings	1,415.7	1,341.8	1,138.4	910.7
of which:				
Russia	996.9	899.1	801.4	703.6
United States	75.7	54.4	33.1	11.9
France	8.4	5.4	2.8	—
Japan	151.5	259.1	230.3	181.9
Germany	151.3	102.9	60.3	13.3
Italy	31.9	20.9	10.6	—
SDR allocations received to the State Budget	1,891.2	1,885.3	1,887.3	1,897.5
Loans from foreign banks(1)	2,000.1	2,000.1	0.1	0.1
State External Bonds 2003	1,000.0	1,000.0	1,000.0	—
State External Bonds 2004	600.0	—	—	—
State External Bonds 2005	796.8	773.3	791.0	828.8
State External Bonds 2006	1,000.0	1,000.0	1,000.0	1,000.0
State External Bonds 2007	1,200.0	1,200.0	700.0	700.0
State External Bonds 2010	2,500.0	2,000.0	2,000.0	2,000.0
State External Bonds 2011	—	2,750.0	2,750.0	2,750.0
State External Bonds 2012	—	—	4,850.0	5,850.0
State External Bonds 2013	—	—	—	4,250.0
Limit of State external debt (direct debt) under the State Budget Law as at 31 December each year(2)	**39,464.5(3)**	**47,250.7(3)**	**52,346.2(3)**	**62,034.7(3)**
State guaranteed external debt (contingent liabilities)	11,923.5	12,967.5	12,521.1	9,636.2
of which:				
Multilateral borrowings (IFI loans)	7,740.6	7,701.5	5,074.2	2,030.0
of which:				
European Atomic Energy Community	65.3	55.5	47.5	39.8
EBRD	148.6	126.4	113.1	97.9
Debt to the IMF owed by the NBU	7,384.5	7,361.6	4,727.9	1,648.6
World Bank	142.3	158.1	185.6	243.7
Bilateral borrowings(5)	190.6	190.6	247.8	247.8
Loans from foreign banks	1,001.1	1,580.6	3,224.9	3,454.9
Other	2,991.2	3,494.9	3,974.1	3,903.5
Total external debt	**34,759.5**	**37,474.5**	**38,658.8**	**37,568.0**

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 2010, 2011, 2012 and 2013 State Budget Laws limited State debt, at the respective year ends, to UAH 315,715,906.3 thousand, UAH 375,643,401.9 thousand, UAH 424,004,076.2 thousand and UAH 502,480,767.0 thousand, without apportioning this between internal and external State debt.

(4) Bilateral borrowings represent debt owed to Canada.

Source: Ministry of Finance

Actual External Debt Service for 2013:

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
						(in U.S.$ millions)(1)							
State external debt service (direct debt)	**142.5**	**714,7**	**193.6**	**69.3**	**795.8**	**1,134.8**	**155.5**	**132.4**	**694.2**	**155.6**	**521.2**	**1,272.4**	**5,981.8**
Interest	127.1	75,3	79.9	6.8	178.9	118.0	125.2	85.8	83.5	90.9	164.5	96.0	1,231.9
of which debt to the IMF owed by the Government	—	*36.2*	—	—	*28.1*	—	—	*21.4*	*0.6*	—	*14.5*	*0.4*	*101.2*
Principal	15.4	639.4	113.7	62.5	616.9	1,016.8	30.3	46.7	610.7	64.7	356.7	1,176.4	4,750.0
of which debt to the IMF owed by the Government	—	*595.9*	—	—	*582.4*	—	—	—	*595.2*	—	*321.2*	*408.2*	*2,502.9*
Payments to IMF (debt of the NBU)	—	**771.2**	—	—	**751.4**	—	—	**749.1**	—	**111.0**	**750.0**	—	**3,132.7**

Notes:
(1) For 2013, the official exchange rate established by the NBU on the due dates was used.
Source: Ministry of Finance

Estimated State External Debt Service for 2014 to 2020(1)(2):

	2014	2015	2016	2017	2018	2019	2020
				(in U.S.$ millions)			
State external debt (direct debt)	30,328.2	29,800.3	27,165.1	14,021.4	13,521.1	13,001.7	10,947.0
Interest	1,607.4	1,912.2	1,790.8	896.7	596.3	588.9	580.3
Principal	4,267.5	5,815.7	8,759.1	4,335.8	559.3	519.5	2,054.9

Notes:
(1) For current debt obligations of the State from 2017 (2014 to 2016 for current and estimated debt obligations as at 14 November 2013).
(2) This figure includes the issue of the Original Notes, but does not include the issue of the New Notes or any future borrowings that may fall due in 2015.
Source: Ministry of Finance

In 2013, the aggregate amount of State external debt service payments (including principal and interest payments but excluding debt owed to the IMF by the NBU) amounted to U.S.$5,286.7 million, largely due to the scheduled repayment in 2013 of debt owed to the IMF by the Government.

Estimated IMF Debt Service for 2013 to 2016(1):

	2013(2)	2014(2)	2015(2)	2016
		(in U.S.$ millions)		
Total debt to IMF	**5,736.7**	**4,015.4**	**1,618.7**	**2.4**
Debt of the Government	2,604.1	2,881.2	974.0	2.3
Interest	101.2	56.6	16.0	2.3
Principal	2,502.9	2,824.6	958.0	-
Debt of the NBU	3,132.6	1,134.2	644.7	0.1
Interest	71.0	14.2	4.3	0.1
Principal	3,061.6	1,119.9	640.4	-

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 2013 to 2016 exchange rate of SDR 1 to U.S.$1.65. For 2013, the official exchange rate established by the NBU on the due dates was used.
Source: Ministry of Finance

Commercial Creditors

Since 1997, Ukraine has been regularly issuing bonds in the international capital markets denominated in various foreign currency. 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. Ukraine issued U.S.$2.0 billion 9.25 per cent. notes due 2017 and U.S.$1 billion

7.95 per cent. notes due 2014, in July and August 2012, respectively. In September 2012, Ukraine increased its U.S.$2.0 billion 9.25 per cent. due 2017 which were issued in July 2012 by a further U.S.$600 million. On 28 November 2012, Ukraine issued U.S.$1.25 billion 7.8 per cent. notes due 2022 and increased that issue on 6 February 2013 by a further U.S.$1 billion. In April 2013, Ukraine issued U.S.$1.25 billion 7.5 per cent. Notes due 2023. In December 2013, Ukraine issued U.S.$3.0 billion 5.0 per cent. notes due 2015. As at 31 December 2013, Ukraine had in excess of U.S.$17.4 billion of outstanding Eurobonds in the international capital markets. In September 2013, Ukraine was granted a loan with a term of up to two years amounting to U.S.$750 million with an interest rate of 6.5 per cent. per annum under a credit facility agreement with VTB Capital plc and Sberbank of Russia. On 19 December 2013, the Ministry of Finance repaid U.S.$250 million of Sberbank of Russia's participation with funds raised through internal borrowings, and on 24 December 2013, the Ministry of Finance repaid the remaining U.S.$500 million to VTB Capital plc (the interest rate on the loan had increased from 6.5 per cent. per annum to 9.5 per cent. per annum from 13 December 2013).

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.$5.6 billion from the World Bank. As at 31 December 2012, 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 2010, 2011, 2012 and 2013, the total amount of debt owing to the IMF stood at U.S.$14.2 billion, U.S.$14.2 billion, U.S.$10.8 billion and U.S.$5.2 billion, respectively (including debt owed to the IMF by the Government amounting to approximately U.S.$6.9 billion, U.S.$6.8 billion, U.S.$6.1 billion and U.S.$3.5 billion, as at 31 December 2010, 31 December 2011, 31 December 2012 and 31 December 2013, respectively). The total amount of direct debt owing to other international organisations stood at U.S.$3.6 billion, U.S.$3.7 billion, U.S.$4.0 billion and U.S.$4.2 billion as at 31 December 2010, 2011, 2012 and 2013, 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, amounted to U.S.$944.0 million in 2012 and amounted to U.S.$2,604.1 million in 2013. 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, U.S.$354.3 million in 2011, U.S.$345.9 million in 2012 and U.S.$354.6 million in 2013.

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 standby arrangement for Ukraine to be extended in ten tranches in 2010 to 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. No further disbursements were made under the 2010 SBA in 2011 and 2012, and the 2010 SBA terminated in December 2012.

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 to be 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 certain pension reform legislation was enacted. The IMF mission visited Kyiv from 21 May to 28 May 2012 to conduct further consultations under Article IV of the IMF Agreement. Further meetings with the IMF began on 29 January and were ongoing until 12 February 2013, with the goal of renewing the programme of cooperation between the IMF and Ukraine and discussing the possibility of a new stand-by arrangement in the amount of 10 billion SDR. From 27 March to 10 April 2013 the IMF visited Kyiv for further discussions. From 17 October to 29 October 2013, a further IMF delegation visited Kyiv in order to discuss the economic policy of Ukraine. Provision of the IMF financing to Ukraine was not discussed during this visit. As at the date of this Prospectus, the negotiations with the IMF continue. 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*".

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. Therefore, were Ukraine to calculate its State Budget deficit using the IMF methodology, that number would differ from the figure it currently uses.

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).

World Bank

Between 1992 and 31 January 2014, the World Bank approved 44 loans and four Global Environment Facility grants to Ukraine amounting to over U.S.$7.5 billion. As at 31 January 2014, U.S.$5.8 billion had been drawn down under these loans. 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, municipal 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 31 October 2013, the outstanding amount under this loan was U.S.$15.8 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 came into force on 20 March 2007). As of 2012, the full amount of U.S.$154.5 million had been drawn down under the Second Export Development Project. On 31 January 2012, the IBRD made available additional financing for the Second Export Development Project in an amount of U.S.$150 million to support exports by private Ukrainian companies, which are not State owned. As at 31 January 2014, U.S.$64.3 million had been drawn down from the additional financing under this 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 January 2014, U.S.$111.57 million and U.S.$112.92 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 to 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 31 January 2014, approximately U.S.$3.7 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. 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 31 January 2014, U.S.$343.49 million had been drawn down. On 24 December 2012, the Second Project of Roads and Safety Improvement came into force involving a loan of U.S.$450 million to improve the condition of the Boryspil-Lubny section of the M 03 Kyiv-Kharkiv highway. As at 31 January 2014, U.S.$82.15 million had been drawn down under this project.

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 in addition to the principal amount of the loan of U.S.$106.0 million. The total amount of financing for this project is U.S.$166 million. The facility agreement took effect on 31 August 2010 and as at 31 January 2014, the total amount drawn down under this project amounted to U.S.$95.2 million.

The U.S.$200 million Energy Saving project was approved by the Board of Directors of the World Bank on 17 May 2011 and came into force at the end of 2011. The aim of the project is financing of energy saving improvement measures of Ukrainian industrial enterprises. As at 31 January 2014, U.S.$63.49 million had been drawn down under this project.

On 25 December 2012, Ukraine and the IBRD executed a loan agreement in the amount of U.S.$10.0 million as additional financing for the Project "Development of the State Statistics System For Monitoring Social and Economic Transformations", which came into force on 6 February 2013. This additional financing will be used to develop an integral system for processing of statistical information in all regional governmental statistics offices in Ukraine. The total amount of financing for this project, including the principal loan in the amount of U.S.$32.0 million, the use of which commenced in 2006, amounts to U.S.$42.0 million. As at 31 January 2014, U.S.$39.0 million had been drawn down under this project.

As at the date of this Prospectus, Ukraine and the World Bank started the preparation of two projects in the municipal sector, each in the amount of up to U.S.$350 million: the project on energy efficiency in the sphere of centralised heat supply and the municipal infrastructure development project. The execution and approval of these projects by the board of directors of the World Bank is planned for 2014.

In 2014, Ukraine plans to introduce the project on modernisation of the system of social support of the population of Ukraine, which will involve loans from the World Bank in the amount of U.S.$350 million, U.S.$100 million of which will be used to increase the efficiency of social assistance and systems of social services in Ukraine for indigent families and U.S.$200 million will be used to finance the State Budget deficit. The execution and approval of this project by the board of directors of the World Bank is planned for 2014.

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 and came into force in 2006. A new mandate of the EIB for 2007 to 2013 for Russia, Ukraine, Moldova, Belarus, Armenia, Azerbaijan and Georgia authorised lending operations in such countries of up to €3.7 billion for projects in the transport, energy, telecommunications and environmental protection spheres. As at 28 February 2013, EIB and Ukraine launched negotiations in relation to the joint projects in transport, energy and public utilities fields. 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, which came into force on 21 December 2010, 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, which came into force on 28 April 2009, 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—External Debt—International Financial Institutions—EBRD*". As at 31 December 2013, 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", under which Ukraine expects to borrow €450.0 million from the EIB. As at 31 January 2014, U.S.$162.9 million had been drawn down under this project. The EBRD provided an additional €450.0 million in financing of this project. As at 31 December 2012, €264.6 million had been drawn down under the EBRD and EIB agreements.

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 January 2014, €150.0 million of EBRD funds had been distributed under this project. As at 31 January 2014, €25.0 million of EIB 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 12 September 2012, a financing agreement in the amount of €15.54 under this project came into force.

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. On 2 July 2012, Ukraine and EIB signed a sub-loan agreement on this project. EBRD granted 175 million under this project on 3 December 2012.

On 21 September 2012, Ukraine and the EIB signed the Agreement relating Hydroelectric Power Station Rehabilitation Project, which envisaged the loan in the amount of €200 million to finance the development of hydro-mechanical and other related equipment. As at the date of this Prospectus, steps are being taken to implement this agreement. EBRD has agreed to provide additional financing under this project in the amount of €200 million.

On 25 October 2013, a €152 million loan agreement was signed with the EIB to finance the joint EBRD and EIB backed project for the completion of the subway construction in Dnipropetrovsk. In addition, the EBRD and EIB have agreed to provide future additional financing in the amount of €152 million.

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).

The total value of new projects currently under negotiation between Ukraine and the EIB is over €1 billion.

EBRD

As at 31 December 2013, the EBRD portfolio in Ukraine included approximately 337 projects, valued at €8.63 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 Communications*" and "*Economy of Ukraine— Principal Sectors of the Economy—Electricity Generation and Nuclear Power*".

In June 2007, Ukraine and the EBRD signed a cooperation programme for 2007 to 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.

The new EBRD strategy for bank activity in Ukraine for 2011 to 2014 was approved on 15 April 2011 by the Board of Executive Directors of the EBRD. This new strategy for 2011 to 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.$97.3 million had been distributed as at 31 January 2014.

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 €200.0 million had been distributed as at 31 January 2014.

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.

In February 2008, Ukraine and the EBRD signed a €150 million loan agreement to finance the joint EBRD and EIB project for the construction of the 750 kV electricity line Rivnenska NPS Kyivska, which became effective in March 2009. As at 31 December 2013, €41.5 million had been drawn down under this project.

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. As at 31 January 2014, €12.8 million had been drawn down under this 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 January 2014, €169.7 million has been distributed by Ukraine through this project.

On 29 September 2011 Ukraine and the EBRD signed the Agreement relating Hydroelectric Power Station Rehabilitation Project, which envisaged the loan in the amount of €200 million to finance the development hydro-mechanical and other related equipment. Agreements under this project came into force on 21 December 2012. EIB has agreed to provide additional financing under this project in the amount of €200 million. As at 31 January 2014, Ukraine has drawn down €2.0 million under this project.

On 27 July 2012, a €152 million loan agreement was entered into by Ukraine and the EBRD to implement a joint EBRD - EIB project to complete construction of subway in the city of Dnipropetrovsk.

The EBRD and Ukraine are further planning to implement a U.S.$90 million project in relation to energy savings in railway transport. Ukraine intends to issue guarantees amounting to €600 million in support of the EBRD and Euroatom financing of the project to implement a uniform safety upgrade programme at Ukrainian nuclear power plants.

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. As at the date of this Prospectus, the implementation of these projects was under consideration.

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, U.S.$96.3 million in 2011 and U.S.$98.5 million in 2012 and U.S.$97.0 million in 2013. As at 31 December 2012, outstanding debt to Paris Club creditors was approximately U.S.$349.5 million (excluding debt to Russia, which amounted to U.S.$801.4 million). As at 31 December 2013 outstanding debt to Paris Club creditors was approximately U.S.$207.1 million (excluding debt to Russia, which amounted to U.S.$703.6 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. On 17 December 2013, the presidents of Russia and Ukraine announced a package of economic and financial support for Ukraine to be provided by Russia. Although the agreements have not been made public, the two presidents announced (i) the intention of Russia to purchase U.S.$15 billion of Ukrainian debt, which shall consist of (a) U.S.$10 billion in the form of sovereign Eurobonds having a maturity of two years and a fixed interest rate of 5 per cent. per annum (of which the Notes form a part) before the end of 2014, and (b) U.S.$5 billion (or its equivalent in SDRs) in loans to the NBU the terms of which are yet to be agreed upon and (ii) a substantial reduction in the price of gas to be supplied by Gazprom Naftogaz. As at the date of this Prospectus, Russia has provided U.S.$3 billion of the promised U.S.$15 billion of financial support in the form of the Original Notes, and the issue of the New Notes constitutes a further U.S.$2 billion thereof.

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. The 2013 EU-Ukraine Memorandum of Understanding and the 2013 EU-Ukraine Loan Agreement have now been finalised and the 2013 EU-Ukraine Loan Agreement was executed on 25 February 2013, but still requires signing by the head of the NBU and subsequent ratification by Parliament before becoming effective. The EU's disbursement of funds under this facility may be subject to discretion on their part, and may include consideration of compliance with IMF requirements.

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.$33.5 million in 2010 and U.S.$26.0 million in 2012 pursuant to guarantees. The cap recommended by the IMF for the value of guarantees issued in 2010 and 2011 was UAH 15.0 billion per year. According to the 2012 and 2013 State Budget Law, the cap for 2012 was UAH 79.4 billion per year and the cap for 2013 is UAH 50.0 billion.

The total value of guarantees issued by Ukraine between 2008 and 2012 was approximately U.S.$131.4 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 U.S.$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 December 2012 (extended to December 2013) 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 Championships 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 Championships 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 two system 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, 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 Championships, 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 the fourth quarter of 2011, Ukraine provided state guarantees under loan agreements between Ukrexim Bank and the EBRD amounting to U.S.$200 million.

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 "Lysychanskvuhillya" 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 79.36 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. The following state guarantees were granted by the decision of the Cabinet of Ministers of Ukraine in 2012: a guarantee regarding an issue of domestic bonds issued by the State Mortgage Institution amounting to UAH 2.0 billion; a guarantee of the obligations of "Ukrtransgas", a subsidiary of Naftogaz under a loan agreement, in the amount of EUR53.57 million for the project to modernize the compressor station gas pipeline Bar "Union"; a guarantee regarding an issue of domestic bonds by the State Agency of Highways of Ukraine in an amount of UAH 14.0 billion; a guarantee regarding an issue of international bonds by the State enterprise "Financing of Infrastructure Projects" in the amount of U.S.$550.0 million; a guarantee of the U.S.$3,656.0 million loan facility agreement between Naftogaz and State Development Bank of China; and a guarantee of loan agreements in the total amount of U.S.$3,000.0 million between PJSC "State Food Grain Corporation of Ukraine" and the Export-Import Bank of China.

The 2013 State Budget Law authorised the Cabinet of Ministers to issue a number of sovereign guarantees in 2013 with the cumulative total not exceeding UAH 50.0 billion. In 2013, Ukraine granted sovereign guarantees in the total amount of UAH 21.9 billion.

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.$10,220.0 million, U.S.$9,021.0 million, U.S.$12,795.1 million and U.S.$19,634.4 million in 2009, 2010, 2011, as at 31 December 2013 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 Championships in Ukraine and for the purpose of financing the Agrarian Fund, although the majority of financing from international financial organisations and T-bill issuances is accounted for in the General Fund of the State Budget. In 2010, the total amount of external borrowing by the Special Fund of the State Budget amounted to UAH 38,924.9 million (U.S.$4,735.6 million). In 2011, the amount of external borrowing by the Special Fund of the State Budget amounted to UAH 9,606.6 million (U.S.$1,206.2 million). In 2012 the amount of external borrowing by the Special Fund of the State Budget amounted to UAH 6,800.5 million (U.S.$851.3 million). 2013 State Budget contemplates the borrowings to the Special Fund of the State Budget in the amount of UAH 6,127.6 (U.S.$729.5 million). As at 31 December 2013, total amount of the borrowings to the Special Fund of the State Budget amounted to UAH 3,525.5 million (U.S.$439.7 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			
	2010	**2011**	**2012**	**2013**
	(in U.S.$ millions)			
Borrowing accounted for in the Special Fund	4,735.6	1,206.2	851.3	439.7
Internal borrowing	4,413.2	629.7	325.3	—
External borrowing	322.4	576.5	526.0	439.7
Repayments from the Special Fund	97.8	97.8	97.8	—
Internal borrowing	—	—	—	—
External borrowing	97.8	97.8	97.8	—

Debt Ratings

As at the date of this Prospectus, the foreign currency long term debt of Ukraine is rated CCC+ by Standard & Poor's, Caa2 by Moody's, and CCC by Fitch.

On 28 January 2014, Standard & Poor's downgraded the long term foreign currency sovereign credit rating of Ukraine to CCC+ (with negative outlook). According to the Standard & Poor's press release this was due primarily to the increased political instability in the country as evidenced by current events described further in "*Risk Factors—The current crisis in Ukraine creates significant political and economic uncertainty*". On 31 January 2014, Moody's downgraded the long term foreign currency sovereign credit rating of Ukraine to Caa2 (with negative outlook). According to the Moody's press release, this decision was driven by the escalation of social and political tensions in the country, and the associated risk of a severe administrative crisis and/or prolonged political uncertainty; increased risk of a sharp rise in external liquidity needs due to rising demand for foreign currency by the Ukrainian population amid the political crisis and the recent weakening of the hryvnia; and the heightened uncertainty regarding the predictability of the external liquidity support from Russia. On 7 February 2014, Fitch downgraded the long term foreign currency sovereign credit rating of Ukraine to CCC. According to the Fitch press release, this was due primarily to the ongoing political instability and fears over Ukraine's ability to refinance a heavy external debt repayment schedule, in addition, according to Fitch, the political uncertainty has contributed to a weakening in confidence in the Ukrainian hryvnia and in the exchange rate policy. 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 at the date of this Prospectus, Standard & Poor's, Moody's and Fitch are rating agencies established in the EEA and registered under the CRA Regulation.

THE MONETARY SYSTEM

National Bank of Ukraine

The NBU is the central bank of Ukraine and is a special central body of the state administration. Established in 1991 pursuant to the Law of Ukraine "On Banks and Banking Activity" and governed in accordance in accordance with the Constitution and the Law of Ukraine on the National Bank, amongst others, the NBU is a State authority with the principal objective of ensuring stability of the national currency. This objective is achieved by focussing on the strength of the banking system and price stability. Other functions of the NBU include promoting economic growth and supporting the Government's economic policy. The principal governing bodies of the NBU are the Council and the Board. The Council, 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 development of fundamental principles of monetary 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 determine 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. Since the beginning of 2012 (when the law approved by Parliament on 8 July 2010 became fully effective), the legislative framework that governs the activities of the NBU has been significantly amended to comply with the arrangements agreed between Ukraine, the IMF and the World Bank. The primary purpose of these changes is to strengthen the independence of the NBU and set the following targets for the NBU:

- to promote and maintain price stability as a priority,
- to facilitate the stability of the banking system to the extent this does not prevent price stability, and
- to 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, this includes 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 Council annually approves the monetary policy guidelines for each year.

The monetary policy guidelines for 2013 which were approved by the NBU Council on 5 September 2012 aim for price stability, ensuring the decrease of the rate of CPI inflation (year on year) to within 4-6 per cent. in 2014 and maintaining it thereafter between 3 and 5 per cent. from 2015.

It is also anticipated that, in 2014, 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. In accordance with the monetary policy for 2014 and in order to mitigate the risk of inflation, the NBU expects to use the interest rate as a main instrument of monetary policy to ensure the flexibility of exchange rate. These goals are in line with the 2010 SBA.

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 the hryvnia stability. Based on the analysis and forecast estimates of these indicators, the NBU determines which regulatory measures shall be taken.

The NBU seeks to enhance the stability of the financial system by using standard refinancing instruments and through mobilisation operations that include tenders on placement of overnight deposit certificates and deposit certificates of up to 90 days as well as reverse repo operations with T-bills.

In 2009 and 2010, monetary policy was implemented under challenging macroeconomic conditions. As a result of changes in the macroeconomic environment, the development of the financial system 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 financial system during that period. However, an improvement of macroeconomic indices in subsequent periods contributed to a gradual improvement of the situation in the monetary system 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 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 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 financial system were mainly focused on preventing the excessive volatility in hryvnia exchange rate, 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.

In 2010 and 2011, the growth of the deposit base helped the banking system to maintain surplus liquidity. In addition, the NBU continued to take all necessary measures to prevent monetary risks to the stability of the national currency. During this period, NBU's activities intended to affect the liquidity of the banking system became focused on mobilisation operations

The total amount of mobilisation operations amounted to UAH 248.1 billion, UAH 166.8 billion, UAH 16.7 billion and UAH 270.4 billion in 2010, 2011, 2012 and in 2013, respectively. The total amount of mobilisation operations amounted to and UAH 94.8 billion for the month ended 31 January 2014.

To prevent excessive liquidity in the banking system, 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 2012, the NBU sold T-bills in the nominal amount of UAH 1.9 billion and purchased T-bills in the nominal amount of UAH 2.5 billion on a two way quotation basis. In 2013, there were no operations on a two way quotation basis. For the month ended 31 January 2014, the NBU sold T-bills in the nominal amount of UAH 1.0 billion and purchased T-bills in the nominal amount of UAH 0.8 billion on a two way quotation basis.

The total volume of operations involving the purchase of securities for nominal value amounted to UAH 32.0 billion, UAH 25.0 billion and UAH 38.6 billion in 2010, 2011 and 2012, respectively. In 2013, the total volume of operations involving the purchase of securities amounted to approximately

UAH 45.6 billion. For the month ended 31 January 2014, the total volume of operations involving the purchase of securities amounted to UAH 3.3 billion.

In 2010, sale of securities from the NBU portfolio (T-bill sales), repurchase transactions and reverse repurchase transactions amounted to UAH 7.1 billion, UAH 112.0 million and UAH 2.0 billion, respectively. In 2011, sale of securities from the NBU portfolio (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 2012, the total amount of repurchase transactions was UAH 56.6 billion followed by a further UAH 36.0 billion during 2013. For the month ended 31 January 2014, the total amount of repurchase transactions was UAH 5.5 billion. In 2012, the total amount of operations involving the sale of securities from the NBU portfolio was UAH 1.6 billion. In 2013, there were no sales of securities from the NBU portfolio.

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 maturity of refinancing loans.

In 2010, the total volume of deposits in the national currency increased by 38.2 per cent. and in foreign currency by 12.8 per cent. In 2011, the total volume of deposits in the national currency increased by 17.2 per cent. and in foreign currency by 19.6 per cent. In 2012, the total volume of deposits in the national currency increased by 13.8 per cent. and in foreign currency by 19.2 per cent. The total volume of deposits increased by 26.3 per cent., 18.2 per cent. and 16.1 per cent. in 2010, 2011 and 2012, respectively. In 2013, the total volume of deposits in the Ukrainian banking system increased by 17.7 per cent. and amounted to UAH 668.5 billion as a result of an increase of funds in national currency by 32.1 per cent. and a decrease of funds in foreign currency by 0.8 per cent. For the month ended 31 January 2014, the total volume of deposits in the Ukrainian banking system decreased by 2.3 per cent. and amounted to UAH 653.4 billion, as a result of a decrease of funds in national currency by 2.4 per cent. and a decrease of funds in foreign currency by 2.1 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 1 January 2010 to 31.4 per cent. as at 1 January 2011 and then further increasing to 33.1 per cent. as at 1 January 2012 and to 34.7 per cent. as at 1 January 2013. As at 1 January 2014, the share of long term deposits in the total deposit portfolio amounted to 41.1 per cent. As at 1 February 2014, the share of long term deposits in the total deposit portfolio amounted to 42.4 per cent.

In 2011, the monetary policy was carried out in an improved economic environment with increased lending activity and was focused on ensuring the 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 bank lending 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 on loans and renew lending to corporates.

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 reverse repo transactions. The following table describes operations aimed at regulating the liquidity of the banks in Ukraine in 2010, 2011, 2012, 2013 and in January 2014:

	2010	2011	2012	2013	January 2014
			(*UAH billion*)		
Operations for maintenance of liquidity					
Refinancing operations	0.6	5.2	40.6	33.6	2.9
REPO operations	0.1	23.6	56.6	36.0	5.5
Stabilising loans	3.5	0.0	0.4	2.0	0.0
Other long term loans	1.0	0.0	0.0	0.0	0.0
Operations for prevention of excessive liquidity					
Reverse REPO operations	2.0	1.6	0.0	0.0	0.0
Issuing of deposit certificates of NBU	246.1	165.2	16.7	270.4	94.8
Sale purchase of securities					
Repurchase of securities in the national currency	32.0	25.0	38.6	45.6	3.3
on a two way quotation basis	4.3	4.7	2.5	0.0	0.8
Sale of securities in the national currency	16.2	1.8	1.9	0.0	1.0
on a two way quotation basis	9.2	0.4	1.9	0.0	1.0

Methods and instruments currently used by the NBU for the implementation of its policies include interest rate policy, mandatory reserve requirements, liquidity requirements and operations aimed at affecting banks' liquidity as well as transactions involving 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, 7.50 per cent. effective from 23 March 2012 and 7.00 per cent. effective from 10 June 2013. As at the date of this Prospectus, the NBU discount rate is 6.5 per cent. This led to a decrease in the interest rates of hryvnia denominated loans.

The NBU performs deposit operations with banks by issuing deposit certificates: overnight and up to 14 days - daily, overnight an up to 90 days - every Thursday. In addition, other interbank transactions include repo and refinancing transactions (overnight loans, up to 14 day and up to 90 day refinancing loans). In addition, if it is necessary to maintain a banks' liquidity for a longer period of time, the NBU may refinance by means of tender procedure for up to 360 days, as well as by means of 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 two years and could be further extended by up to one year. The aggregate term of such stabilising loans including all extension periods should not exceed five years. From 17 November 2006 the NBU has established the interest rates under its own deposit certificates with different terms of maturity.

In 2001, the NBU adopted new regulations permitting it to sanction commercial banks for failure to keep prescribed amounts of 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.

Furthermore, reserve requirements were lowered to encourage lending.

Since 1 July 2013 the mandatory reserves requirements are as follows: 40 per cent. of mandatory reserves formed in the previous period must be accumulated on a separate account at the NBU (previously 50 per cent.), 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 to at least 60 per cent. of the mandatory reserves formed in the previous period (previously 50 per cent.). Since 30 September 2013 the reserves required are as follows: at least 10 per cent. for short-term foreign currency deposits (previously also 10 per cent.), 7 per cent. for long-term foreign currency deposits (previously 5 per cent.), 10 per cent. for currency deposits on demand and current accounts of legal entities (previously also 10 per cent.), 15 per cent. for currency deposits on demand and current accounts of individuals (previously also 15 per cent.), 5 per cent. for foreign currency funds (except Russian Rubles) borrowed from non-resident banks and non-resident financial organisations in the 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.

In addition, the banks are allowed to deposit the following assets into their accounts: T-bills denominated in foreign currency bought by NBU in the amount of 10 per cent. of their net asset value in hryvnia equivalent; long-term T-bills denominated in national currency with the tenor of more than 3,600 days; balance of funds on the accounts opened in "Settlement Center on Services of Agreements in Financial Markets". These assets should necessarily be accumulated on the correspondent account of the NBU for mandatory reserves.

In accordance with new requirements for the accumulation of mandatory reserves, the total value of mandatory reserves accumulated on a separate account of the NBU amounted to UAH 10.8 billion as at 1 February 2014.

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.

To ensure effective use of the instruments regulating banks' liquidity, the NBU approved resolution number 394 dated 30 September 2013 amending the Resolution on the Regulation of Banks' Liquidity. In accordance with the resolution number 394, the transfer of funds to the banks which provide the securities as the collateral under the loan for the refinancing, may be effected after the receipt of the bank account statement on the status of the bank account related to the restricted securities.

On 1 August 2008, the NBU introduced a requirement for banks to reserve 20 per cent. of the funds of non-residents in foreign currency existing in the form of loans, deposits with the maturity of up to 6 months (except for the funds deposited for less than one business day), funds deposited under State guarantees, and funds deposited by international organisations of which Ukraine is a member.

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, 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 64.4 billion. 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, refinancing loans and stabilisation loans. In 2010, the aggregate volume of refinancing transactions was only UAH 5.2 billion. The weighted average interest rate under all refinancing instruments in 2010 was 11.62 per cent. per annum. The aggregate volume of refinancing transactions in 2011 amounted to UAH 28.8 billion and the weighted average interest rate under all refinancing instruments was 12.39 per cent. per annum. In 2012, the aggregate volume of refinancing transactions amounted to UAH 97.6 billion and the weighted average interest rate was 8.13 per cent. per annum. In 2013, the aggregate volume of refinancing transactions amounted to UAH 71.5 billion. The weighted average interest rate was 7.2 per cent. For the month ended 31 January 2014, the aggregate volume of refinancing operations amounted to UAH 8.5 billion. The weighted average rate was 6.84 per cent. As at 1 February 2014, the average interest rate of unsecured overnight loans was not declared and the average interest rate of overnight loans secured by state securities was 7.5 per cent. Since 12 June 2013, the National Bank of Ukraine has announced overnight rates only for loans with Government guarantees. In January to April 2013, the aggregate volume of refinancing transactions amounted to UAH 9.3 billion and the average interest rate was 7.9 per cent. per annum. As at 20 May 2013, the average interest rate of unsecured overnight loans was 10.5 per cent. and the average interest rate of overnight loans secured by state securities was 8.5 per cent.

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 its monetary policy.

On 6 February 2014, the NBU adopted a resolution amending the mechanism by which it supports bank liquidity within the NBU's standard monetary procedure. This mechanism gives the NBU the power to raise funds through ad hoc issues of debt instruments with a maturity up to 360 days in order to support the liquidity of any banks subject to an outflow of fixed term deposits. The Resolution provides for, among other things, a maximum limit on the amount of funds which a bank may receive under this mechanism; the use of T-bills or foreign currency as security for refinancing loans; and a discount rate for refinancing loan. This resolution was adopted as a preventive measure to ensure that Ukrainian banks do not default on their obligations as a result of an outflow of deposits.

Money Supply

The economic activity after the post-crisis period resulted in increased demand for money. In addition, the growth in money supply outpaced the increase in the monetary base.

The ratio of broad money supply (M3) to GDP was 49.6 per cent. in 2010, 48.8 per cent. in 2011 and 49.3 per cent. in 2012. 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. In 2010, the money supply increased by 22.7 per cent. and amounted to UAH 597.9 billion and the monetary base increased by 15.8 per cent. and amounted to UAH 225.7 billion. In 2011, the money supply increased by 14.7 per cent. and amounted to UAH 685.5 billion and the monetary base increased by 6.3 per cent. and amounted to UAH 239.9 billion. In 2012, the money supply increased by 12.8 per cent. and amounted to UAH 773.2 billion and the monetary base increased by 6.4 per cent. and amounted to UAH 255.3 billion. In 2013, the money supply increased by 17.6 per cent. and amounted to UAH 909.1 billion and the monetary base increased by 20.3 per cent. and amounted to UAH 307.2 billion. In January 2014, the money supply decreased by 1.8 per cent. and amounted to UAH 892.7 billion. In the same period, the monetary base decreased by 4.1 per cent. and amounted to UAH 284.6 billion.

The money multiplier was 2.96 as at 1 January 2014. At the beginning of 2013, the money multiplier was 3.03. As at 1 January 2014, the money multiplier was 2.96 compared to 3.03 and 2.86 as at 1 January 2013 and as at 1 January 2012, respectively. As at 1 February 2014, the money multiplier was 3.03.

The financial and economic downturn materially affected the Ukrainian financial 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 financial system 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, NBU's monetary policy 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 on bank loans and gradually improved lending.

According to NBU data, the average weighted interest rate on the hryvnia deposits was approximately 9.76 per cent. in 2010, 7.94 per cent. in 2011 and 12.97 per cent. in 2012 and 10.59 per cent. in 2013. The average weighted interest rate on foreign currency deposits decreased from 9.1 per cent. in 2009 to 7.61 per cent. in 2010, decreased again to 5.36 per cent. in 2011, increased to 5.72 per cent. in 2012 and increased to 5.86 per cent. in 2013. The average weighted interest rate on loans in the national currency excluding overdrafts increased from 14.54 per cent. in 2010 to 14.90 per cent. in 2011 and further increased to 17.88 per cent. in 2012 and decreased to 15.90 per cent. in 2013. The average weighted interest rate on loans in foreign currency excluding overdrafts decreased from 10.67 per cent. in 2010 to 9.16 per cent. in 2011, subsequently decreased again to 8.33 per cent. in 2012 and increased to 9.34 per cent. in 2013. In January 2014 the average weighted interest rate as compared to January 2013 changed as follows: on deposits in national currency, it amounted to 11.67 as compared to 11.81 per cent.; on deposits in foreign currency, it amounted to 5.92 per cent. as compared 6.30 per cent.; on loans in national currency (excluding overdraft), it amounted to 15.12 per cent. as compared to 16.51 per cent.; on loans in foreign currency (excluding overdraft), it amounted to 8.59 per cent. as compared to 9.01 per cent. and on interbank credit market (in national currency), it amounted to 7.49 per cent. as compared to 4.49 per cent.

The following table sets out information concerning Ukraine's money supply (including accrued interest) as at the dates indicated:

	As at 1 January				**As at 1 February**
	2011	**2012**	**2013**	**2014**	**2014**
	(in UAH millions except as noted)				
Money outside banks (M0)	182,990	192,665	203,245	237,777	235,870
Money supply (Ml)	289,894	311,047	323,225	383,900	376,166
Money supply (M2)	596,841	681,801	771,126	906,316	889,301
Money supply (M3)	597,872	685,515	773,199	906,073	892,748
as % before beginning of year	122.7	114.7	112.8	117.6	98.2
as % of GDP	49.6	48.7	49.3	-	-
Monetary base	225,692	239,885	255,283	307,218	294,619
as % before beginning of year	115.8	106.3	106.4	120.3	95.9
Deposits in local currency	239,918	281,105	319,829	423,705	413,715
Deposits in foreign currency	173,933	208,031	248,053	247,592	243,163
Loans extended	724,006	793,277	809,339	904,874	897,640

Bank Lending

According to NBU statistics, overall bank lending to the economy increased by 0.9 per cent. in 2010 and by 9.6 per cent. in 2011. In 2012, overall bank lending to the economy increased by 2.2 per cent. The 2011 increase reflected a 21.6 per cent. increase in the 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 2010, representing 66.9 per cent. of total lending, as compared to 68.1 per cent. in 2009. There was a further decrease of 49.4 per cent. as at 1 January 2013. Foreign currency lending accounted for 46.6 per cent. in 2010, 40.7 per cent. in 2011, and 37.0 per cent. as at 1 January 2013. In 2012, as compared to 2011, the total volume of loans increased by 2.0 per cent. and amounted to UAH 809.3 billion (the total volume of loans in the national currency increased by 8.4 per cent. and in foreign currency decreased by 7.3 per cent.). The total volume of loans to business entities increased by 4.9 per cent. due to an increase in the total volume of loans in the national currency by 6.1 per cent. in 2012 compared to 2011.

In 2013, overall bank lending increased by 11.8 per cent. and amounted to UAH 904.9 billion (17.1 per cent. increase in the national currency and 2.8 per cent. increase in foreign currency). In January 2014, overall banking lending decreased by 0.8 per cent. and amounted to UAH 897.6 billion (a 0.2 per cent. decrease in hryvnia denominated lending and a 1.9 per cent. decrease in foreign currency denominated lending).

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*".

In 2010, the Government placed T-bills with maturities ranging from three months to ten years in the aggregate amount of UAH 70.7 billion, including T-bills of UAH 6.4 billion for the increase of the statutory capital of State owned banks. T-bills of UAH 7.4 billion for the increase of the statutory capital of Naftogaz, T-bills of UAH 16.4 billion to pay accumulated VAT refund arrears and T-bills sold in the market in the aggregate amount of UAH 40.4 billion. See "*Public Debt—Internal Debt*".

In 2011, the Government sold T-bills with maturities ranging from three months to over ten years of almost UAH 50.3 billion and U.S$0.413 billion. In 2012, the Government issued U.S.$2.5 billion, EUR 0.32 billion, UAH 42.9 T bills denominated in U.S. dollars, euros and hryvnia, respectively. In 2011, the government issued UAH 21.4 billion hryvnia denominated T-bills, including T-bills of approximately UAH 0.6 billion for the increase of the statutory capital of State owned banks; T-bills of approximately UAH 8.3 billion for the recapitalisation of non State owned banks and UAH 12.5 billion for increase of charter capital certain legal entities. The amount of T-bills sold in the market amounted to UAH 28.9 billion.

In 2012, the Cabinet of Ministers placed T-bills in the amount of UAH 6.0 billion for the increase of the share capital of Naftogaz and T-bills in the amount of UAH 1.0 billion for the increase of the share capital of PJSC "Ukrgidroenergo". The amount of T-bills sold in the market amounted to UAH 35.9 billion.

In 2013, the Government placed T-bills denominated in the national and foreign currency (U.S. dollar and euro) with maturities ranging from one to over five years; approximately UAH 65.2 billion of these are denominated in the national currency (UAH) and approximately U.S.$5.3 billion and EUR 0.11 billion are denominated in foreign currency (U.S. dollar and euro), including T-bills for increase of the charter capitals of PJSC "State Saving Bank of Ukraine" in the amount of UAH 1.4 billion, NJSC "Naftogaz" in the amount of UAH 8.0 billion and PJSC "Ukrainian Danube Shipping" in the amount of UAH 0.3 billion. In addition, T-bills were issued for the contribution to the charter capital of PJSC "Agrarian Fund of Ukraine" in the amount of UAH 5.00 billion. The amount of T-bills sold in the market amounted to UAH 50.5 billion.

In January 2014, the Cabinet of Ministers placed T-bills in national and foreign currency (U.S. dollar) with the maturity ranging from one to five years; approximately UAH 3.7 billion of these are dominated in national currency (UAH) and approximately U.S.$ 0.2 billion denominated in foreign currency.

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 31 December 2011, holdings of Ukrainian T-bills by non-residents were approximately 8.3 per cent. and 2.9 per cent., respectively. As at 1 January 2014, holdings of Ukrainian T-bills by non-residents were approximately 4.7 per cent. As at 1 February 2014, holdings of Ukrainian T-bills by non-residents were approximately 4.8 per cent.

On 10 October 2012, the Ministry of Finance launched the first issue of U.S.$100 million of savings bonds with a 24 month term and an interest rate of 9.2 per cent. per annum. On 30 November 2012, the Ministry of Finance launched a second issue of U.S.$100 million of savings bonds with a 24 month term and an interest rate of 8 per cent. per annum.

Interest Rates

The average yield for T-bills sold in the primary market was 12.7 per cent. in 2010. In 2011, the average weighted yield for T-bills sold in the primary market was 8.9 per cent. for T-bills denominated in hryvnia and 8.9 per cent. for T-bills denominated in U.S. dollar.

In 2012, the average yield for T-bills sold in the primary market was 13.56 per cent. for T-bills denominated in hryvnia, 8.9 per cent. for T-bills denominated in U.S. dollar and 4.8 per cent. for T-bills denominated in euro. In 2013, the average weighted yield for T-bills sold in the primary market was 13.0 per cent. for T-bills denominated in hryvnia, 7.9 per cent. for T-bills denominated in U.S. dollar and 4.8 per cent. for T-bills denominated in euro. In January 2014, the average yield for T-bills sold in the primary market was 12.2 per cent. for T-bills denominated in hryvnia and 5.0 per cent. for T-bills denominated in U.S. dollar.

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

		The average weighted yield for T-bills placed in primary market, per cent							
					including:				
		The average weighted yield for T-bills placed in primary market, in total			The average weighted yield for T-bills, placed by auction				
Period	**Weighted average rates under all refinancing instruments**	**denominated in hryvnia**	**denominated in foreign currency (U.S. dollar)**	**denominated in foreign currency (EUR)**	**denominated in hryvnia**	**denominated in foreign currency (U.S. dollar)**	**denominated in foreign currency (EUR)**	**The average weighted yield for T-bills, issued for charter capital increase**	**The average weighted yield for T-bills, issued for redemption of overdue in budget indebtedness of VAT (to pay VAT refund arrears)**
2010	11.62	10,39	-	-	12.69	-	-	9.50	5.50
2011	12.39	9.17	8.92	-	8.92	8.92	-	9.50	-
2012	8.13	12.94	8.92	4.80	13.56	8.92	4.80	9.74	-
2013	7.15	13.13	7.63	4.80	12.96	7.63	4.80	13.73	-
As at 31 January 2014	6.84	12.23	5.00	-	12.23	5.00	-	-	-

Source: NBU

Exchange Rates

The currency of Ukraine, the hryvnia, was introduced in 1996. In 2008, drastic fluctuations in foreign currency demand and supply adversely affected the hryvnia exchange rate dynamics and the hryvnia depreciated against the U.S. 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 the 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 U.S. dollar by 0.29 per cent. and against the euro by 7.65 per cent. In 2011, the hryvnia depreciated against the U.S. dollar by 0.35 per cent. and appreciated against the euro by 2.6 per cent. During 2012, the hryvnia depreciated against the U.S. dollar by 0.04 per cent. and against the euro by 2.32 per cent. In 2013, the hryvnia depreciated against the euro by 4.8 per cent. During 2013, the hryvnia/U.S. dollar exchange rate remained unchanged. In January 2014, the hryvnia/U.S. dollar exchange rate remained unchanged, however the hryvnia appreciated against the euro by 1.74 per cent.

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 U.S. 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 U.S. 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 7.97 to U.S.$1.00. In 2012, the average official hryvnia/U.S. dollar exchange rate was UAH 7.99 to U.S.$1.00. In 2013, the average official hryvnia to U.S. dollar exchange rate was UAH 7.99 to U.S.$1.00.

The official hryvnia/U.S. dollar exchange rate reported by the NBU on 17 February 2014 was UAH 8.64 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**
2010	7.94	7.96
2011	7.97	7.99
2012	7.99	7.99
2013	7.99	7.99
As at 17 February 2014	8.64	8.64

Source: NBU

In line with the Memorandum on Economic and Financial Policy entered into in 2008 and 2009 within the framework of the IMF standby arrangement, the NBU completed the transition to a flexible exchange rate by changing the methodology for the calculation of the official hryvnia/U.S. dollar exchange rate. Since May 2009, the official hryvnia/U.S. dollar exchange rate has been 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. 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. In 2012, the average monthly difference between the official hryvnia to U.S. dollar exchange rate and the average weighted exchange rate in the Ukrainian foreign exchange market fluctuated between decreases of 0.36 per cent. and 1.61 per cent.

In 2013, 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 varied between decreases of 1.07 per cent. and 1.90 per cent. In January 2014, the average monthly difference between official hryvnia/U.S. dollar exchange rate and the average weighted exchange rate in the Ukrainian foreign exchange market decreased by 1.94 per cent.

In 2010, the NBU's foreign exchange policy was governed by the main principles of its monetary policy and commitments undertaken by Ukraine within the framework of the IMF standby 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. In 2011, 2012 and 2013 the monetary policy of the NBU was aimed at increasing the flexibility of the exchange rate.

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 90 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 the national currency outside banks, bank deposits and debt securities issued by banks) and increasing the use of the national currency for lending. See "*The Banking System, Securities and Financial Services Markets—The Banking System in Ukraine*". In 2010, the economy dollarisation level decreased to 29.1 per cent. from 31.7 per cent. in 2009. As at 1 November 2013, the economy dollarisation level was 28.6 per cent.

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 five-day maximum period during which clients' funds used for purchase of foreign currency for the purpose of repatriation of investments may be allocated to a separate analytical account of the balance bank account (this measure is provided for in the standby arrangement with the IMF), simplifying documentary requirements for repatriation of dividends of foreign investors, cancelling the obligation to provide documentary acknowledgement of paid taxes from income of foreign investors during its repatriation, and improving the procedure for repatriation of foreign investments in securities traded on Ukrainian stock exchanges.

Beginning in October 2008, the NBU introduced a number of currency control limitations, the majority 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 currency that is not freely convertible into hard currencies and vice versa; and
- restrictions on opening correspondent accounts in freely convertible foreign currencies (the first group of the NBU Classifier of Foreign Currencies approved by the NBU resolution on 4 February 1998 (the "**Classifier**")) in certain banks of those countries, the currency of which was not included in the first group of the Classifier.

In 2009 the NBU introduced temporary prohibition on foreign exchange operations on "forward" and "spot" terms. These restrictions were removed in 2009. From 20 November 2009, Ukrainian banks were prohibited to sell foreign currency to a single individual in the amount exceeding UAH 80,000 (from 23 September 2011 this amount was increased to UAH 150,000). In addition, the banks were prohibited to change the exchange rate during the same business day.

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 currency 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, from December 2010, the limitations on operations in the 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 the 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 of 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 currency 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 currency 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.

On 13 January 2011, the Parliament passed the Law of Ukraine "On amendments to the Law of Ukraine 'On duty on compulsory state pension insurance'". In accordance with this law, the duty on compulsory state pension insurance under the operations of purchase of foreign currency in non-cash form was cancelled from 29 January 2011.

In addition, with effect from May 2011, within the framework of its policy of liberalising the Ukrainian foreign exchange market, the NBU has permitted banks:

- to conduct arbitrage operations with other banks at the interbank foreign exchange market of Ukraine (i.e. to act as both seller and buyer in transactions on sale/purchase of any foreign currency at the interbank foreign exchange market during one day);
- 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 including banks, other financial institutions and business entities which are not financial institutions under the respective guarantees or suretyships entered into in respect of obligations of Ukrainian borrowers does not require a separate individual licence 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. In the first four months of 2013, the balance of consumer loans in foreign currency decreased by 6.6 per cent. (or UAH 5.6 billion) and amounted to UAH 78.1 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 further this goal, on 20 December 2011, the Parliament passed the Law of Ukraine "On amendments to Article 7 of the Decree of the Cabinet of Ministers of Ukraine 'On the system of the currency regulation and currency control'". This law allows residents of Ukraine to settle payments in hryvnia for export-import operations with their counterparts from other countries without an individual licence of the NBU. To this end, with effect from 20 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 declared and licensed by the NBU. These regulations have been in force since 10 March 2012.

The subsequent changes in the regulation of capital imports, which provide for further liberalisation of operations related to import of loan capital, were introduced by the Resolution of the NBU dated 15 June 2012. Under this resolution, the NBU introduced a simplified procedure for online registration of loan agreements in foreign currency for private borrowers that are not banks.

In November 2012, a law was passed authorising, among other things, the NBU to require (i) the mandatory partial sale of foreign currency proceeds received from export business and (ii) changes to the settlement term for import/export business for a period of up to six months. Pursuant to this law, on 17 November 2012, the NBU introduced a requirement for the mandatory sale of 50 per cent. of foreign currency proceeds received from the export of goods, as well as a reduction of the term for completion of settlement for import /export business from 180 calendar days to 90 calendar days. Starting from 12 October 2013 this rule applies not only to foreign currency proceeds received under the foreign economic contracts, but to all proceeds in foreign currency received by residents (which are not authorised banks) and private entrepreneurs. This rule also applies to operations of the authorised banks under the foreign economic contracts. In addition, the NBU introduced a mandatory requirement to sell foreign currency earnings of individuals from outside Ukraine to the extent that such earnings equal or exceed UAH 150,000 per month. These requirements were in force until 19 November 2013 and were subsequently extended until 17 May 2014 by the NBU resolution number 453 of 14 November 2013.

In 2013, the NBU extended the list of international financial organisations which may use national Ukrainian currency for settlements under loan agreements and guarantee agreements concluded by these organisations with residents of Ukraine. These amendments will help to extend the use of national currency for loan transactions and eliminate the risks of foreign lending for Ukrainian borrowers. On 7 October 2013, the amendments to the Law of Ukraine "On Securities and Stock Market" came into effect and international financial organisations received the right to issue notes denominated in hryvnia in Ukraine.

International Reserves

As at 31 December 2010 as compared to 31 December 2009, 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 4.2 months of import coverage. This increase was mainly due to positive balance (surplus) of the NBU interventions, funding from two tranches under the IMF standby 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 was equivalent to approximately 3.6 months of import coverage. As at 31 December 2012, international reserves amounted to U.S.$24,546.2 million, a decrease of 22.8 per cent. as compared to 31 December 2011, which was equivalent to 2.9 months of import coverage. The decrease in international reserves was influenced by the repayment and service of State and State-guaranteed debt, including the 2010 SBA, as well as interventions by the NBU in the interbank foreign exchange market. As at 31 December 2013, international reserves amounted to U.S.$20,415.7 million, a decrease of 16.8 per cent. as compared to 31 December 2012, which was equivalent to 2.4 months of import coverage. As at 1 February 2014, international reserves amounted to U.S.$17.8 billion, which was equivalent to 2.0 months of import coverage. The decrease in the amount of international reserves was due to the repayment of State debt in foreign currency, including a payment to the IMF as well as the implementation of certain measures to maintain the stability of the hryvnia in the foreign exchange market.

	As at 31 December				As at 31 January
	2010	2011	2012	2013	2014
		(U.S.$ millions)			
International reserves[1]	34,576.4	31,794.6	24,546.2	20,415.7	17,805.59
Including:					
Monetary gold[2]	903.2	1,008.6	1,148.3	987.47	1,027.57
Reserves in SDR and reserve position in IMF	8.0	17.9	9.2	16.04	31.26
Foreign currency[3]	33,665.2	30,768.1	23,388.7	19,412.2	16,746.8
Import coverage (months)[4]	4.2	3.7	2.9	2.4	2.0

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 2010, NBU sold foreign currency amounting to U.S.$68.2 million for the repayment of loans in foreign currency by individuals. The NBU believes that foreign currency auctions are an effective instrument which helps to decrease the pressure on the foreign currency market.

The improvement in the foreign exchange market allowed the NBU, as from March 2010, to resume the purchases 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.$1,327.1 million. In 2011, the negative balance of foreign exchange interventions amounted to U.S.$3,739.1 million. In 2012, the negative balance of foreign exchange interventions amounted to U.S.$7,498.8 million.

In 2013, the negative balance of intervention amounted to U.S.$3,145.7 million. In January 2014, the negative balance of intervention amounted to U.S.$1,742.3 million.

THE BANKING SYSTEM, SECURITIES AND FINANCIAL SERVICES MARKETS

The Banking System in Ukraine

A two tier banking structure exists in Ukraine, comprising a supervisory body (the NBU), with the banks underneath, which operate on a multipurpose 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 transactions and to revoke a bank's licence.

Since 20 December 2013, banks operating in Ukraine are divided by the NBU into four groups according to the value of their assets. The first group included 15 major banks with total assets of more than UAH 21,000 million; the second group included 20 banks with total assets ranging from UAH 6,000 million to UAH 21,000 million; the third group included 23 banks with total assets ranging from UAH 3,000 million to UAH 6,000 million; and the fourth group included 122 banks with total assets of less than UAH 3,000 million.

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. In addition, from 4 October 2006 to 5 August 2009 banks could be incorporated either as an open joint stock company or a cooperative bank. The law in force at that period prohibited the establishment of banks as closed joint stock companies or limited liability companies. All banks existing in the above mentioned forms had to reorganise their structure into either an open joint stock company or a cooperative bank within three years by 4 October 2009. 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 July 2010, 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 sufficiency (adequacy) ratio (solvency ratio) requirements of the NBU existing banks must have a ratio of at least 10 per cent. of a bank's risk-weighted assets. For banks that have been operating for less than 12 months, this threshold is at least 15 per cent., and for banks that have been operating between 12 and 24 months, this ratio is at least 12 per cent. The average regulatory capital sufficiency (adequacy) ratio across the Ukrainian banking sector was 18.26 per cent. as at 1 January 2013. The 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 least 9 per cent. The average ratio of regulatory capital to total assets of all Ukrainian banks was 13.85 per cent. as at 1 January 2014. 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 sufficiency (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 the State Export-Import Bank of Ukraine and the State Savings Bank of Ukraine, are fully State owned. A fully state-owned PJSC "State Land Bank" was established in September 2013.

As at 1 January 2014, 49 banks with foreign shareholders holding more than 10 per cent. were operating in Ukraine and 19 of these banks were fully foreign owned. The share of foreign capital in the total registered statutory capital of Ukrainian banks amounted to 34.0 per cent. as at 1 January 2014.

As at 1 January 2014 the total assets of banks with foreign shareholders amounted to UAH 796.4 billion (U.S.$99.7 billion); the total amount of the loans granted by these banks was UAH 537.8 billion (U.S.$67.3 billion); the capital of these banks amounted to UAH 89.4 billion (U.S.$11.2 billion); the assets of legal entities amounted to UAH 131.4 billion (U.S.$16.4 billion); the assets of individuals amounted to UAH 265.9 billion (U.S.$33.3 billion). The above figures are based on an exchange rate of U.S.$1.00 to UAH 7.99.

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. As at 1 January 2014, 14 banks (including two banks, the liquidation of which was handled by the Fund for Guaranteeing the Deposits of Individuals) 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 auditing company included in the Register of Auditors of Ukraine who has a right to carry out the audit inspection of banks.

If a bank violates banking laws and regulations or performs risk activity 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 of the violation or the risk level. Such measures include written warnings, convening a general meeting of shareholders, a meeting of the bank's management or supervisory board; execution of written agreements with the bank providing for the obligations of the bank or a person specified by the agreement to take measures to eliminate violations, improve the bank's financial standing, increase the operational efficiency and/or the adequacy of the risk management system; suspension of dividend payments or the distribution of capital in any other form; establishing the increased prudential standards for the bank;

increase of reserves for coverage of potential losses on loans and other assets; limitation, suspension, or termination of certain types of transactions performed by the bank; prohibition on granting of unsecured loans; imposition of fines on the bank, its management, and the owners of significant interest in the bank; temporary (as long as the violation subsists) prohibition on owners of a significant interest in the bank to exercise voting rights under acquired shares; temporary (as long as the violation subsists) dismissal of the bank's officials; classification of the bank as problem or insolvent bank; withdrawal of the banking licence and/or liquidation of the bank.

In case the banking group, responsible person of the banking group or other banking group members violate any banking laws and regulations or perform activities which may threaten the interests of the bank's depositors, or in case the banking group structure prevents the performance of supervision on a consolidated basis, the NBU shall have the right to impose the sanctions described above, as well as to establish for the banking group increased economic ratios and limits, as well as restrictions on the performance of certain types of transactions; prohibition of transactions between the bank and other members of the banking group; request the bank to dispose of its participation interests in the charter capital of its subsidiaries and associated companies, which are members of the banking group, and to terminate agreements based on which it exercises decisive influence over the management and/or operation of these entities in the absence of formal ownership.

The Law of Ukraine "On the System of Guaranteeing the Deposits of Individuals" (the "**System of Guaranteeing Law**") adopted by the Parliament on 23 February 2012 and in force as of 4 November 2012 has replaced the law "On the Fund for Guaranteeing the Deposits of Individuals" (the "**Deposit Securing Law**") (in force from 22 September 2012 to 23 February 2013). Upon its entry into force the System of Guaranteeing Law granted to the Fund for Guaranteeing the Deposits of Individuals (the "**Guarantee Fund**") the power to perform the temporary administration and liquidation of a bank which had previously been included in the competence of the NBU.

Under the Deposit Securing Law, commercial banks in Ukraine were obliged to remit to the Guarantee Fund, which was established under the Presidential Decree "On Measures for Protection of Rights of Individuals – Depositors of Commercial Banks of Ukraine" dated 10 September 1998 and which operated according to the Deposit 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. Deposits were recognised as unavailable, i.e. eligible for compensation, on the day of appointment of a bank's liquidator. The Deposit Securing Law did 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 Deposit Securing Law applied to branch offices of foreign banks operating in Ukraine.

The new System of Guaranteeing Law introduced new rules for monitoring the activities of problem banks by the NBU. Upon the entry into force of the System of Guaranteeing Law, the Guarantee Fund obtained the right, in particular, to alienate all or a part of the assets and liabilities of the insolvent bank to the receiving bank, accompanied by the withdrawal of the insolvent bank's banking licence and its further liquidation. The Guarantee Fund may also incorporate and sell a transitional bank with the transfer of all the insolvent bank's assets and liabilities to such transitional bank and the further liquidation of the insolvent bank. In accordance with the System of Guaranteeing Law, participants of the Guarantee Fund should pay the initial duty in the amount of 1 per cent. of their registered statutory capital (except for transitional banks) as well as regular duty in the amount of base annual rate of 0.5 per cent. in national currency and of 0.8 per cent. in foreign currency. As at 12 February 2014, the Guarantee Fund had 179 member banks. The aggregate amount of assets accumulated by the Guarantee Fund was UAH 8,115.0 million as at 1 February 2014. In addition, the Guarantee Fund may establish a transitional bank. In accordance with the procedure all assets of insolvent bank may be sold or transferred to the transitional bank subject to further liquidation of such insolvent bank.

In accordance with the System of Guaranteeing Law, the limit on the indemnity for amounts of deposits by individuals should be not less than UAH 200,000.

On 21 August 2012, the Administrative Council of the Guarantee Fund determined the indemnification amount for deposits by individuals including interest thereon at UAH 200,000, in accordance with the Programme of the Economic Reforms of the President of Ukraine for 2010 to 2014. From 31 December 2012 banks should apply improved reserves policies in relation to active bank transactions, in accordance with the Regulation on the Procedure for the Formation and Use of Reserves by the Banks of Ukraine dated 25 January 2012. These policies are based on the principles of the Basel Committee and are in accordance with the regulation on the produce for the Formation and Use of Reserves by the Banks of Ukraine dated 25 January 2012.

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 keeping of reserves. These transactions include: lending transactions between entities within the system of one bank (for banks with 100 per cent. of foreign investments – in settlements with parent company if such company is assigned an investment grade credit rating); funds transferred to the NBU; accounts receivable under the operations with currency and property lottery and under the indexation of currency savings; securities issued by central State executive authorities and the NBU; investments in shares (participatory interests) in stock exchanges, securities depositaries, payment systems and credit bureaus; uncommitted off balance sheet credit lines (other than commitments extended to banks) under which the bank is not obliged to provide the funds on the first demand of a counterparty (which are revocable and a bank does not have any risk under them).

There are several quality categories of active transactions/provided financial obligations, which depend on the following: estimate of a borrower's financial condition (determination of its category), condition of debt service, liquidity of guarantee as well as category, term and condition of the active banking operation.

For calculation of the level of reserves required, the assets/provided financial obligations are classified into five categories: "without risk" or "minimal risk" (I category); "medium risk" (II category); "significant risk" (III category); "high risk" (IV category) and "default" (V category). In addition, there is a range (limit) of risk rates within each category. This risk rate classification depends on the owner of the assets/party to the financial obligation, group of financial assets, accounts receivable as well as type of securities. For example, for legal entities (including banks and budget institutions) and individuals, the limit of risk rates is the following: 0.01-0.06 within I category; 0.07 – 0.2 within II category; 0.21 – 0.5 within III category; 0.51 – 0.99 within IV category and 1.0 for V category. Under the group of financial assets, the limit of rates depends on number of calendar days of delay in payment: 0.02 (I category); 0.1 (II category); 0.4 (III category); 0.8 (IV category); and 1.0 (V category). The limit of risk rate for the securities depends on type of security, its current value, financial condition of the issuer and other available information about circulation of the security in the stock exchange.

Within the limits established by the NBU, banks have a right to establish the limit of risk rates taking into consideration credit history of a borrower and other information ensuring the objective estimate of risks.

The NBU does not establish any special requirements for keeping reserves for loans in national and foreign currency. However, there are several specific rules for the determination of a category of a borrower, and if such borrower does not have a documentary acknowledgement of expected income in foreign currency, this may further influence the category of the loan.

The banks are obliged to determine the unified quality category of assets/provided financial obligations for one borrower.

The banks are obliged to keep reserve under the credit risks in the currency of the indebtedness. Since October 2008, banks have been prohibited from buying foreign currency as reserves for foreign currency loans.

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 was withdrawn from the agenda of the session. As of the date of this Prospectus, the question of whether the draft law will be discussed during the next session of the Parliament is under consideration.

On 12 May 2011, the Parliament adopted amendments to the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" introducing the mandatory use of International Financial Reporting Standards ("**IFRS**") by public joint stock companies, banks, insurers, credit unions and enterprises rendering certain financial services, supporting services in the financial and insurance fields as well as asset management services. In accordance with the Resolution of the Cabinet of Ministers "On Approval of Financial Statement Filing Procedure" dated 28 February 2000 (the "**Financial Reporting Resolution**"), public joint stock companies, banks and insurers are required to use 1 January 2012 as the date of transition to IFRS, enterprises rendering certain financial services are required to use 1 January 2013 as the date of transition to IFRS and credit unions and enterprises rendering supporting services in the financial and insurance field and asset management services will be required to use 1 January 2014 as the date of transition to IFRS. As envisaged by the IFRS strategy approved by the Cabinet Of Ministers in the Resolution "On Approval of the Strategy on Implementation of International Financial Reporting Standards in Ukraine" dated 24 October 2007, the implementation of IFRS standards in Ukraine is intended to improve investment climate and transparency of capital markets, allow Ukraine to meet the requirements of the EU accounting and financial standards and improve the corporate governance system.

On 19 June 2013, the NBU issued resolution number 237, which aims to improve the methodology of accounting for mortgage bonds issued by banks and mortgage loans, which are included in the mortgage coverage for such bonds, in the calculation of prudential regulations and provisioning for possible losses on active banking operations.

On 15 June 2013, by resolution number 276, the NBU included the loans to the main administrators of budget funds, which are guaranteed by the State, in the list of assets which are taken into account in the calculation of the capital adequacy ratio.

Given the floating exchange rate of the hryvnia and certain pressure on foreign exchange markets due to the drop in value of the hryvnia, the NBU implemented certain measures to maintain the stability of the hyrvnia on the foreign exchange markets. In particular, the NBU increased its involvement in the interbank market and undertook all available measures to stabilize the exchange rate. These measures had a positive effect, but were limited in their impact due to external and internal factors.

On 6 February 2014, given the above and the necessity to maintain the exchange rate of the hryvnia, the NBU approved a resolution aimed at protecting the interests of depositors and other bank creditors which provides for, among other things, the use of NBU instruments to maintain bank liquidity; a zero rate of reserves for short-term external loans; certain restrictions on execution of clients' payment orders; temporary restrictions on the purchase of foreign currency on the interbank market of Ukraine for certain operations; certain restrictions on the terms for the purchase of foreign currency by authorised banks on behalf of legal entities and private entrepreneurs. In addition, this resolution provides for additional control measures for the timely payment of wages, pensions, scholarships and other social payments. The resolution does not restrict certain types of payments such as the payment for medical treatment abroad and payments of wages of non-residents working in Ukraine.

The resolution came into force on 7 February 2014 and will be in force until further decision of the NBU.

In addition, the NBU amended its mechanism for supporting the liquidity of the banking sector.

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., respectively, 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 assess the size and structure of the assets and liabilities of Ukrainian banks, attempting to limit the risks inherent to their activities.

Liabilities

As at 1 January 2014, the aggregate liabilities of Ukrainian banks amounted to UAH 1,085.5 billion, as compared to UAH 957.9 billion as of January 2013. In 2013 the increase of 13.9 per cent. followed the increase in the deposits of individuals by 19.2 per cent. and the increase in the deposits of legal entities by 16.0 per cent. At the same time, the amount of the interbank loans and deposits decreased by 9.7 per cent.

As at 1 January 2014, the ratio of foreign currency liabilities to total liabilities was 45.9 per cent. compared to 52.1 per cent. as at 1 January 2013. As at 1 January 2014, Ukrainian banks had the following liability structure:

- deposits of economic entities amounted to UAH 234.9 billion (21.6 per cent. of the banking sector's liabilities) compared to UAH 202.6 billion (21.1 per cent. of the banking sector's liabilities) as at 1 January 2013;
- retail deposits amounted to UAH 433.7 billion (40.0 per cent. of the banking sector's liabilities) compared to UAH 364.0 billion (38.0 per cent. of the banking sector's liabilities) as at 1 January 2013;
- interbank credits and deposits amounted to UAH 109.2 billion (10.1 per cent. of the banking sectors' liabilities) compared to UAH 120.9 billion (12.6 per cent. of the banking sectors' liabilities) as at 1 January 2013;

- budget and non-budget funds amounted to UAH 2.7 billion (0.2 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 1 January 2013;
- NBU deposits amounted to UAH 74.8 billion (6.9 per cent. of the banking sector's liabilities) compared to UAH 74.0 billion (7.7 per cent. of the banking sector's liabilities) as at 1 January 2013;
- funds of non-bank financial institutions amounted to UAH 21.6 billion (2.0 per cent. of the banking sector's liabilities) compared to UAH 17.9 billion (1.9 per cent. of the banking sector's liabilities) as at 1 January 2013;
- subordinated debt amounted to UAH 38.8 billion (3.6 per cent. of the banking sector's liabilities) compared to UAH 32.5 billion (3.4 per cent. of the banking sector's liabilities) as at 1 January 2013;
- own debt securities amounted to UAH 13.9 billion (1.3 per cent. of the banking sector's liabilities) compared to UAH 10.9 billion (1.1 per cent. of the banking sector's liabilities) as at 1 January 2013;
- loans from international and other institutions amounted to UAH 40.5 billion (3.7 per cent. of the banking sector's liabilities) compared to UAH 28.4 billion (3.0 per cent. of the banking sector's liabilities) as at 1 January 2013;
- correspondent accounts of other banks amounted to UAH 23.7 billion (2.2 per cent. of the banking sector's liabilities) compared to UAH 18.0 billion (1.9 per cent. of the banking sector's liabilities) as at 1 January 2013; and
- other liabilities amounted to UAH 91.7 billion (8.4 per cent. of the banking sector's liabilities) compared to UAH 83.0 billion (8.7 per cent. of the banking sector's liabilities) as at 1 January 2013.

As at 1 January 2014, the liabilities of Ukrainian banks to non-residents amounted to UAH 219.6 billion or 20.2 per cent. from the total amount of the liabilities compared to UAH 212.5 billion as at 1 January 2013. The banks with foreign investments have 73.5 per cent. of the total liabilities of Ukrainian banks.

Assets

Assets (total assets less accumulated reserves on active transactions) amounted to UAH 1,278.1 billion as at 1 January 2014 as compared to UAH 1,127.2 billion as at 1 January 2013. In 2013 the total assets increased by 11.1 per cent. Total assets amounted to UAH 1,408.7 billion as at 1 December 2013 compared to total assets of UAH 1,267.9 billion as at 1 January 2013.

As at 1 January 2014, Ukrainian banks' total assets consisted of the following:

- loan portfolio of UAH 911.4 billion (64.7 per cent. of the banking sector's total assets) compared to UAH 815.3 billion (64.3 per cent. of the banking sector's total assets) as at 1 January 2013;
- investments in securities of UAH 138.3 billion (9.8 per cent. of the banking sector's total assets) compared to UAH 96.3 billion (7.6 per cent. of the banking sector's total assets) as at 1 January 2013;
- accounts receivable of UAH 62.8 billion (4.5 per cent. of the banking sector's total assets) compared to UAH 64.7 billion (5.1 per cent. of the banking sector's total assets) as at 1 January 2013;

- fixed assets and intangible assets amounted to UAH 57.7 billion (4.1 per cent. of the banking sector's total assets) compared to UAH 54.0 billion (4.3 per cent. of the banking sector's total assets) as at 1 January 2013;
- accrued revenues that have not yet been received amounted to UAH 53.0 billion (3.8 per cent. of the banking sector's total assets) compared to UAH 53.2 billion (4.2 per cent. of the banking sector's total assets) as at 1 January 2013;
- funds at the NBU amounted to UAH 47.2 billion (3.4 per cent. of the banking sector's total assets) compared to UAH 33.7 billion (2.7 per cent. of the banking sector's total assets) as at 1 January 2013;
- cash and bullion reserves amounted to UAH 36.4 billion (2.5 per cent. of the banking sector's total assets) compared to UAH 30.3 billion (2.4 per cent. of the banking sector's total assets) as at 1 January 2013; and
- other assets amounted to UAH 101.9 billion (7.2 per cent. of the banking sector's total assets) compared to UAH 120.4 billion (9.4 per cent. of the banking sector's total assets) as at 1 January 2013.

The loan portfolio of Ukrainian banks decreased by 1.2 per cent. in 2012 compared to 2011. In January to November 2013, the loan portfolio increased by 11.8 per cent. The loan portfolio consisted of the following borrowers as at 1 January 2014:

- loans granted to economic entities of UAH 698.8 billion (76.7 per cent. of the total loan portfolio) compared to UAH 609.2 billion (74.7 per cent. of the total loan portfolio) as at 1 January 2013;
- loans granted to individuals of UAH 167.8 billion (18.4 per cent. of the total loan portfolio) compared to UAH 161.8 billion (19.6 per cent. of the total loan portfolio) as at 1 January 2013;
- deposits placed with other banks and loans granted to other banks of UAH 38.3 billion (4.2 per cent. of the total loan portfolio) compared to UAH 38.0 billion (4.7 per cent. of the total loan portfolio) as at 1 January 2013;
- loans granted to non-banking financial institutions of UAH 0.8 billion (0.1 per cent. of the total loan portfolio) compared to UAH 0.6 billion (0.1 per cent. of the total loan portfolio) as at 1 January 2013; and
- loans granted to State authorities of UAH 5.8 billion (0.6 per cent. of the total loan portfolio) compared to UAH 5.8 billion (0.7 per cent. of the total loan portfolio) as at 1 January 2013.

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 2010 was largely due to 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, was 14.9 per cent. as at 31 December 2010 and 14.3 per cent. as at 31 December 2011. The significant increase in doubtful and bad loans in 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.

As at 31 December 2012, the NBU implemented new methodological approaches for the estimation of credit risks based on IFRS requirements.

According to the new regime, all assets and financial obligations are classified into five categories: “without risk” or “minimal risk (I category)”; “medium risk (II category)”; “significant risk (III category)”; “high risk (IV category)”; and “default (V category)”.

As at 31 December 2012, the share of “high risk” and “default” loans in the total loan portfolio was 16.5 per cent.

As at 1 October 2013, the share of “high risk” and “default” loans in the total loan portfolio was 13.5 per cent. In 2013, the volume of loans in the “high risk” and “default” categories decreased by 11.4 per cent. (UAH 19.7 billion) and amounted to UAH 154.0 billion as at 1 December 2013. As at 1 January 2014 the share of “high risk” and “default” loans was 12.9 per cent. In 2013, the revenues of the banking sector increased by 12.3 per cent. as compared to 2012.

The IMF provided its own estimates as to the quality of the banking assets in its country report on Ukraine in November 2012. Under the broad definitions of non-performing loans used by the IMF, 39.0 per cent. of loans held by Ukrainian banks were non performing as at 31 March 2012. Under a narrower definition, the IMF excludes from non-performing loans those substandard loans that are serviced in a timely manner. Under such narrower definition, the IMF estimated that 15.0 per cent. of loans were non performing as at 31 March 2012.

Revenues and Profitability

In comparison to 2009, the total aggregate revenue of the banking sector 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, the total aggregate revenue of the banking sector was 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 2012, the total aggregate revenue of the banking sector increased by 5.4 per cent. as compared to 2011 amounting to UAH 150.4 billion. Interest revenues amounted to UAH 117.5 billion (78.1 per cent. of the total revenues) and commission revenues amounted to UAH 21.2 billion (14.1 per cent. of total revenues). In January to November 2013, the total aggregate revenue of the banking sector increased by 10.0 per cent. compared to the corresponding period in 2012. As at 1 December 2013, the total aggregate revenue of the banking sector amounted to UAH 151.1 billion, including interest revenues of UAH 117.6 billion (or 77.8 per cent. of total revenues) and commission revenues of UAH 22.6 billion (or 15.0 per cent. of total revenues).

In 2010 and 2011, the total losses in the banking sector were UAH 13.0 billion and UAH 7.7 billion, respectively. In 2012, the banking sector returned to profitability, with profits of UAH 4.9 billion. As at 1 January 2014, profits of the banking sector amounted to UAH 1.4 billion.

In 2013, revenues of the banking sector increased by 12.3 per cent. as compared to 2012. As at 1 January 2014, revenue of the banking sector amounted to UAH 168.9 billion, including interest revenues in the amount of UAH 129.9 billion (or 76.0 per cent. of total revenues) and commission revenues of UAH 25.0 billion (or 14.8 per cent. of total revenues).

Measures taken to stabilise the Banking Sector

Until 2008, Ukrainian banks aggressively expanded their loan portfolios based primarily on 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. This, along with concerns over political instability in the country, led to a withdrawal of foreign capital from Ukraine and, combined with significant withdrawals of deposits and lending freezes, resulted in significant liquidity problems at Ukrainian banks. However, confidence in the Ukrainian banking market returned to a certain extent and, by 31 December 2011, the share of foreign capital in the charter capital of Ukrainian banks increased to approximately 42 per cent. Subsequently, the share of foreign capital in banking system of Ukraine fell back slightly to approximately 38-40 per cent. due primarily to changes in international banks' strategies, in particular refraining from participation in higher risk activities such as the retail banking business in Ukraine.

As at 1 February 2014, 12 banks had been placed into liquidation (before the System of Guaranteeing Law was in force) and the liquidation balance sheets of 11 banks have been approved. Unsold assets of these banks have been transferred to legal entities specifically created to manage such assets.

After the System of Guaranteeing Law came into force, two banks were categorised by the NBU as insolvent. At the proposal of the Guarantee Fund, the NBU made a decision to revoke these banks' licences and to liquidate these banks. Following such decision, the Guarantee Fund received the rights of the liquidator and commenced the liquidation procedures.

In light of threats to solvency, between October 2008 and 22 September 2012 (until the Deposit Securing Law entered into force) the NBU imposed temporary administration and a moratorium on the satisfaction of the claims of creditors in respect of 28 banks, including five banks that belonged to the group of the largest banks. Out of those banks, 21 banks have entered liquidation (seven banks in 2009, eight banks in 2010, three banks in 2011, and three in 2012) 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, temporary administration was lifted from Rodovid Bank. As at 28 February 2013, a temporary administration procedure was in place in relation to one bank and liquidation procedures were ongoing in respect of 19 banks, including 14 banks in respect of which liquidation procedures were commenced between 2010 and 2012. The liquidation procedures relating to 10 banks were finalised between 2009 and 2010.

Certain provisions of the law instituted in 2008 to allow for the recapitalisation of the banking system, were repealed effective from 1 January 2012.

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 (including 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 UkrGasBank, UAH 3.6 billion to PJSC "Joint-Stock Commercial Bank" "Kyiv" ("**Kyiv Bank**"), 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 UkrGasBank and UAH 5.6 billion to Rodovid Bank (to ensure a repayment of retail deposits transferred from LLC Ukrprombank ("**Ukrprombank**") (see below). In 2011, the additional recapitalisation of UkrGasBank totalling UAH 4.3 billion and Rodovid Bank totalling UAH 3.95 billion against contributions of T-bills by the Government was carried out. As at 1 May 2013, the governmental shareholdings in these banks were equal to 93 per cent. in UkrGasBank and over 99 per cent. in each of Kyiv Bank and Rodovid Bank. As a result of recapitalisation by the State, as the date of this Prospectus, UkrGasBank, Kyiv Bank and Rodovid Bank meet the capital requirements established by NBU.

On 14 March 2012, the Parliament of Ukraine passed a law "On specific sale of shares owned by the State in the charter capital of banks which were capitalised by the State". On 14 November 2012, the Cabinet of Ministers approved the Resolution "On establishment of the Committee responsible for the sale of shares owned by the State in the charter capital of banks which were capitalised by the State".

Under this law and the Resolution of the Cabinet of Ministers, the Committee will consist of representatives of the Ministry of Finance, the Ministry of Economic Development and Trade of Ukraine, the State Property Fund of Ukraine and the Ministry of Justice of Ukraine. The representatives of the National Securities and Stock Market Commission and the NBU may also be appointed to the Committee, with their prior consent. The decision regarding the sale of shares of banks which were capitalised by the State, shall be made by the Cabinet of Ministers of Ukraine on the recommendation of the Ministry of Finance prepared with the consideration of recommendation of council responsible for the sale of banks' shares (involved by the Ministry of Finance in accordance with the State procurement laws).

On 14 September 2011, the Cabinet of Ministers approved an instruction which provides for the establishment of a "sanation bank" (a bank carrying out activities with assets of banks owned by the State which were capitalised by the State) on the basis of Rodovid Bank to manage Rodovid Bank's problem assets. This "sanation 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.

On 23 December 2011, the NBU approved a resolution providing for the terms of the registration, licensing and commencement of activity for a "sanation bank" to manage Rodovid Bank's problem 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 NBU does not apply to Rodovid Bank the economic restrictions and limits on the bank's currency position. By the special decision of the NBU the bad assets will be transferred to Rodovid Bank upon relevant amendments to legislation.

The NBU issued Rodovid Bank with a "sanation bank" licence dated 15 June 2012. In order to ensure the operation of the "sanation bank", the Cabinet of Ministers of Ukraine submitted for consideration draft laws "On specifics in operation of sanation banks" dated 24 December 2012 and "On amendments to Tax Code of Ukraine regarding the operation of 'sanation bank' with assets of state banks and banks which were capitalised by the State". These amendments will govern the transfer of state problem assets to Rodovid Bank. On 4 June 2013, as a result of the second hearing, the draft law was removed from the agenda. At the same time, the alternative draft law "On amendments to the legal acts of Ukraine on activity of the sanation bank" was submitted for consideration. On 3 October 2010, this law was considered by the Parliament Committee on Banking and Finance.

In addition, the Ministry of Finance of Ukraine with the participation of representatives from the NBU, the State Tax Service, Rodovid Bank, Kyiv Bank and UkrGasBank, established a group which developed a mechanism of transfer of the State's problem assets to Rodovid Bank as well as prepared the bank to accept these assets, i.e. ensured the termination of the bank's operating activities, undertook measures to establish a "sanation bank" on the basis of Rodovid Bank and developed a system for receipt of problem assets from banks. Thus, Rodovid Bank has been prepared for management of "bad" assets and it currently operates as a "sanation bank".

Upon introduction of the relevant amendments, bad assets will be transferred to Rodovid Bank. It will help to clear up balance sheets of capitalised banks in order to increase their value.

The Supervisory Board of Kyiv Bank approved the temporary budget for the second half of 2013 and amendments to the Program of financial recovery of Kyiv Bank for the period from 2012 to 2016. The above Program provides for the reorganisation of Kyiv Bank. As at the date of this Prospectus, the NBU expects to receive suggested amendments to the Program of the Financial Recovery of Kyiv Bank for the period of 2012 to 2016 for its consideration.

Nadra Bank was recapitalised in 2011 and the provisional administrative powers over Nadra Bank terminated on 13 August 2011. Centragas Holding AG increased Nadra Bank's authorised capital by UAH 3.5 million, bringing the charter capital of Nadra Bank to UAH 3.9 million as of 21 June 2011, and Nadra Bank obtained funds in the form of subordinated debt in the amount of UAH 419 million from private investors later in that year. The consequences of this were increased liquidity, meaning that Nadra Bank was able to meet its financing obligations.

As at the date of this Prospectus, Nadra Bank continues its operations under the supervision of the NBU in accordance with an agreement between the NBU and Nadra Bank dated 15 August 2011 and the Plan (Programme) of financial restructuring of Nadra Bank for the period from 2013 to 2017. These documents also provide for additional capitalisation of Nadra Bank. As a result, in 2012 and 2013, Nadra Bank obtained further funds in the amount of UAH 1,022 million. These funds were provided by the following investors: PJSC "Kyivoblgaz", PJSC "Lvivgaz", PJSC "Khmelnitskgaz", PJSC "Zhytomyrgaz", PJSC "Rivnegaz" and PJSC "Chernigivgaz", PJSC "Dnipropetrovskgaz", PJSC "Luganskgaz", PJSC Zaporizhgaz", PJSC "Sumygaz", PJSC "Mykolaivgaz" and PJSC "Ivano-Frankivskgaz".

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 problem loans as well as a prohibition on enforcement against mortgaged residential real estate other than in restricted circumstances. On 22 September 2011, Parliament passed a law introducing amendments to Article 11 of Law of Ukraine "On protection of consumers rights". These amendments prohibit provision of retail loans to individuals in foreign currency in Ukraine. This law came into force on 16 October 2011.

On 15 February 2011, the Parliament adopted amendments to the 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 and increase their responsibility. 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). In addition, this law improved the methods of government supervision of the financial services market by implementing government supervision on a consolidated basis, vesting the state regulators with a right to determine requirements for banking and non-banking financial groups. State regulators have also been vested with the right to set up sub-groups within one group for supervision on a sub-consolidated (consolidated supervision of sub-groups) basis.

The recently passed Law of Ukraine "On the System for Guaranteeing the Deposits of Individuals", which became effective on 22 September 2012, was prepared in collaboration with the NBU and 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. The NBU suggested to consider the draft law on the second reading, however, as at the date of this Prospectus, the second reading has not yet taken place and the draft law has not yet been considered by the Parliament. 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 to 2014 Economic Reform Programme provides for the implementation in 2010 to 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 problem assets, continued the process of recapitalising, reorganising or liquidating banks that became insolvent during the 2008 to 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 in the securities market;
- in 2013, Ukraine continued further capitalisation of banks and facilitation of the consolidation in the financial sector, continued to undertake steps to improve prudential supervision over financial institutions (including the introduction of supervision on a consolidated basis), and completed a transition to the preparation of financial statements by all financial institutions in accordance with the IFRS. In addition, Ukraine continued in 2013 to implement measures for the privatisation of banks which became State owned following their State sponsored recapitalisation in 2009 and to develop a regulatory framework for transactions with derivatives. The 2013 State Budget envisaged capitalisation of Oshadbank by UAH 1.4 billion; 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 three main exchanges, although the country has 10 stock exchanges in total. The three main exchanges are PJSC "First Securities Trading System Stock Exchange", PJSC "Ukrainian Stock Exchange" and PJSC "Perspectyva", which had 137, 163 and 148 member companies, respectively, as at 5 July 2013.

The cumulative aggregate volume of securities issuances registered with the National Securities and Stock Market Commission of Ukraine increased by UAH 96.34 billion, or 13.02 per cent. (as compared to 31 December 2009) to UAH 836.1 billion as at 31 December 2010. As at 31 December 2011, the aggregate volume of securities issued increased by UAH 179.17 billion, as compared with 31 December 2010, and amounted to UAH 1,014.78 billion. As at 31 December 2012, the aggregate volume of securities issuances registered with the National Securities and Stock Market Commission of Ukraine increased by UAH 107.72 billion (as compared to 31 December 2011) and amounted to UAH 1,122.50 billion. In 2013, the aggregate volume of securities registered with the National Securities and Stock Market Commission of Ukraine increased by UAH 144.38 billion and as at 31 December 2013 amounted to UAH 1,266.89 billion.

In 2011, the aggregate volume of registered share issuances in Ukraine increased by UAH 17.20 billion as compared to 2010 and amounted to UAH 57.79 billion. The National Securities and Stock Market Commission of Ukraine registered 558 share issuances in that year. 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 as National Securities and Stock Market Commission of Ukraine registered 209 corporate bond issuances in that year. In the same year, the National Securities and Stock Market Commission of Ukraine also registered 8 issuances of internal local bonds, the aggregate volume of which amounted to UAH 584.5 million. In the same year, the aggregate volume of registered collective investment scheme securities increased by UAH 39.05 billion as compared to

2010, while 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 the same year, 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 2012, the aggregate volume of registered share issuances in Ukraine decreased by UAH 42.32 billion, as compared to 2011, amounting to UAH 15.84 billion through 247 share issuances. From January to September 2013, the aggregate volume of registered share issuances increased by UAH 16.20 billion compared to the relevant period in 2012 and amounted to UAH 33.72 billion through 145 share issuances. In 2013, the aggregate volume of registered share issuances in Ukraine increased by UAH 48.70 billion, as compared to 2012, and amounted to UAH 64.54 billion through 218 share issuances. The aggregate volume of registered corporate bond issuances increased by UAH 15.47 billion, as compared to 2011, and amounted to UAH 51.38 billion through 332 corporate bond issuances. From January to September 2013, the aggregate volume of registered corporate bond issues decreased by UAH 2.77 billion compared to the relevant period of 2012 and amounted to UAH 25.99 billion through 183 corporate bond issuances. In 2013, the aggregate volume of registered corporate bonds issuances decreased by UAH 6.63 billion, as compared to 2012, and amounted to UAH 44.76 billion through 278 bond issuances. In 2012, the aggregate volume of registered collective investment scheme securities amounted to UAH 34.04 billion and decreased by UAH 50.48 billion, as compared to 2011, while the aggregate volume of registered AMC investment certificate issuances decreased by UAH 55.79 billion, as compared to 2011, amounting to UAH 19.96 billion. In the same year, the aggregate volume of registered corporate investment fund shares issuances increased by UAH 5.31 billion, as compared to 2011 and amounted to UAH 14.08 billion. From January to September 2013, the aggregate volume of registered collective investment scheme securities amounted to UAH 26.83 billion, while the aggregate volume of registered AMC investment certificate issuances increased by UAH 9.94 billion, compared to the relevant period in 2012, and amounted to UAH 23.84 billion. In the same period, the aggregate volume of registered corporate investment fund shares decreased by UAH 8.81 billion, compared to the relevant period in 2012, and amounted to UAH 2.99 billion. In 2013, the aggregate volume of registered corporate investment fund shares registered by the National Securities and Stock Market Commission amounted to UAH 35.08 billion. In the same period, the registered AMC investment certificate issuances increased to UAH 8.84 billion and amounted to UAH 28.80 billion.

As at 30 September 2010, the total trading volume on all organised and over the counter securities markets in Ukraine was UAH 1,040.0 billion. Trading volume on organised securities markets amounted to UAH 131.2 billion in 2010. The largest trading volumes were recorded in T-bills (UAH 60.86 billion, or 46.0 per cent. of all contracts executed on organised securities markets, as compared to 22.5 per cent. 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 2010. In 2012, trading volumes on organised securities markets amounted to UAH 263.67 billion, a decrease of UAH 28.23 billion compared to 2011. from January to September 2013, trading volumes on organised securities markets increased by a factor of 2.0 and amounted to UAH 350.82 billion as compared to UAH 164.12 billion for the corresponding period in 2012. In 2013, the trading volumes on organised securities markets amounted to UAH 1.7 billion. The largest trading volumes were recorded in T-bills and corporate bonds (UAH 257.29 billion or 73.34 per cent. and UAH 36.0 billion or 10.25 per cent. of all contracts executed on organised securities markets, respectively). In 2013, trading volumes on organised securities markets amounted to UAH 474.63 billion. The largest trading volumes were recorded in T-bills and corporate bonds (UAH 351.33 billion or 74.02 per cent. and UAH 49.41 billion or 10.41 per cent. of all contracts executed on organised securities markets, respectively).

The National Securities and Stock Market Commission of Ukraine, which was established on 23 November 2011 by the President Decree, 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

30 November 2013, there were 1,227 professional participants in the securities markets, including 559 securities traders, two depositaries conducting both depositary and clearing activities, 314 custodians, 134 registrars, 10 stock exchanges, 343 asset management companies and one licence was granted for clearing activities. As at 30 September 2013, the National Securities and Stock Market Commission issued 1,403 licences for professional participants in the securities market, including: 576 securities traders, two depositaries licencees conducting depositary activities, two depositaries conducting clearing activities, 118 registrars, 354 custodians, 10 stock exchanges and 341 asset management companies.

All companies with more than 500 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 2012 to 2014 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.

In 2010, a number of changes were introduced to the licensing rules for professional participants in the securities markets. These changes were 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.

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. In 2012, a number of changes were introduced to the licensing rules for professional participants in the securities markets. These changes were aimed at establishing licensing requirements and improving the licensing procedure for the operation of mortgage collateral and introducing changes to the licensing requirements for asset management activities performed by the institutional investors. In addition, the National Securities and Stock Market Commission of Ukraine introduced a number of changes to establish requirements for bond issues and their circulation. These amendments, among others, simplify the procedure of bond issue registration, improve the state regulation of the securities market and harmonise legislation on bond issues. On 20 June 2013, the National Securities and Stock Market Commission established a mechanism for granting permits for the placement and/or circulation of securities of Ukrainian issuers outside Ukraine. On 5 November 2013, the National Securities and Stock Market Commission approved decision number 2516 "On approval of tender rules applied to stock exchanges where the bonds of the financial obligations may be placed". The relevant rules provide for the grounds for tender offers, the composition of the tender commission, the main rules for the participation in tenders as well as rules for the maintenance of the register.

On 6 June 2012, Parliament passed the Law of Ukraine "On Depository System of Ukraine" (in force from 12 October 2013). This law provides, among others, for the establishment of the Central Securities Depository and Central Counterparty Clearing Center in Ukraine, clearing rules and requirements for clearing institutions, and the establishment of a centralised custodian accounting of the securities in accordance with international standards.

The Financial Services Markets in Ukraine

The National Commission for the Regulation of Financial Services Markets in Ukraine, which was established in 2011 (as a successor to the State Commission for the Regulation of Financial Services established in 2003 and liquidated in 2011), 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 1 February
	2010	**2011**	**2012**	**2013**	**2014**
Credit unions	659	613	617	622	625
Insurance companies	456	442	414	413	406
Pawnbrokers	426	456	473	480	479
Legal entities which do not have the status of financial institution but are permitted to render specific kinds of financial services (financial leasing)	199	217	241	254	253
Insurance and reinsurance brokers	60	60	60	62	56
Financial companies	221	251	312	378	382
Administrators of non-State pension funds	43	40	37	28	28
Non-State pension funds	101	96	94	81	81
State entities providing financial services	29	29	29	30	30
Other non-bank credit institutions	42	49	62	85	85

The total assets of the non-bank financial sector are insignificant in comparison with the total assets of commercial banks. The total assets of non-bank financial institutions increased by 14.6 per cent., 14.3 per cent. and 25.8 per cent. in 2010, 2011 and 2012, respectively. The total assets of non-financial institutions amounted to UAH 69.9 billion, UAH 79.9 billion and UAH 100.8 billion in 2010, 2011 and 2012, respectively.

The following table sets forth information concerning the main economic indicators of non-bank financial institutions as at the dates indicated:

	As at 31 December			As at 30 September
	2010	**2011**	**2012**	**2013**
Insurance				
Number of executed insurance agreements (thousands)	619,112	617,992	178,157	105,682
Total assets (UAH million) (at period end)	45,235	48,123	56,225	65,805
Insurance reserves (UAH million) (at period end)	11,375	11,179	12,578	13,859
Gross insurance premiums (UAH million)	23,082	22,694	21,508	21,365
Gross insurance payments (UAH million)	6,105	4,864	5,150	3,622
Financial companies				
Total assets (UAH million) (at period end)	10,227	19,894	29,700	40,779
Volume of rendered services (UAH million)	29,304	29,008	41,896	33,885
Credit unions				
Number of members (thousands) (at period end)	1,570	1,062	1,096	979
Total assets (UAH million) (at period end)	3,432	2,387	2,657	2,807
Volume of extended loans to members (UAH million)	3,350	2,237	2,531	2,625
Volume of raised deposits of members (UAH million)	1,945	1,186	1,278	1,363
Pawnbrokers				
Total assets (UAH millions) (at period end)	888	1,204	1,558	1,477
Volume of loans extended during the period (UAH million)	5,503	7,325	8,945	5,895
Non-State pension funds				
Number of participants under executed pension contracts (thousands) (at period end)	569	595	585	589
Total assets (UAH million) (at period end)	1,144	1,387	1,660	1,933
Pension contributions (UAH million)	925	1,102	1,314	1,501
Pension disbursements (UAH million)	158	209	252	285

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 2012, the total assets of financial companies amounted to UAH 29.7 million. As at 31 December 2012, the total assets of insurance companies amounted to UAH 56,225 million, a 16.8 per cent. increase as compared to UAH 48,123 million in 2011.

As at 30 September 2013, the total assets of insurance companies amounted to UAH 65,805 million, a 25.6 per cent. increase as compared to 30 September 2012. As at 30 September 2013, the total assets of credit unions amounted to UAH 2,807 million, an increase of 2.8 per cent. as compared to 30 September 2012. As at 30 September 2013, the total assets of pawnbrokers amounted to UAH 1,477 million, a 3.0 per cent. increase as compared to 30 September 2012.

The assets of credit unions amounted to UAH 3.4 billion, UAH 2.4 billion and UAH 2.7 billion as at 31 December 2010, 31 December 2011 and 31 December 2012, respectively. This overall 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 2012, the total assets of pawnbrokers increased by 29.4 per cent. as compared to 31 December 2011. As at 31 December 2012, the total assets of pawnbrokers amounted to 1.6 billion.

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 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. As at 31 December 2012, the total assets of non-state pension funds amounted to UAH 1.6 billion, an increase of 19.7 per cent. as compared to 2011. As at 30 September 2013, the total assets of non-state pension funds amounted to 1.9 billion, a 24.8 per cent. increase as compared to 30 September 2012.

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 reinsurance 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 reinsurance 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 a memorandum of undertaking 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.

In 2012, there were several negative trends in the non-bank financial sector, including the outflow of indirect investments; restrictions of access to internal and external credit resources; instability of exchange rates; and absence of mechanisms for the protection of consumers of financial services.

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.

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 law became effective 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.

In September 2012, a law was passed introducing a number of changes aimed at streamlining governmental processes.

In addition, in 2012, the National Commission for Regulation of the Financial Services Markets of Ukraine drafted a number of legal acts concerning (i) the prohibition of pyramid investment schemes; and (ii) the procedure for the guarantee of life insurance agreement pay-outs.

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 problem 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. In order to improve the legislation on providing financial services, the National Commission for the Regulation of Financial Services Markets in Ukraine has developed a number of draft laws regulating (i) pawnbrokers' activities, (ii) the reform and development of the national system of credit cooperation and (iii) the guaranteeing of deposits of members of credit unions.

In 2013, National Commission for the Regulation of Financial Services Market in Ukraine introduced a number of draft laws in order to implement the 2010 to 2014 Economic Reform Programme. One of these laws was adopted by Parliament in 2013 in order to further regulate the provision of financial services.

The priorities of the National Commission for Regulation of the Financial Services Markets of Ukraine for 2014 include: introducing legislation in compliance with Directive 2009/138/EU of the European Parliament and of the Council dated 25 November 2009 "On the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)", in particular, with regard to the determination of requirements for solvency, accounting and disclosure of the information the management system of the insurance companies; the authorities of the regulatory institutions; ensuring the establishment of a guarantee system for insurance payments under life insurance agreements; ensuring performance of legal requirements on the mandatory disclosure of information by financial market participants; implementing further steps required for the supervision of non-banking financial institutions; ensuring supervision of financial groups on a consolidated basis; protecting the rights of consumers of non-banking financial services and improving legislation on regulating activities of credit unions and further reform of the pension system.

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 purchasers of Notes in this offering 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). In addition, this summary does not address the U.S. federal income tax consequences of the Medicare surtax.

As used herein, the term "**U.S. Holder**" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation (or any other entity that is treated as a corporation for U.S. federal income tax purposes) created or organised under the laws of the United States, any State thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax advisers concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Notes by the partnership.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as at the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Qualified Reopening

The Notes and the Original Notes will constitute the same issue of notes for U.S. federal income tax purposes. Accordingly, the Notes have the same issue date, issue price and adjusted issue price as the Original Notes for U.S. federal income tax purposes. The issue price of the Original Notes is 100 per cent.

Payments of Interest

General

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.

Treatment of Premium

If a U.S. Holder's basis upon purchase of a Note (taking into account any reduction in basis equal to the pre-issuance accrued interest, discussed below) is greater than its principal amount, the U.S. Holder will be considered to have purchased the note with “bond premium.” A U.S. Holder may elect to amortize such bond premium over the remaining term of the Note on a constant yield method, in which case the amount required to be included in such U.S. Holder’s income each year with respect to interest on the Note will be reduced by the amount of amortizable bond premium allocable (based on the Note’s yield to maturity) to that year. If a U.S. Holder elects to amortize such premium, such U.S. Holder must reduce its tax basis in the Note by the amount of premium amortized during the U.S. Holder’s holding period. Any election to amortize bond premium applies to all notes (other than notes the interest of which is excludible from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the Internal Revenue Service (the “IRS”).

If a U.S. Holder does not make the election to amortize premium on a Note and such U.S. Holder holds the Note to maturity, the U.S. Holder will have a capital loss for U.S. federal income tax purposes, equal to the amount of the premium, when the Note matures. If the U.S. Holder does not make the election to amortize premium and such U.S. Holder sells or otherwise disposes of the Note before maturity, the premium will be included in the U.S. Holder's tax basis in the Note, and therefore will decrease the gain, or increase the loss, that such U.S. Holder otherwise would realize on the sale or other disposition of the Note.

Pre-Issuance Accrued Interest

A portion of the purchase price of the Notes will be attributable to the amount of interest accrued prior to the date the Notes are issued (“pre-issuance accrued interest”). The Issuer intends to take the position (and the rest of this section “United States Federal Income Tax” assumes) that a portion of the first interest payment on the Notes equal to the pre-issuance accrued interest will be treated as a return of the pre-issuance accrued interest rather than as an amount payable on the Notes. Assuming this treatment is respected, the portion of the first interest payment on the Notes that is equal to the pre-issuance accrued interest will not be treated as taxable interest income and will reduce a U.S. Holder's tax basis in the Note by a corresponding amount. If this treatment is not respected, the U.S. federal income tax treatment of the pre-issuance accrued interest is not entirely clear. U.S. Holders are urged to consult their own tax advisors regarding pre-issuance accrued interest.

Market discount

If a U.S. Holder purchases Notes after their original issuance date for an amount that is less than their stated principal amount (after adjusting for any pre-issuance accrued interest, as described above), such U.S. Holder will be treated as having purchased the outstanding Notes with "market discount" unless the discount is less than a specified de minimis amount. Under the market discount rules, a U.S. Holder generally will be required to treat any gain realized on the sale, exchange, retirement or other disposition of a Note as ordinary income to the extent of any accrued market discount that has not previously been included in income. For this purpose, market discount will be considered to accrue ratably during the period from the date of the U.S. Holder's acquisition of the Note to the maturity date of the Note, unless the U.S. Holder made an election to accrue market discount on a constant yield basis. A U.S. Holder may be required to defer the deduction of all or a portion of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a Note with market discount until the maturity date or certain earlier dispositions. A U.S. Holder may elect to include market discount in income currently as it accrues on either a ratable or a constant yield basis, in which case the rules described above regarding (1) the treatment as ordinary income of gain upon the disposition of the Note and (2) the deferral of interest deductions will not apply. Currently included market discount is generally treated as ordinary interest income for U.S. federal income tax purposes. An election to include market discount in income as it accrues will apply to all debt instruments with market discount acquired by the U.S. Holder on or after the first day of the taxable year to which the election applies, and is irrevocable without the consent of the IRS. U.S. Holders are urged to consult their own tax advisors before making this election.

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 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 though the Notes had no OID. These differences may affect the market value of the Notes if the further Notes are not otherwise distinguishable from the 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 U.S. Holder's tax basis in the Note. A U.S. Holder's tax basis in a Note will generally be its cost (a) increased by any market discount, discussed above, previously included in income by such U.S. Holder and (b) decreased (but not below zero) by any amortized premium and pre-issuance accrued interest as described above. 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. A U.S. Holder may use foreign tax credits to offset only the portion of U.S. federal income tax liability attributable to foreign source income. Consequently, if such gain is subject to tax in the Ukraine, a U.S. Holder may not be able to utilize any foreign tax credit claimed with respect to the sale or retirement of a Note. In addition, if a U.S. Holder is eligible to claim the benefits of the

U.S.-Ukrainian Tax Treaty to eliminate Ukrainian tax on gain realized by the U.S. Holder upon disposition of a Note, and fails to claim such benefit, the U.S. Holder may not be entitled to claim a foreign tax credit in respect of any Ukrainian taxes imposed. The rules governing foreign tax credits are complex and, therefore, U.S. Holders should consult their tax advisors regarding the availability of foreign tax credits in their particular circumstances.

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 and the New Notes shall be consolidated and form a single series with the U.S.$3,000,000,000 5.00 per cent. Notes due 2015 issued on 24 December 2013. The Global Notes shall represent the Original Notes and the New Notes respectively.

The Unrestricted Original Notes were initially represented by beneficial interests in the Unrestricted Original Global Note, in registered form without interest coupons attached, registered in the name of Citivic Nominees Limited, as nominee for, and was deposited on 24 December 2013 with, the Common Depositary for, and in respect of interests held through, Euroclear and Clearstream, Luxembourg. The Restricted Original Notes were initially represented by beneficial interests in the Restricted Original Global Note, in registered form without interest coupons attached, which was deposited on 24 December 2013 with the Custodian for, and registered in the name of Cede & Co. as nominee for, DTC.

On the Closing Date, (i) the Unrestricted Original Global Note will be exchanged for the Unrestricted Global Note, representing both the Unrestricted Original Notes and the Unrestricted New Notes; and (ii) the Restricted Original Global Note will be exchanged for the Restricted Global Note, representing both the Restricted Original Notes and the Restricted New Notes.

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 New 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 New 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 New Notes for its own account or for the account of a QIB and (iii) is aware that the sale of the New Notes to it is being made in reliance on Rule 144A. If it is acquiring any New 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 New Notes offered in reliance on Rule 144A will be represented by the Restricted Global Note. Before any interest in a New 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 Sole Lead Manager and its 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 New 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 New Notes pursuant to Regulation S and each subsequent purchaser of such New Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Prospectus and the New Notes, will be deemed to have represented, agreed and acknowledged that:

(1) it is, or at the time New Notes are purchased will be, the beneficial owner of such New 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 New 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 New 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 Sole Lead Manager and its affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

(4) it understands that the New 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 Sole Lead Manager 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 New Notes, other than the information in this Prospectus.

(6) it understands that the New 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 New 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 New 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 New Notes at maturity or upon acceleration of any such New 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 New 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 New Note at maturity or upon acceleration of any such New 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 New Note may transfer such New 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 New Notes represented by such Global Note for all purposes under the Trust Deeds, Agency Agreements and the New 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 Sole Lead Manager or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book entry interests in the New 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 New 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 New Notes. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

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 New 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 New 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 New Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book entry interests in the New 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 New 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 New 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 Notes 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 New 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 New Notes, see "*Form 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, New 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, New 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 New 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 New 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 Sole Lead Manager has, in a subscription agreement dated 17 February 2014 (the "**Subscription Agreement**") and made between Ukraine and the Sole Lead Manager upon the terms, and subject to the conditions, contained therein, shall subscribe and pay for the total aggregate principal amount of the Notes at the issue price of 100 per cent. of their principal amount plus interest accrued from 24 December 2013. The Sole Lead Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the New Notes.

Ukraine has agreed to indemnify the Sole Lead Manager against certain liabilities in connection with the offer and sale of the New Notes, including liabilities under the Securities Act. The Sole Lead Manager has performed investment banking and other services for Ukraine in the past and received customary compensation for such services.

United States

The New 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 Sole Lead Manager has agreed to offer the New Notes for resale in the United States initially only to persons it reasonably believes to be qualified institutional buyers in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the respective meanings given to them by Regulation S.

The New Notes are being offered and sold outside of the United States in reliance on Regulation S. The Subscription Agreement provides that the Sole Lead Manager may through its respective U.S. agents or affiliates resell a portion of the New 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 New Notes, an offer or sale of New 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

The Sole Lead Manager has represented and agreed, that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of any New 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 New Notes in, from or otherwise involving the United Kingdom.

Russian Federation

The Sole Lead Manager has agreed that the New 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

The Sole Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any New 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 New 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 New Notes. After any such purchase in the secondary market, a Ukrainian resident may sell such New Notes only if it is licensed as a professional securities trader or if the New Notes are sold through a licensed institution.

General

Other than with respect to the admission of the New Notes to listing on the Official List and to trading on the regulated market of the Irish Stock Exchange, no action has been taken by the Issuer or the Sole Lead Manager that would, or is intended to, permit a public offer of the New Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, the Sole Lead Manager has undertaken that it will, to the best of its knowledge and belief, comply with all applicable laws and regulations in each jurisdiction in which it acquires, purchases, offers, sells or delivers New Notes or has in its possession or distributes the Prospectus (or any amendment or supplement thereto) or any other offering material relating to the New Notes, in all cases at its own expense. Persons into whose hands this Prospectus comes are required by the Issuer and the Sole Lead Manager to comply with all applicable laws and regulations in each jurisdiction in which they acquire, purchase, offer, sell or deliver New Notes or possess, distribute or publish this Prospectus or any other offering material relating to the New Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

The issue of the New Notes is duly authorised by the Instruction of the Cabinet of Ministers of Ukraine "On Mandating the Execution of External State Borrowings in 2014" dated 15 January 2014, No. 26-p and the Resolution of the Cabinet of Ministers of Ukraine "On Carrying out the Additional Issue of the Notes of External State Borrowings of 2013" dated 20 January 2014, No. 17.

Contact Details

The Issuer's address is 12/2 Grushevsky Street, Kyiv, Ukraine. The Issuer's telephone number is +38 044 463 6855.

Listing

Application has been made to the Irish Stock Exchange for the New 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 New Notes to the Official List and to trading on the Market are expected to amount to approximately EUR €2,940.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List or trading on the regulated market of the Irish Stock Exchange for the purpose of the Prospectus Directive.

Clearing Systems

The New Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Unrestricted Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg under the Common Code No. of 100948320. The ISIN for the Unrestricted Global Note is XS1009483204.

The Restricted Global Note has been accepted for clearance through DTC. The ISIN for the Restricted Global Note is US903724AH50. The CUSIP for the Restricted Global Note is 903724 AH5.

Significant Change

Since the end of the last fiscal year, there has been no significant change in the Issuer's (a) tax and budgetary systems, (b) gross public debt or the maturity structure or currency of its outstanding debt and debt payment record, (c) foreign trade and balance of payment figures, (d) foreign exchange reserves including any potential encumbrances to such foreign exchange reserves as forward contracts or derivatives, (e) financial position and resources including liquid deposits available in domestic currency and (f) income and expenditure figures, save as disclosed in this Prospectus under "Political Framework" on page 59; "Economy of Ukraine" on pages 63, 64, 65, 66, 67, 70, 74, 76, 79 and 90; "The Labour Market" on page 104; "External Sector" on pages 107, 108, 109, 110, 112, 113, 116 and 120; "Public Finance and Fiscal Policy" on pages 130, 133, 134 and 135; "Public Debt" on pages 139, 140, 142, 143, 144, 146 and 147; and "The Monetary System" on pages 159,160, 161, 162, 163, 165, 166, 167, 172 and 173 since 31 December 2012.

Litigation

Save as disclosed in this Prospectus on pages 43-45, the Issuer is not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the previous 12 months which may have or have had in the recent past, significant effects on the Issuer's financial position.

Documents

So long as the Notes are listed on 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 New 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

Ukraine
Represented by the Minister of Finance of Ukraine
acting upon instructions of the Cabinet of Ministers of Ukraine
12/2 Grushevsky Street
Kyiv
Ukraine

TRUSTEE

The Law Debenture Trust Corporation p.l.c.
Fifth Floor,
100 Wood Street
London EC2V 7EX
England

PRINCIPAL PAYING AGENT, REGISTRAR AND TRANSFER AGENT

Citibank, N.A., London Branch
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
England

DUBLIN PAYING AGENT

Citibank Europe plc
1 North Quay
Dublin 1
Ireland

IRISH LISTING AGENT

Arthur Cox Listing Services Limited
Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland

LEGAL ADVISERS

To the Issuer as to English and U.S. law

White & Case LLP
5 Old Broad Street
London EC2N 1DW
England

To the Issuer as to Ukrainian law

Lavrynovych & Partners
14/24 Klovskiy Uzviz, Office 101
Kyiv 01021
Ukraine

To the Sole Lead Manager as to English and U.S. law

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ
England

To the Sole Lead Manager as to Ukrainian law

Sayenko Kharenko
10 Muzeyny Provulok
Kyiv 01001
Ukraine

To the Trustee as to English law

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ
England