

## IMPORTANT NOTICE

THIS OFFER IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS (“QIBs”) AS DEFINED IN RULE 144A UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR (2) NON-US PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) LOCATED OUTSIDE THE UNITED STATES.

**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 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 OR SOLD, DIRECTLY OR INDIRECTLY, EXCEPT (1) TO QIBs IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT OR (2) TO NON-US PERSONS 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 TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR MAY NOT BE FORWARDED TO ANY US PERSON OR ANY US ADDRESS. 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. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED, AND WILL NOT BE ABLE, TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

**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) a non-US person 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 Prospectus, you shall be deemed to have represented to Ukraine, represented by the Minister of Finance of Ukraine acting upon instructions of the Cabinet of Ministers of Ukraine (the “**Issuer**”) and BNP Paribas, Goldman Sachs International and J.P. Morgan Securities plc (the “**Joint Lead Managers**”), 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 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) a non-US person (as defined in Regulation S of the Securities Act) outside the United States, and that the electronic mail (or e-mail) address to which, pursuant to your request, the 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 Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Joint Lead Managers; and (5) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the Notes.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person and in particular to any U.S. person or any U.S. address. Failure to comply may result in a direct violation of the Securities Act or the applicable laws of other 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 Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer (as defined in the Prospectus) in such jurisdiction.

Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes in any jurisdiction in which such offer, solicitation or sale would be unlawful. The Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) or the Financial Services and Markets Act 2000 does not apply to the communication. This communication is being directed only at persons having professional experience in matters relating to investments and any investment or investment activity to which this communication relates will be engaged in only with such persons. No other person should rely on it.

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



## UKRAINE

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

**U.S.\$3,000,000,000 7.375 per cent. Notes due 2032**

**Issue price: 100 per cent.**

The U.S.\$3,000,000,000 7.375 per cent. Notes due 2032 (the “Notes”) to be issued by Ukraine, represented by the Minister of Finance of Ukraine acting upon instructions of the Cabinet of Ministers of Ukraine (the “Issuer” or “Ukraine”), will, unless previously redeemed, or purchased and cancelled, be amortised at par in four equal payments on each of 25 March 2031, 25 September 2031, 25 September 2032 and 25 September 2032 and will mature on 25 September 2032.

Interest will accrue on the outstanding principal amount of the Notes from and including 25 September 2017, and will be payable semi-annually in arrear on 25 March and 25 September in each year, commencing on 25 March 2018. The Notes will bear interest at a rate of 7.375 per cent. per annum.

*See “Risk Factors” on pages 1-19 for a discussion of certain factors to be considered in connection with an investment in the Notes.*

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

The Notes are expected to be rated B- by Standard & Poor’s Credit Market Services Europe Limited (“Standard & Poor’s”) and B- by Fitch Ratings Ltd. (“Fitch”). Standard & Poor’s and Fitch (together, 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, the Rating Agencies 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](http://www.esma.europa.eu), a list of credit rating agencies registered and certified in accordance with the CRA Regulation. This list must be updated within five working days of ESMA’s adoption of any decision to withdraw the registration of a credit rating agency under the CRA Regulation. Therefore, such list is not conclusive evidence of the status of the relevant rating agency as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

The Notes will be offered and sold outside the United States to non-US persons as defined in and 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 Notes will be offered and sold in registered form in denominations of U.S.\$200,000 or any amount in excess thereof which is an integral multiple of U.S.\$1,000. Notes which, in each case, are offered and sold in reliance on Regulation S (collectively, the “Unrestricted Notes”) will each be represented by beneficial interests in a global Note (the “Unrestricted Global Note”) in registered form without interest coupons attached, which will be deposited on or about 25 September 2017 (the “Closing Date”) with a common depository (the “Common Depository”) for, and registered in the name of a nominee for, Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream, Luxembourg”) for the accounts of respective accountholders. Notes which, in each case, are offered and sold in reliance on Rule 144A (collectively, the “Restricted Notes”) will each be represented by beneficial interests in a global Note (the “Restricted Global Note”) and, together with the Unrestricted Global Note, the “Global Notes”) in registered form without interest coupons attached, which will be deposited on or about the Closing Date with a custodian (the “Custodian”) for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company (“DTC”). Interests in the Restricted Global Note will be subject to certain restrictions on transfer. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, definitive certificates (“Note Certificates”) will not be issued in exchange for beneficial interests in the Global Notes.

This Prospectus has been approved by the Central Bank of Ireland (the “CBI”), as competent authority under Directive 2003/71/EC, as amended (the “Prospectus Directive”). The CBI 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 Plc for the Notes to be admitted to the official list (the “Official List”) and trading on its Main Securities Market (the “Market”). The Market is a regulated market for the purposes of Directive 2004/39/EC (the “Markets in Financial Instruments Directive”). References in this Prospectus to the Notes being “listed” (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. There is no assurance that a trading market in the Notes will develop or be maintained.

Joint Lead Managers

**BNP PARIBAS**

**GOLDMAN SACHS INTERNATIONAL**

**J.P. MORGAN**

This Prospectus is dated 21 September 2017.

*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.*

*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, BNP Paribas, Goldman Sachs International or J.P. Morgan Securities plc (together, the “**Joint Lead Managers**”).*

*None of the Joint Lead Managers has separately verified the information contained in this Prospectus. Accordingly, no representation, warranty or undertaking, express or implied, is made, and no responsibility or liability is accepted by any of the Joint Lead Managers nor any of their respective affiliates as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes or their distribution. Neither the delivery of this Prospectus nor 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 or that there has been no adverse change in the financial position of the Issuer since the date hereof or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. This Prospectus may only be used for the purpose for which it has been published.*

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

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

*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 advisers for legal, business, tax and related advice regarding an investment in the Notes. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investments.*

*This Prospectus has been prepared solely for use in connection with the proposed offering of the Notes described in this Prospectus. This Prospectus is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Notes. The distribution of this Prospectus to any person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised, and any other disclosure of any of their contents, without the prior written consent of the Issuer and the Joint Lead Managers is prohibited. Each prospective investor, by accepting delivery of this Prospectus, agrees to the foregoing and to make no photocopies of this Prospectus or any documents referred to in this prospectus.*

*The Issuer reserves the right to withdraw this offering of the Notes at any time. The Issuer and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes in whole or in part for any reason or no reason and to allot to any prospective purchaser less than the full principal amount of the Notes sought by it.*

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

*In connection with the issue of the Notes, J.P. Morgan Securities plc (the “Stabilising Manager”) (or any person acting on behalf of the Stabilising Manager) may, to the extent permitted by applicable laws, regulations and rules, over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there is no obligation on the Stabilising 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 Notes and 60 days after the date of the allotment of the Notes.*

*All references in this Prospectus to “Conditions” shall mean the terms and conditions of the Notes, and to “Agency Agreement” shall mean the Agency Agreement defined in the Conditions.*

*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 “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 31 August 2017, the official exchange rate of the National Bank of Ukraine (the “NBU”) was U.S.\$1.00 to UAH 25.58.*

*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.*

## 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 (the "**EU**"), Germany, the United States and Japan, regarding the provision of new loans; (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 situation in illegally occupied Crimea and certain areas of the Donetsk and Luhansk regions of 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 IMF and other international financial agencies with respect to the continued implementation of the proposed packages of economic and financial support for Ukraine announced after the date hereof.

## ENFORCEABILITY OF JUDGMENTS

The courts of Ukraine will not recognise or enforce any judgment obtained in a court established in a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party providing for enforcement of such judgments, and then only in accordance with the terms of such treaty. There is no such treaty between the United Kingdom and Ukraine or between the United States and Ukraine that provides for enforcement of such judgments.

In the absence of an international treaty providing for enforcement of judgments, the courts of Ukraine may only recognise or enforce a foreign court judgment on the basis of the principle of reciprocity. Unless proven otherwise, reciprocity is deemed to exist in relations between Ukraine and the country where the judgment is rendered. Ukrainian law does not provide any clear rules on the application of the principle of reciprocity and there is no official interpretation or court practice in this respect. Accordingly, there can be no assurance that the courts of Ukraine will recognise or enforce a judgment rendered by the courts of the United Kingdom or

the United States 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.

The contractual agreements provide for resolution of disputes by arbitration under the LCIA Arbitration Rules with the seat of arbitration in London, England. Ukraine and the United Kingdom are parties to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”). Consequently, a foreign arbitral award obtained in a state which is party to the New York Convention, such as the United Kingdom, should be recognised and enforced by a Ukrainian court (under the terms of the New York Convention) subject to compliance with procedural requirements under Ukrainian law.

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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 out 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 when used in this section.

### Risk Factors Relating to Ukraine

*The illegal occupation and attempted annexation of Crimea and the City of Sevastopol has adversely affected and is likely to continue to adversely affect Ukraine's economic and political stability.*

In 2014, following the Euro-Maidan Revolution (see "*Description of Ukraine—Timeline of Recent Political Developments*"), strategic military and governmental locations across Crimea and in the City of Sevastopol, including the Crimean parliament, were occupied by unmarked Russian armed forces. Subsequently, an illegal referendum was held in Crimea and the City of Sevastopol in violation of Ukrainian law and norms of international law and on the basis thereof the purported Russian annexation of Crimea and the City of Sevastopol was announced soon after (referred to herein as the "**illegal occupation of Crimea**").

The Ukrainian Parliament has declared the illegal referendum in Crimea and the City of Sevastopol unconstitutional and its legitimacy and results have generally not been recognised internationally. All EU members, the United States and Canada have declared it to be illegitimate and 13 members of the UN Security Council voted in favour of a resolution declaring it invalid, although the resolution was vetoed by the Russian Federation. On 27 March 2014, the UN General Assembly passed a resolution declaring the referendum invalid and affirming Ukraine's territorial integrity. On 10 April 2014, the Council of Europe also adopted a resolution condemning the violation of the territorial integrity and sovereignty of Ukraine in Crimea by the armed forces of the Russian Federation on 20 February 2014 and considering the military occupation of the Ukrainian territory and the threat of the use of military force, the recognition of the results of the illegal referendum and subsequent attempted annexation of Crimea into the Russian Federation as being in violation of international law.

Ukraine considers Crimea and the City of Sevastopol to be territories of Ukraine which are illegally occupied by the Russian Federation.

The illegal occupation of Crimea has adversely affected and may continue to adversely affect Ukraine's economic growth and political stability, including through its impact on the following:

- Ukraine's domestic trading market, as the loss of trade with Crimea and the City of Sevastopol reduces the overall volume of trade;
- Ukraine's finances, as the anticipated costs of reconstruction and reclamation of stolen property, as well as the ongoing loss of tax revenue from the region are significant;
- Ukraine's economy, which has temporarily lost the benefit of a large number of valuable private and state-owned assets and property (including Sevastopol Naval Base and local oil and gas assets) in the region;
- Ukraine's GDP, through the disruption caused in the region's industry and resulting loss of goods and services produced;
- Ukraine's domestic gas supply, as Ukraine has temporarily lost access to its gas production assets located in Crimea and gas stored there, as well as to its gas reserves located in Crimea and in certain parts of the Black Sea; and
- Ukraine's relations with Russia, as the illegal occupation of Crimea has been a source of tension between Russia and Ukraine since the crisis began, resulting in decreased trading volume between the two countries and other adverse financial and economic consequences. See "*—Ukraine's economy has traditionally been heavily dependent on trade with Russia and certain other CIS countries and*

*any significant prolongation of the crisis in relations with Russia, absent a material increase in financial support and long term trade with the European Union and other economies, may have adverse effects on the economy as well as on the stability of the country”.*

At the date of this Prospectus, the illegal occupation of Crimea continues to place strain on the general resources of Ukraine as well as materially and adversely affect Ukraine’s economy and political stability.

***The conflict in certain parts of the Donetsk and Luhansk regions has had, and is likely to continue to have, negative humanitarian, economic and political consequences for Ukraine.***

As reported in the United Nations Human Rights Office of the High Commission report on the “Accountability for killings in Ukraine from January 2014 to May 2016” published on 25 May 2016, beginning in 2014 there are areas of the Donetsk and Luhansk regions of Ukraine under the control of illegal armed formations largely backed by the Russian Federation where aggression against the legitimate Ukrainian authorities takes place “fuelled by the inflow of foreign fighters and weapons from the Russian Federation” (such events herein referred to as the “**conflict in certain parts of the Donetsk and Luhansk regions**”). As a result of the conflict in certain parts of the Donetsk and Luhansk regions, an important economic region of Ukraine has been significantly disrupted, along with the industrial and social infrastructure therein. Beyond the enormous humanitarian consequences, the conflict in certain parts of the Donetsk and Luhansk regions has resulted in the loss of a significant proportion of the country’s productive capacity and a substantial fall in Ukraine’s gross domestic product. These negative effects of these events, along with the associated loss of tax revenue to the Ukrainian Government and the necessity of increased military and social welfare expenditure, have had, and continue to have, a significant detrimental effect on the Ukrainian economy and financial position.

#### *Humanitarian consequences*

The conflict in certain parts of the Donetsk and Luhansk regions has resulted in a large number of casualties and injuries of civilians, as well as the displacement or destitution of a significant proportion of those living in affected areas. See “*Description of Ukraine—Conflict in certain parts of the Donetsk and Luhansk regions*”. Large numbers of people have fled the occupied territory and sought refuge in other areas of the country. Considerable allocation of funds from the State budget have been and will continue to be required in order to feed, house and relocate internally displaced persons (“**IDPs**”). In addition, the need to accommodate IDPs in satisfactory conditions pending return to their former homes or relocation to new homes, as well as the burden imposed on communities by the presence of large numbers of such IDPs, has led to and may in the future lead to social unrest, placing further strains on local and State authorities and consequently local and State budgets. A failure to effectively relocate and reintegrate IDPs into society, or a continued or increased flow of IDPs from the uncontrolled territories, could have a material adverse effect on Ukraine’s economic growth and political stability and on its ability to perform its obligations under the Notes.

#### *Increased defence costs, damage to industry and adverse impact on foreign direct investment*

The Government’s efforts to re-establish control over certain parts of the Donetsk and Luhansk regions have resulted in a significant increase in Ukraine’s defence expenditure. If the situation escalates, the resulting further increase in expenditure required will place even greater pressure on the general resources of the Government and the Government’s finances and negatively affect Ukraine’s economy. Furthermore, the conflict in certain parts of the Donetsk and Luhansk regions has led to a significant loss of production in an important industrial area of Ukraine, with industrial output declining significantly in certain areas of the Donetsk and Luhansk regions since 2014. On 15 March 2017, Ukraine imposed additional economic measures in certain parts of the Donetsk and Luhansk regions. These measures include freezing rail and road cargo links between certain parts of the Donetsk and Luhansk regions and the rest of Ukraine, and were imposed in reaction to the seizure of certain key steel and coal businesses in the Donbas region by Russia-backed illegal armed formations. The additional economic measures affecting these areas continue to have a negative impact on Ukraine’s economic growth and industrial production, in particular in relation to the steel, nickel and general metallurgical production sectors. See “*Description of Ukraine—Conflict in certain parts of the Donetsk and Luhansk regions—Additional economic measures imposed on certain parts of the Donetsk and Luhansk regions*”.

The events in these areas have also contributed to a decline in Ukrainian GDP, principally through (i) disruption of business in the affected areas, (ii) deterioration of trade and other economic and political

relations with Russia, (iii) reduction of foreign direct investment and (iv) disruption of the Government's privatisation programme. Along with the associated loss of tax revenue to the Government and the necessity of increased military and social welfare expenditure, the effect of the conflict in certain parts of the Donetsk and Luhansk regions has had, and continues to have, a significant detrimental effect on the Ukrainian economy and financial position as a whole.

There can be no assurance that the Government will be able to identify and develop alternative sources of tax revenue and/or promote industrial production in other regions of Ukraine to offset these factors if certain parts of the Donetsk and Luhansk regions remain outside the control of the Ukrainian authorities.

#### *Political consequences*

Despite numerous failed ceasefires brokered with international assistance, supported by the presence of international observers, Russia-backed illegal armed formations continue to hamper the efforts of the Government to restore peace and stability to certain parts of the Donetsk and Luhansk regions. The risk of a further intensification of aggression against Ukraine in this area remains high and the full implementation of the terms of the existing ceasefire arrangements remains challenging.

There can be no assurance that any further attempts at a ceasefire will lead to a long-term solution to the conflict in certain parts of the Donetsk and Luhansk regions and may well only result in a "frozen conflict" in this area, with no peace treaty or other political framework resolved to the satisfaction of Ukraine. If the conflict in certain parts of the Donetsk and Luhansk regions were to continue indefinitely or a "frozen conflict" situation were to occur in the certain parts of the Donetsk and Luhansk regions, it would have a long-term adverse military and economic effect on Ukraine, as well as unpredictable political consequences. In particular, this situation would be likely to continue to negatively affect levels of economic activity and foreign direct investment in Ukraine and place downward pressure on the hryvnia. Any or all of these factors could have a material adverse effect on Ukraine's economic growth and political stability and thus on the ability of Ukraine to perform its obligations under the Notes.

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

Ukraine's economy is dependent to a large extent on the state of the global economy. See "*External Sector—International Trade*". In particular, Ukraine relies on foreign currency revenues derived from the export of goods and raw materials to finance imports (including natural gas) and service its external financing obligations. Accordingly any material decrease in global demand or prices for Ukraine's exports, or any material increase in the cost of essential imports such as natural gas, may have a significant adverse effect on Ukraine's balance of payments.

Additionally, the state of the global economy has an important indirect effect on Ukraine's State Budget deficit and inflation levels, as Ukraine's economy is highly dependent on global commodity prices. Changes to Ukraine's principal exports, including metal products and grain, as well as Ukraine's critical imports, including natural gas and oil, have led to significant fluctuations in Ukraine's total tax revenues, budget deficit and inflation levels over the recent years. Continued upward pressure on global prices for energy, food and industrial products may lead to higher budget deficits and domestic inflation, particularly if the Ukrainian government implements an expansionary monetary policy in an attempt to finance its budget deficit. As Ukraine subsidises the cost of certain basic food items, any increase in the nominal costs of these items would also be likely to increase Ukraine's State Budget expenditure.

Furthermore, on 3 April 2017, the Government approved a medium-term priority action plan which sets out certain targets regarding GDP growth, State budget deficit and State guaranteed debt to GDP ratio for 2018 through 2020. The draft 2018 State Budget Law is expected to be consistent with these targets. See "*Public Debt – Debt Management Policy*" for further information regarding the targets.

The draft 2018 State Budget Law was submitted by the Cabinet of Ministers of Ukraine to the Parliament on 15 September 2017 (within the timeframe specified in the Budget Code) for consideration. The draft budget is publicly available in Ukrainian only at the Parliament's website at [http://w1.c1.rada.gov.ua/pls/zweb2/webproc4\\_1?pf3511=62551](http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=62551). The 2018 State Budget Law is expected to be adopted by 1 December 2017 as required under the Budget Code. The 2018 budget is expected to be compliant with IMF requirements and materially consistent with the Issuer's medium-term budget resolution, which was approved earlier this year by the Cabinet of Ministers of Ukraine.

A reduction in foreign direct investment in Ukraine since the Euro-Maidan Revolution of 2014, together with the reduced availability of external financing for Ukrainian companies over the same period, has contributed to a decrease in industrial production, investment projects and capital expenditure generally. Any deterioration of the current economic and geopolitical situation of Ukraine, or any adverse change in the global economic environment or in the appetite of international investors for emerging market risk, could further reduce the availability of inbound investment and external financing in Ukraine and materially adversely affect future GDP growth rates. Changing external or internal conditions could widen Ukraine's external funding gap. Continued widening of the current account deficit or significant net capital outflows could cause Ukraine's stock of international reserves to fall. Any such developments may lead to further depreciation of the hryvnia and have a material adverse effect on Ukraine's economy and thus on the ability of Ukraine to perform its obligations under the Notes.

***A final adverse judgment in the litigation against Ukraine on behalf of Russia may have a material adverse effect on Ukraine's financial position.***

On 17 February 2016, The Law Debenture Trust Corporation plc, acting in its capacity as trustee on behalf of the holders of Ukraine's U.S.\$3 billion 5 per cent. notes issued December 2013 (the "**December 2013 Notes**"), filed a lawsuit against Ukraine in the High Court of England and Wales seeking payment of principal and accrued interest due under the December 2013 Notes. Ukraine denies the validity and enforceability of the December 2013 Notes. The first instance summary judgment decision handed down on 29 March 2017 in favour of the claimant in the amount of U.S.\$3 billion plus an outstanding coupon and interest thereon is being appealed by Ukraine and a hearing has been scheduled to take place in January 2018. Pending the outcome of the appeal a stay of enforcement of the summary judgment has been granted by the High Court. See "*Description of Ukraine—Legal Proceedings—December 2013 Notes Litigation*". If Ukraine loses its appeal (whether to the Court of Appeal or possibly a further appeal to the Supreme Court) and obtains no further stay, the summary judgment will become executable. Unless Ukraine makes a voluntary payment of the sums due, there is a risk that Ukraine's non-immune state assets would become subject to enforcement action. Further, any enforcement of the judgment against Ukraine may impact Ukraine's ability to service its existing Eurobonds and the Notes.

***Uncertainties relating to Ukraine's judicial system could have an adverse effect on its economy.***

Since Ukraine gained independence in 1991, the Ukrainian legal system has been developing to support the country's transition from a planned to a market-based economy. Ukraine's legal system continues to be essentially in transition and is, therefore, subject to greater risks and uncertainties than more mature legal systems. In particular, risks associated with the Ukrainian legal system include: (i) inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in the laws and regulations that are ambiguously worded or which lack specificity and thereby raise difficulties when implemented or interpreted; (iii) difficulty in predicting the outcome of judicial application of Ukrainian legislation due to, amongst other factors, a general inconsistency in the judicial interpretation of such legislation in the same or similar cases; and (iv) the fact that not all Ukrainian resolutions, orders and decrees and other similar acts are readily available to the public or available in understandably organised form.

The independence of the judicial system and its immunity from economic and political influence in Ukraine remains questionable. Although the CCU is the only body authorised to exercise constitutional jurisdiction and has mostly proven impartial in its judgments, the system of constitutional jurisdiction itself can be considered still too complicated to ensure smooth and effective removal of discrepancies between the Constitution of Ukraine on the one hand and various laws of Ukraine on the other hand.

Recent judicial reform has deprived the CCU of its power to give official and obligatory interpretation of the laws of Ukraine (except for Constitution of Ukraine). At the same time, access to the constitutional jurisdiction was granted to all persons who consider that the law applied in a final decision in their case contradicts the Constitution of Ukraine.

Further, enforcement of court orders and judgments can, in practice, be difficult in Ukraine. The State Enforcement Service, as a part of the Ministry of Justice of Ukraine, is responsible for the enforcement of court orders and judgments in Ukraine. As a result of the judicial reform, private bailiffs have also been operating since 5 January 2017.

Enforcement procedures are often very time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient funds, the complexity of auction procedures for the sale of the defendant's property, or the defendant undergoing bankruptcy proceedings. In addition, bailiffs in Ukraine have limited authority to enforce court orders and judgments quickly and efficiently. Bailiffs are bound by the method of enforcement envisaged by the relevant court order or judgment and may not independently change such method even if it proves to be inefficient or unrealisable. Furthermore, notwithstanding the successful execution of a court order or a judgment, a higher court may reverse the court order or judgment and require that the relevant funds or property be restored to the defendant.

The uncertainties described above also extend to certain rights, including investor rights. In Ukraine, there is no established history of investor rights protection.

All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used in the furtherance of political aims. Court orders are also not always enforced or followed by law enforcement institutions. The uncertainties relating to the judicial system could have a negative effect on external investment in Ukraine and on the Ukrainian economy in general and thus Ukraine's ability to perform its obligations under the Notes. For more information, see "*Political Framework—The Judicial System*" and "*—The Ukrainian banking system is 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 Ukrainian economy*".

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

Historically, a lack of political consensus in Parliament has made it difficult for the Government to secure the necessary support to implement policies intended to foster liberalisation, privatisation and financial stability. The procedures and rules governing the political process in Ukraine may be subject to change through the normal process of political alliance building or through constitutional amendments and decisions of the Constitutional Court of Ukraine (the "CCU").

The political landscape of Ukraine remains uncertain. See "*Political Framework*". This uncertainty makes the enactment of legislation required to meet the International Monetary Fund ("IMF")'s and other multilateral organisations' criteria for further financial support more challenging. If such criteria for providing further financial support to Ukraine are not met, this could result in a suspension of international financial assistance to Ukraine. Such a suspension would be likely to materially adversely affect the financial position of the Government and make it difficult or impossible for Ukraine to meet its international financial obligations. In such circumstances there could be severe negative effects on the banking sector as well as the real economy, and there can be no assurance whether or when Ukraine would be able to perform its obligations under the Notes.

There can be no assurance that the current Government will receive the continuous support of a parliamentary majority coalition required to continue the reform process in Ukraine. Any failure of the Government to attract such support may lead to political instability and could have a material adverse effect on Ukraine's ability to meet IMF requirements for further financing under the 2015 Extended Fund Facility ("EFF") and ability to perform its obligations under the Notes.

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

- lack of agreement within the parliamentary factions and between individual Members of Parliament;
- disputes between factions within the parliamentary majority coalition and between the majority coalition and opposition factions on major policy issues, including Ukraine's foreign, social, fiscal and energy policies, constitutional changes required to implement the Minsk Arrangements (as defined in "*Description of Ukraine—Conflict in certain parts of the Donetsk and Luhansk regions—Minsk Arrangements*");
- conduct of the anti-terrorist operation in certain parts of the Donetsk and Luhansk regions;
- timing and implementation of closer political and economic ties with the EU;

- instability within the parliamentary majority coalition, including the risk of further factions leaving the coalition (as did the Radical Party in early September 2015);
- court actions taken by opposition politicians to challenge decrees and other actions of the President and the Government; and
- court actions taken by the President against parliamentary or governmental resolutions or actions.

Any continued or increased political instability due to the factors listed above or for any other reason could have a material adverse effect on Ukraine's economy and thus on the ability of Ukraine to perform its obligations under the Notes.

***Ukraine's economy has traditionally been heavily dependent on trade with Russia and certain other CIS countries, and any significant prolongation of the crisis in relations with Russia, absent a material increase in financial support and long term trade with the European Union and other economies, may have adverse effects on the economy as well as on the political stability of the country.***

Ukraine's economy has traditionally been heavily dependent on trade with Russia and other 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) as a result of its geographic proximity to, and historical relationship with, Russia. In addition, a large share of Ukraine's service receipts is comprised of transit charges for oil, gas and ammonia from Russia, which are delivered to the EU via Ukraine. See "*Economy of Ukraine—Principal Sectors of the Economy—Oil and Gas Transit*".

Following the increased geopolitical tensions between Russia and Ukraine, exports of Ukrainian goods to Russia decreased by 50.7 per cent. in 2015 and by a further 25.6 per cent. in 2016, and the total value of goods exported from Ukraine decreased by 29.3 per cent. in 2015 and by a further 4.6 per cent. in 2016, as compared to the previous years. The current tensions between Ukraine and Russia may have a long-standing impact on trade and other aspects of Ukraine's bilateral relations with Russia and could lead to the imposition of further trade and other punitive measures by both countries. These factors, in turn, could have a material adverse effect on the Ukrainian economy.

Furthermore, sanctions imposed by the Ukrainian and Russian governments against each other have significantly restricted Ukrainian companies' ability to export goods and services to Russia as well as their ability to import vital resources. For example, 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 low transit fees for Russian oil and gas through Ukrainian pipelines to European consumers. For more information, see "*Economy of Ukraine—Principal Sectors of the Economy—Natural Gas Supply from Russia*".

Despite financial support from Ukraine's international partners, which has helped mitigate the economic impact of current events, the current strained relationship between Ukraine and Russia continues to have a material adverse effect on Ukraine's economy. Unless the relationship between Ukraine and Russia is normalised in the near future, the political, economic and financial impact in Ukraine of Russia's policies is likely to have an increasingly adverse effect on Ukraine's financial position, especially if Ukraine were to lose financial support from its international partners. Further strain in the economy may affect the ability of Ukraine to perform its obligations under the Notes.

***Economic sanctions by the EU and the United States against Russia over its actions in Ukraine and the resulting reciprocal sanctions by Russia against Ukraine, the EU and the United States are having and are likely to continue to have a material adverse effect on Ukraine's economy.***

As a result of the illegal occupation of Crimea and the conflict in certain parts of the Donetsk and Luhansk regions, the EU and the United States have each authorised and imposed extensive sanctions on Russia. See "*Description of Ukraine—International Sanctions*". Such sanctions, combined with the effect of the sharp fall in oil prices in 2014 and 2015, have had a negative impact on Russia's economy.

In 2014, in response to the sanctions imposed on it, Russia imposed reciprocal sanctions on the EU, the United States, Canada, Australia, Norway and Ukraine banning the import of various agricultural and other food products. From 1 January 2016, Russia introduced a food embargo on certain agricultural products, raw materials and food originating from Ukraine and cancelled the preferential trade regime envisaged by the

agreement on free trade within the CIS on imports of Ukrainian goods. Ukraine estimates these restrictions have, to date, contributed to a 62 per cent. decline in trade with Russia and any additional sanctions imposed by Russia are anticipated to further reduce the levels of trade. Because Russia has historically been the largest bilateral trading partner of Ukraine, the continued deterioration of Ukraine's trade with Russia is having and will continue to have a material adverse effect on Ukraine's export industries and economy.

It is not possible to accurately predict the future political and diplomatic consequences of the sanctions imposed by Russia or the impact of these sanctions on foreign direct investment in Ukraine and other inbound capital flows, and it is possible that further sanctions may be imposed on or by Russia. These risks and uncertainties may have a material adverse effect on Ukraine's economy and political stability and may affect the ability of Ukraine to perform its obligations under the Notes.

***Any deterioration in relations with Western governments, the EU and multinational institutions may adversely affect the development of the Ukrainian economy.***

#### *Political and financial relations*

Ukraine is currently benefitting from financial support from international financial institutions such as the IMF, the World Bank, the EBRD and the EIB, as well as international partners such as the United States, Canada, Germany, Sweden, Turkey, Japan, Norway and the EU. Ukraine also benefits from significant practical and diplomatic support from the international community particularly in relation to the conflict in certain parts of the Donetsk and Luhansk regions and the illegal occupation of Crimea. This financial and political support is crucial to the economic development and political stability of Ukraine and is built on the promises of deep seated and systemic reform of the country's economic and political systems. Any negative effects on relations with these organisations and international partners as a result of internal political changes, events or failure to comply with foreign requirements would be likely to have a significant negative effect on, amongst other things, the successful implementation of the Ukraine European Union Association Agreement signed on 21 March 2014 (the "**Association Agreement**"), and may lead to a suspension of financial support/aid packages. Any negative change in the perceptions of Ukraine's commitment to the implementation of the Association Agreement 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 Ukraine's economy and its ability to perform its obligations under the Notes.

#### *Economic and trade relations*

Ukraine's trade and economic relations with the EU, its other international partners and multinational institutions is also of great importance to Ukraine given the current significant reduction in trading volumes with Russia. See "*External Sector—International Trade*". The perception of the Government's commitment to, and the nature of, Ukraine's legislative and regulatory reform programmes (including anti-corruption measures and measures to improve and enhance the independence of the judicial system), as well as political developments in Ukraine, could significantly impact those relations. Any negative change in the economic relations between Ukraine, the EU and Ukraine's other international partners, may have a material adverse effect on Ukraine's ability to counterbalance the lost trade and business with Russia, which, in turn, could have a material adverse effect on Ukraine's economy and thus on the ability of Ukraine to perform its obligations under the Notes.

#### *Reliance on the IMF*

Given Ukraine's current economic situation, its reliance upon the IMF 2015 EFF is critical. The further recovery and development of Ukraine's economy is dependent on further disbursements under the 2015 EFF which may be withheld upon any failure of Ukraine to make the political, social, economic and legislative reforms required by the 2015 EFF. See "*—Should Ukraine be unable to obtain financing from external sources due to a failure to implement required structural reforms, the Government's ability to meet the financing targets in the State budget could be jeopardised*". Furthermore, Ukraine's existing financings, as well as its ability to raise future financing, from international financial institutions and its international partners referred to above, are to a large extent dependent on the continued compliance of Ukraine with the targets set by the 2015 EFF and continued good standing with the IMF. The next IMF mission to Ukraine is expected to be on 19 September 2017. A failure to maintain its membership of the IMF would result in a default under a number of such finance agreements. Accordingly, a failure to continue to meet the targets set by the 2015 EFF or to remain a member in good standing of the IMF could potentially lead to the loss of

further funds critical to the economic development of Ukraine's economy and defaults under existing financings which could require early repayments either of which would be likely to have a material adverse effect on Ukraine's economy and thus on the ability of Ukraine to perform its obligations under the Notes.

***Should Ukraine be unable to obtain financing from external sources due to a failure to implement required structural reforms, the Government's ability to meet the financing targets in the State budget could be jeopardised.***

Ukraine's domestic debt market remains illiquid and underdeveloped compared with markets in most EU countries. Accordingly, Ukraine is highly reliant on external sources for financing the State budget deficit and such reliance has been exacerbated by the fiscal pressures arising as a consequence of the illegal occupation of Crimea and the conflict in certain parts of the Donetsk and Luhansk regions. Since 2014, official creditors and multilateral organisations, such as the IMF, the EBRD, the World Bank and the EU, have provided much of such external financing support and Ukraine is currently reliant on obtaining financing on favourable conditions with these multilateral organisations.

Further external borrowings from multilateral organisations and other external sources may be contingent upon Ukraine's satisfaction of certain requirements including:

- enacting and implementing strategic, institutional and structural reforms, including land, pension and judicial reforms;
- effectively managing corruption and anti-money laundering requirements;
- managing the State budget deficit in order to restore confidence in fiscal sector sustainability;
- reducing tax and budgetary arrears and indebtedness for electricity and gas; and
- improving the sovereign debt credit ratings.

Factors which may impede achievement of these requirements include:

- potential social resistance to austerity measures;
- economic recovery taking longer or proving more difficult than initially expected;
- real exchange rate shocks;
- a larger than expected fiscal burden emanating from either the banking and/or the energy sectors;
- a crisis of confidence in the banking system;
- political difficulties or delays in implementing structural reforms; and
- other external factors, including any increase or extension of the conflict in certain parts of the Donetsk and Luhansk regions.

If Ukraine is unable to meet the stringent criteria set out in the various support programmes provided by official creditors and multilateral organisations, these sources may withhold or suspend funding. In the current circumstances, a failure by official creditors and multilateral organisations to grant adequate financing on terms favourable to Ukraine (or at all), combined with any inability of Ukraine to access the international capital markets and syndicated loan markets, would put severe pressure on Ukraine's budget and foreign exchange reserves and could have a material adverse effect on Ukraine's ability to perform its obligations under the Notes. Further, Ukraine's ability to refinance its existing debts owed to these official creditors and multilateral organisations and to perform its obligations under the Notes could become difficult or impossible if relations between Russia and Ukraine further deteriorate or access to the international markets remains restricted in the medium term, or where no additional external financing is secured.

***IMF determination of status of the December 2013 Notes as official debt may affect future disbursements under the 2015 EFF.***

On 8 December 2015, the IMF amended their policy to allow for financing to be extended in circumstances where a member has arrears under official debt subject to certain conditions. On 16 December 2015, the IMF determined that the December 2013 Notes should have the status of official debt under their internal methodology. As at the date of this Prospectus, the IMF's position is that Ukraine is in arrears under its December 2013 Notes, pursuant to a moratorium declared in December 2015. While the IMF's new policy may allow it to extend financing to Ukraine in accordance with the 2015 EFF, there is a condition that the borrower under any such official debt should negotiate a restructuring of such debt in good faith. If the IMF were to determine for any reason that Ukraine were failing to negotiate in good faith with the holders of its December 2013 Notes, it may be unable to make future disbursements under the 2015 EFF. The inability of the IMF to extend financing could also affect the ability of other international partners of Ukraine to provide financing for Ukraine. The loss of financing from the IMF and other international partners would be likely to have a material adverse impact on the financial position and liquidity of Ukraine and on its ability to service its obligations under the Notes.

***Emerging markets, including Ukraine, are subject to greater risk than more developed markets.***

An investment in a country such as Ukraine, which achieved independence less than 30 years ago and whose economy is in transition, is subject to substantially greater risks than an investment in a country with a more developed economy and more mature political and legal systems. Although progress has been made since independence in 1991 to reform Ukraine's economy and its political and judicial systems, to some 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. As a consequence, there are risks associated with investments in emerging markets and, specifically, Ukraine, that are not typically associated with investing in more mature markets. The availability of credit to entities operating within emerging markets is significantly influenced by levels of investor confidence in such markets as a whole. Consequently, any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within such 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. For more information, see "*—Official statistics and other data published by Ukrainian State authorities may not be reliable*". Investors should also note that emerging economies, such as Ukraine's, are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly.

Accordingly, investors should exercise particular care in evaluating the risks involved. 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 a decision with respect to this Prospectus.

***Corruption and money laundering may have an adverse effect on the Ukrainian economy.***

External analysts, as well as Ukraine's official and multilateral partners, have identified corruption and money laundering as problems in Ukraine. In accordance with Ukrainian anti-money laundering legislation, which came into force in June 2003, the NBU and other state authorities, as well as various entities performing financial transactions, are required to monitor financial transactions for evidence of money laundering. As a result of the implementation of this legislation, Ukraine was removed from the list of non-cooperative countries and territories by the Financial Action Task Force on Money Laundering ("**FATF**") in February 2004, and in January 2006 FATF suspended the formal monitoring of Ukraine.

On 14 October 2014, Ukraine's Parliament adopted a number of laws aimed at prevention of corruption. See "*Description of Ukraine—Legal Proceedings—Recent Legislation*". On 30 March 2017, the law "*On Amendments to Certain Laws of Ukraine Regarding the Specifics of Financial Control of Certain Categories of Officials*" entered into force. This law requires, among other things, that senior officials of the non-governmental organisations which operate in the anti-corruption sphere must submit electronic declarations regarding their property, income, expenditures and financial liabilities.

In order to enforce the above laws, the National Anti-Corruption Bureau of Ukraine (the “**Anti-Corruption Bureau**”) and the National Agency on Corruption Prevention (the “**Agency on Corruption Prevention**”) were established. The Anti-Corruption Bureau commenced activities on 16 April 2015. On the same day, the Director of the Anti-Corruption Bureau was appointed by the President of Ukraine. On 14 August 2016, the Agency on Corruption Prevention officially commenced its activity.

On 18 August 2016, the Agency on Corruption Prevention adopted a resolution on launching a system of electronic declaration of property, income, expenditures and financial liabilities by state and local government officials, starting from 1 September 2016. On 30 October 2016, the first stage of submission of electronic declarations was completed and approximately 114,037 state and local governmental officials submitted their declarations for the year 2015. On 1 April 2017, the second stage of submission of electronic declarations was completed, which required governmental officials to submit their electronic declarations for 2016. As of 1 May 2017, governmental officials submitted 1,090,570 electronic declarations for 2016.

There can be no assurance that these laws will be effectively applied and implemented by the relevant anti-corruption and law enforcement authorities in Ukraine. As of the date of this Prospectus, no senior government official has been arrested in connection with these laws. However, failure to effectively implement the relevant anti-corruption legislation referred to above or any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on Ukraine’s ability to attract foreign direct investment and external financing for the State budget, including from international multilateral organisations, and thus may have a negative effect on the economy of Ukraine and on Ukraine’s ability to meet its payment obligations under the Notes. See “—*Should Ukraine be unable to obtain financing from external sources due to a failure to implement required structural reforms, the Government’s ability to meet the financing targets in the State budget could be jeopardised*”.

***Ukraine’s physical infrastructure is in poor condition and could deteriorate further, which may have a material adverse effect on the Ukrainian economy.***

Ukraine’s physical infrastructure, including its power generation and transmission and telecommunication systems and building stock, largely dates back to Soviet times and has not been adequately funded and maintained since independence. Road conditions throughout Ukraine are relatively poor in comparison with more developed countries. The Ukrainian government has been implementing plans to develop the nation’s rail, electricity and telecommunication systems, which may result in increased charges and tariffs, while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration of Ukraine’s physical infrastructure, which has been exacerbated by the physical destruction caused by the illegal occupation of Crimea and the conflict in certain parts of the Donetsk and Luhansk regions, has had and continues to have an adverse effect on the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Ukraine and creates interruptions to business operations. Failure to address the existing deficiencies in and continuing deterioration of Ukraine’s infrastructure, and to effectively upgrade such infrastructure so as to enable Ukraine to achieve its economic and social goals, would be likely to have a material adverse effect on the Ukrainian economy and in turn on Ukraine’s ability to meet its payment obligations under the Notes.

***Official statistics and other data published by Ukrainian State authorities may not be reliable.***

Official statistics and other data published by Ukrainian State authorities (including the NBU and the State Statistics Service of Ukraine) may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on a different basis than those criteria used in more developed countries. Furthermore, standards of accuracy for statistical data may vary from agency to agency and from period to period due to the application of different methodologies. Since the first quarter of 2003, Ukraine has produced data in accordance with the IMF Special Data Dissemination Standard. It is possible, however, that this IMF standard has not 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 indicated otherwise, the macroeconomic data presented in this Prospectus has not been restated to reflect such inflation and, as a result, period-to-period comparisons may not be meaningful.

Furthermore, it should be noted that all figures relating to the draft budget resolution for 2018-2020 are merely assumptions used for purposes of the new three year budgeting process and thus should not be relied upon as forecasts and actual GDP growth may vary materially from these figures.

As a result of events since February 2014, there has also been significant additional difficulty in obtaining reliable statistical information, particularly in relation to Crimea and the City of Sevastopol and certain parts of the Donetsk and Luhansk regions. From the beginning of 2014, Ukrainian GDP has been calculated without taking into account the data for Crimea and the City of Sevastopol and certain parts of the Donetsk and Luhansk regions. Therefore, certain statistics since 2014 may include unverifiable information or may not include any data at all from those areas of Ukraine; this may make a comparison of recent data to previous periods less meaningful. Certain statistical information and other data contained in this Prospectus have been extracted from official governmental sources in Ukraine and were not prepared or independently verified by any person in connection with the preparation of this Prospectus. In certain circumstances, Ukraine has relied on reported information in presenting such matters but is unable to independently verify such information.

***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.***

Following the Euro-Maidan Revolution in early 2014, a combination of factors occasioned by the illegal occupation of Crimea, the conflict in certain parts of the Donetsk and Luhansk regions, and the attendant sharp depreciation of the hryvnia, created a severe financial crisis for the Government. As a condition to the extension by the IMF of extraordinary financing through the 2015 EFF to help Ukraine stabilize its financial position, on 4 April 2015, the Cabinet of Ministers passed a resolution permitting the restructuring of certain state and state guaranteed debt obligations of Ukraine. Following a period of negotiations with an ad hoc committee of creditors comprised of some of the largest holders of Ukraine's outstanding Eurobonds, on 12 November 2015, the Ministry of Finance of Ukraine announced the settlement of Ukraine's debt restructuring operation in respect of thirteen series of Ukraine's Eurobonds and state-guaranteed Eurobonds. For more information on the 2015 debt restructuring operation and the terms of the new securities issued in such operation, see "*Public Debt—External Debt—Public Debt Strategy—Ukraine's external debt restructuring*".

While the debt reduction and maturity extension achieved through the debt operation alleviated the immediate liquidity pressures on the State budget, further pressures remain. The devaluation of the hryvnia since 2014 has made foreign debt service considerably more expensive for the Government, and any further depreciation of the currency will put additional pressure on Ukraine's ability to service national and international debt denominated in foreign currency. Furthermore, Ukraine is vulnerable to the effect of any potential increases in interest rates in the Eurozone and the United States, 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 exchange rate.

According to the Budget Code of Ukraine (the "**Budget Code**") the volume of 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 GDP of Ukraine. Pursuant to recent amendments to the Budget Code, if the ratio of total State debt to GDP is expected to exceed 60 per cent. as of any year end, the Government is required to apply to Parliament for approval to exceed the threshold and submit a plan setting out the steps to be taken to return the ratio below the 60 per cent. threshold. While this requirement has been temporarily suspended while the conflict in certain parts of the Donetsk and Luhansk regions continues, if such events were to cease, then the Government would need to provide Parliament with a plan to reduce the level of State debt and State Guaranteed Debt below 60% and this would be likely to put pressure on Ukraine's liquidity and its access to further funds in the international capital markets, thereby removing a key source of external liquidity for the Government. In addition, it should be noted that many Ukrainian companies have significant levels of foreign currency indebtedness and as a result of the financial crisis have experienced and may continue to experience difficulty refinancing such liabilities or 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 or delay economic recovery and pose a significant risk to GDP growth in an already challenging economic environment.

Adverse changes in global or domestic political or economic conditions or in the international capital markets may place continued pressure on Ukraine's foreign exchange liquidity, which could have a material adverse effect on Ukraine's economy and thus on the ability of Ukraine to perform its obligations under the Notes.

***The Ukrainian banking system is 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 Ukrainian economy.***

The global financial crisis starting in 2007 led to the collapse or bailout of some Ukrainian banks and to significant liquidity constraints for others. The floating of the hryvnia since February 2014 has put additional strains on the Ukrainian banking system, as the high dollarisation of the Ukrainian financial system and its customers has not only exposed Ukrainian banks to additional foreign exchange risks but has also contributed to a worsening of asset quality. Ukrainian banks have also been negatively impacted by the Ukrainian population's loss of confidence in the hryvnia since it was floated in 2014 and there have been subsequent increases in the purchase of U.S. dollars by Ukrainian citizens in order to avoid complete exposure to an often fluctuating exchange rate of hryvnia. According to the NBU, the proportion of loans represented by doubtful and bad loans was 19.0 per cent., 28.0 per cent. and 30.5 per cent. as at 31 December 2014, 2015 and 2016, respectively. As a result, the Ukrainian banking system as a whole is undercapitalised and suffers from high levels of non-performing assets.

Other factors which have had exacerbated the weak performance of the Ukrainian banking sector since 2014 include:

- significant outflows of deposits;
- the impact on the banking sector of the loss of income and branches in Crimea following the illegal occupation and annexation of that territory; and
- the effect on the sector's revenues and business of the ongoing conflict in certain parts of the Donetsk and Luhansk regions.

Further, Ukrainian banks have relied extensively on liquidity facilities and other support from the NBU and have been shielded from the full impact of the floating exchange rate through currency control restrictions and other technical regulations of the financial sector imposed by the NBU.

Since 2014, the NBU has taken steps to promote the consolidation and strengthening of the Ukrainian banking sector, and to this end has required and/or facilitated the temporary administration, liquidation and/or restructuring of a number of Ukrainian banks. Temporary administration was introduced at VAB Bank and Nadra Bank on 21 November 2014 and 6 February 2015, respectively, reflecting the financial difficulties at these banks following the Euro-Maidan revolution. On 2 March 2015, Delta Bank, one of the systemic banks of Ukraine, was declared insolvent. According to the NBU, at the time of its insolvency Delta Bank was the fourth largest bank in Ukraine based on the value of assets. Further, during 2015-2016, temporary administration was introduced, *inter alia*, at Bank Finance and Credit, Bank Mykhailivskyi and Commercial Bank Khreshchatyk. On 10 January 2017, the NBU introduced temporary administration at Platinum Bank, and on 14 July 2017, the NBU declared JSC NOVYI PJSC insolvent. As of the date of this Prospectus, all of these banks are under liquidation procedure, except for JSC NOVYI PJSC, which is still under temporary administration.

In addition, on 18 December 2016, the NBU declared PrivatBank, the largest bank in Ukraine by value of assets and an important systemic bank due to its large retail operations and prominent role operating payment systems across Ukraine, insolvent. The insolvency of PrivatBank was quickly followed by the bail-in of the bank's senior creditors and nationalisation of the bank. Subsequent to the nationalisation of PrivatBank, the Ministry of Finance has recapitalised the bank through the injection in aggregate of over UAH 139.3 billion of fresh capital. There can be no assurance that further capital injections will not be required in order to ensure the continued commercial viability and compliance with capital adequacy requirements of PrivatBank. Furthermore, ongoing legal challenges to the bail-in of senior creditors of the bank could result in additional costs and capital requirements for the bank. Should additional capital contributions be required from the State, this will place further strain on Ukraine's fiscal resources and potentially lead to a widening of the State budget deficit. In light of PrivatBank's role as a systemic bank, any failure to ensure the continuing viability of the bank in the face of its current challenges could have a substantial adverse impact on the Ukrainian banking sector and on the Ukrainian economy.

A further increase in the share of non-performing loans in banks' loan portfolios, or a failure to decrease this share, could place additional strain on the Ukrainian banking system, and may lead to further banks being declared insolvent and being liquidated or nationalised by the Government.

The fragile condition of the Ukrainian banking system has been the main factor in restricting the availability of domestic credit. Domestic banks are in many cases unwilling or unable to lend to domestic businesses in need of renewed or increased funding and a continued shortage of credit will 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 negative impact on GDP levels.

Several European banks have terminated their activities in Ukraine in recent years, including Commerzbank, Austria's Erste Group Bank, Sweden's Swedbank, the Bank of Cyprus, the Greek Eurobank Group and the UniCredit Group. This is largely due to the perceived high risk of doing business in Ukraine, high credit risk, a high ratio of non-performing loans and exchange rate risk. The share of Russian banks in the Ukrainian market is also decreasing largely due to the political situation between the two countries. Moreover, VTB and Vneshekonombank, two major Russian state-owned banks, are reportedly planning to sell their subsidiary banks in Ukraine. Similarly, Sberbank of Russia, another Russian state-owned bank is reportedly already in the process of selling its Ukrainian subsidiary.

Since July 2015, the Ukrainian Parliament has adopted new legislation to strengthen and protect the banking system. See "*Description of Ukraine—Legal Proceedings—Recent Legislation*". Furthermore, the National Bank of Ukraine (the "NBU") has actively sought to promote the closure of inadequately capitalised or poorly managed banks. Despite these positive legislative developments and actions by the bank regulator, any further insolvencies of Ukrainian banks, increased liquidity constraints, continued growth in the proportion of NPLs and the failure to adopt and implement a system of banking regulation meeting best international standards that achieves an increased degree of stability in the nation's banks, could have a material adverse effect on the Ukrainian economy and thus on Ukraine's ability to perform its obligations under the Notes.

***Ukraine's governmental departments, banks and companies may experience security and privacy breaches of the systems used to protect personal data, including cyber-attacks.***

Information security risks for the public and commercial sectors, including large financial institutions and government bodies, have increased in recent years, in part because of the proliferation of new technologies, the use of internet and telecommunications technology and the increased sophistication and activities of organised criminals and hackers. Customers of Ukrainian companies and users of government and private services may use personal smartphones, personal computers and other computing devices, personal tablet computers and other mobile devices that are beyond these entities' control systems. Computer systems, software and networks may be vulnerable to unauthorised access, misuse, denial-of-service attacks, phishing attacks, computer viruses or other malicious code.

Ukrainian entities' databases contain certain personal data of customers and consumers of services. These databases may be vulnerable to damage, including telecommunications and network failures and human acts both by external individuals as well as employees. Any material security breach or other disruption could expose an individual bank, company or organisation in Ukraine, or the wider Ukrainian public and/or private sector, to risk of loss, regulatory actions and reputational harm.

Several public and private Ukrainian organisations and companies have been and continue to be subject to a range of cyber-attacks. Cyber-attacks could give rise to the loss of significant amounts of customer data and other sensitive information, as well as significant levels of liquid assets (including cash). In addition, cyber-attacks could give rise to the disablement of an organisation's information technology systems used to service customers or the public. For example, on 27 June 2017, several public and commercial sectors were attacked by malware, which disrupted the operation of information and telecommunication systems of 42 institutions including, among others, banks, television channels and gas station networks. Although the Secure Internet Access System protected Ukraine's eResources and electronic public registers, as attempted attacks continue to evolve in scope and sophistication, Ukrainian entities may incur substantial costs in their attempts to modify or enhance their protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach.

As technology continues to develop, Ukrainian organisations (or their third-party affiliates) may be exposed to new risks to their business and the security of their data, including risks they may not be able to anticipate, as

well as increased operating costs from ensuring that any new products and services they provide are implemented correctly and operated safely and securely.

If Ukrainian organisations fail to effectively manage their IT, cybersecurity and privacy risks, they may become exposed to liability, including regulatory fines or penalties, increased expenses relating to the resolution of any security or privacy breaches of their databases and the mitigation of the impact of such breaches on affected individuals, and the reputation of the Ukrainian government and sectors of the economy (such as banking) could be harmed. Any of the above could have a material adverse effect on the Ukrainian economy and thus Ukraine's ability to meet its payment obligations under the Notes.

***The Ukrainian currency is subject to volatility and depreciation.***

As a result of the high dollarisation of the Ukrainian economy and the reliance of Ukrainian borrowers on external markets, Ukraine has become increasingly exposed to the risk of hryvnia exchange rate fluctuations. As at 31 December 2013, immediately prior to the Euro-Maidan Revolution, the NBU official UAH/U.S. dollar exchange rate was pegged at UAH 7.9930 to one U.S. dollar. In February 2014 the NBU allowed the exchange rate to float. The NBU official UAH/U.S. dollar exchange rate was UAH 15.77, UAH 24.00, UAH 27.19 and UAH 25.51 to one U.S. dollar, as at 31 December 2014, 31 December 2015, 31 December 2016 and 29 August 2017, respectively.

In March 2015, the NBU increased its discount rate from 19.5 per cent. to 30.0 per cent. in an attempt to stabilise the currency. Despite subsequent decreases in the discount rate to 12.5 per cent. per annum from May 2017, the discount rate remains elevated by historical standards which may lead to lower liquidity in the domestic financial markets and higher borrowing costs. The NBU has also adopted inflation targeting, but overall its ability to stabilise the currency is dependent on many factors (including political stability and a resolution of the illegal occupation of Crimea and the conflict in certain parts of the Donetsk and Luhansk regions) which cannot be predicted with any degree of certainty.

While a flexible exchange rate regime is expected in the medium term to have beneficial economic effects, these positive effects may not be realised and the interim support provided to banks to mitigate the effects of exchange rate depreciation may not have the desired effect. In addition, any further depreciation of the hryvnia may adversely affect the Government's ability to service its external debt. It is possible that strained relations with Russia arising from the illegal occupation of Crimea and the conflict in certain parts of the Donetsk and Luhansk regions may put pressure on the hryvnia exchange rate to the extent that the population loses confidence in the local currency and seeks to acquire foreign currencies as a hedge against political and economic risk. Any failure to maintain a relatively stable exchange rate may have a material adverse effect on the Ukrainian economy in general and thus on Ukraine's ability to perform its obligations under the Notes.

***Recent currency control restrictions may negatively impact Ukrainian entities.***

Ukraine has never had an entirely free capital account and transfers of foreign currency have always been subject to restrictions. Over recent years, the NBU has introduced a number of currency controls aimed at stabilising the foreign exchange market and preventing foreign currency outflow from Ukraine. These restrictions include, *inter alia*, (i) a requirement to sell in the local market, for hryvnia, a portion of any foreign currency received, (ii) restrictions on payments of dividends to foreign shareholders, (iii) restrictions on advance import payments and the purchase of foreign currency with borrowed funds, and (iv) restrictions on the early prepayment of cross-border loans. See "*The Monetary System—Instruments of monetary policy—Currency Control*".

These restrictions have made it more difficult for many Ukrainian companies to conduct their business. Continued imposition of these restrictions, or the imposition of further restrictions, may affect the credit quality of Ukrainian companies and in turn adversely impact Ukraine's economic growth and thus Ukraine's ability to perform its obligations under the Notes.

***The Ukrainian tax system is under developed and subject to frequent change, which creates an uncertain environment for investment and business activity.***

The tax legislation in Ukraine and its implementing regulations are not always clearly drafted and are thus subject to inconsistent interpretation by the tax authorities and other government bodies, providing many opportunities for inappropriate and corrupt practices by officials. These factors negatively impact the

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

The tax reform adopted by Parliament on 28 December 2014 generally improved the business climate but failed to achieve certain key goals: for example, broadening the tax base by bringing a substantial portion of the shadow economy into the reporting economy and reform of the tax authorities. On 24 December 2015, Parliament adopted a number of changes to the tax system in Ukraine with effect from 1 January 2016, including introduction of a flat 18 per cent. personal income tax rate applicable to most types of income, change of the basic reporting period for corporate income tax payers from a year to a quarter, abolition of monthly advance payments of corporate income tax with certain transition rules and improvement of the procedure for budget refund of VAT.

On 21 December 2016, Parliament adopted another set of amendments to the Tax Code effective from 1 January 2017. These amendments introduced a wide range of changes mostly related to the tax administration as well as to the application of corporate income tax, VAT, personal income tax and certain other taxes.

Currently, the Government is considering replacing the corporate income tax with dividend distribution based corporate tax (i.e. tax that is levied on distribution of profits of the taxpayers). The introduction of the dividend distribution based corporate tax in 2018 may potentially result in significant losses of budget revenues.

Any capital gains realised by a non-resident legal entity 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. 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.

Any significant changes to the Ukrainian tax system in the future, failure to implement certain changes or the ineffectiveness of any implemented measures could adversely impact Ukraine's economy and thus Ukraine's 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 United States 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, *inter alia*, 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, the courts of Ukraine may not 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 the New York Convention to 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.

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

Although application has been made to list the Notes on the Irish Stock Exchange Plc, an active trading market for the Notes may not develop or, if one does develop, it may not 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. Events may occur which would cause volatility of the sort which occurred in worldwide financial markets in the past, and any such volatility may 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 B- by Standard & Poor's and B- by Fitch and, although we cannot exclude the possibility of a downgrade in such ratings prior to the issue of the Notes. 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 Standard & Poor's and Fitch, each of which is established in the European Union and is registered under the CRA Regulation.

***The Notes may not be a suitable investment for all investors.***

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes and, in particular, the information contained in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, the merit and risks of an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all the risks of an investment in the Notes;

- (iv) understand thoroughly the terms of the Notes; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic considerations, interest rate volatility and other factors that may affect its investment and its ability to bear the applicable risks.

***Financial turmoil in emerging markets could cause the prices of the Notes to decline.***

The market price of the Notes is influenced by economic and market conditions in Ukraine and, to a varying degree, economic and market conditions in other CIS and Eastern European countries and emerging markets generally. In recent years and in the past the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Issuer's condition, prospects or credit rating. In recent periods, many global securities markets have experienced extreme price and volume fluctuations, particularly those in Ukraine and other developing economies. Continuation or intensification of financial or economic turmoil could materially adversely affect the market price of the Notes.

***The Conditions contain a "collective action" clause under which the terms of the Notes may be amended, modified or waived without the consent of all Noteholders.***

The Conditions contain provisions regarding amendments, modifications and waivers, commonly referred to as "collective action" clauses. Such clauses permit defined majorities to bind all Noteholders, including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority.

The Issuer has previously issued, and in the future the Issuer may issue further, debt securities which contain collective action clauses substantially in the same form as the collective action clauses in the Conditions. If this occurs, then this could mean that the Notes would be capable of aggregation with any such other debt securities. This means that a defined majority of the holders of such debt securities (when taken in the aggregate) would be able to bind all holders of debt securities in all the relevant aggregated series, including the Notes.

Any modification or actions relating to Reserved Matters (as defined in the Conditions), including in respect of payments and other important terms, may be made to the Notes with the consent of the holders of 75 per cent. of the aggregate principal amount outstanding of the Notes present and voting at a quorate meeting, and to multiple series of debt securities of the Issuer containing a collective action clause substantially in the same form as the collective action clause in the Notes with the consent of both (i) the holders of 66 $\frac{2}{3}$  per cent. of the aggregate principal amount outstanding of all debt securities being aggregated and (ii) the holders of 50 per cent. in aggregate principal amount outstanding of each series of debt securities being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable condition (as more particularly described in the Conditions), any such modification or action relating to reserved matters may be made to multiple debt securities with the consent of 75 per cent. of the aggregate principal amount outstanding of all debt securities being aggregated only, without requiring a particular percentage of the holders in any individual affected debt securities to vote in favour of any proposed modification or action. Any modification or action proposed by the Issuer may, at the option of the Issuer, be made in respect of some debt securities only and, for the avoidance of doubt, the provisions may be used for different groups of two or more debt securities simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, *inter alia*, to specify which method or methods of aggregation will be used by the Issuer.

There is a risk therefore that the Conditions may be amended, modified or waived in circumstances whereby the holders of debt securities voting in favour of an amendment, modification or waiver may be holders of different debt securities and as such, less than 75 per cent. of the Noteholders would have voted in favour of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple debt securities may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default (as defined in the Conditions) or in a distress situation.

***The Conditions contain a provision which provides that in defined circumstances certain Noteholders may declare all of the Notes to be due and payable.***

The Conditions contain a provision which provides that, at any time after the occurrence of an Event of Default, Noteholders whose Notes constitute at least 25 per cent. in aggregate principal amount of the Notes outstanding may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be due and payable, whereupon they shall become immediately due and payable at their outstanding principal amount together with accrued interest without further action or formality. There is therefore a risk for Noteholders that such actions may be taken without their consent and that, if they are a holder of Notes that constitute less than 25 per cent. in aggregate principal amount of the Notes, they will not on their own be able to do so. In addition, procuring a request from Noteholders whose Notes constitute at least 25 per cent. in aggregate principal amount of the Notes may not be possible or may result in delays.

***Noteholders may face exchange rate risks and exchange controls by investing in the Notes.***

The Issuer will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than U.S. dollars. These include the risk that exchange rates may significantly vary (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

There may be tax consequences for Noteholders as a result of any foreign exchange gains or losses.

***As the Global Notes are held by or on behalf of Euroclear, Clearstream, Luxembourg and DTC, investors will have to rely on their procedures for transfer, payment and communication with the Issuer.***

The Notes will be represented by Global Notes except in certain limited circumstances described therein. The Unrestricted Global Note will be deposited with a common depository on behalf of Euroclear and Clearstream, Luxembourg. The Restricted Global Note will be registered in the name of a nominee of, and deposited with a custodian for, DTC. Except in certain limited circumstances described in the Global Notes, investors will not be entitled to receive Note Certificates. Euroclear, Clearstream, Luxembourg and DTC will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through DTC, Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments through DTC or to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the Global Notes must rely on the procedures of DTC, Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

***Trading in the clearing systems is subject to minimum denomination requirements.***

The Notes will initially only be issued in global certificated form, and held through the clearing systems. Interests in the Global Notes will trade in book-entry form only, and Note Certificates will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of Notes. The common depository, or its nominee, for the clearing systems will be the sole registered holder of the Global Notes representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the Global Note representing the Notes will either be made directly by the Issuer to the clearing systems or will be made to the Fiscal Agent, who will in turn make payments to the clearing systems. Thereafter, these payments will be credited to accounts of participants who hold book-entry interests in the Global Notes representing the Notes and credited by such participants to indirect participants. After payment to the common depository for the clearing systems, none of the Issuer, the Joint Lead Managers or the Agents will have any responsibility or liability for the payment of interest, principal or other amounts to the owners of the book-entry interests. Accordingly, an owner of book-entry interests must rely on the procedures of the clearing systems, and if an owner of book-entry interests is not a

participant in the clearing systems, on the procedures of the participant through which it holds its interest, to exercise any rights and obligations of a Noteholder.

Unlike the Noteholders themselves, owners of book-entry interests will not have the direct right to act upon, for instance, solicitations for consents or requests for waivers from the Issuer. Instead, if a Noteholder owns a book-entry interest, it will be permitted to act only to the extent it has received appropriate proxies to do so from the relevant clearing system. The procedures implemented for the granting of such proxies may not be sufficient to enable an owner of book-entry interests to vote on a timely basis.

Similarly, upon the occurrence of an Event of Default under the Conditions, unless and until Note Certificates are issued in respect of all book-entry interests, an owner of book-entry interests will be restricted to acting through DTC, Euroclear and Clearstream, Luxembourg. The procedures to be implemented through DTC, Euroclear and Clearstream, Luxembourg may not be adequate to ensure the timely exercise of rights under the Notes.

***Legal investment considerations may restrict certain investments.***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

## 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 the Notes, and subject to completion and amendment, will be endorsed on each Note Certificate and will be attached and (subject to the provisions thereof) apply to each Global Note relating to the Notes.

The U.S.\$ 3,000,000,000 7.375 per cent. Notes due 2032 (the “**Notes**”, which expression shall in these conditions (the “**Conditions**”), unless the context otherwise requires, include any further notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series therewith) issued by Ukraine (the “**Issuer**” or “**Ukraine**”), represented by the Minister of Finance of Ukraine acting upon instructions of the Cabinet of Ministers of Ukraine, are issued subject to and with the benefit of a fiscal agency agreement dated on or around 25 September 2017 (such agreement as amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) made between the Issuer, The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the “**Registrar**”), The Bank of New York Mellon, London Branch as fiscal agent and principal paying agent (the “**Fiscal Agent**”), the transfer agent (the “**Transfer Agent**”) and the other initial paying agents named in the Agency Agreement (together with the Fiscal Agent, the “**Paying Agents**”) and any other agents named in the Agency Agreement (together with the Fiscal Agent, the Registrar, the Transfer Agent and the other Paying Agents, the “**Agents**”) and a deed of covenant dated on or around 25 September 2017 entered into by the Issuer in favour of the Account Holders named therein (the “**Deed of Covenant**”).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the Noteholders (as defined below) at the Specified Office (as defined in the Agency Agreement) of each of the Paying Agents. References in these Conditions to the Fiscal Agent, the Registrar, the Paying Agents and the Agents shall include any successor appointed under the Agency Agreement.

### 1. Form, Denomination and Status

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

The Notes will be issued in registered form, without interest coupons in denominations of U.S.\$200,000 and in integral multiples of U.S.\$1,000 in excess thereof (each denomination of Notes, an “**authorised denomination**”).

#### (b) *Status*

The Notes are the direct, unconditional and, subject to the provisions of Condition 3 (*Negative Pledge*), unsecured obligations of the Issuer and (subject as aforesaid) rank and will rank *pari passu* without any preference among themselves and not less than *pari passu* in right of payment with all other unsecured External Indebtedness of the Issuer, from time to time outstanding, provided, however, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa.

In this Condition:

“**External Indebtedness**” means any indebtedness which is expressed, denominated or payable, or at the option of the relevant creditor may be payable, in any currency other than the lawful currency from time to time of Ukraine.

### 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 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 form of transfer on the back 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 Note Certificate in accordance with paragraph (c) above, be mailed by uninsured first class mail (airmail if overseas) at the risk of the Holder of the Notes not so transferred to the address of such Holder appearing on the Register.

(e) ***No charge***

Registration of 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 of 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 upon the prior written notification to the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

**3. Negative Pledge**

So long as any Note remains outstanding (as defined in the Agency Agreement), the Issuer will not grant or permit to be outstanding, and it will procure that there is not granted or permitted to be outstanding, any Security Interest (other than a Permitted Security Interest) over any of its present or future assets or revenues or any part thereof, to secure any Relevant Indebtedness unless Ukraine shall (i) before or at the same time procure that the Issuer's obligations under the Notes are secured equally and rateably therewith or (ii) ensure that the Notes have the benefit of such other arrangement (whether or not comprising a Security Interest) as shall be approved by an Extraordinary Resolution or by a Written Resolution (each as defined in the Agency Agreement). For the avoidance of doubt, any such approval shall not constitute a Reserved Matter (as defined in Condition 12(e) (*Reserved Matters*)).

In this Condition:

**“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 or construction 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.

**“Relevant Indebtedness”** means any External Indebtedness (whether being any principal, premium, interest or other amounts constituting such External Indebtedness), present or future, of Ukraine in the form of or represented by notes, bonds or other similar instruments

whether or not issued directly by Ukraine, where, in any such case, such notes, bonds or other similar instruments are capable of being traded on any stock exchange or other securities market.

“**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, as defined in Condition 8 (*Events of Default*)).

#### 4. Interest

The Notes bear interest from and including 25 September 2017 at the rate of 7.375 per cent. per annum (the “**Rate of Interest**”), payable semi-annually in arrear on 25 March and 25 September in each year on the outstanding principal amount of the Notes, commencing on 25 March 2018 (each an “**Interest Payment Date**”). Interest will be paid subject to and in accordance with the provisions of Condition 6 (*Payments*). Each Note will cease to bear interest from the due date for redemption unless, after surrender of such Note, payment of principal is improperly withheld or refused or unless default otherwise occurs in respect of the payment, in which case interest shall continue to accrue on such portion of outstanding principal in accordance with this Condition 4 (*Interest*) 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 Fiscal Agent 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 outstanding 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 six 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 by Amortisation and Final Redemption*

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed in four instalments on each amortisation date specified in column A below (each an “**Amortisation Date**”) at the related amortisation amount specified in column B below (each an “**Amortisation Amount**”) payable as provided in Condition 6 (*Payments*). The outstanding principal amount of the Notes shall be reduced by the Amortisation Amount for all purposes with effect from the relevant Amortisation Date such that the outstanding aggregate principal amount of the Notes following such reduction shall be as specified in column C below, unless the payment of the relevant Amortisation Amount is improperly withheld or refused. In such a case, the relevant principal amount will remain outstanding until the day on which all sums due in respect of such Notes up to that day are received by or on behalf of the relevant Noteholders (except to the extent that there is any subsequent default in payment in accordance with these Conditions). The Notes shall be finally redeemed on 25 September 2032, at their final Amortisation Amount payable as provided in Condition 6 (*Payments*).

<b>Amortisation Date (A)</b>	<b>Amortisation Amount (B)</b>	<b>Outstanding Aggregate Principal Amount of the Notes (C)</b>
25 March 2031	U.S.\$750,000,000	U.S.\$2,250,000,000

25 September 2031	U.S.\$750,000,000	U.S.\$1,500,000,000
25 March 2032	U.S.\$750,000,000	U.S.\$750,000,000
25 September 2032	U.S.\$750,000,000	U.S.\$0

In these Conditions, references to “**principal**” shall, unless the context requires otherwise, be deemed to include any Amortisation Amount and references to the “**due date**” for payment shall, unless the context requires otherwise, be deemed to include any Amortisation Date.

(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 at meetings of holders of Notes.

(c) ***Cancellation***

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

(d) ***No Issuer Call***

The Issuer has no right to redeem the Notes prior to the date specified for redemption in this Condition 5 (*Redemption, Purchase and Cancellation*).

**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 Fiscal Agent not later than the 15<sup>th</sup> 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.

(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 (*Payments*) 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 and New York City.

(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) 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 Fiscal Agent 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 (*Taxation*).

## 8. **Events of Default**

If any of the following events (each an "**Event of Default**") occurs and is continuing, then the Holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be due and payable, whereupon they shall become immediately due and payable at their outstanding principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer:

(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 in respect of the Notes and that failure continues for 30 days after any Noteholder gives written notice to the Issuer to remedy the failure (with a copy of such notice to the Fiscal Agent at its specified office); or

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

Any Relevant Indebtedness shall become due and payable prior to the stated maturity thereof following a default or any security therefore becomes enforceable or Ukraine fails to make any payment of any Relevant Indebtedness on the due date for payment thereof or, if applicable, at the expiration of any grace period originally applicable thereto or any guarantee of, or indemnity in respect of, any Relevant Indebtedness of any other Person given by Ukraine shall not be honoured when due and called upon; provided that the aggregate amount of such Relevant Indebtedness is in excess of U.S.\$50,000,000 (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 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, 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

(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

(g) ***Invalidity***

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

In these Conditions:

“**Old Notes**” means the U.S.\$3,000,000,000 5 per cent. Notes due 2015 of the Issuer.

If the Issuer receives notice in writing from Holders of at least 50 per cent. in aggregate principal amount of the Notes outstanding to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such Holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect (but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice, whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

## 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. Agents

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer 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 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 (i) a Fiscal Agent, (ii) a Registrar (in respect of both Restricted Notes and Unrestricted Notes, each as defined in the Agency Agreement), and (iii) such other agents as may be required by any stock exchange on which the Notes may be listed from time to time.

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) *Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*

- (i) The Issuer may convene a Meeting at any time in respect of the Notes in accordance with the provisions of the Agency Agreement. The Issuer will determine the time and place of the Meeting and will notify the Noteholders of the time, place and purpose of the Meeting not less than 21 and not more than 45 days before the Meeting.
- (ii) The Issuer will convene a meeting if the holders of at least 10 per cent. in principal amount of the outstanding Notes have delivered a written request to the Issuer setting out the purpose of the Meeting. The Issuer will notify the Holders within 10 days of receipt of such written request of the time and place of the Meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.
- (iii) The Issuer will set the procedures governing the conduct of any Meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the Issuer will set such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.
- (iv) The notice convening any Meeting will specify, inter alia:
  - (A) the date, time and location of the Meeting;

- (B) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the Meeting;
  - (C) the record date for the Meeting, which shall be no more than five business days before the date of the Meeting;
  - (D) the documentation required to be produced by a Noteholder in order to be entitled to participate at the Meeting or to appoint a proxy to act on the Noteholder's behalf at the Meeting;
  - (E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;
  - (F) whether Condition 12(b) (*Modification of this Series of Notes only*), Condition 12(c) (*Multiple Series Aggregation – Single limb voting*) or Condition 12(d) (*Multiple Series Aggregation – Two limb voting*) shall apply and, if relevant, in relation to which other series of debt securities it applies;
  - (G) if the proposed modification or action relates to two or more series of debt securities issued by it and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;
  - (H) such information that is required to be provided by the Issuer in accordance with Condition 12(f) (*Information*);
  - (I) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the Meeting, and the details of any applicable methodology referred to in Condition 12(g) (*Claims Valuation*); and
  - (J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.
- (v) In addition, the Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to paragraph (iv) above shall also be provided, mutatis mutandis, in respect of Written Resolutions.
  - (vi) A “**record date**” in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.
  - (vii) An “**Extraordinary Resolution**” means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.
  - (viii) A “**Written Resolution**” means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.
  - (ix) Any reference to “**debt securities**” means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an

original stated maturity of more than one year but, for the avoidance of doubt, does not mean any GDP-linked Securities.

- (x) **“Debt Securities Capable of Aggregation”** means those debt securities which include or incorporate by reference this Condition 12 (*Meetings of Noteholders; Modification and Waiver*) and Condition 13 (*Aggregation Agent; Aggregation Procedures*) (or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities, for the avoidance of doubt irrespective of whether any such series of debt securities is issued under a fiscal agency or a trust structure).

(b) ***Modification of this Series of Notes only***

- (i) Any modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes may be made or taken if approved by a Single Series Ordinary Resolution, a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.
- (ii) For the purposes of a Meeting convened in respect of this Series of Notes only and for the purposes of passing a Single Series Ordinary Resolution and/or a Single Series Extraordinary Resolution (each as defined below) (a **“Single Series Meeting”**), at any such Single Series Meeting any one or more persons present in person holding Notes or proxies or representatives and holding or representing in the aggregate not less than 50 per cent. in principal amount of the Notes for the time being outstanding shall (save for the purposes of passing a Single Series Extraordinary Resolution) form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any such Single Series Meeting unless the requisite quorum be present at the commencement of business. The quorum at any such Single Series Meeting convened for the purpose of passing a Single Series Extraordinary Resolution shall (subject as provided in paragraph (iii) below) be one or more persons present in person holding Notes or being proxies or representatives and holding or representing in the aggregate not less than 66 $\frac{2}{3}$  per cent. in principal amount of the Notes for the time being outstanding.
- (iii) If within 15 minutes from the time fixed for any such Single Series Meeting a quorum is not present, the Single Series Meeting shall, if convened upon the requisition of the Noteholders, be dissolved, or in any other case, it shall stand adjourned for such period, being not less than 14 days nor more than 42 days, as may be appointed by the chairman either at or after the Single Series Meeting. At such adjourned Single Series Meeting one or more persons present holding Notes or being proxies or representatives (whatever the principal amount of Notes so held or represented) shall form a quorum and may pass any resolution and decide upon all matters which could properly have been dealt with at the Single Series Meeting from which the adjournment took place had a quorum been present at such Single Series Meeting, provided that at any adjourned Single Series Meeting at which a Single Series Extraordinary Resolution is to be proposed, the quorum shall be one or more persons present in person holding Notes or being proxies or representatives and holding or representing in the aggregate not less than 33 $\frac{1}{3}$  per cent. in principal amount of the Notes for the time being outstanding.
- (iv) A **“Single Series Ordinary Resolution”** means a resolution passed at a Single Series Meeting duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 12(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) and paragraphs 12(b)(ii) and 12(b)(iii) above in respect of any matter other than a Reserved Matter, by the affirmative vote of more than 50 per cent. of the Noteholders present in person or represented by proxy.

- (v) A “**Single Series Extraordinary Resolution**” means a resolution passed at a Single Series Meeting duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 12(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) and paragraphs 12(b)(ii) and 12(b)(iii) above in respect of a Reserved Matter, by the affirmative vote of at least 75 per cent. of the Noteholders present in person or represented by proxy.
  - (vi) A “**Single Series Written Resolution**” means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
    - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or
    - (B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Notes.
  - (vii) Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.
  - (viii) Any Single Series Ordinary Resolution, Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended such Single Series Meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.
- (c) **Multiple Series Aggregation – Single limb voting**
- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.
  - (ii) A “**Multiple Series Single Limb Extraordinary Resolution**” means a resolution considered at separate Meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 12(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).
  - (iii) A “**Multiple Series Single Limb Written Resolution**” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).
  - (iv) Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

- (v) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any Meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.
  - (vi) The “**Uniformly Applicable**” condition will be satisfied if:
    - (A) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (1) the same new instrument or other consideration or (2) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
    - (B) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to the currency of issuance).
  - (vii) It is understood that a proposal under paragraph (c)(i) above will not be considered to satisfy the Uniformly Applicable condition if each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation (or, where a menu of instruments or other consideration is offered, each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation electing the same option from such menu of instruments).
  - (viii) Any modification or action proposed under paragraph (i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 12(c) (*Multiple Series Aggregation – Single limb voting*) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.
- (d) ***Multiple Series Aggregation – Two limb voting***
- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.
  - (ii) A “**Multiple Series Two Limb Extraordinary Resolution**” means a resolution considered at separate Meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 12(a) (*Meetings of Noteholders; Modification and Waiver*), as supplemented if necessary, which is passed by a majority of:

- (A) at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
  - (B) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).
- (iii) A “**Multiple Series Two Limb Written Resolution**” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:
- (A) at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
  - (B) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).
- (iv) Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.
- (v) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any Meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.
- (vi) Any modification or action proposed under paragraph (i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 12(d) (*Multiple Series Aggregation – Two limb voting*) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(e) ***Reserved Matters***

In these Conditions, “**Reserved Matter**” means any proposal:

- (i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;
- (ii) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;
- (iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in

connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;

- (iv) to change this definition, or the definition of “Extraordinary Resolution”, “Single Series Extraordinary Resolution”, “Multiple Series Single Limb Extraordinary Resolution”, “Multiple Series Two Limb Extraordinary Resolution”, “Written Resolution”, “Single Series Written Resolution”, “Multiple Series Single Limb Written Resolution” or “Multiple Series Two Limb Written Resolution”;
- (v) to change the definition of “debt securities” or “Debt Securities Capable of Aggregation”;
- (vi) to change the definition of “Uniformly Applicable”;
- (vii) to change the definition of “outstanding” or to modify the provisions of Condition 12(i) (*Notes controlled by the Issuer*);
- (viii) to change the legal ranking of the Notes as set out in Condition 1(b) (*Status*);
- (ix) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, as set out in Condition 8 (*Events of Default*);
- (x) to change the law governing the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer’s waiver of immunity, in respect of actions or proceedings brought by any Noteholder, as set out in Condition 16 (*Governing Law and Arbitration*);
- (xi) to impose any condition on or otherwise change the Issuer’s obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;
- (xii) to modify the provisions of this Condition 12(e) (*Reserved Matters*);
- (xiii) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security;
- (xiv) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:
  - (A) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or
  - (B) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

(f) ***Information***

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 12(b) (*Modification of this Series of Notes only*), Condition 12(c) (*Multiple Series Aggregation – Single limb voting*) or Condition 12(d) (*Multiple Series Aggregation – Two limb voting*), the Issuer shall publish in accordance with Condition 13 (*Aggregation Agent; Aggregation Procedures*):

- (i) a description of the Issuer’s economic and financial circumstances which are, in the Issuer’s opinion, relevant to the request for any potential modification or action, a description of the Issuer’s existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;
- (ii) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement and where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;
- (iii) a description of the Issuer’s proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and
- (iv) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a Meeting in Condition 12(a)(iv)(G).

(g) ***Claims Valuation***

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 12(c) (*Multiple Series Aggregation – Single limb voting*) and Condition 12(d) (*Multiple Series Aggregation – Two limb voting*), the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Notes and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

(h) ***Manifest error, etc.***

The Agency Agreement may be amended without the consent of the holder of any Note for the purposes of, as determined by the Issuer, curing any ambiguity or of curing, correcting or supplementing any defective or inconsistent provisions contained therein or herein, to take into account further issues of notes pursuant to Condition 15 (*Further Issues*) or in any manner that the Issuer may deem necessary or desirable and that will not adversely affect, in the opinion of the Issuer, in any material respect, the interests of the Noteholders.

(i) ***Notes controlled by the Issuer***

For the purposes of (i) determining the right to attend and vote at any Meeting, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (ii) Condition 12(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*); and (iii) Condition 13 (*Aggregation Agent; Aggregation Procedures*), any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer shall be disregarded and be deemed not to remain outstanding, where:

- (i) “**public sector instrumentality**” means the Ministry of Ukraine, the National Bank of Ukraine, any other department, ministry or agency of the government of Ukraine or any corporation, trust, financial institution or other entity owned or controlled by the government of Ukraine or any of the foregoing; and

- (ii) “**control**” means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any Meeting, or in connection with any Written Resolution, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 13(d) (*Certificate*) which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any Meeting or the right to sign, or authorise the signature of, any Written Resolution in respect of any such Meeting. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at its Specified Office and, upon reasonable request, will allow copies of such certificate to be taken.

(j) ***Publication***

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 13(g) (*Manner of publication*).

(k) ***Exchange and Conversion***

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer’s option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders.

**13. Aggregation Agent; Aggregation Procedures**

(a) ***Appointment***

The Issuer will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

(b) ***Extraordinary Resolutions***

If an Extraordinary Resolution has been proposed at a duly convened Meeting to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate

principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) ***Written Resolutions***

If a Written Resolution has been proposed under the Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) ***Certificate***

For the purposes of Condition 13(b) (*Extraordinary Resolutions*) and Condition 13(c) (*Written Resolutions*), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the Meeting referred to in Condition 12(b) (*Modification of this Series of Notes only*), Condition 12(c) (*Multiple Series Aggregation – Single limb voting*) or Condition 12(d) (*Multiple Series Aggregation – Two limb voting*), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

- (i) list the total principal amount of Notes and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and
- (ii) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 12(i) (*Notes controlled by the Issuer*) on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) ***Notification***

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 13 (*Aggregation Agent; Aggregation Procedures*) to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

(f) ***Binding nature of determinations; no liability***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 13 (*Aggregation Agent; Aggregation Procedures*) by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non exercise by it of its powers, duties and discretions for such purposes.

(g) ***Manner of publication***

The Issuer will publish all notices and other matters required to be published pursuant to the Agency Agreement including any matters required to be published pursuant to Condition 12 (*Meetings of Noteholders; Modification and Waiver*), this Condition 13 (*Aggregation Agent; Aggregation Procedures*) and Condition 14 (*Notices*):

- (i) through Euroclear Bank SA/NV, Clearstream Banking, S.A., and/or any other clearing system in which the Notes are held;
- (ii) in such other places and in such other manner as may be required by applicable law or regulation; and
- (iii) in such other places and in such other manner as may be customary.

#### **14. Notices**

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the Register at the time of publication of such notice by pre-paid first class mail (or any other manner approved by the Registrar (or the Fiscal Agent on its behalf), which may be by electronic transmission). Any such notice shall be deemed to have been given on the next week day (being a day other than a Saturday or Sunday) after being so mailed.

The Issuer shall also ensure that for so long as the Notes are admitted to trading on the Irish Stock Exchange or any other stock exchange and the rules of such exchange so require, notices shall be given or published in a manner which complies with the rules and regulations of such stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the date of publication or, if so published more than once or on different dates, on the date of the first 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; provided that, if such further Notes of such series are not fungible with the Notes of such series for U.S. federal income tax purposes, such further Notes of such series will have a separate ISIN, CUSIP or other identifier number.

#### **16. 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.

#### **17. Governing Law and Arbitration**

- (a) The Deed of Covenant and the Notes and any non-contractual obligations arising out of or in connection therewith are governed by, and will be construed in accordance with, English law.
- (b) Any dispute, difference, controversy or claim arising out of or in connection with the Notes (including any dispute, difference, controversy or claim in relation to the execution, validity, interpretation, performance, breach or termination of the Notes and in relation to any non-

contractual obligations arising out of or in connection with the Notes) (a “**Dispute**”) shall be finally and exclusively resolved by confidential arbitration in accordance with the Arbitration Rules of the LCIA (the “**LCIA Rules**”), which rules are deemed to be incorporated by reference into this Condition 17, as supplemented and/or varied by this Condition 17(b).

- (i) The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall jointly nominate one arbitrator; the respondent(s), irrespective of number, shall jointly nominate the second arbitrator; and a third arbitrator, who shall serve as presiding arbitrator, shall be selected by the two party nominated arbitrators. For the avoidance of doubt, for the purpose of Article 8.1 of the LCIA Rules, the claimant(s), irrespective of number, and the respondent(s), irrespective of number, constitute two separate sides for the formation of the arbitral tribunal.
- (ii) In the event that the claimant(s) fail to nominate an arbitrator in accordance with the LCIA Rules, such arbitrator shall be selected and appointed by the LCIA Court as soon as possible, preferably within 15 days of such failure. In the event that the respondent(s) fail to nominate an arbitrator in accordance with the LCIA Rules, such arbitrator shall be selected and appointed by the LCIA Court as soon as possible, preferably within 15 days of such failure. In the event that the arbitrators nominated by the claimant(s) and the respondent(s) fail to jointly nominate a presiding arbitrator within 30 days of the nomination of the second party-nominated arbitrator, such presiding arbitrator shall be selected and appointed by the LCIA Court as soon as possible, preferably within 15 days of such failure. In the event that both the claimant(s) and the respondent(s) fail to nominate the respective arbitrators in accordance with the LCIA Rules, all three arbitrators shall be selected and appointed by the LCIA Court as soon as possible, preferably within 15 days of such failure, and the LCIA Court shall then designate one amongst them as presiding arbitrator.
- (iii) The Emergency Arbitrator provisions of the LCIA rules shall not apply.
- (iv) The seat (legal place) of arbitration shall be London, England and the language of the arbitration shall be English.
- (v) Where Disputes:
  - (A) as defined in the Deed of Covenant arise under the Deed of Covenant; and/or
  - (B) arise under the Notes,

which, in the reasonable opinion of the first arbitral tribunal to be appointed in any of the Disputes referred to above, are so closely connected that it is just for them to be resolved in the same proceedings, that arbitral tribunal shall have the power to order that the proceedings to resolve that Dispute shall be consolidated with those to resolve any of the other Disputes (whether or not proceedings to resolve those other Disputes have yet been instituted or any other arbitral tribunals have yet been constituted). The first arbitral tribunal shall determine whether to order such consolidation on the application of either the claimant(s) or the respondent(s) to any party to any of the Disputes referred to above, and in making such determination shall take account of (i) the likelihood and consequences of inconsistent decisions if consolidation is not ordered, (ii) any failure on the part of the party seeking consolidation to make a timely application and (iii) the likely consequences of consolidation in terms of cost and time. If the first arbitral tribunal makes an order for consolidation, it will immediately, to the exclusion of any other arbitral tribunals, have jurisdiction to resolve finally each dispute which is a subject of the order for consolidation, and the parties to each Dispute which is a subject of such order for consolidation shall be treated as having consented to that Dispute being finally decided by such first arbitral tribunal and having waived any objection on the basis of such order for consolidation to the validity and/or enforcement of any arbitral award made by such first arbitral tribunal following the order for consolidation unless the LCIA Court decides that any member of such arbitral tribunal would not be suitable or impartial.

- (vi) The jurisdiction of the Courts under sections 45 and 69 of the Arbitration Act 1996 is excluded.
- (c) To the extent that the Issuer or any of its revenues, assets or properties are entitled, in England or any other jurisdiction where arbitral proceedings or court proceedings in support of arbitration or to enforce any arbitral award 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 with respect to an arbitral award, from execution of a judgment with respect to an arbitral award 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 irrevocably agrees not to claim and irrevocably waives 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 arbitral proceedings or court proceedings in support of arbitration or to enforce any arbitral award). 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.
- (d) The waiver of immunities referred to herein constitutes only a limited and specific waiver for the purposes of the Notes 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. Notwithstanding Condition 17(c), the Issuer has not waived such immunities in respect of any 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).

#### **18. 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 other than the parties to the Deed of Covenant in respect of the terms of Conditions 17(b)(v), but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **USE OF PROCEEDS**

The net proceeds of the issue of the Notes (U.S.\$3,000,000,000 before taking into account commissions, fees and expenses) will be used by Ukraine to finance purchases of outstanding sovereign bonds pursuant to a tender offer and for general budgetary purposes.

## OVERVIEW OF THE OFFERING

Capitalised terms used in this overview of the terms of the Notes but not defined herein have the meanings ascribed to them in the Conditions.

<b>Issuer:</b>	Ukraine, represented by the Minister of Finance of Ukraine acting upon instructions of the Cabinet of Ministers of Ukraine.
<b>Notes:</b>	U.S.\$3,000,000,000 7.375 per cent. Notes due 2032.
<b>Joint Lead Managers:</b>	BNP Paribas, Goldman Sachs International and J.P. Morgan Securities plc.
<b>Final Maturity Date:</b>	25 September 2032.
<b>Amortisation:</b>	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed in four equal instalments on each date, and in the amounts, set out below:  25 March 2031: U.S.\$750,000,000 25 September 2031: U.S.\$750,000,000 25 March 2032: U.S.\$750,000,000 25 September 2032: U.S.\$750,000,000
<b>Issue Date:</b>	25 September 2017.
<b>Interest:</b>	The Notes will bear interest at a rate of 7.375 per cent. per annum payable semi-annually in arrear on 25 March and 25 September in each year.
<b>Status:</b>	The Notes are the direct, unconditional and, subject to the provisions of Condition 3(a) ( <i>Negative Pledge</i> ), unsecured obligations of the Issuer and (subject as aforesaid) rank and will rank <i>pari passu</i> without any preference among themselves and not less than <i>pari passu</i> in right of payment with all other unsecured External Indebtedness of the Issuer, from time to time outstanding, <i>provided however, that</i> the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa
<b>Negative Pledge:</b>	The Notes contain a negative pledge. See Condition 3 ( <i>Negative Pledge</i> ).
<b>Taxation:</b>	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 " <b>Taxes</b> "), 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, subject to certain exceptions as provided in Condition 7 (*Taxation*) of the respective terms and conditions of the Notes.

**Form and Denomination:**

The Notes will be offered and sold in registered form in denominations of U.S.\$200,000 or any amount in excess thereof which is an integral multiple of U.S.\$1,000.

The Notes will be offered and sold outside the United States in reliance on Regulation S and within the United States to QIBs only in reliance on Rule 144A. Notes which, in each case, are offered and sold in reliance on Regulation S (collectively, the “**Unrestricted Notes**”) will each be represented by beneficial interests in a global Note (the “**Unrestricted Global Note**”) in registered form without interest coupons attached, which will be registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for, and shall be deposited on or the Closing date with the Common Depository for, and in respect of interests held through, Euroclear and Clearstream, Luxembourg.

Notes which, in each case, are offered and sold in reliance on Rule 144A (collectively, the “**Restricted Notes**”) will each be represented by beneficial interests in a global Note (the “**Restricted Global Note**” and, together with the Unrestricted Global Note, the “**Global Notes**”) in registered form without interest coupons attached, which will be deposited on or about the Closing Date with the Custodian for, and registered in the name of Cede & Co. as nominee for, DTC. Interests in the Restricted Global Note will be subject to certain restrictions on transfer. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, Note Certificates will not be issued in exchange for beneficial interests in the Global Notes.

**Listing and Trading:**

Application has been made to the Irish Stock Exchange Plc for the Notes to be admitted to the Official List and trading on its Main Securities Market.

**Ratings:**

The Notes are expected to be rated B- by Standard & Poor’s and B- by 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, the Rating Agencies are rating agencies established in the EEA and registered under the CRA Regulation.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (i) the rating is provided by a credit rating agency operating in the EEA before

7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused; or (ii) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation; or (iii) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation.

ESMA is obliged to maintain on its website, [www.esma.europa.eu](http://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.

**Selling Restrictions:**

United States, United Kingdom, Republic of Italy and Ukraine.

**Governing law:**

English law.

**Fiscal Agent:**

The Bank of New York Mellon, London Branch

**Registrar:**

The Bank of New York Mellon SA/NV, Luxembourg Branch

**Security Codes:**

Regulation S ISIN: XS1577952952

Regulation S Common Code: 157795295

Rule 144A ISIN: US903724BM37

Rule 144A Common Code: 111731195

Rule 144A CUSIP: 903724 BM3

**Risk Factors:**

An investment in the Notes involved a high degree of risk. See "*Risk Factors*".

## DESCRIPTION OF UKRAINE

### Area and Population

Ukraine is a republic in Eastern Europe occupying a land area of 603,548 square kilometres, making 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.



Source: Geoportals of administrative-territorial system of Ukraine

Ukraine is subdivided into 24 regions (or oblasts). 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. As a result of the illegal occupation of Crimea, Crimea is considered by Ukraine to be a temporarily occupied territory. See "*—Illegal occupation of Crimea and the City of Sevastopol*".

According to the preliminary data of the State Statistics Service, as of 1 June 2017, the population of Ukraine was approximately 42.5 million (excluding the occupied territories of Crimea and the City of Sevastopol). According to the Ukrainian census of 2001, approximately 78 per cent. of the country's population were ethnic Ukrainians and 17 per cent. ethnic Russians. Other groups, including Belarusians, Moldovans, Bulgarians, Crimean Tatars, Hungarians, Romanians, Greeks and Poles, accounted for about 5 per cent. of the population. The official language is Ukrainian, although approximately 57 per cent. of the population speaks more than one language fluently. Approximately 88 per cent. of the population speaks Ukrainian fluently and approximately 66 per cent. of the population speaks Russian fluently. The literacy rate is approximately 99 per cent.

Between 1980 and 1990, the population of Ukraine grew by 0.3-0.4 per cent. annually, but this trend has reversed since 1991, reflecting the mixed economic and social conditions seen post-independence. From 1992 to 2016 the population of Ukraine declined by 6.9 million (not including the occupied territories of Crimea and the City of Sevastopol). The Government estimates that the population is currently decreasing at an annual rate of 0.6 per cent.

## History

Ukraine was first settled by Slavic tribes in the first millennium AD; from the thirteenth century through to the seventeenth century, control of the territory now comprising Ukraine had 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.

The Slavic tribes that occupied central and eastern Ukraine in the sixth century AD 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. In the thirteenth century, Kyiv was razed by Mongol raiders, with 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. From the signing of the treaty until World War I, most of what is present day Ukraine remained under Russian administration. The end of the Russian and Hapsburg Empires brought about by World War I allowed Ukraine to 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 of Ukraine had been incorporated into Poland and the larger central and eastern parts joined the Soviet Union. As a consequence of the imposition of Soviet farm collectivisation and the subsequent artificial famine of 1933, known as “Holodomor” orchestrated by Stalin, around seven million Ukrainians are estimated to have died.

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 forcibly 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 in the Soviet Union allowed the formation of the Ukrainian patriotic movement, Rukh, in the mid-1980s. Rukh went on to win 27 per cent. of the vote in the 1990 elections. Following the dissolution of the Soviet Union, Ukraine became an independent State on 24 August 1991. Ukraine’s Parliament then officially adopted the Act Declaring the Independence of Ukraine, a decision subsequently ratified by 90.3 per cent. of the votes cast in a referendum on 1 December 1991. Crimea is an autonomous republic within Ukraine, with its own constitution, parliament and government, but the Crimean government remains subordinated to the central Government of Ukraine as provided in the Constitution and other applicable legislation. Since March 2014 Crimea and the City of Sevastopol have been illegally occupied by Russia.

### 2010 Presidential Election

As a result of the 2010 presidential election, Viktor Yanukovich, a member of the Party of Regions, who received 48.95 per cent. of the vote became the President of Ukraine. The result of the election was contested by the runner-up candidate, Yuliya Tymoshenko, who received 45.47 per cent. of the vote; however, Mrs. Tymoshenko subsequently withdrew her appeal. The inauguration of Mr. Yanukovich as President was held on 25 February 2010. On 11 March 2010, Parliament appointed Mykola Azarov, a member of the Party of Regions, as the Prime Minister and endorsed the Government. Azarov was re-appointed in 2012 and the Government was endorsed by the President.

### Political Developments following the 2010 Presidential Election

In September 2010, following the request of a number of Members of Parliament, the CCU 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 Judicial System*”.

In the period from December 2010 to January 2013, a number of criminal charges were filed by the Prosecutor General’s Office of Ukraine against former Prime Minister Yuliya Tymoshenko. These charges included allegations of abuse of power during Mrs. Tymoshenko’s time in office as Prime Minister. Mrs. Tymoshenko was first arrested and detained in August 2010 and subsequently sentenced to seven years in prison. At the

time, the arrest and imprisonment of the former Ukrainian Prime Minister negatively affected the relations with a number of governments and institutions, including the European Union.

### **Timeline of Recent Political Developments**

The following timeline represents key political developments from the end of 2013 to the first half of 2017.

Following the deferral by the Cabinet of Ministers, on 21 November 2013, of the signing of the Association Agreement with the EU, largely peaceful mass rallies took place in Kyiv and other cities of Ukraine expressing strong public support for the political association and economic integration of Ukraine with the EU, culminating in the occupation by protesters of Independence Square in Kyiv, the so-called “Euro-Maidan Revolution”. See *“Political Framework—International Relations—Supranational Bodies and Organisations—EU”*.

Following the violent dispersal of protesters by police at one such rally in Kyiv on 30 November 2013, further mass rallies and violent protests commenced in Kyiv and a number of regions (oblasts) across Ukraine. The mass rallies and violent protests intensified and spread following the adoption by Parliament, on 16 January 2014, of a number of laws amending legislation in relation to the regulation of Parliamentary activity. These laws included limits on unauthorised public protests, blockading public or Government buildings, access to the internet, registration of internet-based media, immunity of 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 in Parliament by way of a show of hands without prior notification on the Parliamentary agenda and without discussion.

On 17 January 2014, President Yanukovich signed these bills into law, provoking the leaders of three opposition political groups in Parliament to articulate a set of demands for resolving the crisis in Ukraine, including the resignation of President Yanukovich, fresh elections, and the rescission of the entirety of the laws adopted on 16 January 2014.

On 28 January 2014, at an extraordinary session, Parliament resolved to cancel nine of the twelve laws adopted on 16 January 2014. Immediately following such resolution, the then Prime Minister, Mykola Azarov, tendered his resignation. A week later, the President appointed Serhiy Arbuzov as acting Prime Minister pending the formation of a new government able to command a parliamentary majority.

On 29 January 2014, Parliament adopted a law providing for the exemption from criminal liability of persons who were 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 provided for the cessation of the relevant criminal cases and release from custodial and non-custodial sentences of persons convicted for the above-mentioned crimes.

Following an intensification of the protests and mass rallies in early February 2014, including an upsurge in violence (principally directed by state authorities against protesters) that left 103 people dead and more than 1,400 injured, President Yanukovich and the three opposition leaders, in the presence of the foreign ministers of France, Poland and Germany, signed a compromise agreement on 21 February 2014. The agreement provided for: (i) restoration of the 2004 Constitution (under which presidential powers were more limited); (ii) formation of a government of national unity; (iii) initiation of a constitutional reform process; (iv) holding new Presidential elections no later than December 2014; (v) investigation into recent acts of violence and (vi) general amnesty.

On 22 February 2014, President Yanukovich left Kyiv. On the same day, all 328 Members of Parliament present voted to remove Mr Yanukovich from the office of president. The grounds for this removal were based on President Yanukovich abandoning his office and withdrawing from presidential duties in an unconstitutional manner. Parliament set 25 May 2014 as the date for new Presidential elections. On 23 February 2014, Oleksandr Turchynov was appointed the new Speaker of Parliament and as interim President.

On 22 February 2014, in the concluding days of the Euro-Maidan protests, former prime minister Yuliya Tymoshenko, who had been jailed during the presidency of Mr. Yanukovich due to politically motivated allegations of abuse of power, was released from prison, following a revision of the Ukrainian criminal code.

Mrs. Tymoshenko was officially rehabilitated on 28 February 2014, after the Ukrainian Supreme Court closed the case and found that no crime was committed.

On 23 February 2014, Parliament voted to repeal the State Language Policy law (adopted in 2012), in an attempt to restore Ukrainian as the sole state language at all levels. The repeal of the law provoked waves of anti-Government protests amongst the Russian-speaking populations of Crimea, Southern and Eastern Ukraine. The law was subsequently vetoed by interim President Turchynov on 1 March 2014.

In February 2014, Russia's illegal occupation of the Ukrainian administrative territories of Crimea and the City of Sevastopol began. See "*—Illegal occupation of Crimea and the City of Sevastopol*".

On 27 February 2014, Parliament appointed former opposition leader Arseniy Yatsenyuk as the new Prime Minister. The United States and the EU recognised the new Government in Kyiv, whereas the Russian Federation did not recognise the legitimacy of the new authorities.

On 25 May 2014, presidential elections were held. Petro Poroshenko, a businessman and politician (who was the Secretary of the National Security and Defence Council in 2005, the head of the NBU in 2007, the Minister of Foreign Affairs from 2009 to 2010, the Minister of Trade and Economic Development in 2012, a Member of Parliament and member of the committee on European integration since 2012), received 54.7 per cent. of the votes on the first ballot and was elected President of Ukraine.

On 24 July 2014, Prime Minister Arseniy Yatsenyuk tendered his resignation in Parliament due to the break-up of the ruling coalition and blocking of key governmental issues by Parliament. On 31 July 2014, Parliament rejected Prime Minister Yatsenyuk's resignation.

On 14 August 2014, the law "*On Sanctions*" was adopted, which created a mechanism for prompt response to current and potential threats to the national interests and security of Ukraine through the imposition of sanctions. The law allows for sanctions against foreign states, foreign legal entities, legal entities controlled by foreign entities or individuals, foreign individuals or any other persons or organisations involved in terrorist activities, whose actions create a real or potential threat to the national interests, security, sovereignty and territorial integrity of Ukraine, contribute to terrorist activities violate human rights or public and state interests and result in the occupation of Ukrainian territory and/or the expropriation or limitation of ownership rights or damage to property on Ukrainian territory. Such sanctions may include the blocking of assets, trade restrictions, restrictions on the outflow of capital from Ukraine, prohibitions on the leasing and privatisation of state assets, termination of trade agreements, joint projects and industrial programmes, among others. The President, the Cabinet of Ministers, the NBU and the Security Service are entitled to propose the imposition of sanctions to the National Security and Defence Council. Any decisions by the National Security and Defence Council on the proposed sanctions must be approved by both the President and Parliament, in case of sectoral sanctions, and by the President in case of sanctions against individuals.

On 25 August 2014, President Poroshenko announced the early dissolution of Parliament and called for new Parliamentary elections which took place on 26 October 2014.

On 5 September 2014, in Minsk, Belarus, former Ukrainian president Leonid Kuchma (in his capacity as representative of Ukraine to carry out the relevant negotiations) signed the Minsk Protocol implementing the Peace Plan of the President of Ukraine, Petro Poroshenko, and initiatives of the President of the Russian Federation, Vladimir Putin. See "*—Conflict in certain parts of the Donetsk and Luhansk regions—Minsk Arrangements*".

On 16 September 2014, Parliament ratified the "**Association and Free Trade Agreement**", between Ukraine on one side and the European Union, the European Atomic Energy Community ("**Euratom**") and their member states on the other side, which formed the basis for the creation of a universal zone of free trade with the EU. However, at the request of Ukraine, the bilateral implementation of free trade was postponed from November 2014 until December 2015 due to the need to address Russia's concerns regarding the free trade agreement.

On 16 September 2014, during a closed session, Parliament passed the law "*On Special Regime of Local Self-Government in Certain Regions of the Donetsk and Luhansk Oblasts*" (the "**Donbas Special Regime Law**") establishing, for a three-year period following enactment of the law, a special regime of local self-government in certain districts, towns and villages of Donetsk and Luhansk Oblasts, which are determined by

parliamentary discussion. The law provides for the right to use Russian and other languages in the public sphere in these regions and also regulates elections of local authorities in these regions, the provision of State budget funds for social and economic development in the Donetsk and Luhansk Oblasts and provides for the right to form local militia units to maintain public order in certain districts of these regions. Although the law formally entered into force on 18 October 2014, it remained *de facto* unimplemented, due to Parliament's failure to set forth the territorial scope of its application within the Donetsk and Luhansk regions.

The second law passed by Parliament on 16 September 2014 aimed to preclude criminal and administrative liability for people in the Donetsk and Luhansk Oblasts who took part in the activities of the self-proclaimed republics in the period from 22 February 2014 until the date on which the law came into effect. The law applies to persons whose activities occurred in the territory of Donetsk and Luhansk Oblasts where the anti-terrorist operation took place, and to persons who formed part of the Russia-backed illegal armed formations and/or self-proclaimed authorities in these regions or challenged the Ukrainian army during the anti-terrorist operation, provided that these persons carried out certain actions within one month from the date of the law's coming into effect (including the release of all hostages, voluntary disarmament and abstention from any actions resulting in blocking of the State authorities). This law does not apply to persons who committed violent crimes, crimes against statehood, or any actions held to have caused the crash of the MH17 Malaysia Airlines aircraft (which was shot down on 17 July 2014 while flying over certain parts of the Donetsk and Luhansk regions). This law was sharply criticised by various members of Parliament and civil activists. As of the date of this Prospectus, the law has not been signed by the President and therefore has not come into effect.

On 19 September 2014, in Minsk, former Ukrainian president Leonid Kuchma (in his capacity as representative of Ukraine) signed the Minsk Memorandum, aimed at fulfilling the provisions of the Minsk Protocol, upon consultation with the trilateral contact group, consisting of representatives of Ukraine, OSCE and the Russian Federation (the "**Trilateral Contact Group**"), regarding the necessary steps for implementation of the Peace Plan of the President of Ukraine, Petro Poroshenko, and initiatives of the President of the Russian Federation, Vladimir Putin. See "*—Conflict in certain parts of the Donetsk and Luhansk regions—Minsk Arrangements*".

On 26 October 2014, Ukraine held parliamentary elections in which Ukrainians voted overwhelmingly for pro-Western parties: Petro Poroshenko Bloc, a political party of President Poroshenko, and the People's Front ("Narodnyi Front"), a party headed by the Prime Minister Arseniy Yatsenyuk, received 21.8 per cent. and 22.1 per cent., respectively, of the vote, although Poroshenko's bloc won many more seats due to its better performance in single member districts. The "Opposition Bloc" (former President Yanukovich's party's remnants) received 9.4 per cent. of the vote. Total seats won by the opposition, including independents, amounted to 79. On 21 November 2014, the Petro Poroshenko Bloc, the People's Front, Self-Reliance, Fatherland and the Radical Party signed a coalition agreement. At the opening session of the new parliament on 27 November 2014, these five parliamentary factions formed a parliamentary coalition representing 302 seats in Parliament.

On 27 November 2014, Arseniy Yatsenyuk was confirmed as the Prime Minister of Ukraine by 341 parliamentary votes out of a total of 450.

On 2 December 2014, Ukrainian President Petro Poroshenko granted citizenship to Natalie Jaresko (U.S.), Alexander Kvitashvili (Georgia) and Aivaras Abromavičius (Lithuania), foreigners who were all potential government ministers. Later that day, Parliament approved the composition of the government and Ms. Jaresko, Mr. Kvitashvili and Mr. Abromavičius were confirmed as the Ministers of Finance, Health and Economy, respectively. The new Cabinet of Ministers assumed its powers that same day after all members of the government took an oath of allegiance to the Ukrainian people.

On 8 December 2014, after a hiatus of nearly six months, Russia resumed gas supplies to Ukraine. As a result of unsuccessful gas price negotiations during the ensuing months, Ukraine terminated the gas purchase from Russia in the third quarter of 2015.

On 23 December 2014, Parliament adopted amendments to the laws regulating the country's domestic and foreign policy, as well as national security principles, repealing Ukraine's non-aligned status. The law "*On Amendments to Several Laws of Ukraine on the Abolition of the Non-Aligned Policy of Ukraine*" submitted by the President was supported by 303 members of Parliament and was aimed at restoring the country's

aspirations to become a NATO member. The law also reaffirms Ukraine's political goal of becoming a member of the European Union.

On 12 February 2015, the Trilateral Contact Group, consisting of representatives of Ukraine, OSCE and the Russian Federation, negotiated a series of steps aimed at enforcing the Minsk Protocol and the Minsk Memorandum. See “—*Conflict in certain parts of the Donetsk and Luhansk regions—Minsk Arrangements*”.

On 17 March 2015, Parliament passed a law amending the Donbas Special Regime Law, modifying its provisions on entering into force. The law expressly states that the provisions of the Donbas Special Regime Law apply only to the local self-government bodies and authorities, which are formed following special elections (which have yet to be called and held). Most importantly, the law clarified that the majority of provisions in the Donbas Special Regime Law will become effective as of the date that the newly elected municipal bodies assume power, provided that such elections are held according to the Constitution and Ukrainian law, are transparent, public and open, conform to international standards of human rights and democracy, are monitored by impartial observers (such as the OSCE and the Council of Europe), are free from all unlawful military and paramilitary troops, that the right of IDPs (who now reside outside of the covered territories) to vote is ensured and that broadcasting by Ukrainian TV channels and radio stations within the covered territories is resumed. Along with the amendments to the Donbas Special Regime Law, Parliament also adopted a resolution identifying the “covered Donbas territories”, in which the Donbas Special Regime Law applies.

On 30 May 2015, the President appointed former President of Georgia, Mikheil Saakashvili, as the Head of the Odesa Region State Administration.

On 4 July 2015, as part of the general process of reform, a new police force began functioning in Ukraine, which was created to replace the previous “militsiya”.

On 25 October 2015, 26.7 million Ukrainian voters were called to elect their 168,450 local and regional representatives in the first local elections since the Euro-Maidan Revolution. The turnout was relatively low and comprised 46.62 per cent. of the eligible voters, excluding Crimea and the Donetsk and Luhansk Oblasts. On 12 November 2015, the second tour of local elections took place. The turnout was 34 per cent. of eligible voters. As a result of the vote, 29 mayors were elected.

On 25 November 2015, a second draft law on the Amendments to the Constitution of Ukraine regarding judicial reform, was submitted to Parliament. This draft law called for the independence of the judiciary and a guarantee of transparency regarding the actions of the judges in the performance of their duties. On 20 January 2016, this draft law was approved by the CCU, although seven judges dissented with the court's opinion. On 2 June 2016, Parliament adopted the draft law on Amendments to the Constitution of Ukraine regarding judicial reform. On 30 September 2016, this law entered into force.

On 10 December 2015, the new law “*On the State Service*” was adopted; this law regulates the status of civil servants. The adoption of this law was one of the key conditions for the provision of the second tranche of financial assistance by the EU, amounting to €600 million, pursuant to the Memorandum of Understanding between Ukraine and the EU, signed on 22 May 2015.

On 18 December 2015, the European Commission published its sixth report on the progress of Ukraine regarding the fulfilment of the criteria necessary for a visa-free travel regime within the EU. In the report, the European Commission stated that Ukraine met the technical criteria for visa liberalisation. The report also required Ukraine to implement certain anti-corruption legislation in the first quarter of 2016. The new legislation was adopted on 18 February 2016, preceded by the adoption on 15 March 2015 of a law requiring electronic disclosure of property, income, expenditures and financial liabilities of the State and local government officials. On 16 March 2016, the first two members of the National Agency on the Prevention of Corruption were appointed. On 17 March 2016, in the course of a visit of the President of Ukraine to Brussels, the President of the European Commission, Jean-Claude Juncker, confirmed that Ukraine had fulfilled all the obligations required by the sixth report.

On 1 January 2016, Title IV of the Association Agreement establishing a Deep and Comprehensive Free Trade Area with Ukraine entered into force. As of the date of this Prospectus, the ratification procedure of the Association Agreement is complete. On 1 September 2017, the Association Agreement entered into force.

On 3 February 2016, the Minister of Economy of Ukraine, Aivaras Abromavičius, announced his resignation. Mr. Abromavičius blamed President Petro Poroshenko's business partner and lawmaker Ihor Kononenko for prompting his resignation. According to Mr. Abromavičius's official statement, the repeated allegations and misconduct of Mr. Kononenko blocked the efforts of the Ministry of Economy to carry out the transparent reforms required by the IMF and the international community. The ambassadors of Canada, France, Italy, Japan, Lithuania, Switzerland, Sweden, the United Kingdom and the United States demonstrated their support to Mr. Abromavičius, calling upon Ukrainian leaders to set aside parochial differences and to work for the prosperity of the State.

On 18 February 2016, Prosecutor General Viktor Shokin resigned. On 12 May 2016, Yuriy Lutsenko was appointed as the new Prosecutor General of Ukraine.

On 10 April 2016, Prime Minister Arseniy Yatseniuk announced his intention to resign and, on 14 April 2016, Members of Parliament voted in favour of his resignation. On 14 April 2016, Parliament approved former Speaker of Parliament Volodymyr Groysman's appointment as Prime Minister, as well as the appointment of a new Cabinet of Ministers of Ukraine (except for the Minister of Healthcare).

On 9 November 2016, Mikheil Saakashvili resigned from the post of Governor of Odesa Oblast. Shortly after his resignation, on 14 November 2016, the head of Ukraine's National Police, Khatia Dekanoidze, announced her resignation and the Cabinet of Ministers of Ukraine subsequently approved her resignation. On 8 February 2017, Serhii Kniazev was appointed as the new head of Ukraine's National Police.

On 11 December and 18 December 2016, 184 united territorial communities across Ukraine hosted elections. This was the first election in the united territorial communities since the launch of the administrative reform in 2015.

On 18 December 2016, the NBU declared PrivatBank insolvent, leading to the bank's nationalisation by the Government on 21 December 2016. At the time of such declaration, the NBU identified a total capital requirement of UAH 148 billion. Taking into account the systemic importance of the bank for the financial sector and economy, PrivatBank was nationalised. On 26 December 2016, according to the NBU, PrivatBank's existing debt was converted into equity. Such conversion was made to provide for the possibility to bail-in certain liabilities of the bank in the process of the nationalisation. As a result of the nationalisation of PrivatBank capital, the State's equity share in the banking sector exceeded 50 per cent.; in particular, its share in the net assets of the banking system reached 56 per cent., and its share in deposits of the banking system reached 62 per cent.

On 3 April 2017, the Cabinet of Ministers adopted a resolution targeting the achievement of a 72 per cent. debt-to-GDP ratio by the end of 2020. The Ministry of Finance also prepared a draft budget resolution for 2018-2020, which was approved by the Cabinet of Ministers of Ukraine on 14 June 2017, submitted to Parliament on 15 June 2017 and is under consideration as of the date hereof. The draft is aimed at promoting economic growth and stable societal development, identifying priorities for using budget funds, implementing structural reforms in key sectors of the economy and carrying out a measured and consistent tax, budget and debt policy in the medium-term perspective. The document introduces expenditure ceilings which are intended to serve as the basis for achieving budget policy and strategic objectives over the next three years.

On 6 April 2017, the European Parliament approved a visa waiver for Ukrainian citizens. Starting from 11 June 2017, Ukrainian citizens holding biometric passports are exempted from the EU's short-stay visa requirements. According to the information provided by the State Border Guard Service of Ukraine, during the first month of effective visa waiver rules, 171,129 Ukrainian citizens with biometric passports crossed the border into EU countries, 37,886 of whom crossed the border without visas.

On 10 April 2017, Valeriya Gontaryeva resigned from her post as Governor of the NBU after holding the post for three years. As of the date of this Prospectus, Iakiv Smolii has been appointed as Executive Governor of the NBU.

On 20 April 2017, Ukrainian authorities detained former lawmaker, Mykola Martynenko, and deputy chief of Naftogaz, Serhii Pereloma, for embezzlement. As of the date of the Prospectus, the investigation is still ongoing.

On 1 June 2017, the project “*Anticorruption Initiative of the European Union in Ukraine*” was launched in Ukraine. The project is aimed at increasing the ability of newly formed anti-corruption institutions to perform their functions qualitatively, as well as engaging civil society and the media in anti-corruption activities. The programme is designed for three years and has a budget of €15.84 million (provided by the European Union and Denmark).

On 27 June 2017, major firms, airports and government departments in Ukraine were struck by a massive cyberattack, which began to spread across Europe. According to the statement provided by Security Service of Ukraine, the cyberattack was aimed at disrupting the functioning of state and private Ukrainian enterprises, as well as the destruction of important data. The State Service of Ukraine, together with the national police, the State Service of Special Communication and Information Protection of Ukraine, other law enforcement authorities, international anti-virus companies and key producers of telecommunication infrastructure and programme software continue to take actions designated for the localisation of the consequences of this cyberattack.

On 7 June 2017, the Cabinet of Ministers of Ukraine approved the strategy of enhancement of management in the field of use and protection of agricultural lands owned by the state and their disposal, aiming to ensure the parity of interests of society, local communities and the state. The strategy provides for measures on protection, reproduction of agricultural land and reclamation of disturbed lands and investments in prevention of further degradation. The strategy further allows transfer of agricultural land plots mainly on the terms of lease for no more than seven years in respect of agricultural lands.

On 8 June 2017, Parliament passed a draft law aimed at ensuring that a guaranteed health package will be covered by national budget financing. This package includes the provision of medicines and medical services for emergency, palliative and certain other healthcare needs. The draft law also provides for creation of a central executive body to enforce a state policy of financing such medical services. The draft law further allows involving private healthcare entities and individual contractors in the provision of medical services out of budget funds. The draft law will align Ukraine’s healthcare system closer to well-established western standards, increase the attractiveness of the Ukrainian healthcare system for investors and help guard against corruption.

On 9 July 2017, a law which provides for NATO membership as the strategic foreign policy priority of the state entered into force.

On 13 July 2017, Parliament adopted the draft law on the Constitutional Court of Ukraine. The law reforms the organisational structure of the CCU and introduces a constitutional claims procedure. On 31 July 2017, the President of Ukraine signed the law, which means the law will enter into force following its official publication.

### *Gas Conflict with Russia*

Naftogaz receives deliveries of natural gas from the Russian Federation on the basis of an agreement on the sale and purchase of natural gas for the period from 2009 to 2019, executed between Gazprom and Naftogaz on 19 January 2009 (the “**Supply Contract**”) in the amounts necessary to assure the gas balance in Ukraine.

In accordance with arrangements reached between President Yanukovych of Ukraine and President Putin of the Russian Federation at the sixth meeting of the Russian-Ukrainian Interstate Commission on 17 December 2013, as well as a signed supplement to the Russian-Ukrainian gas supply contract, Naftogaz received natural gas from Gazprom at the price of U.S.\$268.5 per 1000 cubic metres in the first quarter of 2014.

In the second quarter of 2014, the contract price for imported gas amounted to more than U.S.\$490 per 1,000 cubic metres. This increase was caused by the unilateral cancellation by Russia of its Government Resolution No. 291, dated 30 April 2010 and by Gazprom’s refusal to sign a supplement to the gas supply contract for the second quarter of 2014 to establish the coefficient for the price calculation formula. Naftogaz did not agree to purchase gas at such price, considering it economically unjustified and discriminatory. Price inconsistencies in the second quarter of 2014 resulted in the suspension of gas supplies from Gazprom to Ukraine from 16 June 2014, and Naftogaz switched to a prepayment system wherein it paid in advance for the natural gas it received from Gazprom.

With the aim of reducing the price of imported natural gas from Russia to Ukraine, a series of meetings and consultations at the tripartite level “EU-Ukraine-Russia” have been held since May 2014, but a compromise was not reached. The lack of compromise between the parties led to submission of counter-claims to the Stockholm Chamber of Commerce by Naftogaz and Gazprom in June 2014. Preliminary and final invoices issued by Gazprom for the natural gas prepayment, which were received in April-June 2014, were not discharged by Naftogaz.

After the tripartite meetings, the Cabinet of Ministers of Ukraine, the Russian Government and the European Commission executed a binding protocol on 30 October 2014 (the “**Binding Protocol**”) regarding gas supplies from Russia to Ukraine for the period from November 2014 to 31 March 2015. Subsequently, Annex No. 33 to the Supply Contract was executed.

Pursuant to the Binding Protocol, during November 2014-31 March 2015, gas was supplied on an advance-payment basis at the price of a U.S.\$100 per 1,000 cubic metres. Gazprom did not apply the “take-or-pay” clause for this period. Pursuant to the executed documents, Naftogaz fulfilled its obligations and ensured gas supplies for the 2014-2015 heating season within the amounts necessary to maintain Ukraine’s gas balance.

In compliance with Annex No. 33, in November and December 2014 Naftogaz paid Gazprom U.S.\$3.1 billion collectively for the gas received in November-December 2013 (U.S.\$1.45 billion) and April-June 2014 (U.S.\$1.65 billion), whereby Naftogaz performed its obligations under the Binding Protocol and ensured gas supplies to Ukraine for the 2014-2015 heating season within the amounts necessary to maintain Ukraine’s gas balance.

In violation of the Supply Contract, from 19 February 2015, Gazprom, in its sole discretion, initiated gas supplies to the territories in Donetsk and Luhansk regions, which are temporarily outside Ukraine’s control.

Naftogaz repeatedly informed Gazprom of the fact that gas pumping stations in the Donetsk and Luhansk regions were located on the territories where military operations and shelling was taking place and which were no longer under Ukraine’s control. Furthermore, there were no authorised representatives of Naftogaz at these stations to accept the gas, which made it impossible to document gas amounts under Supply Contract.

On 1 April 2015, Naftogaz and Gazprom entered into Annex No. 34 to Supply Contract in order to maintain Ukraine’s gas balance, to distribute natural gas within the territory of Ukraine for 2015 and to inject gas into Ukraine’s underground gas storage facilities. Annex No. 34 set forth gas supply terms for the period from April 2015 to 30 June 2015.

In order to execute a new tripartite Binding Protocol and annex to the Supply Contract for the 2015-2016 winter period, further tripartite meetings and consultations were held. On 25 September 2015, Ukraine, the EU and Russia approved the principal terms of the “new” Binding Protocol.

As part of the implementation of the Binding Protocol, on 9 October 2015 Naftogaz and Gazprom executed Annex No. 35 to the Supply Contract regarding the terms for the supply of gas from 1 October 2015 to 31 March 2016. In 2015 Naftogaz received 6.140 billion cubic metres and the gas was fully paid for. Since December 2015 until the date of this Prospectus, Naftogaz has neither purchased nor paid for supplies of Russian natural gas.

On 31 May 2017, the arbitral tribunal of the SCC ruled on the case of Naftogaz against Gazprom relating to the Supply Contract. The tribunal dismissed the claims of Gazprom, which were based on the “take-or-pay” clause. The tribunal also held that:

- the clauses of the Supply Contract concerning the supply amounts and “take-or-pay” provision were invalid beginning 19 January 2009, up until the date of the final decision on the case, and must be amended starting from the date of the final judgment, taking into account the real demand from Naftogaz;
- the price formula provided in the Supply Contract must be reviewed starting from 27 April 2014 in order to bring the price to the market rate;
- Naftogaz must be compensated for overpaid sums in cases where the payment price exceeded the price as provided by the revised formula of the Supply Contract; and

- the clause of the Supply Contract prohibiting Naftogaz from selling gas purchased under the Supply Contract outside Ukraine is invalid as of 19 January 2009.

The calculation of the amount of claims will be included in the final (second) decision of the tribunal, which is expected to be rendered in the third quarter of 2017.

#### *Relations with the IMF since the Euro-Maidan Revolution*

In the immediate aftermath of the Euro-Maidan Revolution, in early 2014, the newly installed Ukrainian government initiated discussions with the IMF on the terms of a U.S.\$17 billion 24-month stand-by arrangement (the “**2014 SBA**”). In order to secure the 2014 SBA, the Ukrainian government agreed to pursue a policy of fiscal consolidation that included eliminating 24,000 government jobs, withdrawing subsidies on natural gas, raising taxes, and selling off state assets. The 2014 SBA was approved by the IMF Executive Board on 22 April 2014 and the first disbursement thereunder in the amount of U.S.\$3.16 billion was released in May 2014.

On 29 August 2014, the IMF executive board approved the First Review under the 2014 SBA and agreed to disburse to Ukraine a second tranche of financial assistance thereunder totalling U.S.\$1.39 billion. The First Review discussions took place in the context of heightened geopolitical tensions with Russia and a deepening economic crisis in the country. Intensification of the conflict in certain parts of the Donetsk and Luhansk regions and the escalation of the gas dispute with Gazprom, two of the key risks identified at the time of the 2014 SBA, had materialised by the time of the First Review.

In completing the First Review, the IMF Executive Board approved waivers of non-observance of performance criteria related to international reserve accumulation and the cash deficit of the Government on the basis of corrective actions taken. The Board also approved waivers of applicability of performance criteria related to the cash deficit of the Government, the cumulative change in net domestic assets of the central bank and publicly guaranteed debt. In addition, in light of the slight delay in completing the first review of the programme, the Board approved the authorities’ request to merge the remaining two reviews scheduled for 2014 while keeping the total financing under the arrangement unchanged.

In early 2015, with the intensification of the conflict in certain parts of the Donetsk and Luhansk regions and continued depreciation of the hryvnia, the Ukrainian Government concluded that the financial support package and underlying reform programme of the two-year 2014 SBA would not be sufficient to achieve the Government’s objectives. A longer period would be required to enact and implement the necessary reforms and stabilise the economy. Accordingly, the Government requested the IMF to replace the 2014 SBA with a new four-year extended fund facility (the “**2015 EFF**”) in an amount equivalent to U.S.\$17.5 billion.

On 11 March 2015, the Executive Board of the IMF approved the 2015 EFF, which replaced the 2014 SBA. All funds not already disbursed under the 2014 SBA were cancelled. On 13 March 2015, Ukraine received the first tranche under the 2015 EFF in the amount of U.S.\$4.88 billion, approximately U.S.\$2.63 billion of which was allocated to finance the State Budget deficit. After the IMF Executive Board approved the First Review under the 2015 EFF, on 4 August 2015 Ukraine received the second tranche under the 2015 EFF in the amount of U.S.\$1.66 billion, which was allocated to bolster Ukraine’s foreign exchange reserves.

On 14 September 2016, the Executive Board of the IMF completed the second review of the 2015 EFF and approved the disbursement of the third tranche, in the amount of U.S.\$1 billion, under the programme. The funds were again used to bolster Ukraine’s foreign exchange reserves. On 4 March 2017, the IMF and the Ukrainian authorities reached an agreement on the updated Memorandum of Economic and Financial Policies, which paved the way for consideration of the third review of the arrangement under the 2015 EFF. On 3 April 2017, the IMF Executive Board approved the third review of the 2015 EFF. This decision facilitated the disbursement of the fourth tranche to Ukraine in the amount of U.S.\$1 billion. On 5 April 2017, these funds were again allocated to bolster Ukraine’s foreign exchange NBU reserves.

Currently, Ukraine and the IMF are in the process of negotiating a new Letter of Intent and Memorandum on Economic and Financial Policies to establish the basis for the fourth review of the 2015 EFF, which is expected to be completed later in 2017.

## **Illegal occupation of Crimea and the City of Sevastopol**

On 20 February 2014, Russia began its illegal occupation of the Autonomous Republic of Crimea and the City of Sevastopol and triggered the conflict in certain parts of the Donetsk and Luhansk regions. Together, the illegal occupation of Crimea and the City of Sevastopol and the conflict in certain parts of the Donetsk and Luhansk regions has caused unprecedented challenges for Ukraine.

On 27 March 2014, the UN General Assembly adopted Resolution 68/262 “*Territorial Integrity of Ukraine*”, which confirmed the internationally recognised borders of Ukraine and the absence of any legal grounds for changing the status of the Autonomous Republic of Crimea and the City of Sevastopol. A similar position of the UN General Assembly was confirmed in Resolution 71/205 “*Situation of human rights in the Autonomous Republic of Crimea and the City of Sevastopol (Ukraine)*”, adopted on 19 December 2016. Resolution 71/205 recognises Russia as an occupier state. Numerous documents adopted by the Committee of Ministers of the Council of Europe, Parliamentary Assembly of the Council of Europe, Parliamentary Assembly of the Organization for Security and Co-operation in Europe, etc. also contain confirmation of the territorial integrity of Ukraine within internationally recognised borders and condemnation of the violation of the territorial integrity and sovereignty of Ukraine by the armed forces of the Russian Federation.

In connection with the illegal occupation of Crimea and the City of Sevastopol, many countries around the world have followed a policy of non-recognition of the attempted annexation by the Russian Federation of the Ukrainian Peninsula of Crimea and the City of Sevastopol and applied restrictive measures (sanctions) against the Russian Federation.

For the purposes of protecting the rights and freedoms of the citizens of Ukraine in the illegally occupied territory of Crimea and the City of Sevastopol, as well as determination of the legal status of such territories, Ukraine adopted a number of laws.

The law “*On Securing the Rights and Freedoms of Citizens and the Legal Regime on the Temporarily Occupied Territory of Ukraine*”, which came into force on 15 April 2014, determined the status of Crimea as a temporarily occupied territory and established a special legal regime for the temporarily occupied territory of Crimea as follows:

- citizens of Ukraine have the right to free and unrestricted entry and exit from the temporarily occupied territory upon presenting documentation confirming their citizenship. Entry and exit of foreigners and stateless persons from the temporarily occupied territory is allowed only with special permission via relevant entry-exit points. The order of entry and exit of foreigners and stateless persons from the temporarily occupied territory is established by the Cabinet of Ministers;
- compulsory enrolment of Ukrainian citizens to the citizenship of other countries is not recognised;
- human rights of the residents of the temporarily occupied territory are protected through relevant Ukrainian legislation relating to: obtaining documents proving Ukrainian citizenship; employment, pensions, state social insurance and social services; guarantee of electoral and property rights and other legislation;
- individuals and legal persons maintain their property rights if their property has been acquired in accordance with the laws of Ukraine;
- compensation for material and moral damages caused by the occupation of Ukraine to businesses and individuals, associations, citizens of Ukraine and foreigners are to be referred to the Russian Federation as the occupying state. Ukraine undertakes to contribute to the compensation of the damages caused by the illegal occupation; and
- prohibition on engaging in economic activity on the temporarily occupied territories (licensing, permits, certification and other state regulation activities), as well as import and/or export of military goods, organisation of railroad, auto, sea, river, ferry and air services.

On 12 August 2014, Parliament enacted a law establishing a tax and customs control in the free economic zone of Crimea and the specifics of carrying out operations on the temporarily occupied territory of Ukraine, effective from 27 September 2014. The law provides for the creation of a free economic zone in the territory

of Crimea and the City of Sevastopol. The free economic zone is established for a period of 10 years from the effective date of the law. Development and management of the free economic zone are entrusted to a special managing company, the creation and activity of which are regulated by the Cabinet of Ministers.

As a result of the illegal occupation of Crimea and the City of Sevastopol, the Ukrainian economy has lost the benefit of a large number of private and state-owned assets and property (such as the Sevastopol Naval Base and local oil and gas assets, including all assets held in storage) in the region. In addition, the estimated costs of resettlement of the IDPs, as well as those who have left Crimea and the City of Sevastopol as a result of the occupation, are significant. Although it is not possible to accurately calculate the extent of the impact the illegal occupation of Crimea and the City of Sevastopol has had on Ukraine's GDP, Ukraine estimates that the region contributed approximately 2.9 per cent., 3.1 per cent. and 3.0 per cent. of total GDP in 2011, 2012 and 2013, respectively. Information for 2014, 2015 and 2016 is not available due to the illegal occupation of Crimea and the City of Sevastopol.

### **Conflict in certain parts of the Donetsk and Luhansk regions**

Following the removal from power of President Yanukovich in February 2014, government buildings were forcibly occupied by Russia-backed illegal armed formations. These events prompted the Ukrainian Government to launch military and anti-terrorist operations against the Russia-backed illegal armed formations. Such operations are continuing as at the date of this Prospectus, and a significant part of the Donetsk and Luhansk regions is still outside Ukrainian Government control. These territories, including the Ukraine-Russia border passing through them, are now under the de-facto control of Russia-backed illegal armed formations and while Ukraine has no control over the aforementioned border, Russia permits movement of goods and people across the border without reference to the Ukrainian authorities.

Since mid-February 2015, the geographic position of the military front line east and north of Donetsk and Luhansk has not been altered. The OSCE Special Monitoring Mission promptly reports ceasefire violations.

The conflict in certain parts of the Donetsk and Luhansk regions remains complicated and unresolved, and Russia-backed illegal armed formations continue to operate in such areas and to restrict the freedom of movement of the OSCE Special Monitoring Mission. In addition, Russia-backed illegal armed formations continue to block the activities of the ICRC and other international governmental and non-governmental humanitarian organisations within certain parts of the Donetsk and Luhansk regions. Hundreds of Ukrainian citizens have been captured and continue to be illegally detained in certain parts of the Donetsk and Luhansk regions, despite Ukraine's attempts to establish an exchange process. There is no proper political system in the certain parts of the Donetsk and Luhansk regions since March 2014 there have not been any local elections in such areas that have complied with Ukrainian legislation or OSCE standards.

According to the United Nations, the total death toll of the conflict in certain parts of the Donetsk and Luhansk regions and illegally occupied Crimea from 14 April 2014 to 15 May 2017 is at least 10,090 persons, with a further 23,966 persons being injured. The number of internally displaced persons from the Donetsk and Luhansk regions was estimated to have reached 1.2 million people by the end of 2016. An estimated 2.9 million people who still live in certain parts of the Donetsk and Luhansk regions continue to experience difficulties in accessing medical care, property, social services and compensation mechanics for damaged or stolen assets.

#### *Minsk Arrangements*

On 5 September 2014, in Minsk, former Ukrainian president Leonid Kuchma, together with representatives of Russia and the OSCE, signed the Minsk Protocol and on 19 September 2014, Leonid Kuchma signed the Minsk Memorandum. These documents (together, the "**Minsk Arrangements**") concern the implementation of the Peace Plan of the President of Ukraine, Petro Poroshenko, and initiatives of the President of the Russian Federation, Vladimir Putin.

On 5 September 2014, leaders from the self-proclaimed Donetsk and Luhansk "republics" stated that the peace plan co-ordination and ceasefire did not change their policy of seeking independence from Ukraine.

At the start of January 2015, the Russia-backed illegal armed formations began a new offensive operation in Ukrainian-controlled areas, capturing the symbolically important Donetsk International Airport and attempting to take control of Debaltsevo City, a strategic transport hub that would have linked the two areas of

Donbas. This resulted in the complete collapse of the Minsk Arrangements. On 7 February 2015, the French president François Hollande and German chancellor Angela Merkel put forth a new peace plan, drawn up after talks with President Poroshenko and Russian President Vladimir Putin.

On 12 February 2015, the Trilateral Contact Group negotiated steps to enforce the Minsk Arrangements. The Arrangements came into effect on 15 February 2015. Though fighting generally subsided after this, and Russia-backed illegal armed formations began to withdraw artillery from the front lines as specified by the Minsk Arrangements, with Ukraine following suit, skirmishes and shelling continued in certain parts of the Donetsk and Luhansk regions.

On 21 September 2016, in the course of the Trilateral Contact Group meeting in Minsk, it was agreed that troops should be withdrawn from certain territories of the Donetsk and Luhansk regions. Ukrainian Armed Forces carried out work to remove forces and ammunition from the agreed territories in the region of Zolote (completed on 1 October 2016) and Petrivske (completed on 7 October 2016). Removal of forces and ammunitions near Stanytsia in the Luhansk region was interrupted by Russia-backed illegal armed formations.

The Minsk Arrangements, based on President Poroshenko's Peace Plan, remain for Ukraine the main politico-diplomatic instrument for resolution of the situation in Donbas. All parties to the Minsk Arrangements have been called on by international observers, including by the International Court of Justice in its Order of 19 April 2017 on *Ukraine v. Russian Federation*, to implement the provisions of the Minsk Arrangements. Special note has been taken of the responsibility of the Russian Federation to take steps to implement the Minsk Arrangements; for example, in the United States' recently enacted "Countering America's Adversaries Through Sanctions Act".

Ukraine remains fully dedicated to the fulfilment of the Minsk Arrangements and a peaceful resolution of the situation in certain parts of the Donetsk and Luhansk regions.

#### *Additional economic measures imposed on certain parts of the Donetsk and Luhansk regions*

On 15 March 2017, President Poroshenko announced that Ukraine will impose additional economic measures to counter the hybrid threats against the national security of Ukraine on the territories held by Russia-backed illegal armed formations. These measures include suspending all cargo traffic between certain parts of the Donetsk and Luhansk regions and the rest of Ukraine as well as cutting off industrial ties between the two areas. The relevant decision was adopted by the National Security and Defence Council on 15 March 2017 and further approved by Order of the President of Ukraine No. 62/2017 dated 15 March 2017 as well. These additional economic measures will have a direct negative impact on the mining, coke processing, and metallurgical industries. They will negatively affect the production levels of all industries that rely on the products produced by the mining, coke processing, and metallurgical industries on the territory of Ukraine. The indirect negative impact will spread to all related activities caused by a deficit of individual products and the increase in the cost of raw materials. The Government is undertaking steps aimed at levelling out the negative impact of the additional economic measures, especially in the energy sector. Such steps include diversification of coal supply to Ukraine, the creation of a reserve of coal energy, and the adoption of the new energy strategy of Ukraine. As of the date of this Prospectus, the additional economic measures remain in force.

#### **International Sanctions**

Since the events of February and March 2014, extensive sanctions have been imposed on the parties responsible for illegal activities in certain parts of the Donetsk and Luhansk regions, misuse of Ukraine state funds, human rights violations in relation to the conflict in certain parts of the Donetsk and Luhansk regions and illegal transfers of property rights in illegally occupied Crimea.

In particular, sanctions have been imposed by the United States and the EU, and to a lesser extent other jurisdictions, including Japan, Australia and New Zealand.

Sanctions include, inter alia, (a) asset freezes, (b) blocking and travel sanctions on individuals and entities, (c) sectoral sanctions, (d) prohibitions on financing or insurance, and (e) import and export bans, from and into the Russian Federation, respectively.

In response to the international sanctions imposed upon them, the Russian Federation has declared a number of reciprocal sanctions. Starting from 1 January 2016, the Russian Federation has established a number of prohibitions and restrictions with regard to Ukraine, in particular:

- a ban on the import of certain types of agricultural products, raw materials and food products originating from Ukraine, including Ukrainian pork, beef, chicken, fish, crayfish, molluscs, dairy products, cheeses, sausages, vegetables, fruits and nuts;
- an application of import duties in connection with the “suspension” of the CIS Free Trade Agreement with regard to Ukraine without giving any justification for the imposition of such duties; and
- restriction of the international transit.

Given the previous importance of trade between Ukraine and Russia to the Ukrainian economy, the trade restrictive measures imposed by Russia since 2013 and further prohibitions and restrictions imposed by Russia since 2016 have had a significant effect on the level of Ukrainian imports, mitigated only to a certain extent by increased trade with the EU and other international economies. See “*External Sector—International Trade—Direction of Trade*”.

### **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 arbitral 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, 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 that such proceedings will commence, the nature and magnitude of any award that might be sought or the merits, if any, of any such claim.

### ***2017 ICJ Dispute between Ukraine and the Russian Federation***

On 16 January 2017, Ukraine filed a case against the Russian Federation at the International Court of Justice in connection with alleged violation by the Russian Federation of the International Convention for the Suppression of the Financing of Terrorism of 1999 (the “**ICFST**”) and the International Convention on the Elimination of All Forms of Racial Discrimination of 1965 (the “**CERD**”). Ukraine accuses Russia of breaching the ICFST through the financing of terrorist activities of illegal armed formations in the Donbas, and of breaching the CERD by systematic discrimination against non-Russian ethnic groups living in the occupied territory of the Crimean peninsula, in particular, Ukrainian and Crimean Tatars minorities.

On 19 April 2017, the International Court of Justice adopted a decision to impose interim measures and ordered that the Russian Federation must refrain from maintaining or imposing new restrictions on the ability of the Crimean Tatars to conserve their representative institutions, including the Mejlis of the Crimean Tatar people, and must guarantee access to education in Ukrainian. The court also required that both sides refrain from any action which might aggravate or extend the dispute.

### ***December 2013 Notes Litigation***

On 17 February 2016, The Law Debenture Trust Corporation plc (the “**Trustee**”), acting in its capacity as trustee on behalf of the Russian Federation as sole holder of the December 2013 Notes, filed a claim against Ukraine in the High Court of Justice of England and Wales, seeking payment of principal and accrued interest allegedly due as well as other relief. Ukraine denies the validity and enforceability of the December 2013 Notes.

On 29 March 2017, the Court handed down its summary judgment in favour of the claimant. Under the summary judgment, Ukraine is ordered to pay to the Trustee the alleged principal amount (U.S.\$3 billion) and the coupon outstanding (U.S.\$75 million) under the December 2013 Notes. Ukraine is also required to pay interest from 21 December 2015 up to the date of payment, at the rate of 8 per cent. per annum on the principal debt and at an annual rate of 2 per cent. above 3-month U.S.\$ LIBOR (re-set at quarterly intervals) on the coupon. Furthermore, Ukraine must pay certain of the Trustee's costs (subject to a detailed assessment if not mutually agreed), with an interim payment of approximately GBP 1.1 million due by 20 September 2017 (with the balance of the claimed costs falling for assessment by the Court following the determination of the appeal, unless subject to a further stay at that time). Interest on the unpaid costs accrues at a rate of 2.25 per cent. per annum until payment.

The hearing of an appeal by Ukraine to the Court of Appeal is scheduled for January 2018.

The execution of the summary judgment has been stayed pending determination of Ukraine's appeal, save for the interim payment of a sum representing 50 per cent. of the Trustee's legal costs due by 20 September 2017. Accordingly, no sums in respect of the principal, coupon or interest under the December 2013 Notes are payable until Ukraine's appeal to the Court of Appeal has been determined.

### ***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 the United Nations Commission on International Trade Law Arbitration Rules.

Tatneft claims that Ukraine violated the Agreement between the Cabinet of Ministers and the Government of the Russian Federation regarding facilitation and mutual protection of investments (the "**Agreement**") because Tatneft and other foreign shareholders were deprived of the right to effectively control their investments. Tatneft's claim amounts to U.S.\$2.4 billion.

On 29 July 2014, the arbitral tribunal found that Ukraine had violated the Agreement, and ordered Ukraine to pay Tatneft approximately 10 per cent. of the claimed compensation amount (equal to U.S.\$112 million), plus interest equal to three-month LIBOR plus 3 per cent., payable from when Tatneft was deprived of the right to control its shareholding in Ukratnafta. The arbitral tribunal dismissed the other claims.

Ukraine later submitted a motion to the Paris Court of Appeals for the annulment of the arbitral award. This was ultimately rejected. Subsequently, Ukraine submitted an appeal of the arbitral award to the Court of Cassation of France. As of the date of this Prospectus, the appeal is ongoing.

Tatneft submitted applications for recognition and enforcement of the arbitral decision in the United States, Russia and the United Kingdom. However, in June 2017, the Moscow Arbitration Court decided to suspend proceedings for the recognition and enforcement of an arbitration award in the territory of the Russian Federation, recognising Ukraine's judicial immunity in this case, as Ukraine did not provide direct consent to the jurisdiction of Russian courts. Currently, the exchange of the parties' written submissions for the recognition and enforcement of an arbitral award is also pending before the District Court of the District of Columbia (United States of America). On 25 July 2017, Ukraine received notice of the decision of the High Court of Justice of England and Wales that the arbitral award can be enforced in the UK. Ukraine had 22 days to challenge this decision from the moment of its adoption.

### ***Claim of the Republic of Tatarstan and the Ministry of Land and Property of the Republic of Tatarstan against Ukraine***

On 6 January 2016, the Ministry of Justice of Ukraine received an arbitration notice from the Ministry of Land and Property of the Republic of Tatarstan. The claim under dispute amounts to U.S.\$300 million. This dispute will be settled by an ad hoc tribunal under 1976 UNCITRAL arbitration rules.

The legal ground for the arbitration is the alleged violation of the "Agreement between the Government of the Russian Federation and the Cabinet of Ministers on the Encouragement and Mutual Protection of Investments" dated 27 November 1998. The alleged violations resulted from the allegedly illegal decisions of the Ukrainian courts regarding the forfeiture of the shares of the Ministry of Land and Property of the Republic of Tatarstan in PJSC "Ukratnafta".

As of the date of this Prospectus, the parties are negotiating the further procedural schedule.

***JKX Oil & Gas PLC, Poltava Gas B.V. and JV “Poltava Oil and Gas Company” v. Ukraine***

On 21 January 2015, the Ministry of Justice of Ukraine received notice of a dispute from JKX Oil & Gas PLC (“**JKX**”), Poltava Gas B.V. and JV “Poltava Oil and Gas Company” (the “**Claimants**”). It stated that Ukraine violated the provisions of the Energy Charter Treaty, Agreement on promotion and reciprocal protection of investments between the Kingdom of the Netherlands and Ukraine and Agreement between the Government of the United Kingdom and the Government of Ukraine for the Promotion and Reciprocal Protection of Investments.

On 13 February 2015, the claim was submitted to the SCC under its arbitration rules. On 16 February 2016, two further motions were submitted against Ukraine – one to the SCC under UNCITRAL 2010 Arbitration Rules and the other to the International Centre for Settlement of Investment Disputes (“**ICSID**”) under its arbitration rules.

On 6 February 2017, the tribunal adjudged that Ukraine owed compensation to the Claimants amounting to U.S.\$11.7 million. At the same time, the tribunal decided that the increase of the tax rate for oil and gas production, which took place in August 2014, was legal.

On 3 March 2017, the arbitral award was appealed to the High Court of Justice of England and Wales. As of the date of this Prospectus, the case is still pending.

The likely outcome scenarios in this case are considered to be the following: (i) Ukraine will submit comments to the submission of JKX; and (ii) JKX will submit motion for the provisioning of expenses by Ukraine (covering the amount of compensation awarded by the arbitration award plus expenses for the representation of JKX in court, which, according to preliminary estimates, will amount to U.S.\$500,000).

***“Krederi LTD” v. Ukraine***

On 1 July 2014, the Secretariat of ICSID received notice from the company “Krederi LTD” regarding its intention to submit a claim against Ukraine under the agreement between the Government of the United Kingdom and the Government of Ukraine for the Promotion and Reciprocal Protection of Investments dated 10 February 1993.

Allegedly, the company’s claims resulted from the deprivation of its property rights to the land plots on the basis of decisions by the Ukrainian courts. “Krederi LTD” claims that the estimated losses are equal to U.S.\$120 million.

As of the date of this Prospectus, the proceedings are ongoing. The hearings on the case are planned for 4 to 8 September 2017.

***“Todini Construzioni Generali S.p.A.” v. State Agency of Automobile Roads of Ukraine***

On 8 March 2017, “Todini Construzioni Generali S.p.A.” (“**Todini**”) submitted a request for arbitration to the Secretariat of the International Court of Arbitration of International Chamber of Commerce. The claim is in connection with the performance and further termination of two contracts for the capital repair of roads dated 4 January 2013 between Todini and the State Agency of Automobile Roads of Ukraine (“**Ukravtodor**”).

The claimant alleges that Ukravtodor is indebted to Todini in connection with the extension of the terms of construction. The amount of the dispute is approximately UAH 193.6 million.

The Ministry of Justice of Ukraine, as an authorised representative of Ukravtodor, disputes Todini’s claims.

The parties are currently awaiting confirmation from the Secretariat of the International Court of Arbitration of the International Chamber of Commerce as to the appointment of the chairman of the arbitral tribunal that has been established to decide the case.

***Ihor Boiko v. Ukraine***

On 30 January 2017, the Ministry of Justice of Ukraine received a notification from Mr. Ihor Boiko regarding the initiation of arbitration proceedings against Ukraine in accordance with UNCITRAL Arbitration Rules, in

relation to a corporate dispute concerning the company “Zhytomyrski Lasoshchi”. The amount in dispute exceeds U.S.\$100 million.

The claimant alleges that Ukraine allowed illegal expropriation of investments without any reimbursement or compensation, and did not provide full and unconditional legal protection of investments. It further alleges that Ukraine permitted discriminatory actions, which impeded the disposal of the investments. If such allegations were true, they would be in violation of the requirements of the Agreement between the Government of the Russian Federation and the Cabinet of Ministers of Ukraine on the Encouragement and Mutual Protection of Investments dated 27 November 1998.

As of the date of this Prospectus, an arbitral tribunal has been established and a hearing regarding the procedural schedule is expected to be scheduled soon.

***“Littop Enterprises Limited”, “Bridgemont Ventures Limited” and “Bordo Management Limited” v. Ukraine***

“Littop Enterprises Limited”, “Bridgemont Ventures Limited” and “Bordo Management Limited” (the “**Claimants**”) submitted a request for arbitration against Ukraine on 30 June 2015. The Claimants submit that Ukraine breached the Energy Charter Treaty and caused them material damage resulting from (i) the continuous extraction of gas by PJSC “Naftogaz” from gas storages owned by PJSC “Ukrnafta” for public needs at a discount or free of cost; (ii) failure of PJSC “Ukrtransgaz” and PJSC “Naftogaz” to abide by judgments of Ukrainian courts; (iii) rapid increase in the rates for subsoil use for gas extraction; and (iv) adoption of the law “*On Amendments to the Law “On Joint Stock Companies” (on reducing quorum of general shareholding meetings of joint stock companies)*” dated 19 March 2015. The Claimants rely on certain provisions of the Energy Charter Treaty.

The amount in dispute exceeds U.S.\$4.67 billion, plus interest. A hearing is scheduled for 19-26 February 2018.

***“Gilward Investments B.V.” v. Ukraine***

Gilward Investments B.V (the “**Claimant**”), a shareholder of PJSC “Aerosvit”, has initiated an investment dispute against Ukraine. The Claimant alleges that Ukraine breached certain commitments under the Netherlands-Ukraine bilateral investment treaty dated 14 July 1994. The amount in dispute exceeds U.S.\$695 million.

On 30 June 2015, the Secretariat of the ICSID registered the Request for Arbitration (ICSID Case No. ARB/15/33). As of the date of this Prospectus, the date for a hearing has not yet been decided.

***“Torno Global Contracting S.r.l.” and “Beta Funding S.r.l.” v. Ministry of Transport and Communication of Ukraine and the State Agency of Automobile Roads of Ukraine***

Torno Global Contracting S.r.l and Beta Funding S.r.l. (the “**Claimants**”) submitted a request for arbitration due to the alleged failure of the Ministry of Transport and Communication of Ukraine and the State Agency of Automobile Roads of Ukraine (the “**Respondents**”) to perform obligations under the General Agreement on Cooperation in Reconstruction and Exploitation of Autoroad M-05 Kyiv-Odesa (the “**Agreement**”). The amount of the claim is approximately €140 million.

On 15 December 2009, the Respondents sent their response to the request for arbitration and their counter-claim to the International Court of Arbitration of the International Chamber of Commerce.

The hearings on the case were cancelled upon the mutual agreement between the parties to the dispute. Such arrangement was made possible following the approval of the settlement agreement. As of the date of this Prospectus, Ukravtodor, together with the Ministry of Infrastructure of Ukraine, are undertaking actions for the preparation of the draft regulation of the Cabinet of Ministers of Ukraine, which will define and authorise the parties responsible for signing the settlement agreement on behalf of Ukraine.

***“Emergofin B. V.” and “Velbay Holdings Ltd.” v. Ukraine***

On 15 December 2015, Ukraine received notice of the intent of Emergofin B. V. and Velbay Holdings Ltd, subsidiary companies of UC Rusal, to submit a claim against Ukraine to the ICSID. This claim was aimed at

protecting the claimants' alleged rights and interests with respect to the Ukrainian investments (shares in PJSC "Zaporozhye aluminium combine") in accordance with Article 9 of the Netherlands-Ukraine bilateral investment treaty.

On 25 October 2016, the claimants submitted a Request for Arbitration to the Secretariat of the ICSID.

On 27 April 2017, after formation of an arbitral tribunal, the first procedural hearing was held. As of the date of this Prospectus, exchange of the parties' written submissions continues.

#### ***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 the defendants of their obligations in connection with civil proceedings relating to the seizure of assets of Mr. Pavlo Lazarenko (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 18 February 2015, the Massachusetts District Court held a hearing on the merits of the case, as a result of which UTICo's motion on rendering partial judgment on liability issues, as well as motions to allow gathering and submission of additional evidence, were dismissed.

As of the date of this Prospectus, the only outstanding motion with the Massachusetts District Court is the motion of Ukraine on the simplified procedure regarding a request for summary judgment, as the plaintiff missed a limitation period.

The overall amount of claims currently under review by the appeals court, is equal to U.S.\$32.4 million.

#### ***Sinequanon Invest v. Ukraine***

On 18 November 2011, the Ministry of Justice of Ukraine received notice that Sinequanon Invest had submitted a complaint to the Commercial Court of Paris against the Minister of Agrarian Policy of Ukraine. The claimant aimed to impose a freeze on financial assets and securities held by Ukraine in France with respect to the debt of SA "Ukrahrohim" to Sinequanon Invest. The amount in controversy exceeds U.S.\$23 million.

According to the information received from Sinequanon Invest, the abovementioned debt of SA "Ukrahrohim" resulted from its non-performance of an agreement on supply of corn seeds. The requirement for SA "Ukrahrohim" to fulfil obligations under the agreement was confirmed in a previous award of the SCC, dated 20 January 1998.

On 1 June 2012, the Commercial Court of Paris rendered a decision in which it rejected Sinequanon Invest's claims. However, on 2 March 2012, Sinequanon Invest filed an identical claim in the District Court of Luxembourg. Ukraine responded that it did not have any obligations to Sinequanon Invest as Ukraine was not a party to the original contract and never confirmed its liability for the debts of SA "Ukrahrohim". Additionally, Ukraine was not a party to the arbitral proceedings against SA "Ukrahrohim" on 20 January 1998.

On 2 December 2015, the Luxembourg court dismissed the claims of Sinequanon Invest. Sinequanon Invest is currently appealing the decision of the District Court of Luxembourg. As of the date of this Prospectus, exchange of the parties' written submissions continues.

#### ***Ukraine v. Allard Pierson Amsterdam Archaeological Museum***

The Allard Pierson Museum in the Netherlands had been displaying items from Ukraine after concluding contracts with several museums located in the Autonomous Republic of Crimea. Due to the illegal occupation

of Crimea and claims of Crimean museums, the Allard Pierson Museum refused to return the items to Ukraine until a competent court rendered a judicial decision.

On 21 January 2015, Ukraine filed an application to the Amsterdam District Court (Netherlands) requesting that it be admitted as the claimant in proceedings originally initiated by the Crimean museums.

The Amsterdam District Court recognised that the museum collection “*Crimea. Golden Island in the Black Sea*” should be returned to Ukraine. The court found that the items constituted cultural property that remained illegally within the territory of the Netherlands. The court emphasised that the museum artefacts belong to Ukraine, which had the right to demand the return of the museum collection under UNESCO Convention provisions.

On 16 January 2017, representatives of the Crimean museums filed an application for appeal against the decision of the Amsterdam District Court. The representatives of the Crimean museums were required to file an appeal before 25 July 2017.

#### ***Oksana Baiul v. Ukraine and others***

Oksana Baiul filed a claim in the U.S. District Court for the Central District of California against Delaware corporation “Olympic Champions Ltd”, British Virgin Islands Corporation “Olympic Champions Ltd” and Ukraine. The plaintiff’s claim amounts to U.S.\$50 million.

On 12 October 2016, Judge Pregerson upheld Ukraine’s objection to the contention that Ukraine had failed to respond to the claim in a timely manner. The court supported the need for Ukraine to submit a petition for resignation from the lawsuit without consideration and the court informed the parties of this process.

Following the exchange of written opinions, the judge decided to review the case in written proceedings (without participation by the parties).

#### ***Mykola Ivanenko and others v. Ukraine and others***

The plaintiffs (LLC “Lyuksekses-II”, Mykola and Larysa Ivanenko) filed a claim with the United States District Court for the Southern District of New York for reimbursement of damages, which, according to the plaintiffs, were suffered as a result of the illegal actions of the defendants, including depriving plaintiffs of their property and business.

The status of the land plots in question was subject to three previous court proceedings within Ukrainian courts. The first was a lawsuit initiated by the Kyiv district public prosecutor’s office represented by Kyiv City Council against LLC “Lyuksekses-II” on the termination of the land use contract (the claim was sustained, the decision was upheld by the courts of appeal and cassation). The second was a lawsuit initiated by the claim of State Inspection on Architectural and Construction Control in Kyiv against LLC “Lyuksekses-II” on ordering the LLC to demolish illegally built structures (the claim was sustained, the decision was upheld by the courts of appeal and cassation). The third lawsuit was initiated by the claim of Kyiv City Council against LLC “Lyuksekses II” on ordering the LLC, at their own expense, to free an occupied plot of land by bringing it in suitable condition (the claim was sustained, the decision was upheld by the courts of appeal and cassation).

The decisions were not appealed to the Supreme Court of Ukraine, and entered into force in accordance with the laws of Ukraine. The land was removed from the property of “Lyuksekses-II” pursuant to the Ukrainian court decisions.

As of the date of this Prospectus, exchange of written opinions for the case with the United States District Court is in progress. The case has not yet been put on trial.

#### ***Ministry of Health of Ukraine v. Hungarian Medical Centre***

On 14 March 2011, the Commission of the Ministry of Health of Ukraine on Referral to Medical Treatment of Citizens Abroad, adopted a decision that Danyil Pyrih would be referred for treatment to a Hungarian Medical Centre, using budget funds in the amount of €174,000.00. These funds were later transferred to the said medical centre. A written agreement with the medical facility was not concluded.

Under a Statement from 9 June 2011, the patient's parents rejected the treatment of their child in the Hungarian Medical Centre and appealed to the Ministry of Health of Ukraine with a request to refer their son to the Würzburg University Hospital (Germany). Applications for a return of any unused funds that were sent to the Hungarian Medical Centre received no response.

On 23 September 2011, The Ministry of Health of Ukraine applied to the Ministry of Justice of Ukraine for the potential use of litigation to return the funds. The Ministry of Justice is currently processing a draft of the claim and the relevant supporting materials for submission to a competent court in Hungary.

***“City State N.V.”, LLC “Asset management company “Praktyka”, LLC “Crystal-Invest”, LLC “Prodiz” v. Ukraine***

On 29 April 2014, the Ministry of Justice of Ukraine received an arbitration notice from ICSID in connection with an alleged failure by PJSC “Kreditprombank” to return a bank deposit to the LLC Asset management company “Praktyka” under a bank deposit agreement dated 5 July 2010 between PJSC “Kreditprombank” and the LLC Asset management company “Praktyka”. The LLC Asset management company “Praktyka” applied to the NBU, the Antimonopoly Committee of Ukraine, the Ukrainian Deposit Guarantee Fund (which covers the deposits of individuals (natural persons) and sole traders and of which all duly licensed banks in Ukraine are members (the “**Deposit Guarantee Fund**”)) and to the national courts with lawsuits against PJSC “Kreditprombank” seeking to recover funds.

The basis for this claim is the alleged violation by Ukraine of the Agreement on Promotion and Reciprocal Protection of Investments between the Kingdom of the Netherlands and Ukraine. The claimants also allege that Ukraine violated an Agreement between the Government of the Arab Republic of Egypt and the Government of Ukraine Concerning the Promotion and Reciprocal Protections of Investments and the Treaty between the United States of America and Ukraine Concerning the Encouragement and Reciprocal Protection of Investment. The amount in dispute is approximately U.S.\$30 million, plus interest.

Oral hearings regarding this matter were held from 24 April to 28 April 2017. The Parties are currently awaiting the decision of the tribunal.

***Claim of the State of Ukraine on retrieval of financial guarantee funds provided by Ukraine to secure the fulfilment of obligations under the agreement on holding of a song contest in Ukraine in 2017***

On 11 August 2016, the National Broadcasting Company of Ukraine (“NBC”), whose legal successor is PJSC “National Public Broadcasting Company of Ukraine” (“PJSC “NPBC””) entered into an agreement with the European Broadcasting Union regarding the holding of the Eurovision Song Contest in Ukraine in 2017. To secure obligations under the agreement, the NBC provided the counterparty with a financial guarantee amounting to €15 million, which was allocated to the State Committee for Television and Radio Broadcasting of Ukraine under a Decision of the Cabinet of Ministers of Ukraine No. 571-p, dated 8 August 2016. The above expenses were covered by designated reserve funds from the State Budget of Ukraine.

Pursuant to a separate Decision of the Cabinet of Ministers of Ukraine dated 27 July 2016, the State Committee for Television and Radio Broadcasting of Ukraine, the NBC and the State Treasury of Ukraine were instructed to ensure the transfer of funds in the amount equivalent to €15 million to the general fund of the State Budget, which was to be received by the NBC from the European Broadcasting Union.

In its letter dated 18 May 2017, the European Broadcasting Union informed PJSC “NPBC” that the financial guarantee had been frozen based on the notice of the Geneva Debt Collection Office in connection with a claim filed by JSC “Euronews” against the NBC on collection of €10,591,224.48 based on an alleged breaching of a License Agreement. Based on the outcome of this case, on 18 November 2015 the Kyiv Commercial Court adopted a decision (later upheld by a resolution of the Kyiv Commercial Court of Appeal, dated 5 April 2017) that granted a judgment to the plaintiff and ruled to collect the overdue amount under this agreement and court fees from the defendant. PJSC “NPBC” is currently taking actions to challenge the decision in the court of cassation.

The Ministry of Justice of Ukraine intervened by filing a motion to lift the attachment (*Opposition à séquestre*). On 10 July 2017, the motion was submitted to the Embassy of Switzerland in Ukraine for further submission to the competent court pursuant to Article 143 of the Code of Civil Procedure Code of the Swiss Confederation.

Also on 10 July 2017, the Ministry of Justice of Ukraine sent a letter, on behalf of the State of Ukraine, to the Geneva Debt Collection Office on the necessity to eliminate violations of the rights of the State of Ukraine in connection with the attachment of the financial guarantee funds.

### **Recent Legislation**

The law “*On Prevention of Corruption*” establishes a specific mechanism of formation and implementation of anti-corruption policy, liability for corruption offences, as well as principles of international cooperation in the relevant sphere. This law obliges elected public officials to transfer corporate rights, which they own, into third party management. This may be arranged by entering into: (i) an asset management agreement, (ii) a securities management agreement, or (iii) an agreement with an asset management company on establishment of a venture capital fund. Moreover, the law also provides for establishment of the National Commission on Prevention of Corruption and sets requirements for its members.

The law “*On the Principles of State Anti-Corruption Policy in Ukraine (Anti-Corruption Strategy) for 2014-2017*” sets out new principles of state anti-corruption policy as grounds for forthcoming anti-corruption reforms, which are anticipated to include: (i) the creation of a new authority responsible for the development and implementation of anti-corruption policy in cooperation with civil society; (ii) an anti-corruption expert assessment and revision of electoral law, adoption of legislation on transparent financing of elections and activities of political parties and strengthening civil control over the activities of elected authorities; (iii) the reform of the legislation on, and the system of public service to address, the issues of conflict of interest and declaration of revenues, expenses and assets for public servants; (iv) the development and implementation of sectoral anti-corruption programmes regulating the activities of central executive authorities, state, treasure and community enterprises, as well as commercial enterprises with a state or community participation of 50 per cent. and above. Other principles of the new anti-corruption policy include prevention of corruption in the area of public procurement, in the judicial system and in the private sector. The policy also provides for introduction of criminal liability for illicit enrichment and civil legal sanctions, such as recovery by the state revenue services of illegally obtained assets and property. The law also approves the Anti-Corruption Strategy, which aims to eliminate risks of corruption, implement a transparent system of public procurement, and end corruption in the judiciary.

The law “*On National Anti-Corruption Bureau of Ukraine*” provides for establishment of a new state law enforcement authority, the Anti-Corruption Bureau. Its tasks are to investigate corruption offences, as well as to prevent new ones; in particular, corruption offences by senior state officials. The Anti-Corruption Bureau was established on 16 April 2015 by the presidential order. The main function of the Anti-Corruption Bureau is to conduct pre-trial investigations and criminal prosecution.

The law “*On Prosecutor’s Office*” eliminates certain functions that are unusual to the prosecutor’s office and were remnants of the Soviet system. This law brings the prosecution system in line with international standards. The main characteristic of this law is that it eliminates prosecutors’ supervisory functions with respect to the observance of laws (“general supervision”). These changes assist in avoiding duplication of powers between prosecutors and other supervisory authorities. It also helps to (i) improve understanding of which bodies are responsible for particular areas of public relations, and (ii) reduce the number of supervisory activities affecting business. The law provides for a three-tier system of bodies: the General Prosecutor of Ukraine, the regional prosecutor’s offices, and local prosecutors. The law also (i) considerably increases requirements for candidates for prosecutors’ positions, (ii) establishes transparent contest procedures for selecting candidates, and (iii) introduces a clear procedure for consideration of complaints regarding prosecutors’ actions.

On 19 May 2015, Parliament adopted a draft law aimed at enhancing the NBU’s institutional capacity and effectiveness in performing its mandate. In particular, the mentioned law strengthened the political and operational independence of the NBU and its internal capacity to develop effective policies. In addition, the Board of the NBU was transformed into an executive body responsible for policy implementation and the number of its members was reduced to six persons. The law strengthened the NBU Council by charging it with the task of carrying out internal audit and exercising control over risks, as well as granting permission for the creation of an Audit Committee. The personal autonomy of the NBU Board and Council members was strengthened and financial independence of the NBU was increased by improving the procedures of profit distribution and formation of general reserves, as well as prohibition of advance payments from the NBU to the State Budget.

On 2 June 2016, Parliament adopted the law “On Amendments to the Constitution of Ukraine (Regarding the Justice)”, the law “On the Judicial System and the Status of Judges” and the law “On Bodies and Individuals that Carry Out Enforcements of Judgements and Decisions of other Bodies” (the “**Laws**”). The Laws launched a major and long-anticipated reform of the country’s judiciary and law enforcement administration. The Laws reform the judicial system to 3 levels: local courts, appellate courts, and the Supreme Court. The new Supreme Court will operate as the court of cassation. The existing specialised higher courts, namely the High Commercial Court of Ukraine, the High Administrative Court of Ukraine, and the High Specialized Court of Ukraine on Civil and Criminal Cases, will be liquidated. The High Court on Intellectual Property Matters and the High Anticorruption Court will be established as first instance courts. The Laws stipulate that only attorneys admitted to the Bar may represent individuals and legal entities in courts. Numerous amendments introduced by the Laws also concern the status of judges, procedure for their appointment, and their liability. It is important to note that the Supreme Court does not replace the CCU. The Supreme Court and the CCU act independently and have different jurisdictions. The Supreme Court acts as the court of cassation, while the CCU resolves issues relating to the correspondence of Ukrainian law to the Constitution of Ukraine, as well as other issues related solely to the Constitution of Ukraine.

On 30 March 2017, the law “On Amendments to Certain Laws of Ukraine Regarding the Specifics of Financial Control of Certain Categories of Officials” entered into force. This law requires, inter alia, that senior officials of non-governmental organisations operating in the anti-corruption sphere submit electronic declarations regarding their property, income, expenditures and financial liabilities. The adopted law has been highly criticised, as there are concerns it may be used as an instrument for exerting pressure over the corruption control organisations and initiatives.

The agency on corruption prevention has been assisting with the performance of the above law, including through implementing a system of electronic declaration of property, income, expenditures and financial liabilities of state and local government officials. On 1 April 2017, the second stage of the submission of electronic declarations pursuant to this system was completed, which required governmental officials to submit their electronic declarations for 2016.

### ***Pending Legislation***

As part of the overall strategy of Ukraine to advance structural and governance reforms in light of the implementation of the 2015 EFF arrangement with the IMF (see “*Public Debt—External Debt—IMF*”), several acts of legislation have been drafted and are pending adoption.

In 2016, the State Service of Ukraine for Geodesy, Cartography and Cadastre, in collaboration with the World Bank, prepared a draft law intended to open up the land market and allow for the removal of the moratorium on land sales from 1 January 2018. The draft law provides a right to purchase agricultural land to only the residents of Ukraine meeting specific requirements. As of the date of this Prospectus, this draft law remains under consideration by the relevant Government committees.

In 2017, in the framework for the pension reform, the Government offered a draft law providing for the modernisation of pensions. In this context, a new formula for calculating pensions was proposed, with a uniform approach to both categories of “old” and “new” pensioners. The new formula also uses the average wage level UAH 3,764.40. It also proposes an automatic annual indexation of pensions and cancellation of the limitation of pension rates for working pensioners, to achieve stability of the pension system and ensure fair pension payments. The draft law stipulates requirements to ensure a deficit-free budget of the Pension Fund in the medium term. The draft law also envisages the abolishment of special conditions for retirement, excluding military personnel. The Government did not raise the retirement age.

## 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, and unitary state, based on the rule of law. 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, 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 (the “**2004 Constitutional Amendments**”). In particular, the 2004 Constitutional Amendments empowered Parliament to appoint, upon the President’s nomination, the Prime Minister, the Minister of Defence and the Minister of Foreign Affairs and, upon the Prime Minister’s nomination, 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. On 30 September 2010, the CCU declared the 2004 Constitutional Amendments to be unconstitutional and these amendments lost their effect. Ukraine became a “presidential parliamentary” republic and the President gained the authority to execute direct executive powers over decisions and actions of the Government, in addition, certain powers, transferred from the President to Parliament and the Prime Minister as a result of the constitutional reform implemented in 2006, were transferred back to the President. In particular, the President gained the authority to appoint the Prime Minister, subject to parliamentary approval, to terminate the powers of the Prime Minister, without parliamentary approval, and to accept the Prime Minister’s resignation. In addition, the President obtained the authority to appoint members of the Cabinet of Ministers nominated by the Prime Minister, as well as the power to appoint or terminate the heads of other central executive bodies and local administrations. The President also gained the authority to establish and liquidate courts.

Following the Maidan protests, the removal of former President Yanukovich from power and the appointment of the interim Government (see “*Description of Ukraine—Timeline of Recent Political Developments*”), on 21 February 2014, Parliament passed a law which reinstated the 2004 Constitutional Amendments. These amendments are in effect as of the date of this Prospectus. According to the Constitution, Members of Parliament are required to form a majority, which is entitled to propose a candidate for the position of Prime Minister to the President, who submits a nomination to Parliament. The majority is further entitled to propose candidates for Government positions (subject to certain exceptions) to the Prime Minister, who makes further nominations to Parliament. The President has the power to terminate Parliament early.

In the course of the reform process initiated in 2014, two draft laws introducing amendments to the Constitution of Ukraine were submitted by the President to Parliament. The first draft law, submitted on 1 July 2015, covered the questions of the decentralisation of powers and proposed a new system of local governance. On 30 July 2015, this draft law was approved by the CCU, although four judges dissented from the court’s opinion. As of the date of this Prospectus, adoption of the first draft law remains pending.

The second draft law was submitted to Parliament on 25 November 2015 and provides for the independence of the judiciary and transparency of the judiciary as they fulfil their duties. On 20 January 2016, this draft law was approved by the CCU, although seven judges dissented from the court’s opinion. On 2 June 2016, Parliament adopted the second draft law, which entered into force on 30 September 2016. As of the date of this Prospectus, the amendments provided by this law are being implemented.

The President has the right to initiate legislation, the power to veto laws adopted by Parliament (except for amendments to the Constitution of Ukraine) with their subsequent return for repeat consideration by Parliament and the power to suspend the operation of acts of the Cabinet of Ministers on grounds of their

inconsistency with the Constitution and challenge concurrently the constitutionality of such acts before the CCU. The President may also issue his own decrees and directives.

The President has the power to dissolve Parliament if (i) it fails to form a majority within a month of the commencement of its first session or the dissolution of the previously existing majority; (ii) it fails to appoint a government within 60 days following the previous government's dismissal or resignation or (iii) it fails to convene for a continuous period of 30 days.

The President is the head of the National Security and Defence Council (the "NSDC") and is authorised to appoint its members.

### **The Executive**

The powers of the Government of Ukraine are vested in the Cabinet of Ministers, which is the highest body of executive power in Ukraine and includes the Prime Minister, First Vice Prime Minister, Vice Prime Ministers and Ministers. The Cabinet of Ministers is accountable to the President and Parliament and reports to Parliament in accordance with the Constitution. The Prime Minister, the Minister of Defence and the Minister of Foreign Affairs are appointed by Parliament upon the submission of nominees by the President; the other members of the Cabinet of Ministers are appointed by Parliament upon the submission of nominees by the Prime Minister. The Cabinet of Ministers divests itself of its powers before the newly elected Parliament. The powers of an existing Cabinet of Ministers are also terminated if the Prime Minister resigns or if a vote of "no confidence" with respect to the Cabinet of Ministers is passed in Parliament. Should any of the foregoing occur, then the President has 15 days to submit to Parliament a candidate, proposed by the majority Parliamentary coalition, for Prime Minister.

On 10 April 2016, the Prime Minister, Arseniy Yatseniuk, announced his intention to resign and, on 14 April 2016, Members of Parliament voted in favour of Mr Yatseniuk's resignation. On 14 April 2016, former Speaker of Parliament Volodymyr Groysman was appointed as Prime Minister and the appointment of a new Cabinet of Ministers of Ukraine (except for the Minister of Healthcare) was approved by Parliament. The Cabinet of Ministers' powers include the implementation of financial, pricing, investment, labour, social security, education, science, environment and tax policies, management of State owned assets and the creation and performance of the State Budget Law for each relevant year.

In 2014, 2015 and 2016, the Cabinet of Ministers approved a number of resolutions on optimisation of central governmental agencies through their merger or liquidation. As at the date of this Prospectus, Ukraine has 18 ministries, 37 other central executive authorities and six central executive authorities with special status. The Cabinet of Ministers has, in accordance with the law, the power to set up, reorganise and liquidate ministries and other central bodies of executive power.

### **The Legislature**

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

Since December 2011, parliamentary elections have been held through a mixed voting system based equally on majority voting and proportional representation. The minimum electoral threshold required for representation in Parliament was increased from 3 per cent. to 5 per cent. and strategic alliances between political parties in order to artificially meet that threshold were prohibited.

In addition to its legislative function, Parliament, upon submission of nominees by the President, appoints to office the Prime Minister, the Minister of Defence, the Minister of Foreign Affairs, the Head of the NBU the Head of the Security Service, members of the Central Electoral Commission. Upon submission by the Prime Minister, Parliament has the power to appoint other members of the Cabinet of Ministers, the Chairperson of the Anti-Monopoly Committee, the Head of the State Property Fund of Ukraine ("SPF") and the Head of the State Committee on Television and Radio Broadcasting. Parliament also appoints to office one-half of the membership of the Council of the NBU. The consent of Parliament is required for the appointment or dismissal of the Prosecutor General by the President, and Parliament also has the power to take a vote of "no confidence" in the Prosecutor General, which would result in his or her resignation from office. Furthermore,

Parliament has the power to make judicial appointments for all courts other than the CCU. In relation to the CCU, Parliament can only appoint one third of the judges.

Parliament must consider other 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; 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. Parliament has the power to declare war, to conclude peace and approve a decision by the President on the use of the armed forces of Ukraine and other military formations in the event of armed aggression.

## **The Judicial System**

The judicial system in Ukraine comprises the CCU and the courts of general jurisdiction. The courts of general jurisdiction consist of local courts (both criminal and civil jurisdiction), local specialised courts (with either commercial or administrative jurisdiction), courts of appeal, specialised courts of appeal, high courts with specialised jurisdiction and the Supreme Court of Ukraine. The Supreme Court is the highest judicial body in the courts of general jurisdiction. In contrast, the CCU has exclusive jurisdiction over the interpretation of the Constitution and laws of Ukraine and acts as final arbiter on constitutional issues. The CCU consists of 18 judges, six appointed by the President, six appointed by Parliament and six appointed by the Congress of Judges. The Congress of Judges is the highest body of judicial self-government in Ukraine.

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. Under the Code, which came into force on 1 September 2005, 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: election results determined by the Central Electoral Commission, results of Ukrainian referendums and special elections for a member of Parliament. Under the Code, the Higher Administrative Court of Ukraine also reviews cases related to decisions, actions, or failures to act on the part of Parliament, the President, 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. The new Code of Criminal Procedure came into force on 20 November 2012.

On 30 September 2016, the restated law "*On the Judicial System and the Status of Judges*" came into force. In the light of Ukrainian judicial reform, this aims to increase the efficiency of the court system, ensuring consistent application of legislation and establishing legal and organisational grounds for judges' evaluation and their disciplinary liability.

The law "*On Arbitration Courts*", enacted in 2004, provides for the establishment of independent permanent arbitration courts and ad hoc arbitration tribunals. Permanent arbitration courts are subject to State registration by the Ministry of Justice of Ukraine or its regional departments.

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.

On 2 June 2016, Parliament adopted three laws that launched a major and long-anticipated reform of the country's judiciary and system of enforcement administration. These laws reform the judicial system to 3 levels: local courts, appellate courts, and the Supreme Court. The new Supreme Court will be established to operate as the court of cassation. The judges of the new Supreme Court are to be selected anew and the procedure is still ongoing.

The existing high specialised courts, namely the High Commercial Court of Ukraine, the High Administrative Court of Ukraine and the High Specialized Court of Ukraine on Civil and Criminal Cases, will be dissolved. The High Court on Intellectual Property Matters and the High Anticorruption Court will be established, their jurisdictions indicated by their titles, as the respective courts of first instance.

These laws provide that only attorneys admitted to the Bar may represent individuals and legal entities in courts. Numerous amendments introduced by these laws also concern the status of judges, and procedures for their appointment and for holding them liable. In practice, this has led to numerous resignations of judges and increased the caseload of the judges who remained. As a result, the time for consideration of a case has increased significantly.

An additional result of judicial reform has been, since 2017, the operation of private bailiffs. Private bailiffs have predominantly the same status and power as public bailiffs; however, they are not able to enforce certain categories of judgments, e.g.: decisions against state authorities, local municipal authorities and decisions of the European Court of Human Rights.

On 3 August 2017, a new law “*On Constitutional Court of Ukraine*” entered into force. This law establishes fundamental operation principles for the CCU and regulates constitutional proceedings. In particular, it concerns the procedure for filing and consideration of constitutional petitions.

### **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 existing company, property, bankruptcy, securities, taxation, banking and foreign investment laws, this legislation is underdeveloped and contains many gaps. As a result, the body of law may be considered somewhat inadequate for underpinning certain complex transactions. In order to facilitate the implementation and enforcement of important new legislation, such as tax legislation, Parliament has gradually been taking steps to adopt new legislation that consolidates the laws into unified codes.

### **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 nominated by the Cabinet of Ministers and appointed by the President. Each municipal government is administered by a local council.

Crimea is an autonomous republic within Ukraine. It has its own parliament, government and constitution (passed by the parliament of the Autonomous Republic of Crimea and approved by the Ukrainian Parliament). However, Crimea 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. This law replaces the system previously used for the election of members of oblast, city and district (rayon) councils and the parliament of the Autonomous Republic of Crimea with a new system, under which half of the seats are elected by majority voting and the other half under a proportional representative system. In addition, all members of village councils are elected on the basis of a majority vote. Pursuant to the 2004 Constitutional Amendments, the term of office for the parliament of the Autonomous Republic of Crimea and local councils is five years.

Amidst the illegal occupation of Crimea and the conflict in certain parts of the Donetsk and Luhansk regions in 2014 (see “*Description of Ukraine—Timeline of Recent Political Developments*”), the then acting President Oleksandr Turchynov and the then acting Prime Minister Arseniy Yatsenyuk stated that they would support constitutional change that would decentralise more power to local councils, including control over their official language, in the hope that it would help to de-escalate tensions in the Eastern and Southern regions of Ukraine.

On 17 March 2015, Parliament adopted a resolution on the recognition of certain districts, towns and villages in the Donetsk and Luhansk Oblasts as a temporarily occupied territory and amended the Law on Special Status of the Eastern Regions accordingly. According to these amendments, the Law on Special Status of the Eastern Regions will apply when new local self-government bodies take office. For these local self-government bodies to be legitimate, they are required to be elected in extraordinary elections held according

to the Constitution, laws of Ukraine and generally recognised under international human rights and electoral standards. Such elections must be held when the following can be guaranteed: (i) elections are held under the supervision of international impartial observers (in particular those of the OSCE Office for Democratic Institutions and Human Rights, Congress of Local and Regional Authorities of the Council of Europe and other international organisations and foreign states); (ii) secure and unimpeded work of official observers; (iii) withdrawal of all Russia-backed illegal armed formations and military equipment from the territory of Ukraine; (iv) there is no unlawful interference with the electoral process; (v) adherence to principles of political pluralism, equal opportunity to participate in the electoral process and freedom of electoral campaigning; and (vi) the resumption of Ukrainian television and radio broadcasting and circulation of Ukrainian printed press in the entirety of Donetsk and Luhansk Oblasts.

The Minsk Arrangements also provided for constitutional reform with the adoption of a new constitution by the end of 2015. A key element of the new constitution is to be decentralisation. Decentralisation required taking into account the special features of certain parts of the Donetsk and Luhansk regions, agreed to by representatives of those regions, and the adoption of permanent laws on the special status of those areas. On 1 July 2015, the draft law on Amendments to the Constitution of Ukraine providing for decentralisation of powers and the new system of local governance was submitted to Parliament; as of the date of this Prospectus its adoption remains pending.

### **International Relations**

Ukraine has established diplomatic relations with 171 countries, is a member of 79 international organisations and attaches significant importance to developing relations with international organisations. Ukraine is a member of the United Nations (“UN”) and all specialised agencies save for the International Fund for Agricultural Development. Ukraine participates in all areas of UN activity. In a show of Ukraine’s commitment to UN ideals, Ukraine has signed and ratified the Non-Proliferation Treaty and certain other conventions banning weapons of mass destruction. Ukraine is also a member of the IMF, the World Bank, the WTO, European Bank for Reconstruction and Development and a participating state in the Organisation for Economic Cooperation and Development (“OECD”).

Ukraine is a party to over 1,185 multilateral treaties and 4,909 bilateral treaties, including treaties on promotion and mutual protection of investments entered into with 79 foreign states. International treaties ratified by Parliament are an integral part of Ukraine’s domestic legislation and will prevail over any domestic laws and regulations whose provisions are inconsistent with such international treaties.

Ukraine is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 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, Czech Republic, Hungary, Romania, Bulgaria, Greece, China, India and United Arab Emirates.

### ***Supranational Bodies and Organisations***

On 15 October 2015, Ukraine was elected as a temporary member of the United Nations Security Council for 2016-2017.

#### ***WTO***

Ukraine became the 152<sup>nd</sup> member state of the WTO on 16 May 2008, as a result of which a number of laws were enacted by Parliament to address inconsistencies between Ukrainian legislation and WTO regulations and requirements. See “—*The Judicial System*” and “—*Legal Framework*”.

The Government expects ongoing amendments to a number of laws and regulations to bring them in line with WTO treaties and special commitments Ukraine undertook during the accession procedure. The expected amendments include changes to legislation regulating standardisation and certification, consumer protection and introduction of an additional import duty, which can be used as a temporary measure in the event of a substantial deterioration in the country’s balance of payments. Other important tasks that flow from Ukraine’s WTO membership include Ukraine’s participation in the multilateral negotiations of the Doha Development Round, bilateral negotiations on other countries’ accession to the WTO, implementation of efficient mechanisms for the State support of national producers and the promotion of investments in Ukrainian

industrial and agricultural enterprises. Since Ukraine's accession to the WTO, Ukraine has signed agreements on free trade with the EU, Montenegro, the European Free Trade Association and Canada (entered into force on 1 August 2017) and is currently negotiating the creation of free trade areas with Israel, Serbia and Turkey. Ukraine is also currently considering free trade area negotiations with a number of other countries.

The Free Trade Agreement between Ukraine and Canada was signed on 11 July 2016 and was ratified on 3 April 2017. On 1 June 2017, the Governor General of Canada approved the Free Trade Agreement. The Agreement entered into force on 1 August 2017. In addition, in accordance with Article 19.2, the parties undertake to review the Agreement within two years of its entry into force in order to analyse further developments and deepen its provisions and extend its scope to areas not covered by it, such as cross-border trade in services, financial services, investments and telecommunications.

On 18 May 2016, Ukraine officially became party to the Agreement on Government Procurement ("GPA"). Since then, Ukrainian companies have become entitled to participate in state procurement contracts in 45 member states of the GPA. In particular, this provides Ukrainian companies access to: EU member states, Japan, the United States, South Korea, Taiwan, Singapore, Hong Kong and Canada. The overall volume of the WTO government procurement market is estimated at U.S.\$1.7 trillion dollars per year.

On 19 and 21 April 2016, at the headquarters of the World Trade Organization in Geneva, the first review of the trade policies and practices of Ukraine was held, during which the member states praised the achievements of the Ukrainian Government in terms of increasing the transparency of the trade and investment regime after Ukraine's accession to the WTO in 2008 and paid attention to a number of foreign trade policy issues that require further attention.

In the context of the performance of Ukraine's obligations within the framework of the WTO, in November 2015, the internal state procedure for the ratification of the new multilateral agreement on the simplifying of the trade procedures was completed. This agreement entered into force for Ukraine on 22 February 2017 after its ratification by two thirds of the WTO member-states. Fulfilment of this agreement will have a positive impact on existing business conditions and is expected to help to increase the global competitiveness of small and medium Ukrainian enterprises as well as revive business activity and economic growth.

On 28 December 2014, Parliament adopted the law "*On Measures Aimed at Stabilisation of Payment Balance of Ukraine*". This law provides for the imposition of an additional customs duty of 5 per cent. (for all goods) and 10 per cent. (for agricultural goods) for a term of 12 months save for a very limited number of critical goods. On 16 February 2015, the Cabinet of Ministers adopted Resolution No. 119-p, which stipulates that the consultation with international organisations with respect to temporary duties shall be deemed to have been completed. However, the customs duties rates, as increased by this law, exceed the maximal customs tariff agreed to in the course of Ukraine's accession to the WTO. Nevertheless, on 28 July 2015, the WTO recognised that additional import duty was imposed in order to improve the national payment balance, thus did not contradict the provisions of the WTO Agreements. Given the improvements in the current account balance and the increase and stabilisation of Ukraine's gold and foreign exchange reserves, the additional customs duty was abolished from 1 January 2016 (in line with Ukraine's relevant international obligations).

An added benefit of Ukraine's membership of the WTO is the protection it offers for Ukraine's trade and economic interests. In particular, through the WTO dispute settlement mechanism, Ukraine has been able to reach a resolution in disputes with Armenia, Moldova and Russia.

## 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 with the EU to replace the PCA with an Association Agreement.

The Association Agreement, excluding the sections on the Free Trade Agreement ("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. However, Ukraine deferred the planned signing of the Association Agreement.

Following the decision of Ukraine to defer the signing of the Association Agreement, mass rallies took place in Kyiv and other Ukrainian cities expressing strong public support for the political association and economic integration of Ukraine with the EU.

On 21 March 2014, following the removal of Mr. Yanukovich as President and the appointment of an interim government, the new Ukrainian Prime Minister, Arseniy Yatsenyuk, and EU leaders, along with the 28 national political leaders or heads of state on the European Council, signed the political provisions of the Association Agreement in Brussels, with the FTA to be signed after the May 2014 presidential election. On 25 May 2014, Petro Poroshenko was elected as President of Ukraine. The EU and President Poroshenko signed the economic provisions of the Ukraine–European Union Association Agreement on 27 June 2014. On 16 September 2014, Parliament ratified the “**Association and Free Trade Agreement**” with the EU. Simultaneously, the European Parliament voted for the ratification of the agreement. Under the agreement, Ukraine is to join the European Union’s free trade zone; however, at the request of Ukraine, the bilateral implementation of free trade was postponed from November 2014 until December 2015, as originally agreed, due to the preference to remove even hypothetical reservations of the Russian Federation regarding the implementation of the FTA.

The execution of the Association Agreement is viewed by Ukraine as one of the stages in the implementation of Ukraine’s strategic goal of ultimate accession to the EU. Ukraine and the EU have agreed that the grounds for the new agreement should be both the political association and the 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. The Association Agreement also provides for a strengthening of cooperation in the regulatory sphere and the continuation of Ukraine’s work in conforming Ukrainian laws to EU legislation as well as obligations for Ukraine regarding the alignment of national legislation with EU legislation.

The Association Agreement between Ukraine, the European Union, the European Atomic Energy Community and their Member States signed in Brussels on 21 March and on 27 June 2014, is in the final stages of entering into force. Ukraine and the EU are launching the implementation of the Association Agreement and expanding the agenda of cooperation, in particular by involving Ukraine in programmes and initiatives.

For the last two years, the EU has remained Ukraine’s key trading partner. In 2016, the overall volume of trade in goods and services between Ukraine and the EU amounted to U.S.\$35,923.2 million. Of that total, U.S.\$30,635.2 million accounted for trade in goods and U.S.\$5,287.5 million for trade in services.

In 2016, there was an increase in the volume of bilateral trade between Ukraine and the EU. Compared to 2015, the overall volume of trade in goods and services between Ukraine and the EU increased by 108.1 per cent. In 2016, the amount of exported goods and services to EU member states was U.S.\$16,448.5 million, while the amount of imported goods and services equalled U.S.\$19,474.6 million. The balance in bilateral trade in 2016 remained negative and amounted to U.S.\$3,026.1 million.

In 2016, the overall amount of trade in goods between Ukraine and the EU amounted to U.S.\$30,635.2 million, or 40.5 per cent. of all the trade in goods in Ukraine. During the above period of time, the export of goods to EU member states reached U.S.\$13,497.7 million, or 37.1 per cent. of Ukraine’s total exports. At the same time, the import of goods from EU countries in 2016 amounted to U.S.\$17,138 million, or 43.7 per cent. of total imports into Ukraine. As compared to 2015, the import of goods from the EU increased by 11.7 per cent., and the export of goods increased by 3.7 per cent.

In 2016, trade in services between Ukraine and the EU reached U.S.\$5,287.5 million, or 35.4 per cent. of the overall volume of trade in services of Ukraine. As compared to 2015, in 2016 the export of Ukrainian services to EU member states increased by 3.21 per cent. and amounted to U.S.\$2,950.9 million. At the same time, the amount of services imported from the EU decreased by 10.69 per cent. and amounted to U.S.\$2,336.7 million.

Since 2005, Ukraine has unilaterally established a non-visa regime for citizens of the EU, the United States, Canada, Japan, Switzerland, Iceland, Andorra, Vatican City, Norway, Monaco, San Marino and Lichtenstein.

In June 2007, Ukraine and the EU signed agreements on readmission and visa facilitation. The agreements came into force on 1 January 2008 and aimed to combat illegal migration and 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 to the EU visa free. 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. On 23 June 2014, the EU Foreign Affairs Council concluded that Ukraine fulfilled all the benchmarks under the first phase of the Action Plan and decided to launch the second phase. On 20 August 2014, the Cabinet of Ministers approved the national plan for implementation of the second phase of the Action Plan, including new forms of biometric passports, the security of official documents, and countering illegal migration.

On 18 December 2015, the European Commission published its sixth report on the progress of Ukraine regarding the fulfilment of the criteria necessary for a visa-free travel regime within the EU. In the report, the European Commission stated that Ukraine had met the technical criteria for visa liberalisation.

On 17 March 2016, in the course of a visit of the President of Ukraine to Brussels, the President of the European Commission, Jean-Claude Juncker, confirmed that Ukraine had fulfilled all the obligations required by the sixth report.

On 20 April 2016, the fulfilment of the relevant criteria of the Action Plan on EU liberalisation of the visa regime for Ukrainian citizens has allowed for the European Commission to submit to the European Parliament and the Council of Europe a legislative proposal on amendments to Council Regulation (EC) No 539/2001 of 15 March 2001 on introduction of the EU visa-free regime for Ukrainian citizens.

On 17 November 2016, COREPER agreed to initiate a trialogue between the European Council, the EU Council and the European Parliament on the abolition of the visa regime for Ukrainian citizens.

On 6 April 2017, the European Parliament approved the legislative proposal on the introduction of the EU visa-free regime for Ukraine.

On 11 May 2017, the EU Council approved the decision on visa-free regime with Ukraine; the approval was signed and published on 22 May 2017. Therefore, on 11 June 2017, the EU visa-free regime for Ukraine came into force. According to the information provided by the State Border Guard Service of Ukraine, during the first month of effective visa waiver rules, 171,129 Ukrainian citizens with biometric passports crossed the border to the EU countries, 37,886 out of which crossed the border without visas.

As part of its cooperation with the EU, Ukraine received financial support from the EU based on the Memoranda of Understanding and the Loan Agreements between Ukraine and the EU, with the aim of helping to maintain the stability of the Ukrainian economy. As of the date of this Prospectus, Ukraine received all tranches under the first programme (€10 million in 2014 and 2015) and the second programme (€1 billion in 2014), as well as the first and the second tranches (€600 million in 2015 and €600 million in 2017) within the framework of the third programme. Ukraine expects to receive financial support from the EU in the amount of up to €600 million (the third tranche) within the framework of the third programme of the EU macro financial aid.

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 European Investment Bank (“**EIB**”) in 2005, the coordination procedure of which was significantly simplified in May 2012.

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, for which, as at the date of this Prospectus, funds are being raised, oil pipeline and development of alternative energy sources, as well as mitigation of the consequences of the Chernobyl disaster and improvement of regional policy.

In 2014, the EIB signed loans to finance the upgrade of gas transmission infrastructure along the Urengoy-Pomary-Uzhgorod pipeline (€150 million).

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

In 2011, Ukraine became a full member of the European Energy Community (the "**Energy Community**"). On 1 October 2015, the law "*On Market of Natural Gas*" (the "**Natural Gas Market Law**") entered into force. By adopting this law, Ukraine performed its obligations to the Energy Community, which began to apply to Ukraine after the signing of the treaty joining the Energy Community and after the implementation of the provisions and requirements of the third energy package (Directive 2009/73/EC "*On common rules for the internal market in natural gas*" and Regulation (EC) 715/2009 "*On conditions for access to the natural gas transmission networks*").

The Natural Gas Market Law provides for further reform of the gas sector as well as the plan for the implementation of the reforms. The Natural Gas Market Law also includes the Restructuring Plan for Naftogaz, the Ukrainian state-owned gas company, which complies with the requirements of the Energy Community. The Secretariat of the Energy Community has confirmed that the Natural Gas Market Law satisfies EU legislative requirements.

Within the last two years, Naftogaz has cooperated with leading international advisers, financial institutions, the European Commission and the Secretariat of the Energy Community towards reforming the Ukrainian gas sector.

International advisers assisted with carrying out the analysis on the models of division of the Ukrainian gas transfer system.

In cooperation with the Secretariat of the Energy Community, two models of division for the Ukrainian gas transfer system (OU model and ISO model) were determined for the restructuring of Naftogaz. The relevant provisions have been stipulated in the Natural Gas Market Law and a Decree of the Cabinet of Ministers "*On the Questions of the Reforming of Gas Sector*" dated 25 March 2015.

The Cabinet of Ministers has supported the proposal to approve the Action Plan on Corporate Governance ("**APCG**") of Naftogaz, which was developed with the financial support of the European Bank of Reconstruction and Development ("**EBRD**").

According to the Restructuring Plan, a new PJSC "*Main gas pipelines of Ukraine*" will be established. The SPF will own 100 per cent. of Naftogaz's shares.

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 the safety of natural gas supplies to European countries and facilitate Ukraine's participation in discussion and resolution of major issues of European energy policy.

The EU has, since March 2014, imposed sanctions targeting parties responsible, including senior Russian officials and legal entities, for the illegal occupation of Crimea and the City of Sevastopol and the conflict in certain parts of the Donetsk and Luhansk regions, misuse of Ukrainian state funds and human rights violations in relation to the crisis in Ukraine arising as a consequence of Russia's actions in destabilising the situation in Ukraine (see, in particular, Council Regulation (EU) No 833/2014 of 31 July 2014). These sanctions consist, among others, of an 'asset freeze' targeting parties responsible for the conflict in certain parts of the Donetsk and Luhansk regions, the misuse of Ukraine state funds and human rights violations, and parties in Crimea or Sevastopol whose ownership has been transferred 'contrary to Ukrainian law'. On 23 June 2014 and 30 July 2014, respectively, the EU also imposed an import ban on goods originating in Crimea or Sevastopol and a ban on new investments relating to infrastructure in the sectors of transport, telecommunications and energy, as well as to the exploitation of oil, gas or mineral resources in Crimea or Sevastopol.

Since then, the EU has implemented a number of sanctions regimes targeting trade and other relations with illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions, as well as those involved in the illegal occupation of Crimea and the conflict in certain parts of the Donetsk and Luhansk regions, including certain individuals, industries and entities within the Russian Federation, specifically.

## 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 joined 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.

Since 2009, in cooperation with NATO within the framework of the Ukraine-NATO Partnership Commission (established by a Presidential decree on 18 November 2010), Ukraine develops national annual programmes for implementing necessary reforms relating to political, military, resources, security and legal issues.

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 using the expert assistance and funding of NATO. As of July 2017, a total of 43 agreements have been signed between NATO and Ukraine governing their cooperation on various practical issues.

Since the intervention of the Russian Federation in Ukraine and the annexation of Crimea, the position of the North Atlantic Alliance in support of the sovereignty of Ukraine, its independence and territorial integrity has remained unchanged. Ukraine receives substantial political, logistical and advisory assistance from both the Alliance and its member states. For example, in 2015 six NATO trust funds in support of Ukraine were launched. The decision to establish the trust funds was reached at the NATO Summit in Wales (September 2014) and they primarily focus on: (i) modernisation of communication and automation systems; (ii) physical rehabilitation (prosthetics) of military personnel wounded during anti-terror operations; (iii) reforming the logistics and standardization systems of the Armed Forces of Ukraine; (iv) reintegration of servicemen; (v) cyber defence; and (vi) reburial of radioactive waste. The utilization of PFM-1 anti-personnel mines was also restored.

On 8-9 July 2016, a NATO Summit was held in Warsaw, during which a meeting of the NATO-Ukraine Commission was held at the level of Heads of State and Government with the participation of the President of Ukraine. The meeting of the NATO-Ukraine Commission primarily resulted in the strengthening of NATO’s political and practical support of Ukraine, as evidenced by the final Joint Statement of the NATO-Ukraine Commission and the approval of the Comprehensive Assistance Package for Ukraine. The establishment of a new trust fund for the development of a national anti-mine action system and counteraction system to improvised explosive devices was also announced at the NATO Summit in Warsaw.

In his Annual Address to Ukrainian Parliament “*On Internal and External Situation of Ukraine in 2016*”, the President of Ukraine noted that “our accession to NATO remains our strategic goal”. Clause 1.1.2 of the Annual National Programme under the auspices of the Ukraine-NATO Commission in 2017, approved by the Decree of the President of Ukraine No 103/2017, dated 8 April 2017, states that: “Ukraine’s strategic goal is to become a member of NATO. Based on the long-term goal of joining the pan-European security system, Ukraine will deepen its cooperation with the North Atlantic Treaty Organization in order to fulfil the criteria necessary to obtain membership in this organization.”

On 7 December 2016, the Ukrainian Parliament held parliamentary debates on “*Relevant Issues of Ukrainian Foreign Policy*”, based on the results of the debate, Parliament approved the relevant recommendations (Resolution No 6014, dated 24 May 2017) that establish the need for activating the law-making procedure aimed at implementing the strategic course of Ukraine joining NATO and the EU.

In order to implement these Recommendations, on 18 May 2017, a draft Law was submitted to the Ukrainian Parliament providing for amendments to the existing laws in order to introduce the wording “for the purpose

of obtaining membership in the North Atlantic Treaty Organization” into the legislation. Ukrainian Parliament approved the draft law on 8 June 2017 and on 9 July 2017 it entered into force.

### *CIS and BSEC*

Ukraine was, together with Russia and Belarus, one of the founding countries of the Commonwealth of Independent States (“**CIS**”), which ratified the CIS Creation Agreement in December 1991. Ukraine has not, however, ratified the CIS Charter and, consequently, does not regard itself as a full member of the CIS, but rather as an establishing state and participating state of the CIS.

Since the illegal occupation of Crimea and the City of Sevastopol and the conflict in certain parts of Donetsk and Luhansk regions, the CIS showed no reaction to the internationally wrongful acts perpetrated against Ukraine. Consequently, Ukraine’s cooperation with this organisation has been fundamentally changed. Ukraine has minimised the level of political representation in the supreme bodies of the CIS and has stopped political, security, cultural, humanitarian and informational cooperation, and suspended payments to the Single Budget of the CIS bodies.

Ukraine has been a member of the CIS Free Trade Agreement (“**CIS FTA**”) since September 2012, which replaced bilateral and multilateral agreements between various CIS states, including Russia, and provided for, among other things, duty free trade between the nations. In December 2015, the President of the Russian Federation signed an executive order on the suspension of the CIS FTA with respect to Ukraine effective as of 1 January 2016.

Ukraine is one of the 12 member states of the Organisation of Black Sea Economic Cooperation (“**BSEC**”), which also includes the Russian Federation, Georgia and Turkey. Ukraine 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. In July-December 2017, Ukraine will chair BSEC.

### *Foreign States*

#### *United States*

##### *Bilateral agreements*

The relationship between Ukraine and the United States is defined as a strategic partnership. The main bilateral document in this regard is the Ukraine and United States Charter on Strategic Partnership signed on 18 December 2008.

The main Ukraine-U.S. intergovernmental body is the bilateral Strategic Partnership Commission (“**SPC**”), whose constitutive meeting was held on 9 December 2009 in Washington. Until now, three meetings of the SPC have been held (the last one took place in February 2011). The SPC has working groups responsible for political dialogue and the rule of law, non-proliferation and export control, energy and nuclear safety, science and technology, trade and investment, defence, and consular affairs. The parties are working on the organisation of the fourth meeting of the SPC.

From the standpoint of the United States, the low level of protection for intellectual property rights in Ukraine remains an important problem for bilateral relations. Since 2015, Ukraine’s position in the Special 301 Report (the United States Trade Representative’s annual rating regarding violation of intellectual property rights) has not changed – Ukraine is at the bottom of the Priority Watch List together with other 11 other countries (a list that includes China, India and Russia). Ukraine remains in this list according to the 2017 Special 301 Report, published on 28 April 2017. The U.S. demands that Ukraine demonstrate actual progress in the following areas: (1) improvement of royalty collection management organisations, (2) discontinuance of government use of unlicensed software and (3) the minimisation of Internet piracy.

The possibility of gradual abolition of current anti-dumping restrictions on Ukrainian exports of metallurgical and chemical goods to the U.S. remains an important issue for Ukraine. As of April 2017, 6 U.S. anti-dumping measures against Ukrainian products are in effect, these include two Suspension Agreements, in relation to the following goods: ammonium nitrate, ferrosilicomanganese, steel reinforcement bars, hot rolled

coils in rolls, carbonised rolled hot rolled coils that are not in rolls, as well as pipes for oil and gas pipeline purposes. The prospects of successful abolition of anti-dumping measures under sunset reviews can only be implemented in the event of active actions taken by Ukrainian exporters. In total, as of May 2017, more than 205 documents regulating a wide range of relations have been concluded between Ukraine and the United States.

On 16 June 2016, during the meeting with Mr Groysman, Prime Minister of Ukraine, P. Pritzker, U.S. Secretary of Commerce, handed over an updated version of the U.S.-Ukraine Roadmap. In May 2017, the Ministry of Economic Development and Trade completed the reconciliation of the third version of the Roadmap with interested central executive authorities. Representatives of the U.S. Department of Commerce expressed their firm belief that the new Administration of President Donald Trump would adhere to the priorities of the Roadmap.

In accordance with the Ukraine and United States Charter on Strategic Partnership signed in December 2008, 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 democratic reforms and the rule of law. Other bilateral initiatives include the Ukraine Energy Dialogue, Ukraine Business Networking and Ukraine Security.

In March 2012, a Ukrainian delegation participated in the Seoul Nuclear Summit where Ukraine undertook to remove all stocks of the highly enriched uranium (“HEU”) and the non-use of HEU in research institutions.

On 26 September 2011, Ukraine and the United States signed a Memorandum of Understanding on Nuclear Security Cooperation providing for the construction of a subcritical nuclear system in the National Scientific Centre of Kharkiv Institute of Physics and Technology. This special nuclear system was installed on 23 March 2016.

During the Hague Nuclear Security Summit held in March 2014, attention was paid to the events in illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions, violation of the Memorandum on Security Assurances in connection with Ukraine's accession to the Treaty on the Non-Proliferation of Nuclear Weapons and of the Treaty on Non-Proliferation of Nuclear Weapons. These issues were reflected in the joint statement by the United States and Ukraine.

On 31 March 2016, the Ukrainian President participated in the Nuclear Security Summit held in Washington D.C. Attention at the highest political level was focused on the threats the nuclear materials and facilities in the occupied territories could pose, as well as to the risk of a potential violation of the non-nuclear status of Ukraine as a result of the placement of nuclear weapons in Crimea by Russia.

The United States also cooperates with Ukraine within the “**Nuclear Smuggling Detection and Deterrence**” programme. In particular, it provides the State Border Guard Service of Ukraine with the necessary equipment for radiation control as well as with other material and technical support to ensure nuclear safety. In addition, the technical assistance provided under this programme to the Security Service of Ukraine will be used for the anti-terrorist operation in Donbas.

The cooperation between Ukraine and the United States in the sphere of nuclear safety has focused on the substantial reduction of nuclear stock in Ukraine, conversion of Ukraine's nuclear research facilities so that they operate with low enriched uranium fuel and support for Ukraine's efforts to diversify its nuclear fuel supply. Ukraine has disposed of more than 230 kg of highly enriched uranium from its territory. The Agreement between Ukraine and the United States of America Concerning Assistance to Ukraine in the Elimination of Strategic Nuclear Arms and the Prevention of Proliferation of Weapons of Mass Destruction dated 25 October 1993 was prolonged until 2020.

The cooperation in the energy sector is one of the main priorities of the Strategic Partnership between Ukraine and the United States. The energy dialogue fosters cooperation on restructuring and reformation of Ukraine's energy sector, the attraction of U.S. investment and technology, the diversification of energy supply sources in Ukraine, a reduction of its energy dependence and enhancement of nuclear safety.

In order to implement energy cooperation initiatives, an intergovernmental consultative mechanism has been established – the Ukrainian-American Working Group on Energy Security, co-chaired by the Minister of Energy and Coal Industry of Ukraine and the Head of the Bureau of Energy Resources of the U.S. Department of State. The last (fifth) meeting of the Ukrainian-American Working Group on Energy Security was held in Washington, DC, between 12 and 14 July 2015.

The issue of the development of bilateral energy cooperation was also raised during the regular (fifth) meeting of the Ukrainian-American Trade Experts Group held on 25 May 2017 in Kyiv, which served as the preparation for the seventh meeting of the Ukrainian-American Council on Trade and Investment scheduled for October 2017 in Kyiv.

After President Petro Poroshenko's visit to the United States, the U.S. Department of Energy informed Ukraine that the U.S. Secretary of Energy, Rick Perry, intended to visit Ukraine accompanied from leaders of certain American energy companies.

Bilateral nuclear energy cooperation is in active development. In particular, on 11 April 2014, Energoatom and Westinghouse executed an extension to a 2008 contract for U.S. fuel deliveries to Ukrainian nuclear power plants (“NPPs”). Furthermore, on 30 December 2014, these companies signed an agreement aimed to increase the nuclear fuel supply for Ukrainian NPPs until 2020. This contract is a part of the diversification of nuclear fuel sources for NPPs in Ukraine, Westinghouse's fuel assemblies are already operating at Power Unit No 3 at Pivdenoukrainsk NPP and Power Unit No 5 at Zaporizhzhya NPP.

On 11 March 2016, Public Joint Stock Corporation Turboatom (“**Turboatom**”) and Westinghouse, with support from Energoatom, executed a Memorandum of Understanding within the project aimed to increase the capacity of operating power units of Ukrainian NPPs through a programme of modernisation for turbines and generators.

Furthermore, Westinghouse has suggested implementing a joint project with the Energoatom on the potential increase of Ukrainian NPPs' capacity by 4,000 MW. However, to achieve such results additional measures would be necessary to improve the safety of Ukrainian NPPs. For this purpose, Westinghouse has proposed that Ukraine receive an additional U.S.\$300-400 million of financing within the framework of an existing EBRD project on safety level upgrades at Ukrainian NPPs.

On 28 September 2016, Energoatom and Westinghouse agreed to start working on the Safety Upgrade Programme for Ukrainian NPPs, which will ensure NPPs comply with the best international practices and requirements of the EU. This agreement marks a new partnership stage between Energoatom and Westinghouse as to further development of nuclear power engineering in Ukraine.

In the context of further development of cooperation, it should be noted that the restructuring of the Toshiba Corporation will in no way affect the fulfilment of Westinghouse's contractual obligations (despite Westinghouse's declaration of bankruptcy, its Swedish segment of nuclear fuel production, Westinghouse Sweden, intends not only to extend, but also to expand the agreement on nuclear fuel supply and provision of services concluded with Ukraine).

On 26 January 2015, Energoatom and U.S. based Holtec International entered into a supplemental agreement to the Contract for Construction in Ukraine of Spent Nuclear Fuel Storage Facility (the “**SNFSF**”) and supply of spent nuclear fuel (the “**SNF**”) dry storage systems from three Ukrainian NPPs: Khmelnytsk, Rivne and Pivdenno-Ukrainsk NPP (Zaporizhzhia NPP has its own SNF facility adjacent to the plant). The purpose of construction of SNFSF, where the spent nuclear fuel from Ukrainian NPPs will be solely stored, is to strengthen Ukraine's energy independence from external suppliers of energy resources and services.

Another project in the area of Ukraine's nuclear energy in which Holtec International directly participates is the commissioning of a storage facility for Chernobyl NPP's spent nuclear fuel. The Contract for Construction of Dry Storage Facility for Spent Nuclear Fuel (the “**DSNF-2**”) from Three Chernobyl NPP Reactors between the State Specialised Enterprise “Chernobyl NPP” and Holtec International was signed on 17 September 2007. The construction of DSNF-2 is funded from the Nuclear Safety Account of the EBRD and amounts to €255 million. After the completion of all work provided for by the contract, DSNF-2 will become the largest dry storage facility for storing spent nuclear fuel in the world.

President Poroshenko has invited Dr. Kris Singh, President and Chief Executive Officer of Holtec International, to become a member of the National Investment Council, established on 29 August 2016.

### *Trade*

According to the results of the first quarter of 2017, the total trade turnover between Ukraine and the United States was equal to U.S.\$ 830.55 million, increasing by U.S.\$ 298.66 million, or 56 per cent. compared to the corresponding figures in 2016. At the same time, there was an increase in export volumes of Ukrainian goods to the United States by 173.3 per cent. or by U.S.\$ 125 million, which by the end of the first quarter of 2017 amounted to U.S.\$197.7 million. Imports of American goods to Ukraine amounted to U.S.\$ 632.8 million at the end of the first quarter of 2017, which constituted an increase of 37.7 per cent. or U.S.\$ 173.3 million, compared to the previous year. The negative balance of bilateral trade for the first quarter of 2017 amounted to U.S.\$ 435.1 million, which constituted an increase of 12.4 per cent. Export of Ukrainian products to the United States is equal to 1.9 per cent. of total Ukrainian export, and import of American goods to Ukraine is equal to 5.7 per cent. of total Ukrainian import.

According to the 2016 results, the overall trade turnover between Ukraine and the United States amounted to U.S.\$ 2,114 million, increasing by U.S.\$ 152 million as compared to 2015. Exports of Ukrainian goods amounted to U.S.\$ 426.6 million and imports of American goods amounted to U.S.\$ 1,687.9 million. The negative balance of bilateral trade for 2016 amounted to U.S.\$ 1,261.4 million.

During the first quarter of 2017, ferrous metals (61 per cent. of the overall export, increased by 250 per cent. as compared to the same period in 2016), ferrous metal products (8.3 per cent. of the overall export, increased by 160 per cent.), electric machinery (5.3 per cent. of the overall export, increased by 85 per cent.), milk and dairy products, eggs, and natural honey (4.5 per cent. of the overall export, increased by 106 per cent.) remained the main commodity groups of export from Ukraine to the United States. Agricultural and food products amounted to 7.8 per cent. and metallurgy products amounted to 71.1 per cent. of exports of Ukrainian goods to the United States.

It should be noted that from 2012 to 2017 there has been a downward trend in exports of Ukrainian goods to the United States (the maximum export amount equalled to U.S.\$1.1 billion in 2011 with goods turnover amounting to U.S.\$ 3.7 billion). In 2012, export decreased by 8.9 per cent., in 2013 by 12.5 per cent., in 2014 by 22.4 per cent., in 2015 by 27.9 per cent. and in 2016 by 11.5 per cent.

The structure of domestic exports to the U.S. demonstrates dependence on virtually one industry – ferrous metallurgy, which makes supplies of Ukrainian products extremely sensitive to world market conditions and is characterised by low added value, therefore leading to low profitability.

During the first quarter of 2017, ground transport, apart from railway transport (21 per cent. of the overall import, increased by 34 per cent.), boilers, machinery (17.2 per cent. of the overall import, increased by 63 per cent.), mineral fuels, oil and its derived products (16.2 per cent. of the overall import, increased by 96 per cent.), electric machinery (9.4 per cent. of the overall import, increased by 32 per cent.) and seed products (9.2 per cent. of the overall import, increased by 20 per cent.) were the main commodity groups of American imports to Ukraine. The increase of American imports to Ukraine was likely the result of the stabilisation of the Ukrainian economy, the deceleration of inflation, rise in demand, as well as implementation by buyers of deferred demand that arose in 2014-2015. If positive trends in the Ukrainian economy continue in 2017, further increase of goods supplied from the United States to Ukraine is expected.

In the first quarter of 2017, export of domestic services to the United States amounted to U.S.\$ 187 million (increased by 16 per cent.), import amounted to U.S.\$164 million (increased by 1.2 per cent.). The positive balance of trade in services constituted U.S.\$ 22.6 million.

In 2016, export of services totalled to U.S.\$659 million, while import services amounted to U.S.\$682 million.

During the first quarter of 2017, telecommunication services, computer and information services (65.7 per cent. of the overall export of services, increased by 16.2 per cent., overall volume of U.S.\$123 million), transport services (18.8 per cent. of the overall export of services, increased by 42 per cent., overall volume of U.S.\$35 million), as well as business services (10 per cent. of the overall export of services, decreased by 11 per cent., overall volume of U.S.\$18 million) took the lead in the structure

of export of domestic services to the United States. Therefore, in the first quarter of 2017, export of domestic services to the United States is comparable to export of goods to the United States in terms of volumes.

The United States is one of the leading markets for export of Ukrainian products. The respective exports to the United States equalled almost 8 per cent. of the overall domestic exports of services to all the other countries. The above trends serve as a direct indication of structural changes in the Ukrainian economy towards the transition from traditional export of heavy industry products to high-tech export (IT services). Taking into account further development of information technologies both in the United States and on a global scale, one may expect further increase in export of domestic IT products in 2017.

State and governmental services (U.S.\$130 million, an increase of 0.2 per cent.) comprise the major portion of services imported from the United States (79 per cent. of the overall volume). Furthermore, import of services related to financial activity is also relatively significant (6.7 per cent., U.S.\$11 million, increased by 105 per cent.). In general, import of services from the United States amounts to over 13 per cent. of Ukraine's total import of services from all over the world.

### *Investments*

As of the end of the first quarter of 2017, Ukraine attracted U.S.\$ 540.3 million of U.S. investments, which accounted for 1.4 per cent. of all foreign direct investment in Ukraine.

The United States provided Ukraine with loan guarantees equal to U.S.\$3 billion (U.S.\$ 1 billion every year in 2014, 2015 and 2016). The U.S. consolidated federal budget for 2017 provides for the legislative possibility of granting further loan guarantees; however, a specific financing procedure is not yet envisaged. Moreover, if there is an acute need to grant loan guarantees (for example, in the event of unexpected crisis phenomena in Ukraine), the federal government will be able to provide the said aid by way of reallocating the funding from other projects. In 2016, the granting of loan guarantees to Ukraine in the amount of U.S.\$1 billion required the reallocation of approximately U.S.\$290 million of funds from the federal budget.

The key factor, which is essential for further development of relations with the United States, is the determination and effectiveness of the Ukrainian authorities' efforts in carrying out reforms and combating corruption. This problem is at the centre of attention at all levels of the United States government. Even at the time of the previous administration, the United States showed signs of possible reduction in aid if Ukraine did not show any progress in corruption reduction. The new administration (and President Trump personally) are expected to be more restrained in their support and demonstrate a more pragmatic approach. In such a situation, Ukraine should demonstrate its commitment and prove to its U.S. partners that Ukraine is an important asset for the United States and one into which it is important to invest resources and efforts.

### *Sanctions*

In response to the actions and policies of the Russian Federation Government, including illegal occupation, attempts to annex Crimea and the use of force in Ukraine, the United States imposed sanctions on Russia. The United States has stated that these sanctions will remain in force until Russia fulfils its obligations under the Minsk Arrangements. Furthermore, the US has stated that sanctions on the illegal occupation of Crimea and the City of Sevastopol will remain in force until complete cessation of Russian occupation of it. The sanctions include, among other things, restrictions on persons involved in the misappropriation of Ukrainian assets, or determined to have engaged in actions or policies undermining the democratic processes or institutions in Ukraine or which threaten Ukraine's stability, sovereignty, or territorial integrity. Sanctions also apply to persons determined to be owned or controlled by or acting on behalf of the Russian Government, or to operate in Russia's arms sector or certain other sectors of the Russian economy, and to persons operating in the Crimea region. New investments in Crimea by United States persons are also prohibited, as are certain exports or imports to or from Crimea.

Sectoral sanctions that target Russian companies prohibit certain activities by United States persons or persons within the United States (except to the extent provided by law or unless authorised by the U.S. Treasury Department), including participation in financial transactions with sanctioned entities. The United States has also imposed export licensing requirements with respect to the Russian oil and gas industry.

The United States has maintained pressure on Russia through its continued imposition of sanctions.

On 10 May 2017, President Trump and U.S. Secretary of State Rex Tillerson confirmed, during a meeting with Russian Foreign Minister Sergei Lavrov, that U.S. sanctions against Russia will remain in force until Moscow ceases the actions that led to imposition of the same, including in the context of full implementation of the Minsk Arrangements. Additionally, the Countering America's Adversaries Through Sanctions Act of 2017 (the "**Sanctions Act**") specifically recognises that "the Government of the Russian Federation is failing to comply with the Minsk Agreement to address the conflict in eastern Ukraine". Continuing coordination between the United States, the EU and Ukraine's other international partners is critical to the success of the sanctions as a means of putting pressure on President Vladimir Putin's government to fulfil Russia's obligations under the Minsk Arrangements. The issue of preserving sanctions pressure on Russia and legislative consolidation of non-recognition of Russia's attempt to annex Crimea and Sevastopol continues to remain on the agenda of the U.S. Congress. Indeed, as of the date of this Prospectus, the United States Government has shown no appetite for lifting or reducing sanctions on Russia. This was demonstrated by the overwhelming approval by Congress of the Sanctions Act, which became law on 2 August 2017. The Sanctions Act takes the existing sanctions against Russia, implemented during the Obama administration as executive orders (*i.e.*: directives that only the president has authority to enact and rescind), and officially enshrines them into U.S. law. The Sanctions Act also establishes a new congressional review process that allows Congress to block the executive branch from unilaterally taking steps to ease sanctions against Russia. See "*Political Framework—International Relations—Foreign States—United States*".

Ukraine is a reliable U.S. partner in the area of security that supports the United States' efforts in combating terrorism, proliferation of nuclear arms, piracy, human trafficking and organised crime. Ukraine continues to actively participate in peacekeeping activities under the auspices of international organisations.

#### *Financial, Technical and Humanitarian Aid*

Since March 2014, the United States has committed to providing Ukraine with approximately U.S.\$1.3 billion to support Ukrainian security, economic stability, implement necessary reforms and provide humanitarian aid to the victims of the conflict in certain parts of the Donetsk and Luhansk regions.

During the 2016 fiscal year, the U.S. Administration announced allocation to Ukraine of:

- U.S.\$513.5 million within the framework of expert and technical assistance projects;
- U.S.\$335 million of security aid for the needs of the Armed Forces of Ukraine, the National Guard and the State Border Guard Service of Ukraine;
- U.S.\$51.2 million for humanitarian initiatives.

Since 1992, a total of U.S.\$1.9 billion had been allocated to the United States Agency for International Development ("**USAID**") programmes for Ukraine. The USAID budget for Ukraine amounted to approximately U.S.\$150 million in 2016 and approximately U.S.\$120 million in 2017. USAID's programmes provide support to Ukraine primarily in areas such as good governance, economic growth, strengthened health services, agriculture, environmental protection and climate change, and humanitarian aid. In general, USAID currently implements 47 long-term and medium-term programmes in Ukraine (and some of them are valid until 2023) with a total value of over U.S.\$523 million

The total amount of funds allocated by the United States Federal Budget for the 2017 fiscal year (ending 30 September 2017) for the implementation of aid programmes for Ukraine by the State Department, the USAID and associated programmes should be at least U.S.\$410.465 million. At the same time, U.S.\$250 million was allocated under budget item "*Assistance to Europe, Eurasia and Central Asia*"; U.S.\$85 million was allocated under the international military financing programme; U.S.\$31.615 million was allocated under budget item "*Global Health Programs*"; U.S.\$30 million was allocated under budget item "*International Drug Control and Law Enforcement Agencies*"; U.S.\$10.95 million was allocated under budget item "*Non-proliferation, Counterterrorism, Mine Clearance and Related Programs*"; U.S.\$2.9 million was allocated under budget item "*International Military Education and Training*".

In general, without taking into account the funds allocated for providing Ukraine with credit guarantees, the funding of programmes by the State Department, the USAID and associated programmes in the budget of 2017 has increased by U.S.\$27.3 million (or by 7 per cent.) compared to 2016. This allows the continuing implementation of all current USAID programmes in Ukraine in 2017.

The total amount of aid provided by the U.S. government to humanitarian projects and initiatives to overcome the consequences of the conflict in certain parts of the Donetsk and Luhansk regions is about U.S.\$148 million. Of these, about U.S.\$15 million was provided in the 2017 fiscal year, U.S.\$49.3 million in 2016, U.S.\$71.5 million in 2015 and U.S.\$12.3 million in 2014. U.S. humanitarian aid is provided to Ukraine mainly through USAID funding of the UN Office for the Coordination of Humanitarian Affairs, the United Nations Children's Fund and the United Nations World Food Program. The United Nations estimates that U.S.\$214 million is needed for Ukraine's humanitarian aid in 2017.

Circulating media information about the budget request of the U.S. Administration for the 2018 fiscal year (commencing on 1 October 2017) provides for the provision of aid to Ukraine in the amount of U.S.\$177.880 million (which is U.S.\$393 million less than the aid envisaged by the request for 2016 and U.S.\$232 million less than that for 2017 fiscal year). At the same time, it is foreseen that U.S.\$145 million will be allocated under budget item "*Economic Support Fund*" and U.S.\$32.88 million will be allocated under budget items "*Global Health Programs*" of the State Department and USAID. It is expected that most continued long-term USAID and State Department large-scale programmes in Ukraine will be extended, while small projects will be revised, reduced or eliminated.

### *Japan*

On 24 March 2014, at the Nuclear Security Summit (The Hague), the Prime Minister of Japan, S. Abe, announced the provision of financial aid to Ukraine in the amount of over U.S.\$1.4 billion.

On 25 April 2014, Japan allocated EUR800,000 through the OSCE (EUR500,000) and the Council of Europe (EUR300,000) to support democratic processes in Ukraine, in particular, to hold presidential elections in Ukraine.

On 6 June 2014, the Government of Japan allocated U.S.\$260,000 in aid for IDPs in Ukraine (CHF120,000 through the International Red Cross Organisation and U.S.\$140,000 through UNICEF).

Taking into account the increase in the number of IDPs in Ukraine and the worsening of the humanitarian situation in the certain areas of the Donetsk and Luhansk regions, on 5 September 2014 Japan announced an additional allocation of U.S.\$300,000 through International Red Cross Organisation (U.S.\$150,000) and the United Nations High Commissioner for Refugees (UNHCR) (U.S.\$150,000).

In 2015, Japan has allocated additional aid to Ukraine in the amount of U.S.\$300 million of preferential loans to consolidate the budget of Ukraine in addition to U.S.\$100 million provided by Japan in 2014. Such step was made in response to Ukraine's request (Minister of Finance) for additional aid to support the budget of Ukraine. The funds are allocated within the framework of the second project "*Economic Reform Development Policy Loan*" co-financed with the World Bank and aimed at supporting strategic and institutional reforms in Ukraine.

In 2015, aid was also increased to U.S.\$16.6 million for the purpose of the rehabilitation of displaced persons and reconstruction of certain parts of the Donetsk and Luhansk regions.

In addition, in 2015, Japan implemented a large-scale programme of technical assistance to Ukraine in support of democratic reforms and institutions, within which Japan was visited by delegations of the Ukrainian Parliament, the Central Election Commission, national television of Ukraine to participate in experience sharing trainings with representatives of the Japanese Government and experts in the field of law, public administration and work of independent media.

In June 2015, the Ukrainian Government and the Japanese Agency for International Cooperation signed a loan agreement for implementation of a project regarding reconstruction of aeration station in Bortnychi (approximately U.S.\$1 billion).

According to the results of the visit to Japan of President Petro Poroshenko on 5-7 April 2016, Japan announced allocation of an additional grant to Ukraine in the amount of approximately U.S.\$13.6 million for humanitarian and social needs and support of displaced persons from certain parts of the Donetsk and Luhansk regions.

In addition to the already allocated €3 million for the Shelter project and €3 million to the Chernobyl Nuclear Safety Account, Japan has also announced granting of additional €3.5 million for the construction of a temporary storage facility for spent nuclear fuel.

The Nippon Export and Import Insurance Agency (NEXI) has extended the export insurance line in the amount of approximately U.S.\$300 million for 2016-2017 for import of goods and services from Japan needed to stabilise the economic and social situation in Ukraine.

In 2016, Japan continued to implement technical assistance programmes to support reforms and strengthen democratic institutions in Ukraine within which around 100 representatives from public and non-public sectors of Ukraine visited Japan to study Japan's experience.

Since the beginning of 2017, a project to create a system of Public Television in Ukraine is being implemented with the support of experts from the Japan International Cooperation Agency (JICA).

Additionally, within the framework of the SATREPS (Science and Technology Research Partnership for Sustainable Development) programme, starting from April 2017, the JICA together with the Japanese Science and Technology Agency has initiated a project on *“Improvement of radiation control of the environment and legislation in Ukraine for the environmental rehabilitation of radioactive contaminated sites”*.

### *Russia*

The Ukrainian Parliament, with a Resolution dated 27 January 2015, recognised Russia as an aggressor state. 20 February 2014 has been determined as the date of the temporary occupation of the Autonomous Republic of Crimea and the City of Sevastopol.

On 24 September 2015, the President of Ukraine signed the Decree *“On the New Edition of Military Doctrine of Ukraine”*, which designates the Russian Federation as Ukraine's military opponent, recognises a high probability of a large-scale application of military force against Ukraine and defines Russian armed aggression against Ukraine as a threat.

At present, Russia permits the free movement of goods and people from Russia across the Ukrainian state border and into certain parts of the Donetsk and Luhansk regions. Ukraine recorded numerous incidents of intrusion into Ukraine's airspace by unmanned aerial vehicles, aircrafts and helicopters of the Russian Armed Forces.

The contractual legal framework of bilateral Ukrainian-Russian cooperation includes over 350 international documents that regulate a wide range of issues. The implementation of most documents is significantly complicated or impossible due to the general state of Ukrainian-Russian relations at present.

Further development of Ukrainian-Russian dialogue depends upon the stabilisation of the situation in certain districts of Donetsk and Luhansk regions of Ukraine, withdrawal of units of Russia-backed illegal armed formations from those districts, de-occupation of the Autonomous Republic of Crimea and the City of Sevastopol with further recognition by Russia of Ukraine's territorial integrity within the internationally recognised borders. See *“Risk Factors—Risk Factors Relating to Ukraine—The illegal occupation and attempted annexation of Crimea has adversely affected and is likely to continue to adversely affect Ukraine's economic and political stability”* and *“Risk Factors—Risk Factors Relating to Ukraine— The conflict in certain parts of the Donetsk and Luhansk regions has had, and is likely to continue to have, negative humanitarian, economic and political consequences for Ukraine”*.

From 2013 to 2016, the Russian Federation has impeded exports of Ukrainian goods. In most cases, the Russian Federation did not inform the WTO of the establishment of the bans on Ukrainian goods, thus enabling their act to be potentially viewed as a violation of WTO regulations.

Current points of contention between the two countries include the illegal occupation of Crimea and the City of Sevastopol, conflict in certain parts of the Donetsk and Luhansk regions, export/import restrictions and bans, travel restrictions, gas price increases, cessation of gas supply, ongoing litigation/arbitration proceedings launched by both Gazprom and Naftogaz, expropriation claims and criminal claims filed by Ukraine against certain Russian individuals.

In addition, the signing of the Association Agreement by Ukraine in June 2014 triggered a further set of economic, gas and trade issues as a result of Russia's belief that this agreement is incompatible with Ukraine continuing to trade with the Customs Union/Eurasian Economic Union. In particular, in the period from July 2014 to 2017, Russia introduced restrictions on imports of Ukrainian confectionery, dairy, meat, canned vegetables and other agricultural products. Ukraine estimates that restrictions introduced by Russia has as of the date of this Prospectus lead to a 62 per cent. decline in trade with Russia and further expected sanctions are anticipated to further reduce the levels of trade. See "*Risk Factors—Risk Factors Relating to Ukraine—Economic sanctions by the EU and the United States against Russia over its actions in Ukraine and the resulting reciprocal sanctions by Russia against Ukraine, the EU and the United States are having and are likely to continue to have a material adverse effect on Ukraine's economy.*" and "*Political Framework—International Relations—Foreign States—Russia*".

On 31 March 2014, Russia unilaterally terminated the following agreements between Russia and Ukraine (i) the Agreement on Parameters of Division of the Black Sea Fleet dated 28 May 1997, (ii) the Agreement on Status and Conditions of Russian Black Sea Fleet stationing within the territory of Ukraine dated 28 May 1997, (iii) the Agreement on mutual settlements related to the division of Russian Black Sea Fleet and the Black Sea Fleet Stationing within the territory of Ukraine dated 28 May 1997, and (iv) the Agreement on Matters related to Russian Black Sea Fleet stationing within the territory of Ukraine dated 21 April 2010, which extended 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. Ukraine has officially rejected the termination of the above agreements.

The rapid deterioration of political relations since February 2014 has been mirrored in the oil and gas sphere. See "*Economy of Ukraine—Principal Sectors of the Economy—Natural Gas Supply from Russia*". Following the illegal occupation of Crimea by Russia, including the naval port of Sevastopol, Russia unilaterally terminated the lease arrangements that had previously existed between the two countries under which Russia leased the naval base in return for granting significant reductions of existing debts under historic gas agreements and gas price concessions. Consequently, as a result of such termination, Russia cancelled Ukraine's gas price concessions and has since refused to renegotiate gas prices in good faith. In June 2014, Gazprom suspended gas supplies to Ukraine and introduced an advance payment system and also filed a claim for U.S.\$4.5 billion concerning non-payment for gas by Naftogaz. In return, Naftogaz submitted a claim to the SCC for the establishment of a fair price for gas supplied to Ukraine by Gazprom, reimbursement of all overpayments and retroactive revision of the transit contract. According to the public sources, the provisional amount of claims total U.S.\$6 billion. On 30 October 2014, the Minister of Energy of Ukraine, the Minister of Energy of Russia and the EU Commissioner signed a temporary agreement according to which Russia has agreed to supply gas until March 2015 at U.S.\$378 per 1,000 cubic metres in the period from November to December 2014 and U.S.\$336 per 1,000 cubic metres in the first quarter of 2015, subject to monthly prepayment and repayment of outstanding gas debt.

According to the supplement to the agreement, Naftogaz paid to Gazprom U.S.\$3.1 billion in November and December 2014 and, by making this payment Naftogaz, believes it fully performed its obligations under the "winter package".

On 1 April 2015, Ukraine and Russia reached another temporary agreement on gas supply for the second quarter of 2015. According to this temporary agreement, the price of natural gas supplied by Gazprom was U.S.\$255 per 1,000 cubic metres with other terms of the temporary agreement of October 2014 extended until the end of June 2015.

Ukraine did not purchase Russian natural gas in the third quarter of 2015 due to the failure of negotiating a price.

The government of Russia adopted a Resolution dated 24 September 2015, which established the calculations of the export duty for the natural gas supplied from 1 October 2015 to 31 December 2015. As a result of the decrease of the export duty, the price for the natural gas also decreased.

On 25 September 2015, negotiations between Ukraine, the EU and Russia were held in Brussels. The parties agreed on all basic terms regarding the obligations of the parties on the new "winter package" (from October 2015 to March 2016). Under the new "winter package" the price for gas is determined based on the level of gas prices for the European countries neighbouring Ukraine.

Price inconsistency of Russian imported natural gas, received by Naftogaz in the second quarter of 2014, resulted in suspension of gas supplies from Gazprom to Ukraine from 16 June 2014 and switching to prepayment by Naftogaz. The lack of compromise between the parties led to submission of counter-claims to the SCC by Naftogaz and Gazprom in June 2014. Preliminary and final invoices issued by Gazprom for the natural gas prepayment, which were received in April-June 2014, were not discharged.

On 9 October 2015, Naftogaz and Gazprom signed a supplement to the agreement regarding the terms of the supply of gas from 1 October 2015 to 31 March 2016 and Naftogaz negotiated the cancellation of the “take or pay” clause for this period. On 31 May 2017, the arbitral tribunal of the SCC decided on the case of Naftogaz against Gazprom relating to the Supply Contract.

The tribunal dismissed the claims of Gazprom, which were based on the “take-or-pay” clause. The tribunal also decided that:

- the clauses of the Supply Contract concerning the supply amounts and “take-or-pay” provision were invalid starting from 19 January 2009 and until the date of the final decision on the case and must be amended starting from the date of the final judgment taking into account the real demand from Naftogaz;
- the price formula provided in the Supply Contract must be reviewed starting from 27 April 2014 so as to bring the price to the market rate;
- Naftogaz must have the sums of overpay compensated in cases of a factual payments price excess over the price as provided by the revised formula of the Supply Contract; and
- the clause of the Supply Contract on the prohibition to Naftogaz to sell gas purchased under the Supply Contract outside Ukraine is invalid starting from 19 January 2009.

The calculation of the amount of claims, which have been satisfied by tribunal, will be included in the final decision, which is expected in a few months.

#### *Minsk Arrangements*

It is the position of the Ukrainian Government, as well as many international observers of the situation in the parts of Donetsk and Luhansk regions under the control of Russian-backed illegal armed formations, that since the signing of the Minsk Arrangements, Russia has not fulfilled its commitments under the Minsk Arrangements. Ukraine, together with German and French partners in the Norman format, are focused on compelling Russia to comply with the basic provisions of the Minsk Arrangements.

The implementation of the Minsk Arrangements remains the key condition for the return of peace to Donbas. (See “*Description of Ukraine—Conflict in certain parts of the Donetsk and Luhansk regions—Minsk Arrangements*”);

#### *Eurasian Economic Union*

Ukraine is interested in cooperation with the Eurasian Economic 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 obligations of the member states of Eurasian Economic Union within the WTO framework, and shall not contradict obligations of Ukraine under the Association Agreement with the EU.

## 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.*

### Overview

Ukraine's principal economic sectors include agriculture, industry, mining, oil and gas transit, electricity generation, nuclear power, construction and information technology.

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. Considerable progress has been achieved by Ukraine in its transition to a market economy, particularly in the areas of economic liberalisation, privatisation and financial stabilisation policies, but the process remains incomplete and has not been helped by the conflict in certain parts of the Donetsk and Luhansk regions and the illegal occupation of Crimea.

The illegal occupation of Crimea has had a significant adverse effect on the economy of Ukraine, including the loss of approximately UAH 1,180 billion due to illegal confiscation of the property of more than 4,000 enterprises, including oil and gas production assets and gas storage units; the loss of the Sevastopol Naval Base and related Russian rental payments and gas price concessions granted in connection with the lease; a deterioration of relations with Russia; a reduction in foreign direct investment in Ukraine caused by a decrease in the investment appeal of the country; disruption of the privatisation programme and loss of control over the tax revenues and economic operations of Crimea. See "*Description of Ukraine—Crimean Crisis*".

The conflict in certain parts of the Donetsk and Luhansk regions has also had a significant effect on Ukraine's economy. For example, certain infrastructure has been badly damaged or destroyed as a result of such events. As of the date of this Prospectus, the economic and infrastructure losses in the Donetsk and Luhansk Oblasts included destruction or severe damage to a large number of residential buildings and gas distribution pipelines, as well as significant disruption to power supply in the region. The estimated total amount of financing necessary for primary recovery of destroyed or damaged property is UAH 10,758.14 million as of 30 June 2017. The estimated cost of restoration of the electric power supply system is UAH 203.5 million in Donetsk Oblast and UAH 113.6 million in Luhansk Oblast. The estimated cost of restoration of water supply in Donetsk Oblast is UAH 57.2 million. The estimated cost of restoration of water supply and gas supply in Luhansk Oblast is UAH 226.4 million and UAH 9.5 million, respectively.

In 2014, the Cabinet of Ministers allocated UAH 18,888 billion from the State Budget reserve fund for temporary mobilisation measures and the carrying out of the anti-terrorist operation. In addition, in 2015, the Cabinet of Ministers allocated UAH 850 million to the Ministry of Defence and in 2017 allocated a further UAH 29.2 million from the State Budget reserve fund to the Ministry of Defence for construction of engineering structures to strengthen the defence of the state. In 2017, UAH 199 million was allocated for the improvement of Ukrainian Armed Forces ammunition storage facilities in order to heighten protection levels for dangerous objects.

As a result of the illegal occupation of Crimea and the conflict in certain parts of the Donetsk and Luhansk regions, real GDP fell by 6.6 per cent. and 9.8 per cent. in 2014 and 2015, respectively. However, since then, the Ukrainian economy has experienced a significant revival as a result of increasingly favourable trading conditions with the EU and other western economies. Real GDP grew by 2.3 per cent. in 2016 and, according to the Ministry of Economic Development and Trade of Ukraine, is expected to grow by approximately 1.8 per cent. in 2017 and 3 per cent. in 2018, as noted in the 2018-2020 draft budget resolution. See "*Public Debt – Debt Management Policy*".

### 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 ("FDI") and contributing funds to the State Budget. As at 1 April 2017, Ukraine has collected UAH 64.09 billion to the State Budget in privatisation receipts.

During the years of privatisation, more than 132,000 enterprises were privatised (including 29,549 state-owned enterprises and 102,828 enterprises of communal property). The process of privatisation of property owned by state enterprises had the effect of creating a significant non-state sector of the economy, which as of

1 July 2017 includes more than 11,000 joint-stock companies (8,888 state property assets and 2,678 communal property assets). As of 1 July 2017, the State owned shares in 516 companies.

The State Property Fund of Ukraine (“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 has approved the list of companies to be privatised, the SPF proceeds to convert the companies into joint stock companies and subsequently sell them to investors. Foreign and Ukrainian investors generally have equal rights in the privatisation processes, subject to certain exceptions, such as a prohibition on land sales and restrictions on companies located in offshore zones (such as the British Virgin Islands, Liberia and others) from participating in the privatisation of certain large assets.

Certain laws and regulations establish rules for privatisation of particular enterprises in strategic sectors, including power generation, military and mining. Furthermore, the State has the right to retain an ownership interest in such enterprises, enabling it to block certain management decisions.

The 2014 State Budget provided for UAH 17 billion as total proceeds from privatisation of State assets. Privatisation receipts in 2014 amounted to approximately UAH 466.9 million. This discrepancy was due to the relatively small number of privatisations, primarily as a result of the suspension of all privatisations in Crimea and the City of Sevastopol and postponement of other planned privatisations until late 2014 in light of the anti-terrorist operation in certain areas of the Donetsk and Luhansk regions of Ukraine.

The 2015 State Budget provided for UAH 17 billion as total proceeds from privatisation of State assets. However, privatisation receipts in 2015 amounted to only approximately UAH 151.5 million. This was due to management delays in the transfer of certain assets subject to privatisation, or in some cases suspension of the privatisation process in relation to certain assets, as well as the failure to promptly adopt the draft law on exclusion of 374 agricultural assets (which includes certain companies in the alcohol industry, bakeries and businesses of the “Ukrfitoterapiya” consortium) from the list of companies not subject to privatisation.

The 2016 State Budget established a target of UAH 17.1 billion in proceeds from privatisation of state property, to be provided by the SPF to the State Budget in 2016. The SPF planned to reach this target through the sale of certain investment assets, in particular PJSC “Odesa Port Plant” and fuel and energy assets. PJSC “Odesa Port Plant” was put on sale twice; the tenders were unsuccessful due to a lack of bids, despite the starting price for the second tender having been lowered significantly. Separately, the working group on privatisation matters at the Cabinet of Ministers (formed by CMU resolution No. 525, dated 24 June 2015) advised the SPF to suspend the sale of regional energy distributors, or “oblenergos”, until amendments to legislation aimed at general improvement and compliance with European standards had been adopted by Parliament and the National Energy and Utilities Regulatory Commission. In light of the foregoing, proceeds from privatisation in 2016 amounted to UAH 188.9 million.

CMU Resolution No. 271 dated 12 May 2015 approved a list of state property assets subject to privatisation from 2015 to 2017. On 6 March 2016, Law No. 1005 became effective, providing for cancellation of a provision on the mandatory sale on stock exchanges of 5 to 10 per cent. of shares of a group of enterprises that includes state enterprises with over 100 employees and having gross income from sales exceeding UAH 70 million, and another group of enterprises that have strategic value for Ukraine’s economy and security, as well as other monopolies and military enterprises. It also prohibits the following persons from participating in privatisation:

- legal entities, where the State of Ukraine holds more than 25 per cent. of shares (shares in the charter capital, participatory interests);
- legal entities, where the holder and/or the ultimate beneficial owner of any amount of shares (shares in the charter capital, participatory interests) is a state recognised by Parliament as an aggressor state or is a resident of a state recognised by Parliament as an aggressor state;
- persons that are controlled, directly or indirectly, by persons whose ultimate beneficial owner is a person defined therein or is a related party of such a person;
- legal entities or their related parties that are registered in a state recognised by Parliament as an aggressor state or are subject to sanctions under the law; and

- individuals or their related parties that are nationals of a state recognised by Parliament as an aggressor state or are subject to sanctions under the law.

The purchaser shall be responsible for the authenticity and completeness of documents submitted for participation in privatisation and shall be obligated to prove its right to purchase state-owned properties.

The above restrictions on participation in privatisation shall also apply to advisors who may, under the law, be engaged on a competitive basis in preparation for the privatisation and sale of assets of strategic importance for the state economy and security, monopolists and military industrial assets. The Government will determine the engagement of advisers.

The law provides for the possibility to resolve disputes between the seller and the purchaser in the International Commercial Arbitration Court and for the final resolution of disputes in accordance with the Arbitration Rules of the SCC. The 2017 State Budget set a goal of UAH 17.1 billion in proceeds from privatisation of state property, to be provided by the SPF to the State Budget in 2017. In order to achieve this goal, the SPF is preparing for the sale of assets included in the list of state-owned assets that are subject to privatisation from 2015 to 2017, adopted by CMU Resolution No. 271. As of 21 July 2017, this list consists of 284 assets. The successful privatisation of PJSC “Odesa Port Plant”, PJSC “Centrenergo” and regional energy supply companies will be crucial in achieving this goal. As of 21 July 2017, the proceeds from privatisation amounted to UAH 186.0 million.

State bodies have examined a number of privatisations that took place in previous years under irregular conditions, which were not fully transparent. 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 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 asset sale would be returned to the buyer.

Due to non-performance of terms and conditions of sale-purchase agreements as at 1 July 2017, 361 privatised assets had been returned to State ownership, including 87 shareholding stakes, 60 integral property complexes and 214 construction projects. In total, 179 of the assets returned to State ownership have been resold; the proceeds from their resale amount to UAH 108.85 million. Claims are in progress with regard to the termination (invalidation) of 123 privatisation agreements and with regard to the return of assets sold pursuant to such agreements. Such claims relate to 9 shareholding stakes, 18 integral property complexes and 96 construction projects.

### **IMF Loan and Other Financing**

On 30 April 2014, Ukraine agreed to the 2014 SBA for the provision of up to U.S.\$17 billion from the IMF between 2014 and 2016. The provision of funds under the 2014 SBA by the IMF was conditional upon Ukraine meeting certain quantitative targets and implementing a number of structural changes. Ukraine received the first tranche of U.S.\$3.2 billion on 6 May 2014, and a second tranche of U.S.\$1.4 billion on 4 September 2014. U.S.\$3 billion of these funds was allocated to the State Budget.

On 11 March 2015, the Executive Board of the IMF approved a four-year extended arrangement under the Extended Fund Facility (EFF) for Ukraine. The arrangement amounts to the equivalent of SDR 12.348 billion (about U.S.\$17.5 billion, 900 per cent. of quota) and was approved under the IMF’s exceptional access policy. The Executive Board also cancelled the 30 April 2014 SBA. Ukraine received the first tranche of the loan in the amount of U.S.\$4.88 billion on 13 March 2015, of which U.S.\$2.63 billion was used to cover Ukraine’s State Budget deficit. After the first review of the EFF, Ukraine received the second tranche of U.S.\$1.66 billion on 4 August 2015. These funds were used to support gold and foreign exchange reserves.

On 14 September 2016, the Executive Board of the IMF approved the second review of Ukraine’s programme under the EFF. Further to this decision, the IMF approved the disbursement of a third tranche of U.S.\$1.00 billion (SDR 716.1 million); these funds were used to increase the reserves of the NBU.

On 3 April 2017, the Executive Board of the IMF approved the third review of Ukraine’s programme under the EFF. Subsequently, the IMF transferred the fourth tranche of around U.S.\$1.00 billion (SDR 734.1 million) to Ukraine; this was used to increase the reserves of the NBU.

On 29 December 2012, the Cabinet of Ministers of Ukraine, the German-Ukrainian Fund and the Reconstruction Credit Institute signed an agreement granting a loan in the amount of €10 million to finance a project supporting small and medium-sized enterprises in Ukraine. The project is aimed at providing commercial banks with funds for further financing of measures to recharge basic funds and working capital of small and medium enterprises. As of the date of this Prospectus, no funds have been drawn down under this project.

On 24 December 2014, Ukraine and the EIB signed a finance facility amounting to €400 million, which entered into force on 16 August 2015. As of the date of this Prospectus, no funds have been drawn down under this project. The project aims to expand the possibilities of financing the real economy sector, and to support the development of the private sector of the economy, in particular small and medium-sized enterprises projects and institutions with an average level of capitalisation, as well as other priority projects, including projects of social and economic infrastructure, energy efficiency projects and mitigation of and adaptation to climate change.

### Gross Domestic Product

In 2014, Ukraine's GDP slowed. Decreases in real GDP of 1.0 per cent., 4.3 per cent., and 5.3 per cent. and 14.4 per cent. were recorded for the first, second, third and fourth quarters, respectively, compared to the respective periods in 2013. At the close of 2014, Ukraine's nominal GDP amounted to UAH 1,586.9 billion. This contraction was principally attributable to the decline in domestic demand and in exports to Russia.

The contraction of Ukraine's GDP continued in 2015. Real GDP decreased by 16.0 per cent., 14.5 per cent., 7.0 per cent. and 2.4 per cent. in the first, second, third and fourth quarters, respectively, compared to the respective periods in 2014. In 2015, GDP fell by a total of 9.8 per cent.

Starting from the first quarter of 2016, real GDP recorded continuous growth of 0.1, 1.5, 2.3 and 4.8 per cent., in the first, second, third and fourth quarters of 2016, respectively, as compared to the relevant quarters of 2015. In 2016, GDP increased by 2.3 per cent.

Growth of real GDP continued in the first quarter of 2017 and, according to a preliminary assessment, amounted to 2.5 per cent.

As at the date of this Prospectus it is not possible to calculate the extent of the impact that the illegal occupation of Crimea and the conflict in certain parts of the Donetsk and Luhansk regions have had on Ukraine's GDP.

The following table sets out the contribution to GDP for the indicated periods from each of the following regions, which are either occupied or subject to the on-going anti-terrorist operation:

Region	2011	2012	2013	2014	2015
Donetsk Oblast .....	12.4	11.7	10.8	7.6	5.8
Luhansk Oblast.....	4.4	4.0	3.6	2.0	1.2
Crimea .....	2.9	3.1	3.0	-	-
Sevastopol.....	0.7	0.7	0.7	-	-

Source: State Statistics Service

It has not been possible for the Government to collect further data regarding the territory of Crimea and the City of Sevastopol since the region's occupation.

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

	Year ended 31 December		
	2014	2015	2016
<b>GDP</b>			
Nominal GDP (UAH millions).....	1,586,915.0	1,988,544.0	2,383,182.0
Nominal GDP (U.S.\$ millions) <sup>(1)</sup> .....	133,503.9	91,031.0	93,270.4
Real GDP (% change).....	(6.6)	(9.8)	2.3
Nominal per capita GDP (U.S.\$) <sup>(1)</sup> .....	3,104.7	2,124.7	2,185.7

(1) Hryvnia amounts have been converted to dollar amounts using the average exchange rate specified under the heading “*The Monetary System—Instruments of monetary policy—Exchange Rates*”.

Source: State Statistics Service

	1 <sup>st</sup> quarter <sup>(1)</sup>				2 <sup>nd</sup> quarter <sup>(1)</sup>			3 <sup>rd</sup> quarter <sup>(1)</sup>			4 <sup>th</sup> quarter <sup>(1)</sup>		
	2014	2015	2016	2017	2014	2015	2016	2014	2015	2016	2014	2015	2016
<b>GDP</b>													
Nominal GDP (UAH millions).....	316,905.0	375,991.0	455,637.0	583,882.0	382,391.0	456,715.0	535,324.0	440,476.0	566,997.0	669,170.0	447,143.0	588,841.0	723,051.0
Nominal GDP (U.S.\$ millions) <sup>(2)</sup> .....	35,784.3	17,749.7	17,750.0	21,577.3	32,701.2	21,125.4	21,190.5	35,025.4	26,101.8	26,360.1	31,005.8	25,765.2	27,930.4
Real GDP (% change).....	(1.0)	(16.0)	0.1	2.5	(4.3)	(14.5)	1.5	(5.3)	(7.0)	2.3	(14.4)	(2.4)	4.8
Nominal per capita GDP (U.S.\$) <sup>(1)</sup> .....	832.2	414.3	415.4	507.1	760.5	493.1	496.2	814.5	609.2	617.4	721.0	601.3	655.9

(1) The data does not take into account illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.

(2) Hryvnia amounts have been converted to dollar amounts using the average exchange rate specified under the heading “*The Monetary System—Instruments of monetary policy—Exchange Rates*” by the NBU.

Source: State Statistics Service

## Principal Sectors of the Economy

### Industry

In 2014, industry accounted for 20.5 per cent. of Ukraine's nominal GDP, as compared to 20.1 per cent. in 2013. In 2015, industry accounted for 19.8 per cent. of Ukraine's nominal GDP; this grew to 20.9 per cent., in 2016.

Ukraine's industrial sector is mainly composed of: extraction; food, beverages and tobacco; coke and oil refining; chemicals; metallurgy; machinery manufacture and air conditioning production. 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. A significant proportion of Ukraine's industrial sector is located in certain parts of the Donetsk and Luhansk regions and it has, as result, suffered disproportionately during the aggression against Ukraine, both because of the effects of the on-going conflict in certain parts of the Donetsk and Luhansk regions and because its largest market is Russia. Ukraine's industrial sector is also negatively affected by trade restrictions imposed by Russia on certain Ukrainian imports.

In 2014, industrial production decreased by 10.1 per cent. as compared to 2013. This trend continued in 2015, where industrial production decreased by 13.0 per cent. as compared to 2014. This was primarily due to a significant decline in key industries as compared to the previous year: a 16.1 per cent. decrease in metallurgy, a 14.1 per cent. decrease in machinery and a 15.2 per cent. decrease in the chemical industry. The most significant decreases in industrial production in 2015 as compared to 2014, of 34.6 per cent. and 66 per cent., respectively, were recorded in Donetsk and Luhansk Oblasts. In 2014, production rates in Donetsk Oblast decreased in all industrial sectors in comparison to 2013. Traditional production chains, including “coal-coke-metal” and “coal-electricity”, were distorted. Production volumes at the functioning enterprises in the Donetsk and Luhansk Oblasts decreased due to shortages of raw material supplies and exports of finished goods, damage to industrial and infrastructure facilities, water supply and power systems, and the suspension of banking operations. The industrial sector has been one of the hardest-hit sectors of the economy by the conflict in certain parts of the Donetsk and Luhansk regions and the illegal occupation of Crimea in certain areas of the Donetsk and Luhansk regions of Ukraine and the illegal occupation of Crimea and the City of Sevastopol. In 2015, Donetsk and Luhansk Oblasts' shares of Ukraine's industrial production were 11.4 per cent. and 1.7 per cent., respectively.

However, in 2016, industrial production increased by 2.8 per cent., as compared to 2015. The biggest contributors to industrial production were food, beverage and tobacco enterprises (which registered a 4.4 per cent. increase as compared to 2015), metallurgical production and the production of finished metal

products (6.8 per cent. increase), and machinery (2.0 per cent. increase). A significant share of the iron and steel capacities of Ukraine are concentrated in Donbas. Donetsk Oblast provided 30.5 per cent. of the sales volumes of steel products in 2014. As a result of the conflict in certain parts of the Donetsk and Luhansk regions, Donetsk Metalworks and Stakhaniv Ferroalloy Plant (large iron and steel enterprises) are shut as of the date of this Prospectus.

In the first half of 2017, production decreased by 0.4 per cent. as compared to the same period in 2016. Significant negative impacts on the general industrial dynamics were caused by enterprises of extractive industry and quarries development (which showed a decrease of 6 per cent. compared to the same period in 2016), production of coke and oil refining products (decrease of 18.6 per cent.), chemicals and chemical products (decrease of 3.3 per cent.), metallurgical production and ready-made metal products (except for machinery and equipment) (decrease of 2.7 per cent.), and electricity, gas, steam and air conditioning supply (decrease of 5.6 per cent.).

The following metallurgical enterprises operate in territory under Ukraine's control: PJSC "Ilyich Iron and Steel Works" ("**Ilyich Iron and Steel Integrated Works**"), PJSC "Azovstal Iron and Steel Works" ("**Azovstal Iron and Steel Works**"), LLC "Electrostal", JSC "Avdeevka Coke Plant", PJSC "Chasivoyarsky Refractory Plant", JSC "Red Army Silica Factory", JSC "Velikoanadolskiy Refractory Works" and PrJSC "Novotroitskoye Ore Mining". Despite being located in territory controlled by Ukraine, PJSC "Krasnohorivsky Refractory Plant" is not operating, due to the conflict in certain parts of the Donetsk and Luhansk regions and damage to gas and electricity networks.

As of 1 May 2017, four blast furnaces operate at the Azovstal Iron and Steel Works and four blast furnaces operate at Ilyich Iron and Steel Integrated Works in the Donetsk region. One blast furnace does not operate at the Azovstal Iron and Steel Works and one blast furnace does not operate at Ilyich Iron and Steel Integrated Works. Four converters operate in steel-smelting industry (three at the Ilyich Iron and Steel Integrated Works and one at the Azovstal Iron and Steel Works). One converter is in reserve at the Azovstal Iron and Steel Works. Rolling mills operate when there are orders.

For the four months ended 30 April 2017, as compared to the relevant period of the previous year, the production of cast iron decreased by 11.1 per cent. and amounted to 2,679,000 tonnes; production of steel decreased by 1.7 per cent. (2,801,900 tonnes); production of rolled products decreased by 4.1 per cent. (2,513,100 tonnes).

Coke production volumes in the Donetsk Oblast in 2014 decreased by 29.7 per cent. as compared to 2013 and totalled 6.5 million tonnes. In 2015, coke production volumes in the Donetsk Oblast decreased by 15.6 per cent. as compared to 2014 and totalled 5.5 million tonnes. As of the date of this Prospectus, two coke-processing works produce coke in the region: PJSC "Avdeevskiy Coke-Processing Works" and coke-processing production facility PJSC "Azovstal Iron and Steel Works". LLC "SPA "Inkor & C" (Toretsk)" also carries out production activity; the company specialises in the processing of products from coke-processing companies. For the four months ended 30 April 2017, as compared to the relevant period of the previous year, production of coke with 6 per cent. humidity decreased by 28.6 per cent. and amounted to 1.5 million tonnes. Coke-chemical enterprises face significant problems with supply of raw materials and export of finished products by rail. Low coal deposits do not allow for a complete production process. Problems also remain with supply of technical water to coke-chemical enterprises in the region. As a result, coke plants in certain parts of the Donetsk and Luhansk regions are functioning at 30 to 40 per cent. of their full capacity. In 2016, coke production in the Donetsk region increased by 12.8 per cent. and amounted to 6.2 million tonnes as compared to the same period in 2015. In the first half of 2017, volumes of coke production in the Donetsk region decreased by 26.5 per cent. and amounted to 2.3 million tonnes as compared to the same period in 2016.

The volumes of coke production decreased in the four months ended 30 April 2017, primarily due to the fact that PrJSC "Makiyivcoke", PJSC "Yasynivskiy Coke-Processing Works" and PrJSC "Yenakiieve Coke" do not carry out production activity under Ukrainian laws.

PrJSC "Avdiivka Coke" is located in what is considered to be a highly dangerous area and is frequently at risk from artillery fire. Since the beginning of 2017, the company experienced problems with supply of coking coal and electric power – the company has been operating using one power entry instead of the four existing entries; only two coke workshops have been in operation (the third and fourth workshops were suspended);

the chemicals workshop and desulphurisation workshop have not operated; 200 employees have been put on hold.

As the result of this, for the four months ended 30 April 2017, the production of coke with 6 per cent. humidity decreased by 27.7 per cent. at the company as compared with the relevant period in 2016 and amounted to 715,700 tonnes.

In 2014, Ukraine's exports of ferrous metals comprised 24.6 million tonnes (a decrease of 7.3 per cent. compared to 2013), and amounted to U.S.\$12.9 billion (a decrease of 9.8 per cent. compared to 2013). In 2015, exports of ferrous metals decreased by 13.0 per cent., to 21.4 million tonnes, amounting to U.S.\$8.1 billion (a decrease of 37.2 per cent. compared to 2014). In 2016, exports of ferrous metals stayed stable at 21.4 million tonnes, in the amount of U.S.\$7.2 billion (a decrease of 11.1 per cent. compared to 2015). In the first quarter of 2017, exports of ferrous metals comprised 4.7 million tonnes (a decrease of 10.6 per cent. compared to the first quarter of 2016) and amounted to U.S.\$2.1 billion (an increase of 42.5 per cent. compared to the first quarter of 2016).

Steel products sales in the domestic market decreased by 38 per cent. in 2014 in comparison to 2013 and comprised only 3.5 million tonnes (14.6 per cent. of gross production, in comparison to 19.5 per cent. in 2013).

Key Ukrainian enterprises producing general machinery, mining equipment, machinery and equipment for metallurgy and chemical industry, handling and transport equipment, and locomotives and rail cars are concentrated in Donbas. In 2014, Donetsk and Luhansk Oblasts' shares in the overall sales volume of machinery products in Ukraine were 10.1 per cent. and 3.9 per cent., respectively. In 2015, the shares amounted to 11.0 per cent. and 8.6 per cent., respectively. In 2016, the shares amounted to 7.5 per cent. and 1.2 per cent., respectively. For the first half of 2017, the shares amounted to 6.8 per cent. and 1.5 per cent., respectively. As at the date of this Prospectus, the following key machine-building enterprises are operating in the Donetsk Oblast territory under Ukraine's control: in Kramatorsk, JSC "Novokramatorsk Machine Works", JSC "Starokramatorsk Machine Works", JSC "Energomashspetsstal" and PrJSC "Kramatorsk Heavy Machinery Plant"; in Mariupol, PJSC "Azovzahalmash", PrJSC "Azovelektrostal"; in Sloviansk, PJSC "Sloviansk Machine Works", PJSC "Sloviansk High Voltage Insulators Plant" and PJSC "Betonmash"; in Druzhkivka, JSC "Druzhkivka Machine Works" and JSC "Greta"; and in Artemivsk PJSC "Artemmash "Vistek".

Due to the conflict in certain parts of the Donetsk and Luhansk regions, production activities of enterprises in Horlivka, Yasynuvata, Donetsk and Makiivka were suspended. The area has suffered from the loss of major markets and low demand for engineering products in the domestic market. For example, PJSC "Azovmash" export of products to the Customs Union countries amounted to more than 80 per cent. of the total volume of sales. Due to lack of orders for cargo rail cars, PJSC "Azovmash" has effectively stopped operating and is loaded at 10 per cent. of its full capacity. Its wage arrears amounted to over UAH 200 million.

Stakhanov Wagon Works PJSC is currently out of service due to damage to its infrastructure and the evacuation of local residents. The Government estimates that the resulting losses comprise approximately U.S.\$1.2 million monthly. Production at the Kirov Forging Plant "Tsentrokuz" PJSC decreased by 51.2 per cent. in 2014, with resulting estimated monthly losses of between U.S.\$1 million and U.S.\$1.5 million. In 2014, the number of employees at machine building enterprises decreased by 4,400 employees.

Production of chemicals in Donetsk Oblast decreased by 47.5 per cent. and 52.7 per cent. in 2014 and 2015, respectively. Since May 2014, Stirol Concern PJSC has been out of service (the production of ammonium nitrate, urea nitrate and hydrogen nitrate was stopped). Ammonium nitrate production volumes in Ukraine decreased by 30.9 per cent. in 2014. In 2015, ammonium nitrate production volumes in Ukraine further decreased by 32.4 per cent. as compared to 2014. In 2016, ammonium nitrate production volumes in Ukraine increased by 34.5 per cent. as compared to 2015. In the first half of 2017, ammonium nitrate production volumes in Ukraine decreased by 45.7 per cent. as compared to the same period in 2016. In 2014, the production capacities of mineral fertilizers decreased by 36 per cent. and glass production fell by 90 per cent. compared to 2013. The decline in exports of inorganic products from Ukraine occurred due to the illegal expropriation of Crimean Soda Plant PJSC, which had an 80 per cent. share of the Ukrainian soda market, and a more than 2 per cent. share of the global market. Due to the occupation of Crimea, soda supply to mainland

Ukraine was stopped. There is a certain threat that glass enterprises may face a shutdown, which could in turn lead to the shutdown of food, baby food, medicines and beverage industries in Ukraine.

Velikoanadolskiy Refractory Plant, Red Army Silica Plant, Chasivoyarskiy Refractory Plant and Novotroitske Ore Management are the only refractory and flux mining enterprises that continue to function in the Donetsk Oblast.

As at the date of this Prospectus, 11 coal mining enterprises operate in the territory controlled by Ukrainian authorities, out of 22 coal mining enterprises that operated in this territory prior to the beginning of the conflict in certain parts of the Donetsk and Luhansk regions. The coal mining industry suffers from reduced demand for its products, low prices, a significant deterioration in customer payments and reduced investor interest. As of the date of this Prospectus, 33 coal mines which are currently producing coal are located within the territory controlled by the Ukrainian authorities, and subject to the Ministry of Energy and Coal's jurisdiction. The conflict in certain parts of the Donetsk and Luhansk regions has resulted in widespread damage to vital infrastructure as well as to industrial assets and road and transport infrastructure. Additionally, protectionist measures by Russia, Ukraine's largest trading partner, have negatively impacted industrial imports, while at the same time increasing the costs of certain raw materials. See *“Risk Factors—Risk Factors Relating to Ukraine—Ukraine's economy has traditionally been heavily dependent on trade with Russia and certain other CIS countries and any significant prolongation of the crisis in relations with Russia, absent a material increase in financial support and long term trade with the European Union and other Western economies, would be likely to have adverse effects on the economy as well as the stability of the country”*.

In 2016, industrial production increased for the first time since 2011, by 2.8 per cent. as compared with 2015. The increase was caused in part by an increase in the domestic demand for consumer goods, intermediate consumption products, separate investment goods, electronic and electric goods in particular, as well as the gradual restoration of external demand and diversification of local exports of industrial products.

The biggest positive contribution to growth in 2016 came from the food industry (primarily due to an increase in production of sugar beets by 35.6 per cent., sunflowers by 21.9 per cent., soybeans by 8.8 per cent., potatoes by 4.4 per cent. and vegetable crops by 2.2 per cent.), metallurgical production (due to an increase of external and internal demand from the machinery and construction industries) and supply of electricity (demand from electricity consumers, and in particular, processing enterprises).

The index of industrial products, production of food products, beverages and tobacco products in Ukraine (excluding the temporarily occupied territory of the Crimea and the City of Sevastopol) for the five months ended 31 May 2017, as compared to the same period in 2016, was 105.2 per cent. (the index of industrial products in manufacturing industry in total was 98.7 per cent.; processing industry – 102.6 per cent.). In May 2017 as compared to April 2017, the index was 101.6 per cent. and as compared to May 2016 was 107.7 per cent. For the five months ended 31 May 2017, as compared to the same period in 2016, production of frozen beef meat increased by 32.9 per cent. (5,200 tonnes were produced); fresh or cooled poultry meat increased by 25.6 per cent. (372,000 tonnes were produced); non-refined sunflower oil increased by 33.0 per cent. (2,409,000 tonnes were produced); margarine and similar fats increased by 29.6 per cent. (90,500 tonnes were produced); natural canned vegetables increased by 19.3 per cent. (10,800 tonnes were produced); and non-alcohol beverages increased by 14.6 per cent. (48.2 million decalitres were produced).

At the same time, production volumes of the majority types of food products for the five months ended 31 May 2017 decreased as compared to the same period in 2016. The total decrease of industrial products in the area was significantly impacted by the reduction of production of dairy products, confectionery, juices and mixtures thereof. In addition, the machinery industry grew as a result of diversification of sales markets and an increase in internal demand. The greatest increase was in the production of tools and equipment for metering, research and navigation (in particular, for the Defence Industry Complex) and the production of vehicles and equipment for agricultural and industrial purposes.

Growth in the Donetsk and Luhansk regions in 2016 amounted to 6.4 per cent. and 39 per cent., respectively. In 2016, the share of the Donetsk and Luhansk regions in the structure of industrial production amounted to 13.9 per cent.

In the first half of 2017, industrial production fell by 0.4 per cent. in comparison with the same period in 2016, including a decrease in the supply of electricity, steam and air of 5.6 per cent., and in the extractive industry of 6 per cent. due to the cessation of the movement of goods in and out of certain parts of the Donetsk and Luhansk regions.

At the same time, production in the processing industry increased by 3.6 per cent., primarily due to the growth of production of investment and consumer-oriented products.

In general, during the first half of 2017, the industrial situation in most industrial groups improved, except for intermediate goods and energy: manufacturing of continued-use consumer goods increased by 15.9 per cent., investment goods by 8.8 per cent., and short-term use consumer goods by 5.4 per cent., respectively. At the same time, production of intermediate goods reduced by 2.6 per cent., and the production of energy reduced by 6.3 per cent., respectively.

In the first half of 2017, the industrial production contraction in Donetsk and Luhansk regions amounted to 11.7 per cent. and 25 per cent., and the share of these regions in the structure of Ukraine's industrial production in January-May 2017 amounted to 11.7 per cent. and 1.4 per cent, respectively.

This is viewed as a temporary phenomenon caused by the conflict in certain parts of the Donetsk and Luhansk regions and a complete stop of the movement of goods across the line of delimitation. This resulted in the suspension of the operations of several coke production, mining, metallurgical and electricity enterprises. The restoration of normal functioning of these enterprises is not expected to be a quick process. The biggest decreases in production were in the energy sector and the mining and metallurgical industries.

Production in the extractive industry fell by 8.1 per cent. during the first four months of 2017, as compared with the same period in 2016. The supply of electricity, gas and air conditioning fell by 4.1 per cent. At the same time, production in the processing industry increased by 1.6 per cent.

In the first four months of 2017, decreases in production among the main industrial groups mainly occurred in production of intermediate consumption goods (by 3.9 per cent.) and energy resources (by 6.9 per cent.). This reflects the narrowing of production in light of the termination of movement of goods into and out of certain parts of the Donetsk and Luhansk regions. At the same time, the production of durable consumer goods, investment goods and consumer goods of short-term use increased by 14.6 per cent., 4.9 per cent. and 3.6 per cent., respectively, during the first four months of 2017, as compared with the same period in 2016. In the first four months of 2017, the decrease in production in the Donetsk and Luhansk regions amounted to 12.9 per cent. and 25 per cent., respectively, and the share of these regions in the context of industrial production was 13 per cent.

### ***Mining***

In 2014, the extractive industry accounted for approximately 5.0 per cent. of Ukraine's nominal GDP, as compared to 5.5 per cent. in 2013. In 2015, it accounted for approximately 4.8 per cent. of Ukraine's nominal GDP, and in 2016, approximately 5.5 per cent.

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 kaolin, 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 (no production in 2014), titanium and aluminium. Ukraine exported approximately U.S.\$2.6 billion, U.S.\$2.3 billion and U.S.\$1.4 billion of non-metallic minerals and approximately U.S.\$476.1 million, U.S.\$401.9 million and U.S.\$214.2 million of non-ferrous metals in the years ended 31 December 2015 and 2016, and in January-May 2017 respectively.

In 2015, 39.7 million tonnes of coal were produced in Ukraine, a decrease of 38.9 per cent., as compared to 2014. In 2016, 40.9 million tonnes were produced, an increase of 3 per cent., as compared to 2015. In the first half of 2017, production of coal decreased by 0.6 million tonnes as compared to the same period in 2016 and was equal to 18.4 million tonnes.

Exports of coal in the year ended 31 December 2014 amounted to 7.0 million tonnes, valued at U.S.\$520.5 million. Exports of coal in 2015, 2016 and the first six months of 2017 were 0.6, 0.5 and

0.3 million tonnes, respectively, with values of U.S.\$53.7 million, U.S.\$44.8 million and U.S.\$48.0 million, respectively.

The aggregate volume of coal deposits in Ukraine is estimated at approximately 117.5 billion tonnes. This volume represents 95.4 per cent. of Ukraine's energy reserves 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 for 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 the largest source of employment for certain communities. As at the date of this Prospectus, there are 15 coal mining companies operating in Ukraine, of which three are in the process of preparing for liquidation proceedings.

Since the beginning of the "*Restructuring of Coal and Peat Mining Industry*" state programme in 1996, liquidation of 143 unprofitable coal mining companies, coal refineries and peat mining companies has been initiated, of which 67 liquidation projects have been completed.

As a result of the conflict in certain parts of the Donetsk and Luhansk regions, 62 mines under liquidation and 11 mines at the stage of preparation for liquidation, became part of the territories which are temporarily outside the control of the Ukrainian authorities.

As of 26 June 2017, based on the "*Restructuring of Coal and Peat Mining Industry*" budget programme, 15 projects on liquidation of unprofitable coal mining companies and coal refineries are being carried out; three mines are at the stage of preparation for liquidation; and two drainage complexes are maintained, whose construction and reconstruction was envisaged by mine liquidation projects, provided that their further operation is not included into the cost of such projects.

Between 2014 and 2017, the Government adopted decisions on liquidation of a further five mining companies. As at the date of this Prospectus, 95 coal mining companies, representing approximately 64 per cent. of the total number of coal mining companies in Ukraine, are currently located in certain parts of the Donetsk and Luhansk regions and so are beyond the effective control or monitoring of the Government while the conflict in certain parts of the Donetsk and Luhansk regions continues.

In 2014, State financing of the coal industry was UAH 9,457.0 million out of the State Budget general fund. In 2015, this was UAH 2,040.2 million and in 2016, UAH 2,292.7 million. The State Budget for 2017 contains appropriations for State financing of the coal industry in the amount of UAH 2,157.1 million out of the State Budget general fund.

In 2012, Parliament passed a law on the specifics of privatisation of coal mining companies. This law 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.

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. In 2015, 22 structural units of five state coal mining enterprises, two state enterprises and state's shareholdings in two coal mining companies (PJSC "Lysychanskvuhillya" and PJSC "Shakhta Nadiya") were included in the list of assets subject to privatisation in 2015. The Ministry of Energy and Coal Industry, which is the authorised management body, did not complete preparatory works necessary prior to privatisation during 2013 to 2015. As a result, such enterprises were included into the list of assets subject to privatisation in 2016. In 2016 and 2017, the SPF issued several orders that recognised 14 structural subdivisions of 4 state-owned mining enterprises, 3 state-owned mining enterprises and state shares in 2 joint-stock mining companies, PJSC "Lysychanskvuhillya" and PJSC "Shakhta Nadiya" suitable for privatisation in 2016 to 2017. The Ministry of Energy and the Coal Industry has completed the pre-

privatisation preparation of 2 mining enterprises: separate subdivision “Shakhta Buzhanska” of State Enterprise “Volynvuhillia” and State Enterprise Coal Company “Krasnolymanska”. The sale thereof by the SPF will follow.

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.

Recent events in Ukraine have disrupted the Government’s privatisation plans. Prices expected for State assets, including coal mines, are subject to significant revision in the light of the current devaluation and internal disruptions to business in the country in general.

### ***Agriculture, forestry and fishery***

Agriculture, forestry and fishery accounted for 10.2 per cent. of Ukraine’s nominal GDP in 2014, as compared to 8.8 per cent. in 2013. In 2015, agriculture, forestry and fishery accounted for 12.1 per cent. of nominal GDP; this reduced to 11.7 per cent. in 2016. In the first quarter of 2017, agriculture, forestry and fishery accounted for 3.4 per cent. of Ukraine’s nominal GDP.

In 2014, as compared to 2013, overall agricultural production (excluding illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions) increased by 2.2 per cent., including an increase in the production of agricultural enterprises by 4.0 per cent., and household plot production decreased by 0.1 per cent. In 2015, as compared to 2014, overall agricultural production (excluding the same territories) decreased by 4.8 per cent., including a decrease in the production of agricultural enterprises by 5.1 per cent., and household plot production by 4.3 per cent. In 2016, as compared to 2015, overall agricultural production (excluding the same territories) increased by 6.3 per cent., including an increase in the production of agricultural enterprises by 10.0 per cent. Household plot production increased by 1.8 per cent. This turnaround in 2016 was caused by a record harvest of grains, sunflower and soy, as well as the high yield of other agricultural crops.

From January to June 2017, as compared to the relevant period of 2016, overall agricultural production (excluding illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions) decreased by 2.1 per cent., including a decrease in the production of agricultural enterprises by 3.9 per cent. and a decrease in household plot production by 0.7 per cent. Given the seasonal nature of crop production in January-June 2017, the index of agricultural production was formed taking into account both production of crops and livestock. Thus crop production in the first half of 2017 decreased by 8.5 per cent. compared with the same period in 2016, primarily due to unfavourable weather conditions in the period of maturation of agricultural crops, which led to lower yields and a later start of the winter crop harvest campaign (compared with the previous year). The situation in livestock production was negatively affected by high production costs, low purchasing prices for household products and a complicated epizootic situation in pig breeding, which resulted in a 0.9 per cent. reduction in livestock production.

In the first half of 2017, agricultural output decreased by 2.1 per cent., including by 3.9 per cent. in agricultural enterprises, and by 0.7 per cent. in household plots. The greatest growth occurred in June 2017 in respect of the production of sunflower oil, due to the high raw material base, and in respect of poultry meat due to export supplies.

As of 1 July 2017, the number of poultry in all categories of households amounted to 235,492,300 heads, which constituted an increase of 0.5 per cent. as compared to the same period in 2016. In the first half of 2017, production of eggs by all categories of households amounted to 7,966.5 million eggs, which constituted an increase of 0.8 per cent. as compared to the same period in 2016. In the first half of 2017, agricultural enterprises increased the volume of poultry production by 2.7 per cent. as compared to the same period in 2016.

Pursuant to amendments to the Tax Code of 24 December 2015, from 1 January 2016, agricultural producers were able to only partially retain VAT received from customers. The VAT could be retained in the following proportions depending on the type of the products supplied: (i) 50 per cent. of VAT received for supplied agricultural goods (except grain and industrial crops); (ii) 15 per cent. of VAT received for supplied grain and

industrial crops; and (iii) 80 per cent. of VAT received for supplied livestock goods. The remainder of the VAT was to be remitted to the State budget.

Since the beginning of 2017, the special regime of VAT payment has been discontinued and VAT is fully payable to the State Budget. Instead, the government of Ukraine will provide budget dotation for qualifying agricultural companies directly from the State Budget. For 2017, the government's budget for the subsidy is fixed at UAH 4 billion.

On 28 December 2015, Ukraine and the EIB signed a finance facility amounting to €400 million, aiming to support the Ukrainian agrarian sphere; this was ratified on 20 September 2016. As of the date of this Prospectus, there have not been any drawdowns under this project. Currently, measures necessary for the agreement to enter into force are being undertaken. The project aims to increase the financing of the agrarian sector of economy, in particular the projects of small and medium-sized enterprises and institutions with average capitalisation in the agrarian sector of the economy, notably the portfolio of modernisation projects in the areas of grain and oilseeds, fisheries and aquaculture in Ukraine.

Unlike other sectors of the Ukrainian economy, agricultural output grew by 2.2 per cent. in 2014. This growth included an increase of 4 per cent. in crop farming and a decrease of 0.1 per cent. in animal husbandry. These trends were helped in part by reductions in export restrictions (on 9 April 2014, Parliament adopted a law which reduced the number of authorisations, including quality certificates, required for export of grain); record grain and vegetable oil crops in summer 2014; and a positive trade balance in meat, casein, cereals and oil, with Ukraine exporting more than it imported in 2014. On 16 June 2014, Russia introduced temporary restrictions on imports of potatoes from Ukraine; on 3 February 2014 it banned import of pork from Ukraine and as at 9 July 2014 temporary restrictions introduced by Russia were effective with respect to 11 Ukrainian dairies. Estimated losses from these restrictions and bans amounted to approximately U.S.\$1.0 million, U.S.\$2.0 million and U.S.\$60.0 million, respectively.

In 2014, agricultural production in Donetsk Oblast decreased by 7.0 per cent. (4.2 per cent. share in the gross agricultural production) and in Luhansk Oblast by 20.2 per cent. (2.1 per cent. share in the gross agricultural production). In 2015, agricultural production in Donetsk Oblast decreased by 35.1 per cent. and by 22.2 per cent. in Luhansk Oblast. The volumes of crops growing in 2013 was 0.8 million tonnes in Crimea and the City of Sevastopol, 1.8 million tonnes in Donetsk Oblast and 1.3 million tonnes in Luhansk Oblast. In 2016, agricultural production increased by 8.3 per cent. in Donetsk Oblast and by 19.3 per cent. in Luhansk Oblast.

In the first half of 2017, agricultural production in the Donetsk region decreased by 4.4 per cent. as compared to the same period in 2016, including by 5 per cent. in agricultural enterprises, and by 3.5 per cent. in household plots. Agricultural production in the Luhansk region decreased by 3.6 per cent., including by 16.4 per cent. in agricultural enterprises, and by 0.9 per cent. in household plots.

## ***Fuel and Energy***

### *Imports/Production/Consumption*

Ukraine has historically imported 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. Ukraine and Russia are currently in a dispute over pricing for future gas deliveries (See “—*Natural Gas Supply from Russia*”).

Though 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. In 2016, 11.1 billion cubic metres of natural gas was imported, compared to 16.5 billion cubic metres in 2015, 19.5 billion cubic metres in 2014 and 28.0 billion cubic metres in 2013. For the first six months of 2017, 6.96 billion cubic metres of natural gas were imported.

Production of natural gas in Ukraine supplies approximately half of the total demand. Therefore, there is a significant need to import natural gas to meet local consumption demands. At the same time, the success of implementation of plans to increase domestic production of gas, established at the state level by the Concept for the Development of Gas Production Industry by 2020 (approved by the Government), is expected to significantly impact the reduction of gas import needs.

The law “*On the Natural Gas Market in Ukraine*” was adopted in 2015 and fully complies with the Third Energy Package of the EU. The majority of the provisions of this law became effective on 1 October 2015.

The single gas market, formed by the EU Energy Union, envisages free access of any country to at least three independent resources of natural gas. Until 2014, Ukraine could import natural gas from two directions: via Poland (up to 1.5 billion cubic metres per year) and Hungary (up to 5.5 billion cubic metres per year). These directions are limited by comparatively low bandwidth capacity of pipelines, which could be interrupted at any moment. Further, they did not provide Ukraine with access to the liquid market of Western Europe, because they were fully controlled by Gazprom in the European direction.

In 2014, through cooperation between operators of the gas transit systems of Slovakia and Ukraine, and with the active support of the European Commission, a new gas transit route from Slovakia to Ukraine was opened. Current capacity of the route is approximately 15 billion cubic metres per year. It connects Ukraine with the liquid markets of Western Europe and was the main route used by Naftogaz to import gas in 2015, 2016 and 2017. The capacities of gas routes from Europe have resolved Ukraine’s critical dependency on supplies of Russian gas.

Comparing the capacity of gas routes from Europe with Ukraine’s total demand for imported gas, which is currently 15-18 billion cubic metres per year, it can be argued that Ukraine has removed its critical dependence on Russian gas supplies.

In 2014, domestic production of oil and gas condensate was 2.7 million tonnes, compared to 3.1 million tonnes 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. Production of oil and gas condensate in Ukraine by enterprises managed by Naftogaz was 2.2 million tonnes in 2015, 2.0 million tonnes in 2016 and 0.98 million tonnes in the first six months of 2017.

### ***Natural Gas Supply from Russia***

The history of Ukraine’s relations with Russia regarding natural gas supplies has and continues to be problematic.

In 2008, Naftogaz and Gazprom failed to reach an 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 ensure a reliable and uninterrupted supply of natural gas for Ukrainian consumers, 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 to resolve outstanding issues and agree the terms of natural gas supplies. On 19 January 2009, Contracts for natural gas supplies and transit through Ukraine for 2009 to 2019 were signed between Gazprom and Naftogaz.

On 21 April 2010, Naftogaz and Gazprom signed amendments to the contract for natural gas supply, according to which the monthly actual price for the natural gas decreased by the amount of customs payments determined by the Resolution of the Russian Federation Government No. 291 dated 30 April 2010 and was 30 per cent. of the actual gas price but not more than U.S.\$100. This was applied from April 2010 to the volume of 30 billion cubic metres and starting with 2011 to the volume of 40 billion cubic metres per annum.

In January 2013, Gazprom, referring to the contract for natural gas supply, issued an invoice for the payment of U.S.\$7 billion in respect of natural gas volumes not purchased by Naftogaz in 2012. In September 2013, Gazprom for the second time submitted demand to Naftogaz to pay for gas volumes not purchased in 2012 under the contract for natural gas supply. Naftogaz repeatedly informed Gazprom that it did not recognise grounds for paying the invoice issued by Gazprom.

In subsequent years Gazprom also issued invoices to Naftogaz to pay for gas volumes not purchased in the total volume of 34.5 billion cubic metres.

In accordance with arrangements reached between the presidents of Ukraine and the Russian Federation at the 6th meeting of the Russian-Ukrainian Interstate Commission on 17 December 2013 and a signed supplement to the Russian-Ukrainian gas supply contract, Naftogaz had been receiving natural gas from Gazprom at a price of U.S.\$268.5 per 1,000 cubic metres in the first quarter of 2014.

Due to the unilateral cancellation of the Russian reduction in gas prices, and Gazprom's refusal to sign a supplement to the supply contract for the second quarter of 2014 on the establishment of the coefficient in the price calculation formula, the contract price for imported gas in the second quarter of 2014 amounted to more than U.S.\$490 per 1,000 cubic metres. Naftogaz did not agree to purchase gas at such price, considering it economically unjustified and discriminatory.

A series of meetings and consultations between Ukraine and Russia were held at the tripartite level from May 2014, with the aim of resolving the issue of natural gas supplies from the Russian Federation to Ukraine and reducing the imported natural gas price, but as of the date of this Prospectus, a compromise has not yet been reached.

Inconsistency in the pricing of Russian imported natural gas received by Naftogaz in the second quarter of 2014 resulted in Gazprom suspending gas supplies to Ukraine from 16 June 2014 and switching Naftogaz to a prepayment system. The lack of compromise between the parties led to Naftogaz and Gazprom submitting counter-claims to the SCC in June 2014. Preliminary and final invoices issued by Gazprom for payment for natural gas received from April to June 2014 were not discharged.

Imports from Russia in 2015 decreased 2.4 times, as compared to 2014 (from 14.5 to 6.1 billion cubic metres). As a result of the changes, the portion of Russian supplies in the internal use of gas in Ukraine decreased from 34 per cent. in 2014 to 18 per cent. in 2015. Since December 2015, Naftogaz has not purchased or paid for the supplies of Russian natural gas.

See *“Risk Factors—Risk Factors Relating to Ukraine—Ukraine’s economy has traditionally been heavily dependent on trade with Russia and certain other CIS countries and any significant prolongation of the crisis in relations with Russia, absent in material increase in financial support and long term trade with the European Union and other Western economies, would be likely to have adverse effects on the economy as well as the stability of the country”*.

### ***Oil and Gas Transit***

Ukraine has well developed pipelines to transport gas and oil from the CIS to Western Europe. According to Naftogaz, Ukraine's gas transit system consists of more than 38,000 kilometres of gas pipelines (or 37,500 kilometres excluding Chornomornaftogaz (in Crimea)); it includes 72 compressor stations and 13 underground gas storage facilities (with the capacity to store 32.0 billion cubic metres of gas, including one underground gas storage facility in Crimea with a capacity of 1 billion cubic metres), with a total transit input capacity of 302.1 billion cubic metres per year, of which 21.4 billion cubic metres per year are from the European direction, as well as 178 billion cubic metres output capacity of gas per year, including 146 billion cubic metres of gas per year which is transited to other parts of Europe. Approximately 68 per cent. of the pipelines have been in operation for more than 30 years, 30 per cent. of the pipelines have been in operation for between 11 to 30 years and 2 per cent. have been in operation for 10 years or less.

Ukraine's oil transit system consists of 19 oil pipelines with an aggregate length of approximately 4,767.1 kilometres and an aggregate entrance capacity of 114.0 million tonnes per year and aggregate exit capacity of 56.3 million tonnes per year. The system functions with the help of 51 pumping stations with an aggregate capacity of 1,083,000 cubic metres; 79 tanks are currently in operation. Onshore Loading Terminal “Pivdennyi” (Odesa region, Yuzhnyi Port) is intended for unloading, loading and transportation of oil via the main oil pipelines of Ukraine. The output capacity of the terminal is 14.5 million tonnes per year with a capability of increasing the same to 45 million tonnes per year. The tankers' deadweight in operation is up to 150,000 tonnes, with a maximum sea gauge of 13.8 metres. The capacity of the tank farm is 200,000 cubic metres. In June 2001, OJSC 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 recent years, the Ministry of Energy and Coal Industry and Naftogaz have actively cooperated with prominent international consultants, financial organisations (including the World Bank, EIB and EBRD), the European Commission and the Energy Community Secretariat on reforming the gas sector of Ukraine. An analysis of potential unbundling models for the gas transit system of Ukraine was carried out with international consultants.

Two unbundling models for Ukraine's gas transit system, OU and ISO, were shortlisted as the recommended options for the reorganisation of Naftogaz, based on active cooperation with the Energy Community Secretariat. Respective provisions are set out in the law "*On the Natural Gas Market*" and the "*Gas Sector Reform Issues*" Decree No. 375-p, dated 25 March 2015 (which includes a step plan in respect of reformation of the gas sector, approved by the World Bank and Energy Community Secretariat).

The law "*On the Natural Gas Market*", which entered into force on 1 October 2015, laid down the foundation for the functioning of the natural gas market in Ukraine with the requirements of the EU Third Energy Package, which aims at creating open, competitive and transparent energy markets that facilitate trade between countries and provide access to diversified sources of energy. One of the tools to achieve this goal is to eliminate the conflict of interest between the production and supply segments on the one hand, and the energy transporting segment on the other.

Article 23 of this law aims at implementing Article 9 of EU Directive 2009/73/EC; in particular, the requirements related to elimination of any influence on the operation of GTS operators through control or rights of other persons who are related to producers (manufacturers) and/or suppliers of natural gas and/or electric power.

For fulfilment of Ukraine's commitments within the Energy Community, under the law "*On the Natural Gas Market*", the Cabinet of Ministers, by Resolution No. 496 dated 1 July 2016, approved the Naftogaz restructuring plan with an aim of separating activities of transportation and storage of natural gas (the "**Restructuring Plan**").

The Cabinet of Ministers established a working group on acceleration of corporate governance reform of Naftogaz. Based on the progress made, in April 2017, an alternative model was adopted for separation of GTS operators by allotment of certain property from Naftogaz in the form of 100 per cent. of shares in PJSC "Ukrtransgas", with subsequent establishment of a new legal entity.

The Ministry of Energy and Coal Industry prepared the draft law defining funding sources for operations of PJSC "Main Gas Pipelines of Ukraine" during the transition period.

On 6 June 2017, the plan on the transfer of assets, logistic and other resources to PJSC "Main Gas Pipelines of Ukraine", necessary for its effective operations, was agreed with the Energy Community Secretariat. Resolution No.496 dated 1 July 2016 of the Cabinet of Ministers which sets deadlines for the establishment of JSC "Main Gas Pipelines of Ukraine" ("**JSC "MGPU"**"), the commencement of its work and the appointment of management bodies. This process was required to be completed by 1 April 2017. In addition, Resolution No. 496 also set deadlines for the analysis of the list of assets to be transferred to JSC "MGPU" and the timeline of such transfer. Under Resolution No. 496, "*Property which is used for transportation of natural gas and is recorded on the balance of Ukrtransgas, subject to loan liabilities of Naftogaz and its subsidiaries*" must be transferred to JSC "MGPU" within 30 days following the effective date of the final awards on the Naftogaz-Gazprom cases.

On 31 May 2017, the arbitral tribunal of the SCC ruled on the case of Naftogaz against Gazprom relating to the Supply Contract.

The tribunal ruled to dismiss the claims of Gazprom, which were based on the "take-or-pay" clause. The tribunal also ruled that:

- the clauses of the Supply Contract concerning the supply amounts and "take-or-pay" provision were invalid starting from 19 January 2009 and through the date of the final ruling, and must be amended starting from the date of the final judgment taking into account the real demand from Naftogaz;
- the price formula of the Supply Contract shall be reviewed starting from 27 April 2014, aiming to bring the price to the market rate;

- Naftogaz shall be compensated for overpay in cases of the factual payments price exceeding the price as provided by the revised formula of the Supply Contract;
- the clause of the Supply Contract on the prohibition to Naftogaz of selling gas purchased under the Supply Contract outside Ukraine is invalid starting from 19 January 2009.

The calculation of the amount of claims that have been satisfied by the tribunal will be included in the final decision, which is expected in the third quarter of 2017.

Resolution of the Cabinet of Ministers No. 800, dated 9 November 2016, amended the Restructuring Plan, in particular to prolong the measures provided therein. A working group for the implementation of such resolution was set up at the Ministry of Energy and Coal Industry of Ukraine.

In line with the Restructuring Plan,

- the Corporate Governance Action Plan on GTS operators was approved;
- Cabinet of Ministers Resolution No. 801 was adopted on 9 November 2016; and
- Cabinet of Ministers Resolution No. 837 was adopted on 16 November 2016. Under this, JSC “MGPU” was established, its charter approved and the Ministry of Energy and Coal Industry of Ukraine authorised to carry out activities related to its formation and registration.

The Ministry of Economic Development, the Ministry of Energy and Coal Industry and other interested central bodies of executive power are jointly working to draft a law to amend respective laws related to the determination of the procedure and terms and conditions of concession of property used to ensure transportation and storage (pumping, offtake) of natural gas and which is not subject to privatisation.

On 6 July 2017, the Ministry of Energy and Coal Industry issued Orders No. 464 “*On Establishment of Bid Commission*” and 465 “*On Establishment of Expert Group to Participate in Implementation of Plan for the Transfer of Assets, Material, Technical and Other Resources to PJSC “Main Gas Pipelines of Ukraine”*”.

On 13 July 2017 and 20 July 2017, the expert group held meetings at which they considered the draft law “*On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine Related to Ensuring of Performance of Obligations Undertaken by Ukraine under the law “On Ratification of the Protocol on Ukraine’s Accession to the Treaty on the Establishment of the Energy Community”*”, drafted by the Energy Community Secretariat. Also, these meetings dealt with matters related to the transfer of PJSC “Ukrtransgas” property and assessment of Naftogaz’s financial risks. Moreover, the European Commission is preparing to implement a project on comprehensive technical, economical, marketing and legal analysis of the prospects of usage of underground natural gas storage facilities

In 2015, 67.1 billion cubic metres of gas were transported via Ukraine (the value of provided transport services was U.S.\$2.03 billion), as compared to 62.2 billion cubic metres in 2014 and 86.1 billion in 2013. In 2016, 82.2 billion cubic metres of gas were transported via Ukraine (the value of provided transport services being U.S.\$2.33 billion). In the first six months of 2017, 45.7 billion cubic metres of gas were transported via Ukraine (the value of provided transport services was U.S.\$1.34 billion) as compared to 37.7 billion cubic metres for same six months of 2016.

The gas transit corridor through Ukraine is the only route for transportation of Russian gas that is not controlled by Russia. With the apparent aim of acquiring control over all supplies of natural gas to Europe, Russia has initiated projects on development of alternative supply routes (Northern Stream 2, Southern/Turkish Stream, perhaps Bulgarian/Greek Stream etc.) for increasing supplies of Russian gas; this would therefore raise the dependency of the EU on Russian gas to a potentially critical level.

At the same time, despite the gas crisis of recent years and the worsening of relations during the last two years, Ukraine has worked to demonstrate its reliability to European partners and consumers. Increased efficiencies and usage capacities in the Ukrainian gas transit system, including in relation to EU demand, will create new opportunities for ensuring the safety of supplies of hydrocarbons and their transit through Ukraine to the EU. Implementation of European approaches to tariff setting, European legislation in Ukraine, as well as increased participation by Ukraine in EU gas infrastructure development plans, have already led to positive

results in the diversification of gas supplies to Ukraine over the past two years and may be considered indicative of beneficial results in Ukraine's further integration into the sphere of European energy supply.

In 2014, 15.0 million tonnes of oil were transported through Ukraine, a decrease of 0.6 million tonnes, as compared to 2013. In 2015, 15.2 million tonnes of oil were transported through Ukraine, which constitutes an increase of 0.2 million as compared to 2014. In 2016, according to PJSC "Ukrtransnafta", 13.8 million tonnes of oil were transported through Ukraine. In the first six months of 2017, 6.8 million tonnes of oil were transported through Ukraine, an increase of 0.3 million tonnes, as compared to the relevant period of 2016.

Several gas pipelines bypassing Ukraine, including Nord Stream (together with internal European distribution pipelines), are operated by international consortia of companies headed by PJSC "Gazprom". At the same time, Nord Stream 2 and Turkish Stream, are under development by PJSC "Gazprom".

As a result of the deterioration of its relations with Russia resulting in the cessation of Russian gas imports on 16 June 2014, Ukraine has been considering the possibility of buying back Russian gas from European countries. Ukraine has entered into several framework agreements concerning the reverse gas supply from European countries. In particular, framework agreements were executed with RWE Supply & Trading GmbH (Germany), GDF SUEZ (France) and E.ON Global Commodities (Germany). For the first six months of 2014, 311.1 million cubic metres of natural gas were purchased from RWE Supply & Trading GmbH and 257.3 million cubic metres of natural gas from GDF SUEZ.

As at the date of this Prospectus, imports of natural gas are being carried out through the territories of Poland, Hungary and Slovakia. The route through Slovakia is considered as the most efficient for reverse transportation. It is expected that the volume of such transportation through the territory of Slovakia will be approximately 42.5 million cubic metres of natural gas per day. In 2015 and 2016, Naftogaz continued working on the diversification of natural gas supply sources. As a result, the amount of imported gas from the European market increased almost twofold (from 4.9 billion cubic metres in 2014 to 9.2 and 8.1 billion cubic metres in 2015 and 2016, respectively). In the six months ended 30 June 2017, Naftogaz imported 5 billion cubic metres of natural gas, which is 2.5 times more than for the same period during the previous year (2 billion cubic metres). Gas was supplied from Slovakia and Hungary.

Naftogaz purchased natural gas abroad from 12 companies in the six months ended 30 June 2017.

The average price for the import of gas by Naftogaz in 2015, 2016 and the first half of 2017 quarterly is shown in the table below:

	Period of gas delivery									
	1 <sup>st</sup> quarter			2 <sup>nd</sup> quarter			3 <sup>rd</sup> quarter		4 <sup>th</sup> quarter	
	2015	2016	2017	2015	2016	2017	2015	2016	2015	2016
	<i>(U.S.\$ per 1,000 cubic metres)</i>									
Average weighted cost of gas imported from all directions, including transportation to the Ukrainian border .....	315	198	243	268	-	212	266	191	228	210
Average weighted cost of gas imported from Europe, including transportation to the Ukrainian border .....	301	198	243	275	-	212	266	191	232	210
Average weighted price of gas purchase in Europe (at the delivery point).....	293	191	236	267	-	205	258	185	224	204

During 2015 and 2016, Naftogaz continued working on raising funds from international financial organisations for the purchase of natural gas. In particular, on 13 January 2016, Naftogaz finished contracting gas for supplies to Ukraine within the procurement procedures under the EBRD loan. In 2015-2016 and the first half of 2017, Naftogaz carried out 75 procurement procedures, 59 of which were completed. As a result of such procedures, Naftogaz contracted 4.6 billion of cubic metres of gas in aggregate for supplies in the period from December 2015 until June 2017, and as planned for July-August 2017. The winners of the procurement procedures were Noble Clean Fuels Limited, Engie SA, Axpo Trading AG, Uniper Global Commodities SE, CEZ, a.s., RWE Supply and Trading GmbH and Eni trading & shipping S.p.A out of fifteen suppliers that previously passed the shortlisting procedure under the EBRD standards. The winners were chosen based on the lowest price criterion. As a result of the carried out tenders, Naftogaz contracted gas under the price at U.S.\$162-204 per 1,000 cubic metres.

On 30 December 2016, Naftogaz signed a euro-denominated revolving credit facility with Citibank and Deutsche Bank for gas purchase in the amount of U.S.\$500 million (equivalent). The facility is secured by a guarantee from the World Bank with Citi and Deutsche Bank. The guarantee is valid for a term of four years, with two years available for gas purchase and two years for repayment. The guarantee of the World Bank and the credit facility are considered highly cost-effective compared to other loan agreements of Naftogaz.

According to the funding conditions under the credit facility, Naftogaz will continue buying gas under eligible existing contracts, switching from pre-payment to post-payment terms.

During 2017, Naftogaz signed 36 natural gas supply agreements with seven suppliers pursuant to a loan agreement guaranteed by IBRD. Agreements were signed in accordance with the rules set forth in a cooperation agreement between Naftogaz and IBRD. Naftogaz purchased approximately 2.5 billion cubic metres to be supplied within the period from March until June and prospectively in July 2017 at a VTP (Virtual Trading Point) in Slovakia.

The following companies won tenders: Axpo Trading AG, DufEnergy Trading SA, Engie SA, MET Gas and Energy Marketing AG, RWE Supply and Trading GmbH, TrailStone GmbH and Uniper Global Commodities SE. The winning bid was chosen on the criteria of lowest price. Based on the results of tenders, Naftogaz contracted gas at a price ranging from €175/thousand cubic metres (U.S.\$200/thousand cubic metres) to €17/thousand cubic metres (U.S.\$233/thousand cubic metres).

Naftogaz is also contracting gas on the European market on competitive terms with its own money.

### ***Electricity Generation and Nuclear Power***

In 2014, the total electricity generating capacity of Ukraine was approximately 55.8 million kWh. Electricity production in 2016 was recorded at 164.6 billion kWh, as compared to 163.7 billion kWh in 2015 and 182.8 billion kWh in 2014. Of these amounts, 81.0 billion kWh, 87.6 billion kWh, and 88.4 billion kWh, respectively, were provided by nuclear energy. For the first six months of 2017, electricity production was recorded at 80.0 billion kWh, of which 45.6 billion kWh was provided by nuclear energy.

In 2016, Ukraine produced 72.9 billion kWh of energy by thermal power stations, as compared with 67.5 billion kWh in 2015 and 83.5 billion kWh in 2014. In 2016, Ukraine produced 81.0 billion kWh by nuclear power stations, compared with 87.6 billion kWh in 2015 and 88.4 billion kWh in 2014. Ukraine produced 9.3 billion kWh by hydropower stations in 2016, as compared with 7.0 billion kWh in 2015, and 9.3 billion kWh in 2014. It produced 1.4 billion kWh by other energy stations (wind and solar) in 2016, is 0.2 billion kWh less than in 2015 and 2014. In the first half of 2017, Ukraine produced 27.8 billion kWh of energy by thermal power stations, 45.6 billion kWh by nuclear power stations, 5.9 billion kWh by hydropower stations and 0.7 billion kWh by other energy stations (wind and solar).

Ukraine has exported electricity to Hungary, Slovakia, Poland, Moldova, Belarus and the Russian Federation. In 2016, Ukraine exported 3.8 billion kWh of energy, an increase of 6.7 per cent. as compared to 2015, when 3.6 billion kWh of energy was exported; this was a decrease of 57.9 per cent. as compared to 2014, when 8.5 billion kWh of energy was exported. This was a decrease of 1.4 billion kWh, or 14.2 per cent., as compared to 2013.

In the first half of 2017, Ukraine exported 3.2 billion kWh of energy, an increase of 1.0 billion kWh, or 44.5 per cent., as compared to the relevant period of 2016. Ukraine currently exports electricity to Hungary, Slovakia, Poland, Moldova and Romania.

Energoatom operates four active nuclear power stations in Ukraine. 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; Khmelnytsky NPS, with two reactors of 1,000 megawatts each; and Yuzhno-Ukrainska NPS, with three reactors with a production capacity of 1,000 megawatts each. In addition, Yuzhno-Ukrainskyi energy complex operates two hydro units of the Tashlytska hydroelectric pumped-storage power plant, with established capacity of 302 megawatts and 2 hydro units of Oleksandrivska hydroelectric power plant, with established capacity of 11.5 megawatts. These four power stations have a total production capacity of 13,835 megawatts.

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 projected operational life of the active nuclear power stations in Ukraine is 30 years. Currently, out of 15 active NPSs, the operational life of 6 NPSs has been prolonged beyond the projected operational life. These are energy blocks No. 1 and No. 2 of Rivne NPS (operational life extended by 20 years), energy blocks No. 1 and No. 2 of Yuzhno-Ukrainska NPS and energy blocks No. 1 and No. 2 of Zaporizhzhya NPS (operational life extended by 10 years each). Currently, work is

underway on energy blocks No. 3 and No. 4 of Zaporizhzhya NPS, No. 3 of Rivne NPS and No. 1 of Khmelnytsky NPS. Works aimed to extend operational life for the remaining 5 energy blocks are planned for 2020-2035.

International experts have been positively assessing the security level of Ukraine's NPSs for many years. On IAEA there have been periodic meetings on compliance with the provisions of the Convention on Nuclear Safety; there continues to be ongoing monitoring by international experts in the framework of international cooperation (during missions OSART, ASSET, WANO).

The main programme, within the framework of which reliance and security of Ukrainian energy blocks is ensured, is the "*Consolidated Programme on the Enhancement of Safety at the Ukrainian NPSs*", adopted by CMU Resolution No. 1270, dated 7 December 2011. Financing of the Programme is done through Energoatom's own funds and, starting from 2016, also through an EBRD/Euratom loan (CMU Resolution No. 356, dated 20 August 2014). The loan and guarantee agreements with EBRD and Euratom, for a total amount of €600 million, were executed on 25 March 2013 and 7 August 2013, respectively. The term of the Programme is 2012-2020 and its cost is UAH 20.1 billion.

The aim of the above project is to ensure a level of safety at the Ukrainian NPSs which meets national and international safety standards and the fulfilment of Ukraine's obligations 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 NPSs' safety. On 15 May 2014, the law on the ratification of the guarantee agreement between Ukraine and Euratom was approved by Parliament.

After performance by the borrower of conditions precedent, the loan agreement with EBRD became effective on 19 December 2014. The loan agreement with Euratom became effective on 27 May 2015. Disbursements from the beginning of implementation of the project amount to €3.2 million, and under the Euroatom loan, €18.7 million.

With the aim of diversifying nuclear fuel supply sources, Energoatom is currently working in co-operation with Westinghouse Electric Sweden AB ("**Westinghouse**"). Since 2011, Westinghouse has provided Ukraine's NPSs with nuclear fuel. In 2017, there are plans to load fuel from Westinghouse into nuclear units of six energy blocks of the company. In the first half of 2017, Westinghouse supplied three deliveries of nuclear fuel to Zaporizhzhya Nuclear Power Plant. The other nuclear reactors are supplied with nuclear fuel by OJSC TVEL. This practice is inherent to the European strategy of energy security, adopted in 2014, in particular regarding the general diversification of nuclear fuel sources.

In 2016, Energoatom successfully completed its works on reconstruction of the open distribution facilities (750 kV) of Rivne and Khmelnytsky NPSs. This enabled the lifting of restrictions on the issuing capacity of these power plants.

In November 2016, at the Ukraine-EU Summit in Brussels, a Memorandum of Understanding was signed on Strategic Energy Partnership between Ukraine and the EU along with Euratom. By signing this document, Ukraine secured the achievements in the energy sphere over the last 10 years (the period of the previous Memorandum), in particular in the sphere of nuclear security.

The Ukraine Government puts significant efforts into reforming the energy sphere and integrating it into the energy system of the EU according to obligations determined by EU-Ukraine Association Agreement/ Currently, Energoatom is implementing a project "*Energy Bridge Ukraine – EU*" which is a pilot project for strategic synchronisation of Ukraine's energy system with the EU system. It is an important step in the direction of integration of Ukraine's energy system into the EU energy system.

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 project to construct an overhead transmission line between Rive NPP and Kyiv. State Enterprise "Ukrenergo", Ukraine's energy company, is a beneficiary under this project. The project aims to alleviate capacity limitations at the Rivne NPS and Khmelnytsky NPS and to improve the reliability of energy supply to consumers in Central Ukraine. As of 14 July 2017, €144.73 million in EBRD funds and €64.45 million in EIB funds had been drawn down under this project.

In accordance with a separate project, “*Construction of the 750 kV Zaporizhzhya NPS Kakhovka Overhead Transmission Line*”, Ukraine borrowed €175 million from each of the EBRD and the EIB. The agreements became effective on 19 October 2012 (EBRD) and 3 December 2012 (EIB), respectively. The project aims to maximise the available usage capacity of Zaporizhzhya NPS, as well as increase the reliability of energy supply to the southern energy system during times when Ukrainian Unified Energy System (UES)’s heat energy plants are operating at reduced capacity. The project further aims to increase the reliability of energy supply to consumers reliant on the Dnipro energy system through a 750 kV overhead transmission line running from Zaporizhzhya NPS to Kakhovka, improve the stability of energy supply to consumers in central Ukraine and Crimea; and to renovate substation 330/220 Novokakhovka. As of 14 July 2017, €109.52 million of EBRD funds and €60 million of EIB funds had been drawn down for this project.

On 21 September 2012, Ukraine entered separate agreements with the EIB and the EBRD regarding the “*Rehabilitation of Hydro Electric Stations*” project, whereby the EIB and EBRD each agreed to provide Ukraine with €200 million. The project aims to renovate hydroelectric stations in order to reach a general capacity of 1.396 MW; this would represent a 10 per cent. capacity increase. On 30 December 2015, Ukraine and the EBRD signed a Guarantee Agreement to supersede the undrawn part of the previous (2012) loan, and PJSC “Ukrhydroenergo” and the EBRD signed a €80 million loan agreement. As of 17 July 2017, €21.5 million of EBRD funds and €4.0 million of EIB funds had been drawn down for this project.

On 25 March 2013, Ukraine and the EBRD signed loan and guarantee agreements regarding a project aimed at increasing the level of safety of nuclear power plants. The project aims to bring all energy blocks of Ukraine’s NPSs to internationally accepted security levels. The agreements provide for state guarantees in the amount of €300 million. On 7 August 2013, Ukraine and Euratom signed a €300 million Guarantee Agreement. As of 30 June 2017, €3.16 million of EBRD funds and €15.81 million of Euratom funds had been drawn down under the project.

On 30 December 2011, the Cabinet of Ministers and the Government of Germany signed an Agreement on Financial Cooperation for the amount of €55.5 million, which aims at reconstruction and modernisation of five substations within the Dnipro and Donbas energy systems. Works on the reconstruction of 330 kV substation “Central” in the Donetsk region and 220 kV substation “Lysychanska” in the Luhansk region were suspended, as these substations are located in certain parts of the Donetsk and Luhansk regions. As of 14 July 2017, €3.62 million had been drawn down for this project.

On 10 October 2016, the Cabinet of Ministers and KfW Development Bank signed an individual loan agreement, and State Enterprise NEC “Ukrenergo” and KfW signed a separate agreement under the project “*Reconstruction of Substations in Eastern Ukraine*”, for the amount of €150 million. The project aims at providing reliable and high-quality energy supply in the electricity grid in Eastern Ukraine, as well as ensuring the coverage of peak power consumption without additional losses. It is expected to make a significant contribution to increasing energy efficiency in the transmission of electricity and in the future integration of Ukraine’s UPS into the European Network of System Operators for Electricity Transmission (ENTSO-E).

As at the date of this Prospectus, State Enterprise NEC “Ukrenergo” is implementing the programme for the transfer of electricity, with financing from the International Bank for Reconstruction and Development (the “**IBRD**”) and the Clean Technology Fund. A U.S.\$330.0 million credit facility agreement between State Enterprise NEC “Ukrenergo” and the IBRD and a U.S.\$48.4 million credit facility agreement between State Enterprise NEC “Ukrenergo” and the Clean Technology Fund were signed on 10 February 2015. As at 14 July 2017, U.S.\$13.17 million of IBRD funds and U.S.\$218,000 of Clean Technology Fund funds had been disbursed.

## ***Electricity and Natural Gas Tariffs***

### *Electricity Tariffs*

In order to prevent cross-subsidisation and to 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. The wholesale market price for electricity was UAH 0.7672 per kwh in the first half of 2014. The wholesale market price for electricity was UAH 0.8659 in July-August 2014, UAH 0.9004 in September-November 2014 and UAH 0.9410 in December 2014. In January-February 2015 the wholesale market price for electricity was UAH 0.9878, in March UAH 1.0385,

in April-May UAH 1.0689, in June UAH 1.1220, and in July 2015-April 2016 UAH 1.1781. In May-June 2016, the wholesale market price for electricity was UAH 1.2370 per kwh, in July-September 2016 UAH 1.3588 per kwh, in October-December 2016 UAH 1.4906 per kwh, in January-June 2017 UAH 1.3416 per kwh, and starting from July 2017 and until the end of the year, UAH 1.3657 per kwh.

According to various tariff calculations, the retail tariff (including the electricity tariff for the general population) for consumers consists of:

- the purchasing price of electricity on the wholesale electricity market and/or from direct producers of electricity;
- the tariff for transmission of electricity by local electric grids;
- a portion that covers costs of transmitting electricity;
- normative technological costs in local electric grids.

Specific weighting of wholesale market prices for electric energy (WMP) in the structure of retail tariffs amounts to 84 per cent. and depends primarily on changing prices for original energy carriers – nuclear fuel, coal, natural gas and oil fuel. At the same time, WMP significantly depends on external supply sources: for example, 100 per cent. of nuclear fuel purchases and 75 per cent. of gas. WMP is formed according to the Procedure of Formation of Forecasted Wholesale Market Price for Electricity, adopted by Commission Resolution No. 289, dated 3 March 2016.

Pursuant to resolution No. 749 dated 23 May 2014, since 1 June 2014, the electricity tariffs levied on households have increased from 10 to 40 per cent. and amounted to 30.84 for consumption under 150kWh, 41.94 for consumption of 150-800 kWh and 134.04 kopecks for consumption above 800 kWh per kWh for consumers; 28.50, 38.76 and 134.04 kopecks per kWh for village areas; 23.70, 32.22 and 134.40 kopecks per kWh for households using electric stoves depending on the same levels of consumption. The tariffs remained at this level until April 2015.

On 26 February 2015, the National Commission for the Regulation of the Electric Power Industry and Communal Services (the “**Commission**”) adopted Resolution No. 220, which established tariffs for electricity sold to the general population, and aimed at eliminating cross-subsidies to individuals at the expense of other electricity consumers. At the same time, taking into account that one-time increase of tariffs to the economically reasonable level would result in significant financial pressure for a large part of the general population, this resolution provides for a gradual increase of electricity tariffs for the general population in five stages within two years, as shown in the table below:

Indicators	From 1 April 2015	From 1 September 2015	From 1 March 2016	From 1 September 2016	From 1 March 2017
Tariff.....	51.2	62.8	77.3	97.3	122.8
Increase, % .....	45.2	23.0	23.0	26.0	26.0

A system of block tariffs for electricity is effective with the aim of ensuring additional social protection for low-income groups of population.

As at 31 March 2015 and 30 September 2015, the electricity tariffs levied on households represented 20.3 per cent. and 26 per cent., respectively, of the actual cost of electricity production, transfer and supply. In January 2016, the electricity tariffs levied on households represented 30.8 per cent. of the actual cost of electricity production, transfer and supply, and in January 2017, 42.7 per cent.

Electricity tariffs for domestic consumers (the general population) are currently fixed and uniform throughout the country. Due to social factors, review of electricity tariffs levels for the general population is carried out without taking into account all factors that must determine their level. As a result, electricity tariffs for the general population, even following an increase in July 2017, cover only 54.7 per cent. of the market level of the tariff.

The difference in tariffs for the general population between fixed and market levels is compensated by energy supply companies through endowment mechanisms at the expense of industry, railway transport, budget

institutions and other consumers, which pay almost 30 per cent. more for electricity. Therefore, there is essentially a cross-subsidising of the general population at the expense of other consumers.

### *Gas Tariffs*

From 1 January 2014, the threshold price for natural gas for institutions and organisations financed from state and local budgets (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) and 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). However, from 1 April 2014, the threshold prices for State-financed consumers, industrial consumers and other commercial entities increased to UAH 4,020.0 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges), and further increased from 1 May 2014 to UAH 4,724.0 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges). These prices remained unchanged until 31 August 2014.

The prices per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges) were UAH 4,874.0 in September and October 2014, UAH 5,100.0 in November, UAH 5,900.0 in December-January 2015, UAH 5,700.0 in February 2015, UAH 8,900.0 in March, UAH 7,200.0 in April, UAH 6,810.0 in May and UAH 6,600.0 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges) in June-September 2015.

Law No. 329-VIII, dated 9 April 2015, “*On the Natural Gas Market*”, entered into force on 1 October 2015 and provides for a transition to market principles of pricing in the natural gas market on the basis of free competition. From 1 October 2015, the Commission lost powers to establish natural gas prices. Naftogaz acquired authority to establish prices for its own imported natural gas for State-financed consumers, industrial consumers and other businesses. In October 2015, Naftogaz established natural gas prices for State-financed consumers, industrial consumers and other businesses at UAH 6,600.0 per 1,000 cubic metres. Starting from 1 November 2015, Naftogaz established differentiated natural gas prices for State-financed consumers, industrial consumers and other businesses depending on the amount of supplied natural gas and payments conditions.

From 1 August 2010 until 1 April 2015, the threshold price for municipal heating enterprises stood at UAH 1,309.2 per 1,000 cubic metres (including VAT, transport and distribution tariffs, and special purpose charges). From 1 April 2015, according to the agreed arrangements with the IMF, the Commission established the threshold price for municipal heating enterprises at UAH 2,994.3 per 1,000 cubic metres (including VAT, transport, distribution and supply tariffs, and special purpose charges). According to Resolution No. 758, dated 1 October 2015 (“**Resolution 758**”) for the period from 1 October 2015 until 31 March 2016 a regulated price for municipal heating enterprises, which are directly connected to main gas pipelines, was established at UAH 1,843.28 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges), and for the remainder, UAH 1,770.74 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges).

Ukraine uses differentiated threshold retail prices for households depending on the volumes of consumption. In accordance with resolution No. 420 dated 3 April 2014, retail prices for natural gas charged to households have increased on average by 56 per cent. since 1 May 2014:

- subject to the natural gas being used for cooking and/or heating water in apartment buildings (UAH 1.182 per one cubic metre if a gas meter is installed and UAH 1.299 per one cubic metre if a gas meter is not installed);
- subject to the annual amount of consumption of gas not exceeding:
  - 2,500 cubic metres (UAH 1.089 per one cubic metre if a gas meter is installed and UAH 1.197 per one cubic metre if a gas meter is not installed);
  - subject to the annual amount of consumption of gas not exceeding:
    - 6,000 cubic metres (UAH 1.788 per one cubic metre if a gas meter is installed and UAH 1.965 per one cubic metre if a gas meter is not installed);

- subject to the annual amount of consumption of gas exceeding:

6,000 cubic metres (UAH 3.645 per one cubic metre if a gas meter is installed and UAH 4.011 per one cubic metre if a gas meter is not installed).

From 1 April 2015, Commission resolution No. 583 established retail prices for natural gas used for general population needs (including VAT, special charges, tariffs for services of transportation, distribution and supply of natural gas at regulated tariff); if natural gas is used:

- 1) for cooking and / or heating of water – UAH 7.188 per one cubic metre;
- 2) for individual heating or complex use (individual heating, cooking and/or heating of water):  
from 1 May until 30 September – UAH 7.188 per one cubic metre;  
from 1 October until 30 April:  
for volumes not exceeding 200 cubic metres of natural gas per month – UAH 3.600 per one cubic metre;  
for volumes exceeding 200 cubic metres of natural gas per month – UAH 7.188 per one cubic metre;

In accordance with the law “*On the Natural Gas Market*” dated 9 April 2015, and during the transition to market price formation principles in the natural gas market, prices for natural gas charged to households, religious organisations and producers of heat energy for the period from 1 October 2015 until 31 March 2016 were established by Resolution 758.

Resolution 758 dated 1 October 2015 (as amended by Resolution of the Cabinet of Ministers No. 234 dated 30 March 2016) established maximum retail prices for natural gas charged to households (differentiated depending on the kind and volume of use of natural gas), in particular:

- 1) for cooking and/or heating water – UAH 7.188 per one cubic metre;
- 2) for individual heating or complex use (cooking and/or heating of water) UAH 7.188 per one cubic metre, except for the consumption of up to 1,200 cubic metres of natural gas (inclusive) during the period from 1 October 2015 to 31 March 2016 (inclusive) – UAH 3.600 per one cubic metre.

The Memorandum of Understanding with the IMF signed in February 2015 under the 2015 EFF provided for a transfer to the common consumer principles of market pricing for gas, as well as gradual liquidation of cross-subsiding (multi-level tariff system) through the establishment of prices and tariffs for all users, including households, at economically reasonable levels. The Memorandum of Understanding further provided for a simultaneous transfer of specific compensations to socially vulnerable households.

A subsequent regulation of natural gas prices for households and municipal heating enterprises was to be carried out from 1 April 2016 to fulfil the obligations under the Memorandum of Understanding.

According to Resolution 758, from 1 May 2016 until 31 March 2017 the maximum retail price for natural gas charged to households was UAH 6.879 per one cubic metre.

In accordance with Resolution 758 (as amended by CMU Resolution 937, dated 14 December 2016), for the period from 1 May 2016 until 31 March 2017, Naftogaz supplied natural gas to producers of heat energy under regulated prices (excluding transportation and distribution tariffs, taxes and charges included into the prices of natural gas under the Tax Code of Ukraine), with the aim of provision of heating services and supply of hot water to State-financed institutions and the general population in the amount of UAH 4,942 per 1,000 cubic metres.

In addition, under Resolution 758 (as amended by CMU Resolution 658, dated 22 September 2016) until 31 December 2016, PJSC “Odesa Port Plant” was entitled to purchase natural gas from Naftogaz for its own commercial activity on an uninterrupted basis (regardless of indebtedness to Naftogaz for consumed gas) in the total amount of up to 300 million cubic metres during such period at the expense of imported natural gas of Naftogaz.

From 1 April 2017 and until 1 April 2018, prices for natural gas for households, religious organisations and producers of thermal energy are determined by the Regulation on imposing special obligations on participants in the natural gas market for ensuring public interest in the process of functioning of the natural gas market (“**Regulation 187**”), approved by Resolution of Cabinet of Ministers No.187, dated 22 March 2017. This Regulation provides for:

- establishment of prices for natural gas under which Naftogaz sells or supplies natural gas for households and producers of thermal energy for households at the rate of UAH 4,942.00 per thousand cubic metres (excluding VAT);
- the application of a rate of 0.5 to the price UAH 4,942.00 per thousand cubic metres (excluding VAT) for the sale/supply of natural gas for religious organisations and producers of thermal energy for religious organisations;
- the application of a rate of 1.6 to the price of UAH 4,942.00 per thousand cubic metres (excluding VAT) when natural gas is supplied to other manufacturers of thermal energy, including for production of electricity.

According to Regulation 187, until 1 April 2018 natural gas suppliers who purchase natural gas from Naftogaz are required to supply such natural gas exclusively to households at a price where the supplier’s margin cannot exceed 2.5 per cent. of the price for natural gas used by suppliers to purchase natural gas from Naftogaz (excluding VAT).

The Regulation further provides the right to reconsider defined prices for the period from 1 October 2017 to 1 April 2018 set for households and for producers of thermal energy, provided the gas price calculated in accordance with the Regulation 187 formula before 1 July 2017 at the level of import parity is at least 10 per cent. higher than the current price for natural gas set at the rate of UAH 4,942.00 per thousand cubic metres (excluding VAT).

### ***Construction***

In 2016, construction accounted for 2.1 per cent. of Ukraine’s nominal GDP, as compared with 1.9 per cent. in 2015 and 2.3 per cent. in 2014. In the first quarter of 2017, construction accounted for 1.7 per cent. of Ukraine’s nominal GDP.

In 2014, construction volumes decreased by 20.4 per cent., as compared to 2013, with construction of non-residential buildings decreasing by 33.7 per cent. and construction of engineering structures decreasing by 20.3 per cent, while construction of residential buildings increased by 3.5 per cent.

In 2015, construction volumes decreased by 12.3 per cent. as compared to 2014, with construction of residential buildings decreasing by 1.1 per cent. and non-residential buildings by 14.2 per cent. respectively. Construction of engineering structures decreased by 16.3 per cent. over the same period.

In 2016, construction works totalled UAH 73.7 billion, an increase of 17.4 per cent. as compared to 2015. This was primarily due to an increase in the construction volumes of residential (17.8 per cent.) and non-residential buildings (23.7 per cent.) and engineering structures (14.0 per cent.).

In January-June 2017, construction works totalled UAH 36.0 billion, an increase of 24.6 per cent. as compared to the same period in 2016. This was principally as a result of an increase in the construction volumes of residential (28.7 per cent.) and non-residential buildings (27.3 per cent.) buildings and engineering structures (16.5 per cent.).

Between 2010 and 2016, Ukraine signed a number of financing agreements with the EIB aimed at developing Ukraine’s infrastructure, particularly in relation to water supply. On 2 February 2010, Ukraine and the EIB signed a €15.54 million agreement for development of a water supply and waste water collection system in the city of Mykolaiv, which aims to ensure compliance with European standards of potable water purification and supply, and with national waste water treatment requirements. As at 30 June 2017, the EIB had disbursed €5 million for this project.

On 22 December 2014, Ukraine and the EIB signed a €200.0 million agreement to be invested in municipal and social infrastructure to assist with regeneration following the conflict in certain parts of the Donetsk and Luhansk regions. As at 30 June 2017, the EIB had disbursed €15 million for this project. On 23 July 2015, Ukraine and the EIB signed a €400.0 million agreement, which aims to finance maintenance and renewal of urban infrastructure, renewal of equipment, and modernisation of heat and water supply networks in medium and large cities. As at 30 June 2017, no funds had been disbursed for this project.

On 6 February 2015, Ukraine and the Federal Republic of Germany signed a €17.0 million financing agreement; the project aims to enhance reliability, efficiency and quality of production and supply of potable water. As at 30 June 2017, no funds had been disbursed for this project.

### ***Transport***

Ukraine's transport infrastructure includes a wide network of roads and railways, which requires significant investment. As in many other CIS countries, the transport system is in need of modernisation. In 2014 and 2015, Ukraine's transport infrastructure suffered significant damage and destruction from military actions resulting from the conflict in certain parts of the Donetsk and Luhansk regions as well as illegal interferences and acts of sabotage in those areas.

In 2016, transport companies transported 624.6 million tonnes of cargo and 4.9 billion passengers; this represented a 3.8 per cent. increase and a 6.1 per cent. decrease, respectively, compared to 2015, where 601.9 million tonnes of cargo and 5.2 billion passengers were transported. The 2015 figures represented a 10.5 per cent. and 12.5 per cent. decrease, respectively, compared with 2014, where transport companies transported 672.1 million tonnes of cargo and 5.9 billion passengers; these figures were a 9.9 per cent. decrease and 5.3 per cent. decrease, respectively, compared to 2013.

In the first six months of 2017, transport companies transported 308.4 million tonnes of cargo and 2.3 billion passengers; a 5.7 per cent. and 0.8 per cent. increase, respectively, compared to the same period of 2016.

As a result of the conflict in certain parts of the Donetsk and Luhansk regions and the illegal occupation of Crimea, in 2014, the transportation of cargo in Ukraine decreased by 9.9 per cent., cargo turnover by 10.7 per cent., passenger transportation by 5.3 per cent., passenger turnover by 11.5 per cent. as compared to 2013. In 2015, cargo transportation decreased by 10.5 per cent., turnover by 5.8 per cent., passenger transportation by 12.5 per cent. and passenger turnover by 8.8 per cent. as compared to 2014. In 2016, there was a return to positive figures, with cargo transportation increasing by 3.8 per cent. and turnover by 2.6 per cent., while passenger transportation decreased by 6.1 per cent. and passenger turnover increased by 5.3 per cent. as compared to 2015. In the first six months of 2017, cargo transportation increased by 5.7 per cent., cargo turnover by 9.1 per cent., passenger transportation by 0.8 per cent. and passenger turnover by 9.4 per cent. as compared to the relevant period of 2016.

The passenger turnover rate in 2014 was only 31.2 per cent. of that in 2013, and included a 73.9 per cent. decline in interstate traffic and 56 per cent. reduction in domestic traffic. Within the first 10 months of 2014, railways lost revenues amounting to UAH 3,508.7 million (a decrease of 7.8 per cent. compared to the corresponding period in 2013), including losses of UAH 1,743.2 million (a decrease of 22.0 per cent. compared to the corresponding period in 2013) sustained by the Donetsk railroad.

On 7 May 2014, the Infrastructure Ministry of Ukraine, Ukrzaliznytsya and the EIB signed a finance agreement and guarantee on providing a loan in the amount of €5 million for Beskyd tunnel construction. The purpose of this loan is to construct a new 1.8km double-track tunnel on the pan-European corridor V in South-West Ukraine. As of 27 July 2017, €35 million of EIB funds had been drawn down for this project.

Flights through the Simferopol district accounted for 20 per cent. of the total number of flights in Ukraine as at the beginning of 2014. The estimated amount of lost income from the air navigation services was UAH 1,026 million in March-December 2014 and UAH 1,863 million in 2015.

As a result of flight restrictions of Ukrainian airlines in the airspace of the Russian Federation and the respective measures taken by Ukraine in response, the amount of flights in the airspace of Ukraine decreased by 25 per cent. from 2013 to 2015. The estimated amount of lost income from the air navigation services as a result of such restrictions was UAH 71 million in 2014 and UAH 341 million in 2015.

The estimated amount of lost income from the air navigation services as a result of the closure of airspace above the south-east region of Ukraine (above Donetsk and Luhansk regions) was UAH 895 million in 2014 and UAH 2,503 million in 2015.

As at 27 July 2017, 1,989 infrastructure assets at Donetsk railway, with a value of UAH 892.3 million, were damaged, including 689 assets with a value of UAH 372.19 million in the territory under Ukraine's control. As at 27 July 2017, railway companies had restored 415 assets with a value of UAH 199.92 million at their own expense within the territory controlled by Ukraine.

1,954 km of public roads (including 1,001.7 km in Donetsk Oblast and 837.6 km in Luhansk Oblast) and 36 bridges and overpasses longer than 3,043 metres with a total cost of UAH 609.4 million (including UAH 273.5 million in Donetsk Oblast and UAH 335.9 million in Luhansk Oblast) have been damaged. As at 5 January 2016, the total amount of destruction in Donetsk and Luhansk Oblasts was estimated to be approximately UAH 7,179.9 million.

28 air traffic control facilities have been damaged or destroyed, including 17 at Donetsk Airport, eight at Luhansk Airport, and three at the radar complex in Artemivsk, Donetsk Oblast.

The largest international airport in Ukraine is "Boryspil" airport near Kyiv. There are plans to link Kyiv to Boryspil airport via the railway line "Aerial Express"; this is to 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, with the Cabinet of Ministers issuing a sovereign guarantee in favour of the State entity coordinating the project.

As at 1 July 2017, approximately €891.6 million had been spent on the repair of Kyiv Chop highway, including €573.3 million in EBRD and EIB loans, as well as €18.3 million from the State Budget. The M06 highway is a component of TransEuropean corridors III and V, which connects 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 roads near Kyiv; these came into force on 16 September 2011 and on 7 February 2012, respectively. The total value of the project is €1,150.0 million and its implementation is expected to lead to an improvement of the busiest motorways into and out of Kyiv. As at 30 June 2017, €81.0 million of EBRD funds and €72.9 million of EIB funds had been drawn down for this project. See "*Public Debt—External Debt—International Financial Institutions*".

Between 2012 and 2017, Ukraine signed a number of agreements with the EBRD and the EIB, intended to finance infrastructure projects in Ukraine. On 27 July 2012, Ukraine and the EBRD signed a €152 million Loan Agreement and on 25 October 2013, Ukraine and the EIB signed €152 million Loan Agreement under the joint EBRD-EIB Project "*Completion of Subway Construction in Dnipropetrovsk*". As of 30 June 2017, €1.5 million of EBRD funds and €0.33 million of EIB funds had been drawn down for this project.

On 15 December 2014, Ukraine and the EBRD signed a €150 million Loan Agreement (Project "*Reconstruction, Capital Renovation and Technical Re-Equipment of Gas Pipeline Urengoy – Pomary – Uzhorod*"). On 1 December 2014, Ukraine and the EIB signed a €150 Finance Agreement in relation to the project.

On 31 August 2004, Ukrainian Railways (Ukrzaliznytsia) and the EBRD entered into a U.S.\$120 million Loan Agreement and Ukraine and the EBRD entered into a Guarantee Agreement relating to a project to implement high speed passenger trains on Ukraine's railways. As of 30 June 2017, €19.95 million of EBRD funds had been drawn down for this project.

On 11 November 2016, Ukraine and the EIB signed a €200 million finance agreement aimed at developing environmentally clean and socially meaningful public transport systems.

On 19 December 2016, Ukraine and the EIB signed a €150 million finance agreement aimed at electrification and general modernisation of railway infrastructure in the Dolynska – Mykolaiv – Kolosivka region.

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. The project was completed on 30

November 2014. During the period of its realisation, U.S.\$380.4 million had been drawn down under this agreement from the IBRD funds; in addition, U.S.\$76.1 million was provided from the State Budget as co-financing. As part of this project, a “Boryspil – Lubny” segment of the Kyiv Kharkiv Dovzhanski highway was reconstructed, and on 2 September 2015, the Cabinet of Ministers adopted Resolution “*On Approval of the Final Report on the Implementation of the Joint Project “Roads and Safety Improvement Project” with the International Bank for Reconstruction and Development*” No.894-p.

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, which entered into force on 24 December 2012. As at 1 July 2017, U.S.\$240.11 million of the IBRD loan funds had been drawn down and a further U.S.\$12.3 million of the co-financing by Ukraine was used for the project. The project is aimed at capital repair of the “Lubny-Poltava” segment of Kyiv Kharkiv Dovzhanski highway, improvement of road safety and development of institutional capacity.

On 19 November 2015, Ukraine and the IBRD signed Loan 8549-UA “*Road Sector Development Project*”. As of 1 July 2017, U.S.\$2.4 million had been used. The purpose of the loan is to improve transport and operating condition of roads M03 Kyiv-Kharkiv-Dovzhanskiy Road, maintenance of M06 Kyiv-Chop, as well as administration and development of the highway system.

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 28 April 2016, Ukravtodor, Ukraine and VTB Capital plc entered into a deed of novation and amendment with the effect that Ukravtodor was replaced by Ukraine as the borrower under the loan agreement dated 28 January 2009 (as amended) entered into between Ukravtodor and Credit Suisse International (original lender).

In December 2012 and July 2013, the Cabinet of Ministers issued a guarantee to Ukravtodor, in the context of two bond issues in the amount of UAH 14.0 billion and UAH 5.0 billion, respectively. Proceeds were used to finance various infrastructure projects. Within the term for placement of bonds prescribed by the Cabinet of Ministers, bonds in the total amount of UAH 7.2 billion and UAH 2.75 billion, respectively, were placed in Ukrainian banks and the remainder was cancelled.

In preparation for the Euro 2012 Championships, Ukraine invested in the development and improvement of its road network, especially in areas hosting the event, as well as its airport and railways. From 2008 to 2012, UAH 67.11 billion was spent on transport infrastructure projects, including UAH 15.55 billion on the reconstruction and maintenance of a number of Ukrainian airports, UAH 16.84 billion on the reconstruction and maintenance of Ukrainian railways and UAH 27.32 billion on the construction and maintenance of roads.

### **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, the law “*On the Peculiarities of Privatisation of Coal Mining Enterprises*” was adopted, 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 privatisation. On 13 April 2017, the law “*On restoration of solvency of state coal-mining enterprises*” was enacted, providing for a moratorium on commencement of insolvency proceedings of state coal-mining enterprises until 1 January 2019.

In June 2005, the law “*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. On 1 August 2014, the moratorium was extended until 1 January 2016.

According to Decree No. 786-p, dated 20 August 2014, Naftogaz prepared a number of suggestions in respect of amending legislative acts aimed at the elimination of obstacles to the enforcement of receivables for consumed natural gas. Certain suggestions were reflected in Law No. 423-VIII, dated 14 May 2015. The law was developed and adopted as part of the realisation of Ukraine’s obligations in respect of the enforcement of

indebtedness of natural gas consumers to Naftogaz and stabilisation of its financial position, set out in paragraph 23e of the Memorandum on Economic and Financial Policies, dated 18 August 2014.

In particular, the amendments to Law No. 2711-IV and Law No. 606-XIV “*On Enforcement Proceeding*” meant that the abovementioned moratorium, which was originally extended until 1 January 2016, was terminated from 1 September 2015. However, in relation to Energoatom the moratorium was still retained until 1 January 2016.

Furthermore, Law No. 627-VIII, dated 16 July 2015, established that the moratorium on the forced sale of property of state enterprises and companies with state shareholdings of not less than 25 per cent. does not apply to the forced sale of property (except for assets not subject to privatisation and enterprises that have established state indebtedness on reimbursement of differences in tariffs on heat energy and heating services, produced, transported and supplied to households) for repayment of indebtedness to Naftogaz and its subsidiaries. To fulfil the requirements of this law, the SPF developed a draft resolution of the CMU, submitted for the CMU’s consideration on 4 March 2016; it was later revised, taking into account proposals of the Secretariat of the Cabinet of Ministers, on 27 April 2017.

The decision of the Governmental Committee on Economic, Financial and Legal Policy, Development of the Fuel and Energy Complex, Infrastructure, Defence and Law Enforcement Activities on 20 June 2017 approved the draft resolution and instructed the Ministry of Justice, along with the SPF and the Ministry of Finance, to conduct a meeting aimed to settle discrepancies. Based on the results of the meeting, the SPF shall ensure the finalisation of the draft resolution of the Cabinet of Ministers of Ukraine and submit it for consideration of the Government.

In order to fulfil the above decision of the Governmental Committee, on 17 July 2017 a meeting with representatives of the Ministry of Finance and the SPF was held at the Ministry of Justice. The abovementioned amendments to legislation allowed Ukraine to perform its obligations within the framework of cooperation with the IMF in respect of lifting two long-term moratoriums that protected energy and other companies from enforcement procedures and also in respect of establishing a legal provision on disconnection of consumers from the gas supply system in case of failure to pay for gas. Such obligations were set out in paragraph 28 sector D of a memorandum on economic and financial policies (dated 27 February 2015) and paragraph 26 sector D of a memorandum on economic and financial policies (dated 21 July 2015) and will contribute to the elimination of obstacles and intensification of work on enforcement of receivables for consumed natural gas.

## Inflation

Consumer Price Index (“**CPI**”) is used as a broad measure of inflation in Ukraine. CPI statistics are collected and calculated on a monthly basis by the State Statistics Service of Ukraine and are published on its website on the 8<sup>th</sup> business day of every month.

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

	As at 31 December			As at 30 June
	2014 <sup>(2)</sup>	2015 <sup>(3)</sup>	2016 <sup>(3)</sup>	2017 <sup>(3)</sup>
	<i>(increase/(decrease) compared to 31 December of the previous year)</i>			
Consumer Price Index (CPI).....	24.9	43.3	12.4	7.9
Food and non-alcoholic beverages <sup>(1)</sup> .....	24.8	41.5	3.3	11.8
Wholesale Price Index (WPI).....	31.8	25.4	35.7	6.1

The State Statistics Service uses international COICOP classification and does not calculate non-foods and paid services.

(1) Does not include alcoholic beverages and tobacco.

(2) Does not include the temporarily occupied territories of Crimea and the City of Sevastopol.

(3) Does not include the temporarily occupied territories of Crimea, the City of Sevastopol and certain parts of the Donetsk and Luhansk regions.

Source: State Statistics Service

In 2014, Ukraine’s CPI inflation rate was 24.9 per cent., compared to a 0.5 per cent. rate of inflation in 2013. This sharp increase in inflation was largely a result of the conflict in certain parts of the Donetsk and Luhansk regions, which consequently led to a devaluation of the hryvnia (Hryvnia devalued by 97.3 per cent. against the U.S. dollar in 2014). In 2015, Ukraine’s CPI inflation rate was 43.3 per cent. In 2016, inflation slowed

and was 12.4 per cent. In the first six months of 2017, inflation was 7.9 per cent. compared to 4.9 per cent. for the relevant period of 2016. Food production prices have increased by 32.3 per cent. in 2014, driven primarily by increased transport costs as a result of higher fuel prices, as well as an increase of 31.8 per cent. in production costs and increased cost of water and electricity supply. Food production prices increased by 40.1 per cent. in 2015, 12.4 per cent. in 2016 and 5.2 per cent. in the first six months of 2017.

### **Price Liberalisation**

Ukraine continues to take steps towards liberalising prices, aiming to reduce the misallocation of State resources employed to keep prices at artificially low levels. Starting in 1993, State-determined prices for energy, agricultural products and communal services were gradually raised towards the economically reasonable (market) level.

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

The prices and tariffs in the utilities sphere are regulated by the National Commission for the Regulation of the Electric Power Industry and by local authorities in accordance with their powers as provided by the law.

The National Commission for the State Regulation of Communications and Informatisation regulates the following tariffs: tariffs for public telecommunications services; tariffs for leasing of telecommunication channels and estimated taxes for services of traffic passage to telecommunication networks of telecommunication operators, which have a dominant market position; tariffs for leasing of cable channelling of telecommunication of operators, as well as universal postal services.

Tariffs for transport services provided by subjects of natural monopolies, in particular, cargo and passenger rail transportations, specialised services of ports and airports and management of air traffic, are established by the Ministry of Infrastructure with the approval of the CMU, the Ministry of Economic Development and Trade and the Ministry of Finance.

In recent years, tariffs for housing and communal services for the general population have steadily increased. According to data of the State Statistics Service, in 2014, the consumer price index for house, water, electricity, gas and fuel increased by 116.2 per cent. compared to 2013, and by 215.8 per cent. in 2015 compared to 2014, and in the first half of 2017 the consumer price index for house, water, electricity, gas and fuel increased by 36.6 per cent. as compared to the same period in 2016. These increases were due to implementation of a policy in 2015-2017 on the gradual elimination of cross-subsidising of individuals at the expense of other consumers and establishment of prices/tariffs for all categories of consumers at market levels, with a simultaneous introduction of mechanisms for compensation for socially vulnerable categories of the population. Moreover, according to the law “*On Electricity Market*”, which entered into force on 11 June 2017, the National Commission for Regulation of the Electric Power and Municipal Services should reassure the absence of cross-subsidisation between the different consumer categories before the new electricity market will start to function (which is scheduled for July 2019).

### **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 “*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. Amendments to this law as well as to 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.

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*”.

## **Environment**

Ukraine has established a legal framework for environmental protection that is generally consistent with standards accepted by EU member states and international treaties. There is some concern that Ukraine does not yet have sufficient resources to fully comply with these standards. Therefore, to increase financial resources for the implementation of environmental protection measures, Ukraine is reviewing alternative sources of funding, including the introduction of investments and EU funds.

The main environmental issues facing Ukraine include waste accumulation (including toxic waste), water and atmosphere pollution, contamination from the Chernobyl incident, and the closure of mines. 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.

Environmental protection is financed by the State Budget, local budgets, funds of enterprises and organisations, voluntary contributions and other funds. Environmental protection funds have been allocated each year within the State Budget, 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. 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).

In April 2015, the Government of the Federal Republic of Germany and the CMU, represented by MENR, signed documents in respect of a €14 million financing for the project “*Support of Natural Reserve Territories of Ukraine*”. On 22 April 2015, MENR and the Ministry of Ecology, Sustainable Development and Energy of the French Republic entered into an agreement on cooperation in the sphere of environmental protection and sustainable development.

In December 2010, Parliament adopted the Law on the National Environmental Policy Strategy. For the purposes of the implementation of this strategy, Ukraine and the European Commission entered into an agreement on support for the 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, which provides for specific measures to be taken to stabilise and improve the environmental situation, was approved by the Cabinet of Ministers in May 2011. MENR has recently developed a draft law aimed at reviewing the main strategic tasks of the state ecology policy taking into account Ukraine’s financial capacity.

In April 2015, the Government of the Federal Republic of Germany and the CMU, represented by MENR, signed documents in respect of a €14 million financing for the project “*Support of Natural Reserve Territories of Ukraine*”. On 22 April 2015, MENR and the Ministry of Ecology, Sustainable Development and Energy of the French Republic entered into an agreement on cooperation in the sphere of environmental protection and sustainable development.

In line with its commitments under the Association Agreement, MENR has developed a draft of amendments and supplements to the National Environmental Policy Strategy and a draft of the National Action Plan on Environmental Protection in 2016-2020. On 21 August 2014, MENR presented the “*National Strategy of Bringing Ukrainian legislation in Compliance (Approximation) with European Union Law on Environmental Protection*”, which will serve as guidance in performing the environmental obligations under the Association Agreement.

As at the date of this Prospectus, MENR also continues advancing the implementation plans of the EU Directives and Regulations in the sphere of environmental protection (20 EU legislative acts), adopted by the Resolution of the Cabinet of Ministers No. 371 on 15 April 2015.

As of the date of this Prospectus, Ukraine was a party to 24 international conventions, 15 protocols and 51 bilateral agreements on environmental protection. In 2004, Ukraine ratified the Kyoto Protocol to the UN Framework Convention on Climate Change and in December 2012, Ukraine was added to the group of

countries participating in the second stage of the Kyoto Protocol from 2013 to 2020. The implementation of the mechanisms of the UN Framework Convention on Climate Change and the Kyoto Protocol, including environmental protection projects, is managed by the Department of Climate Policy, which is the successor of the State Ecological Investments Agency. Ukraine has financed 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.

The law “*On Environmental Audit*” sets basic legal and organisational criteria for carrying out environmental audits and aims to increase environmental awareness and efficiency of businesses. Mandatory environmental audits must be performed in the following cases, among others: bankruptcy; privatisation and concession of state and communal property, subject to exceptions provided by law; transfers of title or long term leases into state or communal property; establishment of joint ventures on the basis of state or communal assets; environmental insurance of objects; and termination of effectiveness of production sharing agreements according to law.

As of the beginning of 2017, 65 environmental auditors were certified in Ukraine and 28 legal entities were entered in the register of legal entities authorised to carry out environmental audits.

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.

In 2015, damages paid to the consolidated budget for breaches of environmental legislation amounted to UAH 57.29 million, including UAH 17.19 million to the State Budget. In 2016, damages paid to the consolidated budget for breaches of environmental legislation amounted to UAH 153.95 million, including UAH 11.79 million to the State Budget. As at 1 August 2017, damages paid to the consolidated budget for breaches of environmental legislation amounted to UAH 39.30 million, including UAH 11.79 to the State Budget.

## THE LABOUR MARKET

### **Wages**

The average monthly wage of the workforce in the Ukrainian labour market has steadily increased over recent years, from UAH 3,480 in 2014 to UAH 4,195 in 2015 and UAH 5,183 in 2016 (increases of 6 per cent., 20.5 per cent. and 23.5 per cent. compared to the previous year, respectively), and to UAH 6,638 for the six months ended 30 June 2017 (an increase of 37.2 per cent. as compared to the corresponding period in 2016). 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 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 2017 provides for a minimum monthly wage of UAH 3,200 and a minimum hourly wage of UAH 19.34 from 1 January 2017; this represents an increase of more than 100 per cent. compared to December 2016. The increase was due to recent amendments to legislative acts setting out rules for the computation of wages, the government's drive to decrease unreported employment, and an increase in the State Budget expenditure for payment of wages funded by the State Budget.

### **Wage Arrears**

As at 1 January 2017, total wage arrears amounted to UAH 1,791.0 million, a decrease of UAH 89.8 million, or 4.8 per cent. as compared to total wage arrears as at 1 January 2016. As at 1 January 2017, of total wage arrears, UAH 1,118.2 million (or 62.4 per cent.) were arrears related to operating enterprises, UAH 633.8 million (or 35.4 per cent.) were arrears related to enterprises subject to bankruptcy or readjustment proceedings and UAH 38.9 million (or 2.2 per cent.) were arrears related to non-operating enterprises. Despite the difficult economic situation and ongoing conflict in certain parts of the Donetsk and Luhansk regions, the adopted measures helped to contain the growth of wage arrears in 2016. Such measures were carried out pursuant to the Cabinet of Ministers of Ukraine Order No. 517-p dated 22 July 2016 and included: (i) weekly monitoring by the Ministry of Social Policy of the status of wage arrears payment; (ii) setting up by the Ministry of Social Policy of a registry of all enterprises having wage arrears and co-operation with the Ministry of Finance, the Ministry of Interior, the State Treasury, the State Fiscal Service, and the Office of the Prosecutor General aimed at taking measures in respect of directors of the enterprises having wage arrears; (iii) establishing committees involving state and municipal officers and directors of the largest enterprises having wage arrears and work through such committees, and (iv) inspections by state labour inspectors of the enterprises having wage arrears.

In terms of statistics, the measures adopted to contain the growth of wage arrears in 2016 translated, among others, into: (i) 6,160 committee meetings issuing disciplinary notices to directors of 8,786 enterprises having wage arrears and adopting 3,549 other measures towards such directors; (ii) approximately 2,200 labour inspections carried out on approximately 1,500 enterprises having state arrears; (iii) 819 administrative offence notices issued by law enforcement agencies and filed with relevant courts, and (iv) 656 labour inspection results filed with the relevant law enforcement agencies.

As at 1 July 2017, total wage arrears amounted to UAH 2,391.9 million, of which UAH 1,319.2 million (or 55.1 per cent.) were arrears related to operating enterprises, UAH 676.5 million (or 28.3 per cent.) were arrears related to enterprises subject to bankruptcy or readjustment proceedings and UAH 396.2 million (or 16.6 per cent.) were arrears related to non-operating enterprises.

As at 1 January 2017, wage arrears of operating enterprises in the public sector were UAH 256.1 million. Of public sector wage arrears, as at 1 January 2017, wage arrears of State-owned operating enterprises were UAH 237.6 million (an increase of UAH 13.3 million, or 5.9 per cent., as compared to 1 January 2016) and wage arrears of municipal enterprises were UAH 18.5 million (a decrease of UAH 18.5 million, or 50.0 per cent., as compared to 1 January 2016). As at 1 July 2017, wage arrears in the public sector were UAH 331.2 million. Of public sector wage arrears, as at 1 July 2017, wage arrears of State-owned operating enterprises were UAH 301.9 million, and wage arrears of municipal enterprises were UAH 29.3 million. As

at 1 January 2017, wage arrears of operating enterprises payable out of the State Budget were UAH 0.7 million (a decrease of UAH 7.3 million, or 91.0 per cent., as compared to 1 January 2016), wage arrears of operating enterprises payable out of the local budgets were UAH 0.4 million (a decrease of UAH 0.5 million, or 56.1 per cent. as compared to 1 January 2016). As at 1 July 2017, wage arrears of operating enterprises payable out of the State Budget were UAH 0.7 million, and wage arrears of operating enterprises payable out of the local budgets were UAH 1.4 million. The 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.

## Employment

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 2014, 2015, 2016 and 2017:

	Annual average data			For the three months ended 31 March 2017
	2014	2015 <sup>(2)</sup>	2016 <sup>(2)</sup>	
Economically active population, millions.....	19.9	18.1	18.1	17.7
Employed, millions.....	18.1	16.4	16.3	15.9
Unemployed, millions.....	1.8	1.7	1.7	1.8
Unemployment rate <sup>(1)</sup> in per cent. to economically active population.....	9.3	9.1	9.3	10.1

(1) Based on a selective survey of the population (households) in Ukraine (excluding illegally occupied Crimea).

(2) Based on a selective survey of the population (households) in Ukraine (excluding illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions).

Source: State Statistics Service of Ukraine

According to selective surveys of household economic activity conducted under ILO methodology, average unemployment remains high in Ukraine, representing 9.3 per cent, 9.1 per cent., and 9.3 per cent. of the economically active population in 2014, 2015 and 2016, respectively.

In 2016, the average employment level was at 16.3 million compared to 16.4 million in 2015 and 18.1 million in 2014, while unemployment fell from 1.85 million in 2014 to 1.65 million in 2015 and 1.68 million in 2016. The figures for 2015 and 2016 fell as compared to 2014 as, since 2015 and onwards, the data collected by the Ukrainian statistics authority do not account for illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.

Under ILO methodology, the overall unemployment rate in 2014 was 9.3 per cent., being 9.5 per cent. in rural areas and 9.2 per cent. in urban areas; in 2015, the overall unemployment rate was 9.1 per cent., being 9.4 per cent. in rural areas and 9.0 per cent. in urban areas; in 2016, the overall unemployment rate was 9.3 per cent., being 9.7 per cent. in rural areas and 9.2 per cent. in urban areas; in the three months ended 31 March 2017, the overall rate was 10.1 per cent, with 11.5 per cent. in rural areas and 9.5 per cent. in urban areas.

The number of persons employed part time was 888,100 in 2014, 742,100 in 2015, and 464,200 in 2016. The number of persons on involuntary unpaid leave was 90,500 in 2014, 62,600 in 2015, and 163,600 in 2016. For the three months ended 31 March 2017, the number of persons employed part time was 210,800 (a 40.3 per cent. decrease as compared to the three months ended 31 March 2016), and the number of persons on involuntary unpaid leave was 70,500 (a 25.2 per cent. decrease as compared to the three months ended 31 March 2016).

## 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, illness and pregnancy, childbirth and child care benefits and funeral payment assistance.

As part of Ukraine's ongoing transition to a market economy, 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 Uniform State Automated Register of Persons Entitled to Benefits (the "**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 March 2017, the Register contained information on approximately 10.1 million persons.

The estimated pension expenditure for 2017 is UAH 284.0 billion. In the six months ended 30 June 2017, pension expenditure amounted to UAH 124.5 billion, and social insurance expenditure amounted to UAH 28.4 billion. In 2016, pension expenditure amounted to UAH 255.8 billion and social insurance expenditure amounted to UAH 22.6 billion, respectively, compared with UAH 266.5 billion and UAH 24.8 billion, respectively, in 2015, and UAH 249.0 billion and UAH 28.4 billion, respectively, in 2014.

### ***Pensions and Pension Reform***

The average monthly pension, for all categories of pensioners, increased from UAH 1,590.98 as at 1 July 2014 to UAH 1,886.78 as at 1 January 2017, or 27 per cent. of the current average wage. The minimum monthly pension increased from UAH 949 as at 1 January 2014 to UAH 1,312 as at 1 May 2017.

The Pension Fund deficit increased significantly from UAH 14.7 billion in 2014, to UAH 17.8 billion in 2015, and UAH 84.9 billion in 2016, primarily due to a decrease of the single social contribution rate to 22 per cent.

The State Budget includes provision of loans to the Pension Fund in order to cover its deficit, such loans to be repaid using proceeds from the Pension Fund. As at 1 January 2017, the outstanding amount of loans provided to the Pension Fund was UAH 48.1 billion. See "*Public Finance and Fiscal Policy—The State Budget Expenditures—Pensions*".

On 1 January 2004 a three-tier system of pension insurance was created 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.

From 1 October 2011, a maximum rate for pensions was introduced equal to 10 times the subsistence level, and the length of service required to receive a pension was extended, with incentives for retiring later, with the intention of levelling the retirement age for men and women through a gradual increase in the retirement age through to an increase of five years by 2021.

Prior to 1 June 2015, Ukraine operated a system of special state funded pensions (for prosecutors, judges, MPs and civil servants) over and above the general pension. However, in 2014, the level of this pension decreased from 80 per cent. of earnings to 70 per cent. and then in 2015 fell to 60 per cent.; since 1 June 2015, no special pensions have been granted (apart from certain military and scientific sector employees). Furthermore, in 2014 taxes were introduced on pensions awarded prior to 1 October 2011 and exceeding UAH 10,000.

Starting from 1 January 2015, pensions exceeding three times the minimum wage (UAH 3,654) were subject to personal income tax at the rate of 15 per cent. Pensions exceeding 10 times the minimum wage (UAH 12,180) were subject to personal income tax at the rate of 15 per cent. and 20 per cent. (the 15 per cent. rate was applied to the portion of the pension equal to UAH 12,180 and the 20 per cent. rate was applied to the portion of the pension over UAH 12,180).

From 1 July 2016, personal income tax at the rate of 18 per cent. applies to pensions exceeding 10 living wages for persons who have lost working capacity.

From 1 April 2015, (i) the maximum pension for judges was set at the level of UAH 9,490 and has been further increased to UAH 10,740 with effect from 1 September 2015; (ii) pensions for working pensioners exceeding UAH 1,423.5 (or UAH 1,968 with effect from 1 May 2017) have been fixed in the amount of

85 per cent. of such pension but not less than UAH 1,423.5 (or UAH 1,968 with effect from 1 May 2017); and (iii) the payment of pensions to MPs, civil servants and similar persons who are still working has been limited.

Within the framework of the pension reform, on 30 April 2015, the Government submitted a draft law to Parliament providing, among other things, for cancellation of certain special pensions and an enhanced system for determination of bonuses and other amounts payable in addition to pensions. The draft law was adopted by Parliament in its first reading on 13 July 2017.

As at 1 July 2017, the total number of pensioners in Ukraine was 11,722,656 persons, including 8,935,481 persons receiving retirement pensions (76.2 per cent. of the total number of pensioners); 1,394,271 persons receiving pensions due to physical disability (11.8 per cent. of the total number of pensioners), 648,479 persons receiving pensions due to loss of a breadwinner (5.5 per cent. of the total number of pensioners), 649,628 persons receiving pensions for years of service (5.5 per cent. of the total number of pensioners), 91,830 persons receiving social pensions (0.78 per cent. of the total number of pensioners), and 2,967 persons receiving lifetime support (0.025 per cent. of the total number of pensioners).

As at 31 December 2016, the National Commission on the Regulation of Financial Services Markets had records of 64 non-State pension funds, which held in aggregate total assets of UAH 2,138.7 million (a decrease of 15.5 per cent. as compared to 2015), and had approximately 834,000 participants. For the three months ended 31 March 2017, the National Commission on the Regulation of Financial Services Markets had records of 64 non-State pension funds, which held in aggregate total assets of UAH 2,206.3 million (an increase of 0.7 per cent. as compared to the corresponding period in 2016), and had approximately 836,200 participants.

### ***Unemployment Benefits***

Mandatory unemployment insurance was introduced in Ukraine on 1 January 2001. Independent agricultural workers, as well as Ukrainians working abroad, may participate in the unemployment insurance scheme on a voluntary basis. Insured persons, as well as young persons who ended or suspended their studies or who are free from regular or alternative (non-military) service and who need assistance in finding employment for their first job, 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 and young persons who ended or suspended their studies, or who are free from regular or alternative (non-military) service, have the right to unemployment benefits at the minimum level.

Since 1 April 2017, the minimum unemployment benefit for persons who have no pensionable service or whose pensionable service within the twelve months preceding the registration as unemployed was shorter than six months, is UAH 544 per month and for persons whose pensionable service within the twelve months preceding the registration as unemployed was longer than six months, is UAH 1,280 per month. Such minimum unemployment benefit is payable at least twice per month, or, if agreed to by the unemployed receiving the benefit, once per month pursuant to the law "*On Mandatory State Social Unemployment Insurance*".

In accordance with Ukrainian employment insurance laws, any unemployed person who worked for at least six months within the twelve months preceding the registration as unemployed is entitled to benefits, depending on such person's past employment period. In particular, a person is entitled to benefits equivalent to 70 per cent. of that person's average monthly salary if the past 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 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 with a special voucher for professional training and organisation of public works, as well as information and consulting services related

to employment (including the provision of social services to vulnerable persons, IDPs and participants in the conflict in certain parts of the Donetsk and Luhansk regions).

### ***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.

As at 1 July 2017, there were no social benefit arrears for subsidies to families with children and low income subsidies.

## EXTERNAL SECTOR

### Balance of Payments

In 2014, the current account deficit decreased to U.S.\$4.6 billion, or 3.4 per cent. of GDP, as compared to U.S.\$16.5 billion, or 8.7 per cent. of GDP in 2013. Considerable devaluation of the hryvnia and prolonged decline in domestic demand led to a decrease in imports of goods and services by 28.1 per cent. to U.S.\$70.0 billion. Exports of goods and services, which decreased by 19.9 per cent. to U.S.\$65.4 billion, were also affected by trade restrictions imposed by Russia and by the conflict in certain parts of the Donetsk and Luhansk regions.

The deficit of the financial account in 2014 amounted to U.S.\$9.1 billion. This was due to political instability and high devaluation expectations in 2014. This situation stabilised as a result of significant external funding from the World Bank amounting to of U.S.\$1.3 billion and the EU amounting to of €1.8 billion. In 2014, the financial and corporate sectors reduced their foreign debt by U.S.\$13.6 billion. In 2014, the net inflow of FDI amounted to U.S.\$0.3 billion.

In 2015, the current account deficit declined to U.S.\$0.2 billion, due to a larger fall in the level of imports compared to exports. A significant decrease in world prices for exported goods and a further deterioration in trade relations with Russia resulted in a decline of exports of goods and services by 26.9 per cent. to U.S.\$47.9 billion in this period. However, low domestic demand and significant devaluation of the hryvnia as well as the introduction of additional import duties led to a reduction of imports of goods and services by 29.2 per cent. to U.S.\$49.6 billion in this period.

In 2015, the surplus of the financial account was U.S.\$0.6 billion, as compared to a deficit of U.S.\$9.1 billion in 2014. The main external borrowings were made by the state sector including from the World Bank in the amount of U.S.\$1 billion, the European Commission in the amount of U.S.\$0.9 billion, Canada in the amount of U.S.\$0.2 billion and U.S.\$1 billion Notes issued by Ukraine and guaranteed by the United States. Other planned external borrowings were moved to 2016 due to a postponed tranche from the IMF. In 2015, the volume of FDIs increased to U.S.\$3.0 billion, U.S.\$2.4 billion of which was allocated to the banking system.

In 2016, the current account deficit increased to U.S.\$3.8 billion, or 4.1 per cent. of GDP. Exports of goods further decreased by 5.2 per cent., despite some improvement in market conditions and a record-breaking harvest of crops. Decrease in exports were due to the complicated market situation, new trade restrictions imposed by Russia and repeated domestic transit complications. In addition, due to the Ukraine–EU Association Agreement, Ukraine enhanced the volume of its exports to the EU member states. Increase in internal demand, in particular for investment capital, also led to an increase in imports of goods by 4.4 per cent. in 2016.

An increase in the current account deficit in 2016 was balanced by an increase in net external borrowings of U.S.\$5 billion. In contrast to the previous year, these borrowings were made by private sector.

In 2016, the net inflow of direct foreign investments amounted to U.S.\$3.3 billion. Direct inflow to the banking system amounted to U.S.\$2.3 billion (or 71.0 per cent. of the total inflow).

For the six months ended 30 June 2017, the current account deficit amounted to U.S.\$1.6 billion, compared to U.S.\$946 million for the corresponding period in 2016. The deficit in trade of goods amounted to U.S.\$3.2 billion, compared to U.S.\$2.6 billion for the corresponding period in 2016. Exports of goods increased by 24.8 per cent. to U.S.\$19.0 billion and imports of goods increased by 24.3 per cent., to U.S.\$22.2 billion.

For the six months ended 30 June 2017, foreign markets maintained favourable conditions for Ukrainian exports. Due to an improvement in market conditions and the high volume of sunflower oil and grain crops exports, overall prices of exports increased substantially (by 24.8 per cent.). In particular, exports of food, metallurgical products and iron ore have grown significantly. However, imports have also increased (by 25.4 per cent.), due in particular to imports of energy and fuels as a result of the cold winter of 2016, an increase in oil prices, shortage of coal on the domestic market and increased demand for investment from agricultural businesses. The current account deficit for the six months ended 30 June 2017 amounted to U.S.\$1.6 billion, compared to U.S.\$946 million for the corresponding period in 2016.

Due to external borrowings, the surplus of the financial account for the six months ended 30 June 2017 increased by U.S.\$1.3 billion, as compared to the corresponding period in 2016 and amounted to U.S.\$2.6 billion. Successful completion of the third review of IMF's EFF programme enabled the Government to receive a further tranche of macro-financial assistance from the European Commission in the amount of U.S.\$0.6 billion. A net decrease of the amount of external borrowings was caused mainly by a decrease in the volume of cash foreign currency outside banks and an increase in the amount of indebtedness under trade loans in the real sector of the economy. The inflow of foreign direct investment amounted to U.S.\$1.2 billion, the majority of which (63.8 per cent. or U.S.\$737 million) was invested in the real sector of the economy. As at 30 June 2017, the surplus of the consolidated balance of payments amounted to U.S.\$1.0 billion, and a loan provided by the IMF enabled Ukraine to enhance its foreign currency reserves to U.S.\$18 billion.

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

	Year ended			Six months
	2014	31 December	2016	ended 30 June
		2015	2016	2017
		<i>(in U.S.\$ millions)</i>		
<b>A. Current account</b> .....	<b>(4,596)</b>	<b>(189)</b>	<b>(3,779)</b>	<b>(1,566)</b>
Goods and services (balance) .....	(4,606)	(1,704)	(5,799)	(2,287)
Export of goods and services .....	65,436	47,862	45,956	25,446
Import of goods and services .....	70,042	49,566	51,755	27,733
Goods (balance) .....	(7,128)	(3,455)	(7,008)	(3,177)
Services (balance) .....	2,522	1,751	1,209	890
Initial revenues (balance) .....	(1,531)	(1,113)	(931)	(721)
Current transfers (balance) .....	1,541	2,628	2,951	1,442
<b>B. Capital account</b> .....	<b>400</b>	<b>456</b>	<b>92</b>	<b>0</b>
<i>Net lending (+)/ Net borrowing (-) (=A+B)</i> .....	<i>(4,196)</i>	<i>267</i>	<i>3,687</i>	<i>(1,566)</i>
<b>C. Financial account</b> .....	<b>9,111</b>	<b>(582)</b>	<b>(5,033)</b>	<b>(2,615)</b>
Direct investment (balance) .....	(299)	(3,012)	(3,268)	(1,156)
Portfolio investment (balance) .....	2,700	(367)	(293)	(206)
Other investments (balance) .....	7,243	2,653	(1,875)	(899)
Other investments: assets .....	1,515	(1,045)	(5,029)	(447)
Including				
Banks .....	(3,006)	384	(700)	506
Other sectors .....	4,882	(1,377)	(4,314)	(926)
including foreign currency cash outside banks .....	4,142	(1,778)	(4,962)	(1,358)
Other investments: liabilities .....	(5,728)	(3,698)	(3,154)	452
Including				
State administration sector .....	3,274	2,295	252	484
Banks .....	(2,102)	(4,303)	(2,628)	(1,089)
Other sectors .....	(6,900)	(3,009)	525	957
Mistakes and omissions .....	533	(144)	(403)	354
<b>D. Consolidated balance (= A + B - C)</b> .....	<b>(13,307)</b>	<b>849</b>	<b>1,346</b>	<b>1,049</b>
<b>E. Reserves and related items</b> .....	<b>(13,307)</b>	<b>849</b>	<b>1,346</b>	<b>1,049</b>
Reserve assets .....	(12,404)	6,016	2,348	2,045
Loan from IMF (NBU) .....	551	3,346	1,002	996
IMF loan to Ukraine .....	352	1,821	0	0
SDR .....	0	0	0	0

Source: NBU

## International Trade

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.

The trade deficit of goods and services has remained relatively low since 2013, amounting to U.S.\$4.6 billion, U.S.\$1.7 billion and U.S.\$5.8 billion in 2014, 2015 and 2016, respectively. However, following the political and military upheaval in early 2014, the level of Ukrainian trade, both in terms of exports and imports, has dropped significantly from the 2011 to 2013 levels.

Exports of goods and services amounted to U.S.\$65.4 billion (or 48.6 per cent. of GDP), U.S.\$47.9 billion (or 52.7 per cent. of GDP) and U.S.\$46.0 billion (or 49.3 per cent. of GDP) in 2014, 2015 and 2016, respectively, representing decreases of 19.9 per cent., 26.9 per cent. and 4.0 per cent., respectively, compared to the previous years. This continued decrease in exports was primarily caused by the trade restrictions imposed by Russia and the conflict in certain parts of the Donetsk and Luhansk regions. For the six months ended 30 June 2017, exports of goods and services amounted to U.S.\$25.4 billion, an increase of 21.1 per cent. as compared to U.S.\$21.0 billion in the six months ended 30 June 2016.

Imports of goods and services amounted to U.S.\$70.0 billion (or 52.1 per cent. of GDP), U.S.\$49.6 billion (or 54.6 per cent. of GDP) and U.S.\$51.8 billion (or 55.5 per cent. of GDP) in 2014, 2015 and 2016, respectively, representing decreases of 29.0 per cent. and 29.2 per cent. for 2014 and 2015, respectively, and an increase of 4.4 per cent. for 2016. The significant decreases in 2014 and 2015 were the result of a considerable devaluation of the hryvnia and prolonged decline in domestic demand, while in 2016 the situation stabilised as domestic demand for investment grew, demand for imports in the agricultural sector boosted trade and an increase in the real income of population, as well as stabilisation of economic conditions, led to an upsurge in imports of consumer goods. Imports of goods and services for the six months ended 30 June 2017 amounted to U.S.\$27.7 billion, an increase of 20.3 per cent., as compared to U.S.\$23.1 billion for the six months ended 30 June 2016.

The following table represents the import and export of goods and services as a percentage of GDP for the years ended 31 December 2014, 2015, 2016 and for the six months ended 30 June 2017:

	Year ended 31 December			Six months ended 30 June
	2014 <sup>(1)</sup>	2015 <sup>(2)</sup>	2016 <sup>(2)</sup>	2017 <sup>(2)</sup>
		(% of GDP)		
Export of goods and services .....	48.6	52.7	49.3	53.3
Import of goods and services .....	52.1	54.6	55.5	60.3

(1) Information is provided without figures for illegally occupied Crimea.

(2) Information is provided without figures for illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.

### **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 2014, 2015, 2016, and for the five months ended 31 May 2017, ferrous and non-ferrous metals and their products accounted for approximately 28.3 per cent., 24.8 per cent., 22.9 per cent., and 22.8 per cent. of the value of exports, respectively, and the combined trade surplus on these items was U.S.\$11.9 billion, U.S.\$7.5 billion, U.S.\$6.0 billion, and U.S.\$2.8 billion, respectively. Chemicals accounted for a further 6.8 per cent, 6.7 per cent., 5.4 per cent., and 3.7 per cent. of exports in 2014, 2015, 2016 and for the five months ended 31 May 2017, respectively.

Agricultural products accounted for 30.9 per cent., 38.3 per cent., 42.0 per cent., and 43.2 per cent. of exports in 2014, 2015, 2016 and for the five months ended 31 May 2017, respectively. In 2014, exports of agricultural products increased by 1.5 per cent. due to easing of export restrictions (on 9 April 2014, Parliament passed a law which decreased the number of permits, including certificates of quality necessary for the export of grain); a record harvest of wheat and oilseeds in the summer of 2014; and a positive trade balance in the trade of meat, casein, grain cereals, oil due to excess volumes of exports over imports in 2014. In 2015, according to the State Statistics Service, exports of agricultural products decreased by 12.6 per cent. as compared to 2014. In 2016, exports of agricultural products increased by 49 per cent. as compared to 2015. For the five months ended 31 May 2017, according to the State Statistics Service, the export of agricultural products increased by 31.6 per cent. as compared to the corresponding period in 2016.

In addition, machinery and equipment accounted for 10.5 per cent., 10.3 per cent., 10.0 per cent., and 9.4 per cent. of exports in 2014, 2015, 2016, and for the five months ended 31 May 2017, respectively. In 2014, the volume of machinery exports increased by 17.1 per cent. as compared to 2013. In 2015, the volume of machinery exports decreased by 30.3 per cent. as compared to 2014. 2016 showed a further decrease of

7.7 per cent. as compared to 2015. For the five months ended 31 May 2017, the volume of machinery exports decreased by 30.3 per cent. as compared to the corresponding period in 2016. Since July 2005, exports of natural gas have been close to zero.

Fuel and energy exports increased by 25.2 per cent. in 2014 and decreased by 75.7 per cent. and 8.5 per cent. in 2015 and 2016, respectively. For the five months ended 31 May 2017, the volume of fuel and energy exports increased by 54.0 per cent. as compared to the corresponding period in 2016.

Fuel and energy products also represented the largest category of imports in 2014 and 2015, and one of the largest since then. Fuel and energy products represented 27.8 per cent., 29.0 per cent., 20.0 per cent. and 23.2 per cent. of imports in 2014, 2015, 2016 and for the five months ended 31 May 2017, respectively. These figures reflect the high natural resource requirements of the Ukrainian economy, which resulted in deficits in energy trade of U.S.\$13.1 billion in 2014, U.S.\$10.4 billion in 2015, U.S.\$7.4 billion in 2016, and U.S.\$4.0 billion for the five months ended 31 May 2017.

Machinery and equipment also accounted for a significant share of Ukrainian imports, representing 16.0 per cent., 16.7 per cent., 20.1 per cent., and 19.1 per cent. of imports in 2014, 2015, 2016, and for the five months ended 31 May 2017, respectively, with such imports coming mainly from Russia.

The positive balance of trade in goods and services was U.S.\$3.3 billion in 2014. In 2015, the positive balance of trade in goods and services was U.S.\$3.8 billion. In 2016, the positive balance of trade in goods and services was U.S.\$0.5 billion. For the three months ended 31 March 2017, the positive balance of trade in goods and services was U.S.\$0.1 billion.

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, particularly in light of the current state of relations with Russia.

The following table sets out exports from Ukraine by major commodity group and as a percentage<sup>(1)</sup> of total exports for the periods shown:

	As at 1 January of each year						Five months ended	
	2014 <sup>(2)</sup>		2015 <sup>(2)</sup>		2016 <sup>(2)</sup>		31 May 2017 <sup>(2)</sup>	
	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)
Fuel and Energy Products .....	2,012.1	3.7	488.0	1.3	446.5	1.2	290.3	1.7
Machinery and Equipment .....	5,657.2	10.5	3,940.9	10.3	3,637.9	10.0	1,628.2	9.4
Wood and Paper Products .....	2,248.2	4.2	1,724.3	4.5	1,668.5	4.6	632.8	3.7
Chemical Related Products .....	3,640.5	6.8	2,543.4	6.7	1,967.4	5.4	633.0	3.7
Agriculture Products .....	16,668.9	30.9	14,563.1	38.3	15,281.8	42.0	7,443.1	43.2
Ferrous Metals and their Products .....	14,596.4	27.1	8,994.6	23.6	7,937.0	21.8	3,711.8	21.5
Non Ferrous Metals and their Products .....	632.6	1.2	476.1	1.2	401.9	1.1	214.2	1.3
Mineral Products .....	4,091.5	7.6	2,611.5	6.8	2,282.3	6.3	1,365.4	7.9
Textiles and shoes .....	988.6	1.8	785.0	2.1	841.2	2.4	354.5	2.0
Other .....	3,365.7	6.2	2,000.2	5.2	1,897.2	5.2	968.8	5.6
<b>Total .....</b>	<b>53,901.7</b>	<b>100.0</b>	<b>38,127.1</b>	<b>100.0</b>	<b>36,361.7</b>	<b>100.0</b>	<b>17,242.1</b>	<b>100.0</b>

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

(2) Information provided does not include illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.

Source: State Statistics Service; International Trade Bulletin

The following table sets out imports to Ukraine by major commodity group and as a percentage<sup>(1)</sup> of total imports for the periods shown:

	As at 1 January of each year						Five months ended	
	2014 <sup>(2)</sup>		2015 <sup>(3)</sup>		2016 <sup>(3)</sup>		31 May 2017 <sup>(3)</sup>	
	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)
Fuel and Energy Products.....	15,143.8	27.8	10,882.4	29.0	7,851.5	20.0	4,307.1	23.2
Machinery and Equipment.....	8,720.8	16.0	6,273.4	16.7	7,889.4	20.1	3,548.2	19.1
Wood and Paper Products.....	1,584.2	2.9	1,026.3	2.7	1,112.0	2.8	450.7	2.5
Chemical Related Products.....	10,420.3	19.1	7,655.4	20.5	8,486.4	21.6	2,673.9	14.4
Agriculture Products.....	6,059.2	11.1	3,484.4	9.4	3,891.1	9.9	1,697.3	9.2
Ferrous Metals and their Products.....	2,138.8	3.9	1,207.7	3.2	1,445.7	3.6	692.2	3.7
Non Ferrous Metals and their Products	1,185.6	2.2	796.5	2.1	860.8	2.3	401.5	2.2
Mineral Products.....	951.6	1.7	807.5	2.2	643.5	1.6	285.5	1.5
Textiles and shoes.....	2,314.0	4.3	1,662.9	4.5	1,815.1	4.6	768.4	4.1
Other.....	5,910.4	11.0	3,719.9	9.7	5,254.3	13.5	3,747.4	20.1
<b>Total.....</b>	<b>54,428.7</b>	<b>100.0</b>	<b>37,516.4</b>	<b>100.0</b>	<b>39,249.8</b>	<b>100.0</b>	<b>18,572.2</b>	<b>100.0</b>

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

(2) Information does not include figures for illegally occupied Crimea.

(3) Information provided does not include illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.

Source: State Statistics Service; International Trade Bulletin

## Direction of Trade

### Russia and the CIS

The structure of Ukraine's trade with the CIS has historically been determined by its need to import a large proportion of its energy requirements, especially from Russia (with which Ukraine has historically run 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 energy imports, accounting for 37.1 per cent. in 2014, 15.4 per cent. in 2015, 10.5 per cent. in 2016, and 11.5 per cent. for the three months ended 31 March 2017. Imports from Russia of energy products accounted for 12.4 per cent. in 2014, 9.9 per cent. in 2015 and 4.8 per cent. in 2016.

Following the illegal occupation of Crimea by Russia and against a backdrop of recent European Union and U.S. economic sanctions imposed on Russia (in part due to its involvement in the conflict in certain parts of the Donetsk and Luhansk regions), a wide range of trade restrictions on imports to and exports from Russia have come into place. These restrictions have included recent bans by both Ukraine and Russia on various goods (including dairy products, confectionaries, alcoholic beverages and pork). In 2014, exports from Ukraine to Russia declined by 33.7 per cent. compared to 2013 and further declined by 50.7 per cent. and 25.6 per cent. in 2015 and 2016, respectively. In 2014, Russia introduced temporary restrictions on imports of potatoes, pork products and 11 dairy products. In 2016, these restrictions were extended to 25 dairy companies, 17 meat-processing companies, one poultry processing company and one fish processing company in Ukraine; concurrently, Russia introduced a food embargo on certain agricultural products, raw materials and food originating from Ukraine and cancelled the preferential trade regime envisaged by the agreement on free trade within the CIS on imports of Ukrainian goods.

Following Ukraine's entry into the Association Agreement with the EU in 2014, a significant increase in trade flows to and from the EU was expected. However, while total exports from Ukraine to the EU in 2014 increased by 2.6 per cent. as compared with the same period in 2013 (despite the abovementioned 33.7 per cent. decline in exports to Russia for the same period). In 2015, total exports from Ukraine to the EU decreased by 23.5 per cent. and to Russia by 50.7 per cent. as compared to 2014. In 2016, total exports from Ukraine to the EU increased by 3.7 per cent. as compared to 2015, and in the five months ended 31 May 2017, they increased by 25.2 per cent. as compared to the corresponding period in 2016. In the five months ended 31 May 2017, the increase in the total exports from Ukraine to the EU was due to increases in exports of ore, slags and cinder, grains and machinery. In 2016, exports to Russia decreased by 25.6 per cent. as compared to 2015.

The CIS countries remain one of Ukraine's main destinations for export of goods, accounting for 27.6 per cent. of Ukraine's total exported goods in 2014, 20.5 per cent. in 2015, 16.6 per cent. in 2016, and 15.5 per cent. for the five months ended 31 May 2017, of which exports to Russia accounted for 18.2 per cent. in 2014, 12.7 per cent. in 2015, 9.9 per cent. in 2016, and 9.3 per cent. for the five months ended 31 May 2017. In 2014, exports of goods to CIS countries amounted to U.S.\$14.9 billion, a 31.3 per cent. decrease as compared to 2013. In 2015, exports of goods to CIS countries amounted to U.S.\$7.8 billion (or

20.5 per cent. of Ukraine's total exports), a 47.5 per cent. decrease as compared to 2014. In 2016, exports of goods to CIS countries amounted to U.S.\$6.0 billion (or 16.6 per cent. of Ukraine's total exports), a 22.7 per cent. decrease as compared to 2015. For the five months ended 31 May 2017, exports of goods to CIS countries amounted to U.S.\$2.7 billion (or 15.5 per cent. of Ukraine's total exports), a 29.8 per cent. increase as compared to the corresponding period in 2016.

In 2014, imports of goods from CIS countries amounted to U.S.\$17.3 billion (or 31.7 per cent. of total imports to Ukraine), a 37.7 per cent. decrease as compared to 2013. In 2015, imports of goods from CIS countries amounted to U.S.\$10.5 billion (or 27.9 per cent. of total imports to Ukraine), a 39.3 per cent. decrease as compared to 2014. In 2016, imports of goods from CIS countries amounted to U.S.\$8.6 billion (or 21.8 per cent. of total imports to Ukraine), an 18.3 per cent. decrease as compared to 2015. For the five months ended 31 May 2017, imports of goods from CIS countries amounted to U.S.\$4.0 billion (or 21.8 per cent. of total imports of Ukraine), a 38.3 per cent. increase as compared to the five months ended 31 May 2016.

A large share of Ukraine's services exports originate from transit charges for Russian oil, gas, ammonia and electricity, which comprised approximately 19.2 per cent. of services exports in 2014, 23.2 per cent. in 2015, 26.2 per cent. in 2016, and 29.6 per cent. for the three months ended 31 March 2017. In 2014, exports of goods to Russia decreased by 33.7 per cent., due to decreases in exports of food products (a decrease of 52.8 per cent.), machinery (a decrease of 40.3 per cent.), articles of stone, plaster and cement (a decrease of 32.0 per cent.) and metallurgical products (a decrease of 30.9 per cent.). In 2015, exports of goods to Russia decreased by 50.7 per cent. as compared to 2014, due to decreases in exports of mineral products (a decrease of 59.7 per cent.), mechanical and electrical machinery (a decrease of 50.8 per cent.), base metals and their products (a decrease of 49.0 per cent.), and wood mass and other fibrous cellulose materials (a decrease of 45.6 per cent.). In 2016, exports of goods to Russia decreased by 25.6 per cent. as compared to 2015, due to decreases in exports of food products (a decrease of 66.4 per cent.), wood products (a decrease of 29.2 per cent.), machinery (a decrease by 25.7 per cent.), as well as mineral products (a decrease of 23.3 per cent.). For the five months ended 31 March 2017, exports of goods to Russia increased by 33.2 per cent. as compared to the corresponding period in 2016, due to increases in exports of fuel and energy (an increase by 2.4 times), locomotives (an increase of 86.6 per cent.), metallurgical products (an increase of 68.1 per cent.), as well as machinery (an increase of 30.1 per cent.).

### The EU

In 2014, exports of goods to the EU increased by 2.6 per cent., as compared to 2013 and amounted to 31.5 per cent. of the total exports in 2014. In 2015, exports of goods to the EU decreased by 23.5 per cent. as compared to 2014 and amounted to 34.1 per cent. of the total exports for 2015. In 2016, exports of goods to the EU increased by 3.7 per cent. as compared to 2015 and amounted to 37.1 per cent. of the total exports for 2016. For the five months ended 31 May 2017, exports of goods to the EU increased by 25.2 per cent. as compared to the corresponding period in 2016 and amounted to 39.2 per cent. of Ukraine's total exports for that period.

In 2014, exports of goods and services to the EU amounted to U.S.\$20.4 billion (31.8 per cent. of total exports of goods and services), or a 1.1 per cent. increase as compared to 2013. In 2015, exports of goods and services to the EU amounted to U.S.\$15.3 billion (32.8 per cent. of total exports of goods and services), or a 25.0 per cent. decrease as compared to 2014. In 2016, exports of goods and services to the EU amounted to U.S.\$15.8 billion (or 35.1 per cent. of total exports of goods and services), or a 3.2 per cent. increase as compared to 2015. For the three months ended 31 March 2017, exports of goods and services to the EU amounted to U.S.\$4.5 billion (or 36.4 per cent. of total exports of goods and services) or a 20.9 per cent. increase as compared to the relevant period in 2016.

In 2014, imports of goods and services from the EU amounted to U.S.\$24.2 billion (39.8 per cent. of total imports of goods and services), or a 21.8 per cent. decrease as compared to 2013. In 2015, imports of goods and services from the EU amounted to U.S.\$18.1 billion (42.1 per cent. of total imports of goods and services), or a 25.3 per cent. decrease as compared to 2014. In 2016, imports of goods and services from the EU amounted to U.S.\$19.6 billion (or 43.9 per cent. of total imports of goods and services), or an 8.2 per cent. increase as compared to 2015. For the three months ended 31 March 2017, imports of goods and services from the EU amounted to U.S.\$5.1 billion (or 41.7 per cent. of total imports of goods and services), or a 17.6 per cent. increase as compared to the corresponding period in 2016.

In 2014, 2015, 2016, and for the three months ended 31 March 2017, the bilateral trade in goods and services with the EU amounted to a deficit of U.S.\$3.8 billion, U.S.\$2.7 billion, U.S.\$3.7 billion, and U.S.\$0.6 billion respectively. 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, Italy, Hungary, the United Kingdom and the Netherlands.

### Other Markets

Outside Russia, the CIS and the EU, other key markets for Ukrainian trade are Asia and Africa. In 2016, 2015 and 2014, exports of goods to Asia decreased by 4.7 per cent., 19.4 per cent. and 7.9 per cent., respectively, as compared to the previous years, and accounted for 28.5 per cent, 32.5 per cent. and 32.4 per cent. of total exports of Ukraine in 2014, 2015 and 2016, respectively. However, for the five months ended 31 May 2017, exports of goods to Asia increased by 17.0 per cent. as compared to the corresponding period in 2016, and accounted for 30.1 per cent. of total exports of Ukraine for the same period in 2017.

In 2014, exports of goods to Africa increased by 0.4 per cent. as compared to 2013, and accounted for 9.5 per cent. of total exports of Ukraine in 2014. In 2015, the figure decreased by 25.4 per cent. as compared to 2014, and accounted for 10.0 per cent. of total exports of Ukraine in 2015. However, in 2016, exports of goods to Africa increased by 1.6 per cent. as compared to 2015, accounting for 10.6 per cent. of total exports of Ukraine in 2016. For the five months ended 31 May 2017, exports of goods to Africa increased by 34.6 per cent. as compared to the corresponding period in 2016, and accounted for 11.3 per cent. of total exports of Ukraine for the said period of 2017. In 2014, 2015 and 2016, Ukraine's consolidated trade balance amounted to a deficit of U.S.\$0.5 billion, a surplus of U.S.\$0.6 billion, and a deficit of U.S.\$2.9 billion, respectively. For the five months ended 31 May 2017, the consolidated trade balance amounted to a deficit of U.S.\$1.3 billion.

In 2014, 2015 and 2016, the consolidated trade balance in goods and services amounted to a deficit of U.S.\$4.6 billion, U.S.\$1.7 billion and U.S.\$5.8 billion, respectively. The following table sets out exports of goods by country of destination for the periods shown<sup>(1)</sup>:

	As at 1 January of each year							
	2014 <sup>(2)</sup>		2015 <sup>(3)</sup>		2016 <sup>(3)</sup>		Five months ended 31 May 2017 <sup>(3)</sup>	
	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)
China	2,674.1	5.0	2,399.1	6.3	1,832.5	5.0	719.1	4.2
Germany	1,590.6	3.0	1,328.7	3.5	1,423.7	3.9	595.0	3.5
Turkey	3,561.4	6.6	2,771.8	7.3	2,049.1	5.6	1,060.1	6.1
United States	667.9	1.2	481.8	1.3	426.6	1.2	307.5	1.8
Italy	2,468.3	4.6	1,979.8	5.2	1,929.6	5.3	984.9	5.7
Poland	2,644.7	4.9	1,977.3	5.2	2,200.0	6.1	1,039.5	6.0
Hungary	1,509.9	2.8	909.7	2.4	1,053.1	2.9	502.3	2.9
Thailand	140.2	0.3	334.9	0.9	413.5	1.1	61.5	0.4
Slovak Republic	670.6	1.2	468.5	1.2	471.4	1.3	237.8	1.4
Syria	163.0	0.3	132.8	0.3	43.2	0.1	4.8	0.0
Lebanon	272.3	0.5	300.1	0.8	338.5	0.9	162.0	0.9
Czech Republic	772.5	1.4	541.0	1.4	560.8	1.5	282.1	1.6
Netherlands	1,106.1	2.1	905.7	2.4	995.3	2.7	598.9	3.5
Greece	201.2	0.4	153.8	0.4	159.1	0.4	88.7	0.5
Spain	1,166.6	2.2	1,043.6	2.7	1,004.5	2.8	551.8	3.2
Lithuania	362.1	0.7	236.3	0.6	258.2	0.7	140.9	0.8
Latvia	226.2	0.4	150.3	0.4	138.2	0.4	65.9	0.4
CIS	14,882.3	27.6	7,806.1	20.5	6,031.5	16.6	2,671.4	15.5
Russian Federation	9,798.2	18.2	4,827.7	12.7	3,592.9	9.9	1,595.6	9.3
Moldova	743.6	1.4	524.3	1.4	481.1	1.3	222.9	1.3
Kazakhstan	1,069.4	2.0	712.7	1.9	400.1	1.1	142.9	0.8
Belarus	1,617.1	3.0	870.7	2.3	903.2	2.5	426.9	2.5
Turkmenistan	431.2	0.8	170.3	0.4	109.0	0.3	28.3	0.2
Azerbaijan	591.5	1.1	318.8	0.8	248.0	0.7	135.8	0.8
Uzbekistan	308.6	0.6	174.5	0.5	142.4	0.4	59.0	0.3
Other CIS states	322.7	0.5	207.1	0.5	154.8	0.4	90.0	0.3
Other	18,821.7	34.9	14,205.8	37.2	15,032.9	41.3	7,167.9	41.6
<b>Total</b>	<b>53,901.7</b>	<b>100.0</b>	<b>38,127.1</b>	<b>100.0</b>	<b>36,361.7</b>	<b>100.0</b>	<b>17,242.1</b>	<b>100.0</b>

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

(2) Information provided does not include figures for illegally occupied Crimea.

(3) Information provided does not include illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.

Source: State Statistics Service; International Trade Bulletin

The following table sets out imports of goods by country of origin for the periods shown<sup>(1)</sup>:

	As at 1 January of each year						Five months ended 31 May	
	2014 <sup>(2)</sup>		2015 <sup>(3)</sup>		2016 <sup>(3)</sup>		2017 <sup>(3)</sup>	
	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)
Germany.....	5,361.5	9.9	3,975.6	10.6	4,318.4	11.0	2,148.6	11.6
United States .....	1,928.9	3.5	1,480.7	3.9	1,687.9	4.3	1,101.9	5.9
Poland .....	3,070.8	5.6	2,324.0	6.2	2,693.3	6.9	1,247.7	6.7
Italy .....	1,509.0	2.8	976.3	2.6	1,358.2	3.5	537.8	2.9
France .....	1,269.2	2.3	892.8	2.4	1,530.5	3.9	732.1	3.9
Czech Republic .....	687.9	1.3	479.7	1.3	654.8	1.7	277.6	1.5
Slovak Republic .....	426.9	0.8	346.3	0.9	434.9	1.1	171.9	0.9
Hungary .....	1,464.0	2.7	1,608.5	4.3	802.0	2.0	413.9	2.2
United Kingdom.....	692.0	1.3	570.1	1.5	709.3	1.8	317.6	1.7
Netherlands.....	763.9	1.4	452.6	1.2	546.8	1.4	252.6	1.3
Austria.....	606.3	1.1	369.6	1.0	465.1	1.2	183.9	1.0
Turkey.....	1,299.5	2.4	851.7	2.3	1,098.6	2.8	488.8	2.6
Japan .....	612.6	1.1	382.2	1.0	551.8	1.4	267.8	1.4
Switzerland.....	523.6	1.0	457.7	1.2	983.8	2.5	700.9	3.8
China.....	5,411.0	9.9	3,771.0	10.1	4,687.7	11.9	2,091.4	11.3
Lithuania.....	1,032.2	1.9	552.6	1.5	492.5	1.3	190.9	1.0
Latvia .....	89.7	0.2	87.1	0.2	112.5	0.3	45.9	0.2
CIS .....	17,276.9	31.7	10,485.5	27.9	8,565.4	21.8	4,046.6	21.8
Russian Federation .....	12,700.0	23.3	7,492.7	20.0	5,149.3	13.1	2,472.9	13.3
Turkmenistan.....	24.6	0.1	16.3	0.0	34.3	0.1	19.0	0.1
Belarus .....	3,970.8	7.3	2,449.1	6.5	2,777.8	7.1	1,208.6	6.5
Kazakhstan.....	380.6	0.7	377.6	1.0	434.3	1.1	160.9	0.9
Uzbekistan.....	72.9	0.1	62.3	0.2	71.1	0.2	46.6	0.3
Moldova.....	61.9	0.1	41.2	0.1	47.6	0.1	21.0	0.1
Other CIS states.....	66.1	0.1	46.3	0.1	51.0	0.1	117.6	0.6
Other .....	10,402.8	19.1	7,452.4	19.9	7,556.3	19.3	3,374.3	18.3
<b>Total .....</b>	<b>54,428.7</b>	<b>100.0</b>	<b>37,516.4</b>	<b>100.0</b>	<b>39,249.8</b>	<b>100.0</b>	<b>18,572.2</b>	<b>100.0</b>

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

(2) Information provided does not include figures for illegally occupied Crimea.

(3) Information provided does not include illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.

Source: State Statistics Service; International Trade Bulletin

## Trade Agreements

Ukraine has been a member of the WTO since 2008. This membership facilitated the signing in June 2010 of a free trade agreement between Ukraine and the European Free Trade Association (Norway, Switzerland, Iceland and Liechtenstein), which came into force on 1 June 2012. In the same year, Ukraine entered into a free trade zone with the former CIS countries, a bilateral protocol on market access for goods with Laos and a free trade agreement with Montenegro.

In 2014, a political and trade accord between Ukraine and the EU entitled the “*Association Agreement and Deep Comprehensive Free Trade Area*” (the “**Association Agreement**”) was entered into and ratified by Ukraine and the EU member states. The Association Agreement includes provisions intended to gradually liberalise trade with the EU, such as lower imports duties for goods originating from the EU. See “*Political Framework—International Relations—Supranational Organisations—EU*”.

On 1 August 2017, the Free Trade Agreement between Ukraine and Canada, which was signed on 11 July 2016, became effective.

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

## Anti-Dumping and Protective Measures

As at 24 July 2017, seven anti-dumping investigations and six procedures relating to the review of the implemented anti-dumping measures concerning Ukrainian products (including two such review procedures due to change of circumstances) are being carried out on external markets. In addition, there is a special protective investigation being carried out on external markets. The investigations relate to hot-rolled steel, iron products, ferrosilicon manganese, iron rods, steel pipes, copper wire, angle bars, rolled wires, soda ash, acrylic fibre and toothbrushes. The jurisdictions undertaking investigations are India, the Eurasian Economic Union, Mexico, Turkey, the EU, the United States, Egypt and Korea.

In addition, based on the outcome of previous investigations, 34 anti-dumping measures (including three preliminary measures in relation to angle bars, iron rods, and ferrosilicon manganese) and three protective measures are being applied in relation to Ukrainian products (mainly metallurgical products) in countries and economic organisations including the United States, the Eurasian Economic Union, the EU, Canada, Mexico, Turkey, Thailand, Taiwan, Korea, India, Indonesia, Malaysia, Egypt, Pakistan, and Brazil.

As at 29 May 2017, Ukraine was conducting two anti-dumping investigations concerning urea-formaldehyde products, iron rods and rolled wires imported from Russia and an interim revision concerning ammonium nitrate (ammonium saltpetre) of Russian origin.

As at 29 May 2017, following previous investigations, Ukraine applies 18 special protective measures (including 16 anti-dumping measures, one special measure and one countervailing measure).

### **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. 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 4.9 per cent.

Parliament has enacted a number of laws providing for the 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 that 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 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. In 2013, Ukraine completed the process of bringing its tariff rates in line with the WTO requirements.

Until 2018, Ukraine will continue working on the annual reduction of export duty rates for certain products, in particular for leather, in relation to which the transformation period expires in 2018 (the rate will be 20 per cent.).

### **Foreign Investment**

As a consequence of the significant shortage of internal financial resources, Ukraine has sought to attract foreign investment as an important contributor to economic growth and structural reform. However, the pace and amount of 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 and, more recently, by the illegal occupation of Crimea and the conflict in certain parts of the Donetsk and Luhansk regions.

Prior to 2014, the amount of cumulative FDI had been increasing in recent years. However, cumulative FDI (equity capital) decreased by 24.2 per cent. in 2014<sup>(1)</sup>, and by 11.2 per cent. in 2015<sup>(1)</sup>, and increased by 4.2 per cent. in 2016<sup>(1)</sup> and by 2.0 per cent. for the three months ended 31 March 2017<sup>(1)</sup>. As at 1 January 2014<sup>(1)</sup>, 2015<sup>(1)</sup> and 2016<sup>(1)</sup>, cumulative FDI (including foreign interests in privatisations) amounted to U.S.\$53.7 billion, U.S.\$40.7 billion, and U.S.\$36.2 billion, respectively. As at 31 December 2016<sup>(1)</sup> and 1 April 2017<sup>(1)</sup>, cumulative FDI amounted to U.S.\$37.7 billion and U.S.\$38.0 billion respectively.

The following tables show information on FDI for the periods indicated:

### FDI (share capital) in the economy of Ukraine

<b>As at</b>	<b>FDI (cumulative total)</b> <i>(U.S.\$ millions)</i>
1 January 2014 <sup>(1)</sup> .....	53,704.0
1 January 2015 <sup>(1)</sup> .....	40,725.4
1 January 2016 <sup>(1)</sup> .....	36,154.5
31 December 2016 <sup>(1)</sup> .....	37,655.5
1 April 2017 <sup>(1)</sup> .....	38,046.6

(1) The data on direct investments is calculated based on the information from Ukrainian companies and representative offices of foreign companies in Ukraine, including administrative data of the National Bank of Ukraine concerning market value of direct investments (shares, property, etc.) of the companies and institutions.

Source: State Statistics Service

### Growth (decline) of FDI (share capital)

<b>Year ended 31 December</b>	<b>Growth (decline) of FDI over the relevant period</b> <i>(U.S.\$ millions)</i>
2014(1).....	(12,978.6)
2015 <sup>(1)</sup> .....	(4,570.9)
2016 <sup>(1)</sup> .....	1,501.0
January-March 2017 <sup>(1)</sup> .....	733.3

(1) Information provided does not include illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.

Source: State Statistics Service

The following table shows the breakdown of cumulative FDI by country of origin as at the dates indicated:

	<b>As at 1 January</b>				<b>As at 31 December</b>				<b>As at 1 April</b>			
	<b>2014<sup>(1)</sup></b> <i>(U.S.\$ millions)</i>		<b>2015<sup>(1)</sup></b> <i>(U.S.\$ millions)</i>		<b>2016<sup>(1)</sup></b> <i>(U.S.\$ millions)</i>		<b>2016<sup>(1)</sup></b> <i>(U.S.\$ millions)</i>		<b>2017<sup>(1)</sup></b> <i>(U.S.\$ millions)</i>			
		<i>(%)</i>										
United States.....	934.7	1.7	701.6	1.7	634.1	1.8	698.8	1.9	540.3	1.4		
Cyprus.....	17,725.6	33.0	12,769.4	31.4	10,239.5	28.3	9,691.6	25.7	9,727.1	25.6		
Russian Federation.....	3,525.9	6.6	2,338.9	5.7	3,036.9	8.4	4,349.8	11.6	4,356.9	11.5		
United Kingdom.....	2,768.2	5.2	2,153.4	5.3	1,790.3	5.0	2,046.3	5.4	1,999.0	5.3		
Netherlands.....	9,007.5	16.8	6,986.7	17.2	6,184.7	17.1	5,753.9	15.3	6,207.2	16.3		
Germany.....	2,908.4	5.4	2,105.2	5.2	1,598.2	4.4	1,606.6	4.3	1,665.2	4.4		
Switzerland.....	1,351.0	2.5	1,391.5	3.4	1,390.8	3.8	1,467.3	3.9	1,471.8	3.9		
British Virgin Islands.....	2,275.9	4.2	1,988.3	4.9	1,715.0	4.7	1,766.5	4.7	1,689.8	4.4		
Other <sup>(2)</sup> .....	13,206.8	24.6	10,290.4	25.2	9,565.0	26.5	10,274.7	27.2	10,389.3	27.2		
<b>Total</b> .....	<b>53,704.0</b>	<b>100.0</b>	<b>40,725.4</b>	<b>100.0</b>	<b>36,154.5</b>	<b>100.0</b>	<b>37,655.5</b>	<b>100.0</b>	<b>38,046.6</b>	<b>100.0</b>		

(1) Information provided does not include illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.

(2) Includes countries whose cumulative FDI contribution did not exceed 3.5 per cent. of the total (other than the United States, which is included in a separate line) as at 1 April 2017.

Source: State Statistics Service

From 2012 to 2016, Cyprus was the largest contributor of FDI to Ukraine. As at 1 April 2017, Cypriot investments in Ukraine amounted to U.S.\$9.7 billion, constituting 25.6 per cent. of the total volume of investments (excluding illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions). Cypriot FDI is believed to consist primarily of “off shore” investments originating in Russia or other CIS countries that are structured through Cyprus for tax reasons. As at 1 April 2017, Cyprus, the Netherlands, the Russian Federation, the United Kingdom, the British Virgin Islands, Germany, Switzerland, France, Austria, Luxembourg, Poland, Hungary, Belize, and the United States were among the most important sources of FDI into Ukraine.

Investments made in Ukraine as at 1 April 2017 have primarily been in the fields of finance and insurance, industry, wholesale and retail trade, repairs of cars and motorcycles, real estate, professional, scientific and technical activities, and information and telecommunications. The industrial sector was the largest recipient of FDI in 2014 and 2015 (30.5 per cent., and 27.4 per cent., respectively). In 2016 and for the three months ended 31 March 2017, the largest proportion of FDI was directed to financial and insurance companies (27.4 per cent. and 26.4 per cent., respectively).

The following table sets out cumulative FDI by sector as at the dates indicated:

	As at 1 January						As at 31 December		As at 1 April	
	2014 <sup>(1)</sup>		2015 <sup>(1)</sup>		2016 <sup>(1)</sup>		2016		2017	
	(U.S.\$ millions)	(%)								
Manufacturing of food, beverages and tobacco products.....	3,228.0	6.0	2,706.4	6.6	2,419.0	6.7	2,550.9	6.8	2,560.3	6.7
Wholesale and retail trade; repair of cars and motorcycles.....	6,807.8	12.7	6,037.6	14.8	5,247.4	14.5	5,485.5	14.6	5,127.7	13.5
Financial and insurance business .....	12,261.4	22.8	8,790.3	21.6	8,382.0	23.2	10,324.4	27.4	10,051.2	26.4
Engineering, other than repair and instalment of machines and equipment .....	1,167.8	2.2	841.7	2.1	781.6	2.2	828.5	2.2	786.6	2.1
Coke and petrochemical products .....	545.8	1.0	129.2	0.3	188.7	0.5	176.6	0.5	178.4	0.5
Transport, warehouse services, post and courier services .....	1,535.3	2.9	1,355.5	3.3	1,088.0	3.0	1,054.0	2.8	1,097.6	2.9
Production of chemicals and chemical products.....	1,196.1	2.2	869.7	2.1	679.5	1.9	644.2	1.7	656.3	1.7
Production of rubber and plastic articles, other than non-metallic mineral products .....	1,484.3	2.8	1,179.2	2.9	1,079.8	3.0	1,035.2	2.7	1,000.0	2.6
Information and telecommunications .....	1,894.7	3.5	1,646.2	4.0	2,089.4	5.8	2,089.3	5.5	2,080.0	5.5
Real estate business .....	4,768.3	8.9	3,979.4	9.8	3,882.1	10.7	3,670.6	9.7	3,771.2	9.9
Metallurgy and production of fully processed articles of metal, other than manufacturing of machines and equipment .....	3,354.6	6.2	2,181.3	5.4	1,533.1	4.2	1,497.9	4.0	1,650.6	4.3
Professional services, scientific and technical activities .....	4,006.8	7.5	2,634.5	6.5	2,222.6	6.1	2,196.2	5.8	2,286.7	6.0
Supply of electricity, gas, steam and condensed air .....	593.4	1.1	412.4	1.0	438.0	1.2	378.6	1.0	398.3	1.0
Other .....	10,859.7	20.2	7,962.0	19.6	6,123.3	17.0	5,723.6	15.3	6,401.7	16.9
<b>Total .....</b>	<b>53,704.0</b>	<b>100.0</b>	<b>40,725.4</b>	<b>100.0</b>	<b>36,154.5</b>	<b>100.0</b>	<b>37,655.5</b>	<b>100.0</b>	<b>38,046.6</b>	<b>100.0</b>

(1) Information provided does not include illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.

Source: State Statistics Service

According to Ukrainian law, 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 (subject to compliance with certain requirements).

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 imposed on profit repatriation. Profit repatriation is subject to the provisions of treaties on the avoidance of double taxation, which can reduce or eliminate the withholding tax.

## PUBLIC FINANCE AND FISCAL POLICY

### Overview

Ukraine's consolidated budget (the “**Consolidated Budget**”) consists of the combined revenues and expenditures of the State Budget of Ukraine (the “**State Budget**”) and of the budgets of local authorities (after eliminating inter-budgetary transfers). The State Budget is the central Government budget and 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 that 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.

External debt of the State is reliant upon the State Budget for its servicing requirements. The Government is not permitted to use funds from the Consolidated Budget to service external debt payments, except to the extent they form part of the State Budget. This limitation includes payments to be made under the Notes.

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 for the years ended 31 December 2014, 2015, 2016, and for the six months ended 30 June 2017:

	Year ended 31 December			Six months ended 30 June
	2014 <sup>(2)</sup>	2015 <sup>(3)</sup>	2016 <sup>(3)</sup>	2017 <sup>(3)</sup>
	<i>(UAH millions)</i>			
GDP <sup>(1)</sup> .....	1,586,915.0	1,988,544.0	2,383,182.0	2,845,800.0
<b>Consolidated Budget</b>				
Revenues .....	456,067.3	652,031.0	782,859.5	495,969.1
Expenditure .....	523,125.7	679,871.4	835,832.1	443,846.2
Lending <sup>(4)</sup> .....	4,972.1	3,057.8	1,841.3	(22.1)
Surplus (Deficit) .....	(72,030.5)	(30,898.2)	(54,813.9)	52,145.0
Surplus (Deficit)(% of GDP) <sup>(5)</sup> .....	(4.5)	(1.6)	(2.3)	—
<b>State Budget</b>				
Revenues .....	357,084.2	534,694.8	616,283.2	394,906.0
Expenditure .....	430,217.8	576,911.4	684,883.7	366,027.7
Lending <sup>(4)</sup> .....	4,919.3	2,950.9	1,661.6	(156.8)
Surplus (Deficit) .....	(78,052.8)	(45,167.5)	(70,262.1)	29,035.0
Surplus (Deficit)(% of GDP) <sup>(5)</sup> .....	(4.9)	(2.3)	(2.9)	—

(1) GDP for 2014 through 2017 was calculated according to the System of National Accounts (2008) and does not include data of illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions; GDP for 2016 is the result of preliminary calculations.

(2) The data on performance of the State Budget and the Consolidated Budget for 2014 includes data of illegally occupied Crimea, which was recorded in the reports for January to March 2014.

(3) The data on performance of the State and Consolidated budgets for 2015 through 2017 does not include data of the illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.

(4) Lending figures are calculated as the aggregate amount of loans provided from the budget minus aggregate amount of repayments made to the budget under the existing loans in the given period. Where there are negative lending figures, this is because the amount of loan repayments to the budget exceeds the amount of provided new loans from the budget.

(5) Surplus (Deficit)(% of GDP) figures are provided on an annual basis; therefore figures for 30 June 2017 are not available.

Source: Ministry of Finance

### Changes to the tax system

#### *Austerity Measures of April 2014*

On 27 March 2014, the first package of tax reforms developed by the post-revolutionary Government was adopted by Parliament. This package included an increase in personal income tax for most types of passive income of individuals, an imposition of personal income tax on interest on deposits and financial instruments, an increase of excise tax rates and rent tax rates (including payment for the use of subsoil for extraction purposes), the abolishment of certain tax exemptions and other tax reforms.

These austerity measures in taxation were aimed at raising additional funds for the budget and were not designed to change the overall tax system or reform it significantly. Some of the introduced changes were amended in June and July 2014 to avoid what was seen as an unreasonable or excessive tax burden.

### *Military duty*

In July 2014, a military duty was introduced in Ukraine. The duty is withheld by employers from salary and salary-like remunerations at a rate of 1.5 per cent. of the relevant amount. Although initially intended to be a temporary measure, it has been prolonged and extended to any other forms of payments to individuals. This measure is expected to remain in effect until the completion of the reform of Ukraine's military forces.

### *Electronic system for VAT administration*

In July 2014, Parliament adopted changes to the Tax Code introducing a special electronic system of VAT administration, effective as of 1 January 2015. On 28 December 2014, Parliament amended the Tax Code and postponed the introduction of the special electronic system to 1 February 2015 in test mode, with full application from 1 July 2015. Such electronic system establishes special VAT accounts for each VAT payer in Ukraine and is aimed at the prevention of massive VAT fraud, which is thought to have been widely practiced in Ukraine. The VAT accounts are used to store advance payments of VAT paid by the taxpayer (which will be a pre-requisite for the issuance of a valid VAT invoice to the customer).

### *Tax Reform of December 2014*

Since the amendments introduced in early 2014 were not considered sufficient to improve the business climate in Ukraine, the Government developed a large-scale tax reform, which was adopted by Parliament on 28 December 2014 and became effective as of 1 January 2015. These further amendments provided for a significant revision of the corporate income tax computation rules, personal income tax rates, rate of the rent tax and a broadening of the tax base of a number of different taxes.

The tax reform also provided for certain reforms in tax administration procedures that decreased the administrative burden on businesses with regard to tax matters. In particular, the total number of taxes was reduced from 22 to 11. Tax authorities were prohibited from carrying out unscheduled audits of transactions which have already been subject to a tax audit, if such audits are based on information from third parties, deviations in tax returns or orders to conduct tax audit as a part of a criminal investigation. Moreover, information on companies with tax debt was made available online.

As part of the December 2014 tax reform, the rules concerning CIT were significantly amended. Under the new rules, subject to a limited number of corrections (referred to as tax differences), corporate income tax must be charged on accounting profits. As a result, the tax authorities were granted the right to review accounting records of taxpayers and their correctness.

The rate of personal income tax was also revised. From 1 January 2015, the general personal income tax rate was 15 per cent. for income less than 10 times the minimum wage, and 20 per cent. (an increase from the previous rate of 17 per cent.) for income exceeding 10 times the minimum wage. The general personal income tax rate for passive income (royalties, interest, capital gains) was set at 20 per cent. (a rise from the previous rate of 15 per cent.).

Amendments also introduced real estate tax on commercial (non-residential) real estate situated in Ukraine. Furthermore, in accordance with the amendments, local authorities were given the power to determine the land tax rate. The maximum allowed rate of land tax was increased from 1 per cent. to 12 per cent. of the normative appraisal of the land plot for land plots that are in permanent use by business entities (except for municipal or state-owned enterprises).

### *Improvement of Transfer Pricing Controls*

Additionally, the Government made significant steps towards the prevention of base erosion and profit shifting. Transfer pricing rules were significantly amended in order to prevent abuse of offshore vehicles. Certain of the changes to the transfer pricing rules and regulations were adopted on 28 December 2014 as a part of the tax reform. The new rules are in line with OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. These rules require taxpayers conducting controlled transactions to report such transactions and prove that they are on arm's length terms.

Further amendments to the transfer pricing rules were introduced in 2015, including extending the categories of transactions subject to such rules.

The remaining amendments to the Ukrainian transfer pricing rules were introduced with effect from 1 January 2017. These amendments increased the thresholds for transactions covered by the rules and further extended the list of controlled transactions. In particular, transactions with non-residents incorporated in certain corporate forms (the list to be approved by the Cabinet of Ministers of Ukraine), which (i) do not pay corporate income tax; and/or (ii) are not tax residents of their incorporation state, are considered as controlled transactions starting from 27 July 2017.

#### *Tax Reform of December 2015*

The tax reform of December 2014 generally improved the business climate in Ukraine but failed to achieve certain key goals, namely bringing a substantial portion of the shadow economy into the reporting economy and reform of the tax authorities. On 24 December 2015, Parliament adopted a number of changes to Ukraine's tax system with effect from 1 January 2016. These changes provided for a flat 18 per cent. personal income tax rate applicable to most types of income, the basic reporting period for corporate income tax payers changing from yearly to quarterly, the abolition of monthly advance payments of corporate income tax with certain transition rules, the decrease of the single social contribution rate from 41 per cent. to 22 per cent. and the abolition of the 3.6 per cent. single social contribution payable by employees, as well as improvement of the VAT refund.

#### *Tax Reform of December 2016*

Further amendments to existing tax laws entered into force on 1 January 2017, introducing a wide range of changes mostly related to the tax administration as well as to the application of corporate income tax, VAT, personal income tax and certain other taxes. These amendments are intended to help reform the State Fiscal Service of Ukraine and will contribute to the prevention of corruption in the Ukrainian tax system.

#### *Suspension of VAT invoices registration*

Effective from 1 July 2017, a special procedure relating to the suspension of the registration of VAT invoices by the tax authorities was introduced, aimed at combating VAT fraud. Under this procedure, the tax authorities suspend registration of VAT invoices that fall within risk assessment criteria adopted by the Ministry of Finance of Ukraine. For example, where an entity supplies alcohol and/or tobacco products without the requisite licence for such activity the tax authorities will suspend registration of VAT invoices for the relevant goods issued by the entity.

Purchasers of goods may not deduct VAT which relates to such suspended VAT invoices until the tax authorities formally register them, if at all. However, taxpayers may challenge such suspension of the registration of VAT invoices under a special procedure provided for by the Tax Code and Resolution of the Cabinet of Ministers of Ukraine No. 485 dated 4 July 2017.

#### *OECD Base Erosion and Profit Shifting Action Plan*

As of 2017, Ukraine has joined the Inclusive Framework for implementation of the OECD Base Erosion and Profit Shifting Action Plan (“**OECD BEPS**”). As such, Ukraine has undertaken to implement four “minimum standard” actions of the OECD BEPS. These are likely to bring the focus of tax authorities on areas such as transfer pricing, substance of legal structures employed by taxpayers and various anti-abuse rules applicable to cross-border transactions.

#### *Further changes in accordance with IMF recommendations*

According to the recommendations of the IMF, Ukraine will focus on further improvement of the tax administration, broadening of the taxing base and limitation of tax benefits. Effective from 1 January 2017, VAT incentives for agricultural producers were removed. Instead, since 1 January 2017, the Ukrainian Government has introduced budget subsidies for qualifying agricultural companies. Among the priorities for further changes are the complex reform of the State Fiscal Services of Ukraine and its structural optimisation.

#### *Influence of illegal Crimean occupation and events in parts of Donbas*

Since the illegal occupation of Crimea, tax receipts from that region have been completely cut off. The Government estimates the lost tax and customs revenues of the State Budget to be approximately UAH 4.8 billion in 2014. The conflict in certain parts of the Donetsk and Luhansk regions has also effectively

limited tax collections and therefore revenues from the affected areas. The Government estimates the lost revenues of the State Budget to be approximately UAH 9.9 billion in 2014 (actual tax and customs revenues from Donetsk and Luhansk regions in 2014 amounted to UAH 20.8 billion, as compared to UAH 30.7 billion in 2013). In 2015 and 2016 actual tax and customs revenues from Donetsk and Luhansk regions amounted to UAH 15.7 billion and UAH 17.0 billion respectively, taking into account that revenues throughout the period from 2014 to 2016 were also affected by price dynamics, in particular GDP deflator, which in 2014 stood at 15.9 per cent., in 2015 – at 38.9 per cent., and in 2016 – at 17.1 per cent.

## **The Budget Process**

### ***Budget Preparation and Adoption***

Pursuant to the Constitution, each year, following a review by the Cabinet of Ministers, a proposed State Budget is to be submitted to Parliament by the 15 September in the form of a draft Budget Law. The deadline for approval of the State Budget Law by Parliament is the 1 December. If the State Budget Law is not adopted by the 1 January of 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 that 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, which focuses on using budget funds to achieve specific results as well as the evaluation of the effectiveness of using budget funds during all stages of the budget process, and medium term budgetary 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; formalising the responsibility of budget process participants; and strengthening the financial independence of local budgets.

Further legislative amendments have targeted the harmonisation of provisions of Ukrainian law with the Budget Code, the principles of State and local debt management (including guaranteed debt), increasing the transparency of State finances and the financial self-sufficiency of local budgets, improving legislative governance of quasi fiscal operations and compliance of laws with the balancing of the State Budget.

### ***Budget Implementation***

The budget year commences on 1 January and ends on 31 December. The Ministry of Finance is responsible for implementation of the State Budget, and local authorities are responsible for the implementation of their respective local budgets. Implementation of the budget involves ensuring that revenues are collected, budget programmes are implemented and the deficit is financed. The Ministry of Finance and local authorities develop regulations concerning the implementation of the budget, provide methodological guidance, and provide accounting and financial budgetary reporting services in relation to the execution of their respective budgets.

## The State Budget

The main planned and actual State Budget performance for 2014 through 2016 and for the six months ended 30 June 2017 are set out in the table below:

	2014 <sup>(1)</sup>		2015 <sup>(2)</sup>		2016 <sup>(3)</sup>		2017 <sup>(4)</sup>		Actual performance for the six months ended 30 June
	Budget (as amended)	Actual							
	(in UAH millions)		(in UAH millions)		(in UAH millions)		(in UAH millions)		
<b>Revenues</b>									
Tax revenue.....	292,588.9	280,178.3	409,970.9	409,417.5	502,554.6	503,879.4	606,815.5	294,913.5	
<i>of which:</i>									
Personal income tax.....	14,191.8	12,645.8	42,591.3	45,062.0	56,132.2	59,810.5	68,677.8	34,555.7	
Corporate income tax.....	40,290.4	39,941.9	36,915.0	34,776.3	48,559.0	54,344.1	57,916.2	31,658.4	
VAT.....	142,958.7	139,024.3	180,006.1	178,452.4	232,658.0	235,506.0	293,102.7	148,071.6	
Excise duty on domestic goods..	31,918.2	28,085.5	36,525.0	38,783.8	52,711.0	55,116.3	71,585.0	30,692.4	
Excise duty on imported goods..	13,009.7	16,855.4	23,500.7	24,326.8	29,181.0	35,006.2	41,751.0	17,934.1	
Non tax revenue.....	75,635.3	68,355.2	110,506.7	120,006.5	110,052.9	103,643.7	114,694.0	65,919.0	
Capital revenue.....	1,815.0	888.1	753.0	171.4	1,267.4	191.5	369.4	240.3	
From the EU, foreign governments and international organisations, and donors.....	5,222.5	5,383.0	4,970.0	1,800.3	5,502.6	4,109.4	1,777.5	837.5	
Special funds <sup>(5)</sup> .....	177.5	161.7	1,665.8	155.0	7,880.3	287.7	11,723.1	29,827.7	
Official transfers.....	2,222.9	2,118.0	4,152.3	3,144.0	4,269.5	4,171.6	5,133.1	3,168.0	
<b>Total revenues.....</b>	<b>377,662.0</b>	<b>357,084.2</b>	<b>532,018.6</b>	<b>534,694.8</b>	<b>631,527.2</b>	<b>616,283.2</b>	<b>731,031.2</b>	<b>394,906.0</b>	
<b>Expenditure</b>									
State function.....	68,478.0	65,825.8	106,047.0	103,116.7	121,952.7	118,049.3	144,569.7	64,675.1	
<i>of which:</i>									
Public and local administration, financial and foreign economic activity.....	12,645.8	12,072.1	14,604.5	13,689.5	20,185.1	17,213.0	25,624.5	9,450.0	
Fundamental research.....	3,466.1	3,267.1	3,290.7	3,114.9	3,140.6	2,888.7	3,809.8	1,739.8	
Sovereign debt service <sup>(6)</sup> .....	48,329.9	47,976.7	85,669.3	84,505.4	96,310.7	95,794.2	111,338.4	52,563.9	
National defence.....	28,760.9	27,363.4	54,570.6	52,005.2	66,696.4	59,350.8	69,656.5	27,576.9	
Law enforcing activity, national security and the judiciary.....	46,649.6	44,619.0	55,810.6	54,643.4	72,525.7	71,670.4	80,672.0	34,685.9	
Economic activity.....	39,377.3	34,410.7	43,516.1	37,135.4	35,932.9	31,422.3	42,875.0	14,255.6	
<i>of which:</i>									
General economic, trade and labour activity.....	674.9	557.6	710.2	640.1	1,667.2	1,436.4	2,388.9	940.8	
Agriculture, forestry, fishery and hunting.....	6,966.5	5,759.0	5,299.7	4,732.9	4,628.6	4,372.8	10,813.0	3,324.3	
Fuel and energy complex.....	10,159.5	9,335.8	3,564.9	1,889.6	2,226.3	2,200.4	2,108.2	1,016.2	
Transport.....	15,776.3	14,428.9	25,468.1	23,104.2	16,398.2	15,335.2	16,631.5	6,648.7	
Communication, telecommunication and informatics.....	128.2	123.2	126.7	124.3	120.4	119.3	176.7	84.0	
Protection of environment.....	3,847.8	2,597.0	4,705.7	4,053.0	5,353.3	4,771.6	4,238.4	2,116.2	
Housing and utilities infrastructure..	149.9	111.5	493.0	21.5	38.7	12.5	38.8	4.7	
Health.....	11,251.1	10,580.8	12,657.2	11,450.4	12,816.2	12,464.6	15,918.3	4,034.5	
Intellectual and physical development.....	5,457.5	4,872.4	7,605.4	6,619.2	5,058.9	4,958.9	7,515.2	3,089.7	
<i>of which:</i>									
Physical culture and sport.....	2,789.8	2,452.2	4,527.6	3,647.5	1,448.5	1,410.7	2,046.8	674.3	
Culture and art.....	1,667.9	1,539.3	1,880.5	1,804.4	2,055.4	2,012.0	4,004.7	1,795.3	
Mass media.....	927.8	811.7	1,134.8	1,108.9	1,499.0	1,483.7	1,337.4	582.5	
Education.....	32,225.7	28,677.9	33,281.6	30,185.7	38,946.8	34,826.5	41,756.1	19,754.6	
Social protection and social insurance.....	87,375.2	80,558.2	104,381.3	103,700.9	152,513.7	151,961.5	152,665.7	59,042.1	
Interbudgetary transfers.....	137,588.4	130,600.9	176,403.9	173,980.0	196,743.3	195,395.3	251,605.8	136,792.3	
<b>Total expenditure.....</b>	<b>461,161.2</b>	<b>430,217.8</b>	<b>599,472.4</b>	<b>576,911.4</b>	<b>708,578.7</b>	<b>684,883.7</b>	<b>800,126.6</b>	<b>366,027.7</b>	
Domestic lending.....	5,130.2	4,919.3	11,189.9	2,950.9	10,192.5	1,661.5	7,833.8	(156.8)	
External lending.....	—	—	—	—	—	—	—	—	
Total lending.....	5,130.2	4,919.3	11,189.9	2,950.9	10,192.5	1,661.5	7,833.8	(156.8)	
<b>Balance (surplus/deficit).....</b>	<b>(88,629.4)</b>	<b>(78,052.8)</b>	<b>(78,643.6)</b>	<b>(45,167.5)</b>	<b>(87,244.0)</b>	<b>(70,262.1)</b>	<b>(77,647.0)</b>	<b>29,035.0</b>	
Balance (% of GDP) <sup>(7)</sup> .....	(5.8)	(4.9)	(4.3)	(2.3)	—	(2.9)	—	—	
Domestic financing <sup>(8)</sup> .....	44,711.6	35,796.4	(84,507.4)	(64,522.7)	9,270.2	37,036.1	22,780.8	(43,188.9)	
<i>of which: Receipts from</i>									
privatisation of state property.....	467.0	466.9	17,000.0	151.5	17,100.0	188.9	17,100.0	110.8	
External financing <sup>(9)</sup> .....	43,917.7	42,256.4	163,151.0	109,690.2	77,973.8	33,225.9	56,052.0	14,153.9	
<b>Total financing<sup>(10)</sup>.....</b>	<b>88,629.4</b>	<b>78,052.8</b>	<b>78,643.6</b>	<b>45,167.5</b>	<b>87,244.0</b>	<b>70,262.1</b>	<b>78,832.8</b>	<b>(29,035.0)</b>	

- (1) Basic assumptions underlying the 2014 State Budget, as amended, included a real GDP decline rate of 3.0 per cent., nominal GDP of UAH 1,524.2 billion, annual CPI inflation of 12 per cent. and an average annual exchange rate of UAH 10.00 to U.S.\$1.00. Actual GDP in 2014 amounted to UAH 1,586.9 billion (in accordance with the System of National Accounts (2008)), taking into account that the provided figures do not include illegally occupied Crimea.
- (2) Basic assumptions underlying the 2015 State Budget, as amended, included a real GDP decline rate of 5.5 per cent., nominal GDP of UAH 1,850.2 billion, annual CPI inflation of 26.7 per cent. and an average annual exchange rate of UAH 21.70 to U.S.\$1.00. Actual GDP in 2015 amounted to UAH 1,988.5 billion (in accordance with the System of National Accounts (2008)), taking into account that the provided figures do not include illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.
- (3) Basic assumptions underlying the 2016 State Budget, as amended, included a real GDP growth rate of 2.0 per cent., nominal GDP of UAH 2,262.0 billion, annual CPI inflation of 12.0 per cent. and an average annual exchange rate of UAH 24.1 to U.S.\$1.00. The actual GDP in 2016 amounted to UAH 2,383.2 billion (according to the System of National Accounts (2008)), taking into account that the provided figures do not include illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.
- (4) Basic assumptions underlying the 2017 State Budget, as amended, included a real GDP growth rate of 1.8 per cent., nominal GDP of UAH 2,845.8 billion, annual CPI inflation of 11.2 per cent. and an average annual exchange rate of UAH 27.8 to U.S.\$1.00. The Ministry of Economic Development expects to actual GDP in 2017 to amount to UAH 2,845.8 billion (in accordance with the System of National Accounts (2008)), taking into account that the provided figures do not include illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.
- (5) Special funds in the State Budget 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. Since 1 January 2015, this line also includes a special fund for national security, defence purposes and recovered monies which had previously been misappropriated due to corrupt practices.
- (6) Does not include repayments of the sovereign debt's principal.
- (7) Balance (% of GDP) figures are provided on an annual basis; therefore figures for 30 June 2017 are not available.
- (8) "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).
- (9) "External financing" is presented net of repayments (i.e. net of external issues and external repayments).
- (10) "Total financing" and components of this line reflect financing of both the State Budget and local budgets. Revenue from privatisation of state property is reflected in the State Budget only.

### *2014 State Budget*

The 2014 State Budget Law was adopted by Parliament on 16 January 2014.

Actual revenues and expenditure of the 2014 State Budget amounted to UAH 357.1 billion and UAH 430.2 billion, respectively, as compared to the respective budgeted amounts of UAH 377.8 billion and UAH 441.6 billion. The actual deficit of the 2014 State Budget amounted to UAH 78.1 billion (or 4.9 per cent. of GDP) as compared to the budgeted deficit of UAH 88.6 billion (or 5.8 per cent. of GDP). The 2014 State Budget Law, as amended, was based on the following assumptions: real GDP contraction at 3.0 per cent., nominal GDP of UAH 1,524.2 billion, annual CPI inflation of 12.0 per cent., annual WPI inflation of 12.3 per cent. and an average annual exchange rate of UAH 10.0 to U.S.\$1.00 in 2014.

### *2015 State Budget*

The 2015 State Budget Law was adopted by Parliament on 28 December 2014.

Actual revenues and expenditure of the 2015 State Budget amounted to UAH 534.7 billion and UAH 576.9 billion, respectively, as compared to the respective budgeted amounts of UAH 532.0 billion and UAH 599.5 billion. The actual deficit of the 2015 State Budget amounted to UAH 45.2 billion (or 2.3 per cent. of GDP), as compared to the budgeted deficit of UAH 78.6 billion (or 4.3 per cent. of GDP).

The 2015 State Budget Law, as amended, was based on the following assumptions: real GDP contraction at 5.5 per cent., nominal GDP of UAH 1,850.2 billion, annual CPI inflation of 26.7 per cent., annual WPI inflation of 26.5 per cent. and an average annual exchange rate of UAH 21.7 to U.S.\$1.00 in 2015.

### *2016 State Budget*

The 2016 State Budget Law was adopted by Parliament on 25 December 2015.

Actual revenues and expenditure of the 2016 State Budget amounted to UAH 616.3 billion and UAH 684.9 billion, respectively, as compared to the respective budgeted amounts of UAH 631.5 billion and UAH 708.6 billion. The actual deficit of the 2016 State Budget amounted to UAH 70.3 billion (or 2.9 per cent. of GDP) as compared to the budgeted deficit of UAH 87.2 billion (or 3.9 per cent. of GDP).

The 2016 State Budget Law, as amended, was based on the following assumptions: real GDP growth at 2.0 per cent., nominal GDP of UAH 2,262.0 billion, annual CPI inflation of 12.0 per cent., annual WPI inflation of 10.4 per cent. and an average annual exchange rate of UAH 24.1 to U.S.\$1.00 in 2016.

### *2017 State Budget*

The 2017 State Budget Law was adopted by Parliament on 21 December 2016.

The budgeted revenues and expenditure of the 2017 State Budget amount to UAH 731.0 billion and UAH 800.1 billion, respectively. The increase in budgeted revenues from 2016 reflects the expected effects of increased productivity in the remaining, more efficient tax collection practices and the recovery of monies that had previously been misappropriated due to corrupt practices. The budgeted deficit of the 2017 State Budget amounts to UAH 77.6 billion (or 2.7 per cent. of GDP). For the six months ended 30 June 2017, the actual revenues and expenditure of the 2017 State Budget amounted to UAH 394.9 billion and UAH 366.0 billion, respectively. The actual surplus of the 2017 State Budget for the six months ended 30 June 2017 amounted to UAH 29.0 billion.

The 2017 State Budget Law was based on the following assumptions (as amended by the Cabinet of Ministers of Ukraine resolution dated 31 May 2017): real GDP growth at 1.8 per cent., nominal GDP of UAH 2,845.8 billion, annual CPI inflation of 11.2 per cent., annual WPI inflation of 16.8 per cent. and an average annual exchange rate of UAH 27.8 to U.S.\$1.00 in 2017.

## The State Budget Revenues

The following table sets out actual sources of revenue for the State Budget for the years ended 31 December 2014, 2015, 2016 and for the six months ended 30 June 2017:

	Year ended	2015	2016	Six months
	31 December			ended 30 June
	2014	(in UAH millions)		2017
<b>Tax revenues</b> .....	<b>280,178.3</b>	<b>409,417.5</b>	<b>503,879.4</b>	<b>294,913.5</b>
Direct taxes .....	52,587.7	79,838.3	114,154.6	66,214.1
<i>of which:</i>				
Personal income tax.....	12,645.8	45,062.0	59,810.5	34,555.7
Corporate income tax.....	39,941.9	34,776.3	54,344.1	31,658.4
<b>Indirect taxes</b> .....	<b>227,590.5</b>	<b>329,579.2</b>	<b>389,724.8</b>	<b>228,699.4</b>
<i>of which:</i>				
VAT.....	139,024.3	178,452.4	235,506.0	148,071.6
Excise tax on domestic goods (products).....	28,085.5	38,783.8	55,116.3	30,692.4
Excise tax on imported goods (products).....	16,855.4	24,326.8	35,006.2	17,934.1
Import duty.....	12,388.6	39,881.0	20,001.3	10,918.1
Export duty.....	220.1	419.8	369.7	229.9
Other taxes.....	31,016.7	47,715.4	43,725.4	20,853.4
<b>Non-tax revenues</b> .....	<b>68,355.2</b>	<b>120,006.5</b>	<b>103,643.7</b>	<b>65,919.0</b>
<i>of which:</i>				
Entrepreneurial and property income.....	28,469.3	71,084.8	51,589.9	41,466.9
Administrative fees and charges non-commercial sale income.....	5,305.7	15,008.3	8,026.6	4,411.6
Other non-tax revenue <sup>(2)</sup> .....	34,580.3	33,913.3	44,027.1	20,040.4
<b>Capital revenue</b> .....	<b>888.1</b>	<b>171.4</b>	<b>191.5</b>	<b>240.3</b>
<b>From the EU, foreign governments and international organisations</b> .....	<b>5,383.0</b>	<b>1,800.3</b>	<b>4,109.4</b>	<b>837.5</b>
<b>Special funds<sup>(2)</sup></b> .....	<b>161.7</b>	<b>155.0</b>	<b>287.7</b>	<b>29,827.7</b>
<i>of which:</i>				
Payments to Fund of Social Insurance of Disabled of Ukraine .	161.7	154.9	287.5	160.4
Payments to the Special Fund for National Defence and Security Purposes .....	—	0.1	0.2	29,667.3
Official transfers .....	2,118.0	3,144.0	4,171.6	3,168.0
<b>Total revenues</b> .....	<b>357,084.2</b>	<b>534,694.8</b>	<b>616,283.2</b>	<b>394,906.0</b>

Notes:

(1) Includes own source of revenues of budget-funded institutions and organisations.

(2) From 1 January 2015, includes contributions to the special fund for national defence and security purposes.

Source: Ministry of Finance

### Tax Revenue

For the six months ended 30 June 2017, tax revenues of the State Budget amounted to UAH 294.9 billion, a 25.2 per cent. increase as compared to the UAH 235.6 billion tax revenues received for the six months ended 30 June 2016. In 2016, tax revenues of the State Budget amounted to UAH 503.9 billion, a 23.1 per cent. increase as compared to the UAH 409.4 billion tax revenues received in 2015, which represented an increase of 46.1 per cent. as compared to the UAH 280.2 billion tax revenues received in 2014; this in turn represented a 6.6 per cent. increase as compared to the amount of tax revenues received in 2013.

The high taxation of businesses is one of the reasons for the continuing prevalence of the shadow economy, which has impeded revenue collection.

State Budget tax arrears (excluding arrears of taxpayers subject to ongoing insolvency proceedings or insolvency proceedings stayed by a court order) amounted to UAH 8.4 billion as at 1 January 2014, UAH 19.9 billion as at 1 January 2015, UAH 30.6 billion as at 1 January 2016, UAH 43.9 billion as at 1 January 2017, and UAH 49.3 billion as at 1 July 2017. Increases in the State Budget tax arrears throughout 2015-2017 were largely due to arrears in payment of subsoil use royalties (which amounted to UAH 1.6 billion as at 1 January 2015, UAH 8.8 billion as at 1 January 2016, UAH 13.2 billion as at 1 January 2017, and UAH 13.9 billion as at 1 July 2017). A major part of the subsoil use royalties' arrears consists of the arrears of PJSC "Ukrnafta", which were primarily brought about by falling oil prices throughout 2015-2016. In addition, a substantial part of the State Budget tax arrears was also due to the illegal occupation of Crimea by Russia and the conflict in certain parts of the Donetsk and Luhansk regions, which disrupted taxpayers' production chains and generally deteriorated their financial condition.

### *Corporate Income Tax*

The current corporate income tax rate is 18 per cent. There are certain exceptions to the general corporate income tax rate including for businesses in the insurance industry.

Traditionally, corporate income tax constituted a significant part of the overall revenue of the State budget of Ukraine. However, due to the recent crises and resulting instability of the Ukrainian economy, tax revenues from corporate income tax decreased from UAH 39.9 billion in 2014 to UAH 34.8 billion in 2015. Since 2015, in accordance with the amendments to the Budget Code, 10 per cent. of the tax revenues related to corporate income tax received from private companies are transferred to local (regional) budgets. The stabilisation of the economic conditions in the country and improvement in foreign markets conditions enabled the corporate income tax revenues to increase to UAH 54.3 billion in 2016. For the four months ended 30 April 2017, the corporate income tax revenues amounted to UAH 14.1 billion. The proportion of corporate income tax in the tax revenues of the State budget and in the overall revenues of the State budget was, respectively, 14.3 per cent. and 11.2 per cent. in 2014, 8.5 per cent. and 6.5 per cent. in 2015, 10.8 per cent. and 8.8 per cent. in 2016, and 10.7 per cent. and 8.0 per cent. for the six months ended 30 June 2017.

### *Personal Income Tax and Single Social Contribution*

Since 1 January 2016, the basic rate of personal income tax in Ukraine has been 18 per cent. This rate applies to most types of income.

In 2014, 2015 and 2016, the personal income tax revenues of the State Budget amounted to UAH 12.6 billion, UAH 45.1 billion and UAH 59.8 billion, respectively, which constituted approximately 3.5 per cent. of total revenue and 4.5 per cent. of total tax revenue of the 2014 State Budget; 8.4 per cent. of total revenue and 11.0 per cent. of total tax revenue of the 2015 State Budget; and 9.7 per cent. of total revenue and 11.9 per cent. of total tax revenue of the 2016 State Budget.

For the six months ended 30 June 2017, personal income tax revenue amounted to UAH 34.6 billion, which represented 8.8 per cent. of total revenue and 11.7 per cent. of total tax revenue of the State Budget.

In addition to personal income tax, wages of individuals are subject to a single social contribution. The single social contribution was paid by both employers and employees until 1 January 2016. In 2014 and 2015, the average aggregated single social contribution rate was 41 per cent, which was paid on account of employers on top of the wages. The rate of single social contribution paid by employees from their wages was 3.6 per cent.

Since 1 January 2016, the single social contribution paid by employers is charged at the unified rate of 22 per cent. Moreover, the single social contribution paid by employees has been abolished. The maximum amount subject to the single social contribution is capped at 25 “living minimums” for persons capable of working (UAH42,100). (A “living minimum” is an official level set by the Government deemed to be the amount of income necessary for a person to be able to purchase minimum amounts of goods and services and to satisfy their minimum social and cultural needs.)

### *VAT*

VAT is currently charged in Ukraine at a standard rate of 20 per cent. The Tax Code also provides for decreased VAT rates for certain types of goods. For example, a 7 per cent. rate applies to certain medicinal products and a 0 per cent. rate applies to the export of goods. VAT collection constituted approximately 38.9 per cent. of actual total revenues and 49.6 per cent. of actual total tax revenues in 2014; 33.4 per cent. of actual total revenues and 43.6 per cent. of actual total tax revenues in 2015; 38.2 per cent. of actual total revenues and 46.7 per cent. of actual total tax revenues in 2016; and 37.5 per cent. of actual total revenues and 50.2 per cent. of actual total tax revenues for the six months ended 30 June 2017.

Under the existing tax regime, exporters are entitled to receive VAT refunds for exports. During 2014 and 2015, the Government paid out a significant part of outstanding VAT refund arrears. As at 1 January 2017, the total amount of VAT refunds in arrears amounted to UAH 0.5 billion; this was UAH 0.3 billion less than the amount of such arrears existing as at 1 January 2016 (UAH 0.8 billion). As at 1 July 2017, the total amount of VAT refunds in arrears was UAH 1.0 billion.

## The State Budget Expenditures

The 2014 State Budget Law, as amended, made provision for State Budget social expenditure of 42.3 per cent. of the total amount of State Budget expenditures. In 2014, actual social expenditure amounted to 41.6 per cent. of the State Budget expenditure for that period. In addition, the debt servicing expenditures from the State Budget increased by 51.5 per cent. as compared to 2013 and amounted to UAH 48.0 billion. The aggravation of the political and economic situation that led to the conflict in certain parts of the Donetsk and Luhansk regions also led to a significant increase in expenditures to improve Ukraine's defence. Thus, expenditure on defence in 2014 increased by UAH 12.5 billion, as compared to 2013, and amounted to UAH 27.4 billion.

The 2015 State Budget Law, as amended, made provision for State Budget social expenditure of 38.0 per cent. of the total amount of State Budget expenditures. In 2015, actual social expenditure amounted to 37.7 per cent. of the State Budget expenditure for that period. In addition, the debt servicing expenditures from the State Budget were increased by 1.8 times and amounted to UAH 84.5 billion, as compared to 2014. Due to the ongoing state policy concerning the improvement of the country's defence, expenditure on defence increased by 1.9 times, as compared to 2014 and amounted to UAH 52.0 billion.

The 2016 State Budget Law, as amended, made provision for State Budget social expenditure of 41.5 per cent. of the total amount of State Budget expenditures. In 2016, actual social expenditure amounted to 41.7 per cent. of the State Budget expenditure for that period. In addition, the debt servicing expenditures from the State Budget were increased by 13.4 per cent. and amounted to UAH 95.8 billion, as compared to 2015. Expenditure on defence also increased by 14.1 per cent., as compared to 2015 and amounted to UAH 59.4 billion.

The 2017 State Budget Law, as amended, makes provision for State Budget social expenditure of 39.2 per cent. of the total amount of State Budget expenditures. In the six months ended 30 June 2017, actual social expenditure amounted to 37.5 per cent. of the State Budget expenditure for that period. The planned debt servicing expenditures from the 2017 State Budget amount to UAH 111.3 billion, a 16.2 per cent. increase as compared to the actual debt servicing expenditures in 2017. For the six months ended 30 June 2017, the actual debt servicing expenditures from the State Budget increased by 12.8 per cent., as compared to the relevant period in 2016 and amounted to UAH 52.6 billion. The 2017 State Budget Law, as amended, makes provision for State Budget defence expenditure in the amount of UAH 67.2 billion. In the six months ended 30 June 2017, actual defence expenditure increased by 5.8 per cent. as compared to the relevant period in 2016 and amounted to UAH 27.6 billion.

The draft 2018 State Budget Law was submitted by the Cabinet of Ministers of Ukraine to the Parliament on 15 September 2017 (within the timeframe specified in the Budget Code) for consideration. The draft budget is publicly available in Ukrainian only at the Parliament's website at [http://w1.c1.rada.gov.ua/pls/zweb2/webproc4\\_1?pf3511=62551](http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=62551). The 2018 State Budget Law is expected to be adopted by 1 December 2017 as required under the Budget Code. The 2018 budget is also expected to be compliant with IMF requirements and materially consistent with the Issuer's medium-term budget resolution, which was approved earlier this year by the Cabinet of Ministers of Ukraine.

### *Pensions*

The State Budget also extends loans to cover any deficit in the Pension Fund, which are expected to be repaid using proceeds from the Pension Fund.

In 2014 and 2015, the Pension Fund deficit amounted to UAH 14.7 billion and UAH 31.8 billion, respectively. In 2014, the outstanding amount of loans provided to the Pension Fund amounted to UAH 50.4 billion. The outstanding amount of loans provided to the Pension Fund did not change throughout 2015 and, as at 1 January 2016, it still stood at UAH 50.4 billion. As at 1 August 2017, the outstanding amount of loans provided to the Pension Fund amounted to UAH 48.1 billion. See "*The Labour Market—Pensions, Unemployment Benefits and Social Benefits—Pensions and Pension Reform*".

## The Consolidated Budget

The main components of the Consolidated Budget and actual Consolidated Budget performance for the years ended 31 December 2014, 2015 and 2016 and for the six months ended 30 June 2017 are set out in the table below:

	2014 <sup>(1)</sup>		2015 <sup>(2)</sup>		2016 <sup>(3)</sup>		2017 <sup>(4)</sup>	
	Budget (as amended)	Actual	Budget (as amended)	Actual	Budget (as amended)	Actual	Budget (as amended)	Actual performance for the six months ended 30 June
	(in UAH millions)		(in UAH millions)		(in UAH millions)		(in UAH millions)	
<b>Revenues</b>								
Tax revenue.....	387,169.1	367,511.9	496,640.1	507,635.9	634,403.5	650,781.7	778,986.0	386,738.0
of which:								
Personal income tax.....	80,844.2	75,202.9	91,255.8	99,983.2	128,917.5	138,781.8	164,933.0	84,615.7
Corporate income tax.....	40,606.9	40,201.5	40,782.2	39,053.2	53,250.8	60,223.2	63,321.9	34,831.6
VAT.....	142,958.7	139,024.3	180,006.1	178,452.4	232,658.0	235,506.0	293,102.7	148,071.6
Excise duty on domestically produced goods.....	33,181.5	28,244.2	36,525.0	38,783.8	52,711.0	55,116.3	72,183.5	31,326.6
Excise duty on imported goods ..	13,009.7	16,855.4	23,500.7	24,326.8	29,181.0	35,006.2	43,957.2	20,335.0
Excise duty on sale of excisable goods.....	—	—	6,546.0	7,684.6	10,487.0	11,628.2	8,981.3	3,120.4
<b>Non tax revenue.....</b>	<b>93,699.9</b>	<b>80,612.8</b>	<b>129,673.0</b>	<b>140,154.4</b>	<b>130,559.0</b>	<b>125,502.9</b>	<b>132,283.7</b>	<b>77,184.7</b>
Capital revenue.....	4,154.9	2,015.8	2,240.8	1,799.5	2,685.9	1,594.0	2,269.9	1,111.6
From the EU, foreign governments and international organisations, and donors.....	5,226.4	5,383.0	5,096.0	1,882.2	5,635.3	4,198.2	1,846.4	879.3
Special funds <sup>(5)</sup> .....	607.3	543.9	2,031.1	558.9	8,296.9	782.8	12,114.6	30,055.5
<b>Total revenues.....</b>	<b>490,857.6</b>	<b>456,067.3</b>	<b>635,681.0</b>	<b>652,031.0</b>	<b>781,580.7</b>	<b>782,859.5</b>	<b>927,500.6</b>	<b>495,969.1</b>
<b>Expenditure</b>								
State function.....	81,862.9	76,845.9	121,846.0	117,642.4	140,492.8	134,256.9	168,122.2	74,158.5
of which:								
Public and local administration, financial and foreign economic activity.....	22,221.1	20,254.7	24,805.1	23,459.3	34,170.3	30,406.6	44,231.7	17,765.4
Fundamental research.....	3,466.1	3,267.1	3,290.7	3,114.9	3,140.6	2,888.7	3,809.8	1,739.8
Sovereign debt service <sup>(6)</sup> .....	49,957.0	49,434.6	87,399.3	86,172.7	97,238.5	96,105.2	112,030.2	52,580.3
National defence.....	28,764.6	27,365.5	54,583.5	52,015.8	66,706.7	59,359.1	69,666.7	27,578.7
Law enforcing activity, national security and the judiciary.....	46,937.8	44,864.6	56,165.0	54,963.0	72,951.7	72,056.6	81,258.6	34,916.2
Economic activity.....	56,716.9	43,637.6	66,565.5	56,257.3	79,031.0	66,191.3	96,659.9	27,650.1
of which:								
General economic, trade and labour activity.....	1,093.5	783.5	1,142.1	1,026.1	3,041.5	2,515.3	4,134.4	1,578.6
Agriculture, forestry, fishery and hunting.....	7,188.2	5,868.4	6,735.4	6,062.7	6,196.6	5,781.8	12,826.2	4,109.5
Fuel and energy complex.....	10,165.2	9,339.1	3,571.9	1,896.2	2,275.5	2,248.9	2,116.6	1,016.5
Transport.....	23,662.5	18,776.7	34,977.3	31,110.4	33,130.6	29,262.0	42,895.4	12,902.7
Communication, telecommunication and informatics.....	226.5	189.6	292.6	263.2	419.0	382.0	547.2	152.2
Protection of environment.....	6,631.1	3,481.7	7,160.5	5,529.7	8,113.0	6,255.4	8,222.6	2,686.7
Housing and utilities infrastructure ..	21,628.0	17,808.5	18,079.9	15,700.4	20,517.7	17,547.5	24,003.1	7,628.4
Health.....	64,117.2	57,150.1	75,443.6	71,001.1	78,896.5	75,503.4	97,111.5	39,973.0
Intellectual and physical development.....	16,437.3	13,857.7	17,861.0	16,228.3	17,887.0	16,897.8	23,421.1	9,916.5
of which:								
Physical culture and sport.....	4,988.8	4,280.4	7,112.2	6,120.3	4,762.7	4,528.4	6,446.8	2,526.5
Culture and art.....	10,194.7	8,483.5	9,287.9	8,694.8	11,280.2	10,554.0	15,149.7	6,619.0
Mass media.....	1,181.9	1,024.5	1,398.3	1,354.7	1,788.0	1,762.9	1,698.2	733.2
Education.....	113,003.2	100,109.5	121,135.6	114,193.5	139,252.0	129,437.7	178,348.4	87,335.0
Social protection and social insurance.....	152,129.4	138,004.7	178,431.6	176,339.8	259,764.7	258,326.1	272,090.3	132,003.1
<b>Total expenditure.....</b>	<b>588,228.4</b>	<b>523,125.7</b>	<b>717,606.9</b>	<b>679,871.4</b>	<b>883,613.2</b>	<b>835,832.1</b>	<b>1,018,904.4</b>	<b>443,846.2</b>
Domestic lending <sup>(7)</sup> .....	5,247.7	4,972.1	11,371.4	3,057.8	10,407.5	1,841.3	8,230.3	(22.1)
External lending.....	—	—	—	—	—	—	—	—
Total lending <sup>(7)</sup> .....	5,247.7	4,972.1	11,371.4	3,057.8	10,407.5	1,841.3	8,230.3	(22.1)
<b>Balance (surplus/deficit).....</b>	<b>(102,618.5)</b>	<b>(72,030.5)</b>	<b>(92,962.6)</b>	<b>(30,898.2)</b>	<b>(112,439.9)</b>	<b>(54,813.9)</b>	<b>(99,634.1)</b>	<b>52,145.0</b>
Balance (% of GDP).....	(4.5)	(4.5)	(9.2)	(1.6)	(14.5)	(7.0)	(10.7)	(10.7)
Domestic financing <sup>(8)</sup> .....	58,746.6	29,855.5	(70,206.3)	(78,752.9)	34,372.2	21,551.8	43,382.5	(66,296.9)
of which: Receipts from privatisation of state property.....	467.0	466.9	17,000.0	151.5	17,100.0	188.9	17,100.0	110.8
External financing <sup>(9)</sup> .....	43,871.9	42,174.9	163,169.0	109,651.1	78,067.7	33,262.1	56,251.6	14,151.9
<b>Total financing<sup>(10)</sup>.....</b>	<b>102,618.5</b>	<b>72,030.5</b>	<b>92,962.6</b>	<b>30,898.2</b>	<b>112,439.9</b>	<b>54,813.9</b>	<b>99,634.1</b>	<b>(52,145.0)</b>

(1) Basic assumptions underlying the 2014 Consolidated Budget, as amended, included a real GDP decline rate of 3.0 per cent., nominal GDP of UAH 1,524.2 billion, annual CPI inflation of 12 per cent. and an average annual exchange rate of UAH 10.00 to U.S.\$1.00. Actual GDP in 2014 amounted to UAH 1,586.9 billion (in accordance with the System of National Accounts (2008)), taking into account that the provided figures do not include illegally occupied Crimea.

(2) Basic assumptions underlying the 2015 Consolidated Budget, as amended, included a real GDP decline rate of 5.5 per cent., nominal GDP of UAH 1,850.2 billion, annual CPI inflation of 26.7 per cent. and an average annual exchange rate of UAH 21.70 to U.S.\$1.00. Actual GDP in 2015 amounted to UAH 1,988.5 billion (in accordance with the System of National Accounts (2008)), taking into account that the provided figures do not include illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.

(3) Basic assumptions underlying the 2016 Consolidated Budget, as amended, included a real GDP growth rate of 2.0 per cent., nominal GDP of UAH 2,262.0 billion, annual CPI inflation of 12.0 per cent. and an average annual exchange rate of UAH 24.1 to U.S.\$1.00. The actual GDP in 2014 amounted to UAH 2,383.2 billion (according to the System of National Accounts (2008)), taking into account that the provided figures do not include illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.

(4) Basic assumptions underlying the 2017 Consolidated Budget, as amended, included a real GDP growth rate of 1.8 per cent., nominal GDP of UAH 2,845.8 billion, annual CPI inflation of 11.2 per cent. and an average annual exchange rate of UAH 27.8 to U.S.\$1.00. The Ministry of Economic Development expects to actual GDP in 2017 to amount to UAH 2,845.8 billion (in accordance with the System of National Accounts (2008)), taking into account that the provided figures do not include illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions.

(5) Special funds in the Consolidated Budget include amounts received into the fund for Social Insurance of Disabled Persons, a fund for the remediation of environmental pollution, a special fund for national security and defence purposes, and special funds established by the parliament of the Autonomous Republic of Crimea and other local governance bodies and authorities in Ukraine. Since the three months ended on 31 March 2014, no funds were directed to the special funds established by the parliament of the Autonomous Republic of Crimea. Since 1 January 2015, this line also includes a special fund for national security, defence purposes and recovered monies which had previously been misappropriated due to corrupt practices.

(6) Does not include repayments of the sovereign debt's principal.

(7) Lending figures are calculated as the aggregate amount of loans provided from the budget minus aggregate amount of repayments made to the budget under the existing loans in the given period. Where there are negative lending figures, this is because the amount of loan repayments to the budget exceeds the amount of provided new loans from the budget.

- (8) "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).
- (9) "External financing" is presented net of repayments (i.e. net of external issues and external repayments).
- (10) "Total financing" and components of this line of the Consolidated Budget reflect financing of both the State Budget and local budgets. Revenue from privatisation of state property is reflected in the State Budget only.

### *2014 Consolidated Budget*

The 2014 Consolidated Budget, as amended, contemplated revenues of UAH 490.9 billion, expenditure of UAH 588.2 billion and a budget deficit of UAH 102.6 billion (or 6.7 per cent. of GDP). Basic assumptions underlying the 2014 Consolidated Budget include a real GDP decline rate of 3.0 per cent., nominal GDP of UAH 1,524.2 billion, annual CPI inflation of 12.0 per cent., WPI inflation of 12.3 per cent. and an average exchange rate of UAH 10.0 to U.S.\$1.00. In 2014, actual revenues and expenditures amounted to UAH 456.1 billion and UAH 523.1 billion, respectively, with the actual Budget deficit amounting to UAH 72.0 billion.

### *2015 Consolidated Budget*

The 2015 Consolidated Budget, as amended, contemplated revenues of UAH 635.7 billion, expenditure of UAH 717.3 billion and a budget deficit of UAH 93.0 billion (or 5.0 per cent. of GDP). Basic assumptions underlying the 2015 Consolidated Budget included a real GDP decline rate of 5.5 per cent., nominal GDP of UAH 1,850.2 billion, annual CPI inflation of 26.7 per cent., WPI inflation of 26.5 per cent. and an average exchange rate of UAH 21.7 to U.S.\$1.00.

In 2015, actual revenues and expenditures amounted to UAH 652.0 billion and UAH 679.8 billion, respectively, with the actual Budget deficit amounting to UAH 30.9 billion.

### *2016 Consolidated Budget*

The 2016 Consolidated Budget, as amended, contemplated revenues of UAH 781.6 billion, expenditure of UAH 883.6 billion and a budget deficit of UAH 112.4 billion (or 5.0 per cent. of GDP). Basic assumptions underlying the 2016 Consolidated Budget included a real GDP growth rate of 2.0 per cent., nominal GDP of UAH 2,262.0 billion, annual CPI inflation of 12.0 per cent., WPI inflation of 10.4 per cent. and an average exchange rate of UAH 24.1 to U.S.\$1.00.

In 2016, actual revenues and expenditures amounted to UAH 782.9 billion and UAH 835.8 billion, respectively, with the actual Budget deficit amounting to UAH 54.8 billion (or 2.3 per cent. of GDP).

### *2017 Consolidated Budget*

The 2017 Consolidated Budget contemplates revenues of UAH 927.5 billion, expenditures of UAH 1,018.9 billion and a budget deficit of UAH 99.6 billion (or 3.5 per cent. of GDP). For the six months ended 30 June 2017, the actual revenues and expenditure of the 2017 Consolidated Budget amounted to UAH 496 billion and UAH 443.8 billion, respectively. The actual surplus of the 2017 Consolidated Budget for the six months ended 30 June 2017 amounted to UAH 52.1 billion.

Basic assumptions underlying the 2017 Consolidated Budget included a real GDP growth rate of 1.8 per cent., nominal GDP of UAH 2,845.8 billion, annual CPI inflation of 11.2 per cent., WPI inflation of 16.8 per cent. and an average exchange rate of UAH 27.8 to U.S.\$1.00.

## The Consolidated Budget Revenues

The following table sets out actual sources of revenue for the Consolidated Budget for the years ended 31 December 2014, 2015, 2016 and for the six months ended 30 June 2017:

	Year ended 31 December			Six months ended
	2014	2015	2016	30 June
		<i>(in UAH millions)</i>		
<b>Tax revenues</b> .....	<b>367,511.9</b>	<b>507,635.9</b>	<b>650,781.7</b>	<b>386,738.0</b>
<b>Direct taxes</b> .....	<b>135,300.5</b>	<b>166,024.4</b>	<b>241,162.8</b>	<b>143,316.2</b>
<i>of which:</i>				
Personal income tax and contribution.....	75,202.9	99,983.2	138,781.8	84,615.7
Corporate income tax.....	40,201.5	39,053.2	60,223.2	34,831.6
Land tax <sup>(1)</sup> .....	12,083.9	14,831.4	23,323.6	12,360.2
Wealth (property) tax (other than land tax) <sup>(2)</sup> .....	398.9	1,181.5	1,667.1	1,016.7
Uniform tax <sup>(3)</sup> .....	7,413.3	10,975.1	17,167.1	10,492.0
<b>Indirect taxes</b> .....	<b>232,211.4</b>	<b>341,611.5</b>	<b>409,618.8</b>	<b>243,421.8</b>
<i>of which:</i>				
VAT.....	139,024.3	178,452.4	235,506.0	148,071.6
Excise duty on goods produced domestically.....	28,244.2	38,783.8	55,116.3	31,326.6
Excise duty on imported goods.....	16,855.4	24,326.8	35,006.2	20,335.0
Excise duty on sale of excisable goods.....	-	7,684.6	11,628.2	3,120.4
Import duty.....	12,388.6	39,881.0	20,001.3	10,918.1
Export duty.....	220.1	419.8	369.7	229.9
Other taxes.....	35,478.9	52,063.1	51,991.2	29,420.2
<b>Non-tax revenues</b> .....	<b>80,612.8</b>	<b>140,154.4</b>	<b>125,502.9</b>	<b>77,184.7</b>
<i>of which:</i>				
Entrepreneurial and property income.....	28,806.8	71,563.0	53,364.5	42,337.1
Administrative fees and charges non-commercial sale income.....	6,888.9	17,854.5	11,387.0	6,196.5
Other non-tax revenue <sup>(4)</sup> .....	44,917.0	50,737.0	60,751.4	28,651.2
<b>Capital revenue</b> .....	<b>2,015.8</b>	<b>1,799.5</b>	<b>1,594.0</b>	<b>1,111.6</b>
<b>From the EU, foreign governments and international organisations, and donors</b> .....	<b>5,383.0</b>	<b>1,882.2</b>	<b>4,198.2</b>	<b>879.3</b>
<b>Special funds</b> <sup>(5)</sup> .....	<b>543.9</b>	<b>558.9</b>	<b>782.8</b>	<b>30,055.5</b>
Payments to Fund of Social Insurance of Disabled of Ukraine.....	161.7	154.9	287.5	160.4
Payments to the Special Fund for National Defence and Security Purposes.....	-	0.1	0.2	29,667.3
Special funds established by the parliament of the Autonomous Republic of Crimea and other local governance bodies and authorities.....	382.2	403.9	495.1	227.8
<b>Total revenues</b> .....	<b>456,067.3</b>	<b>652,031.0</b>	<b>782,859.5</b>	<b>495,969.1</b>

Notes:

- (1) Since January 2015, land tax has been included as part of property tax, whereas in the previous years land tax constituted part of the subsoil use royalty.
- (2) Provided figures include revenues from the tax charged on owners of vehicles and the levy for first registration of a vehicle, which are currently repealed.
- (3) Since 1 January 2015, a uniform tax charged on manufacturers of agricultural products, 75 per cent. or more of whose business for the last reporting period consisted in manufacturing of agricultural products, has been included as part of the uniform tax. Throughout 2012-2014, such uniform tax had been classified as a separate fixed agricultural tax.
- (4) This line includes budget institutions' own sources of revenue.
- (5) Since 1 January 2015, this line also includes a special fund for national security, defence purposes and recovered monies which had previously been misappropriated due to corrupt practices.

Source: Ministry of Finance

### Tax Revenues

For the six months ended 30 June 2017, tax revenues of the Consolidated Budget amounted to UAH 386.7 billion, an increase of 28.5 per cent. as compared to the UAH 300.9 billion for the six months ended 30 June 2016. In 2016, tax revenues of the Consolidated Budget amounted to UAH 650.8 billion, an increase of UAH 143.1 billion (or 28.2 per cent.) as compared to UAH 507.6 billion for 2015, which in turn was an increase of UAH 140.1 billion (or 38.1 per cent.) as compared to UAH 367.5 billion for 2014. In 2014, tax revenues of the Consolidated Budget amounted to an increase of UAH 13.5 billion (or 3.8 per cent), as compared to UAH 354.0 billion for 2013. The Government estimated the lost revenues of the Consolidated Budget resulting from the occupation of the Republic of Crimea in 2014 to be UAH 9.8 billion and the lost revenues of the Consolidated Budget resulting from conflict in certain parts of the Donetsk and Luhansk regions in 2014 to be UAH 13.2 billion.

### Corporate Income Tax

The current corporate income tax rate is 18 per cent. There are certain exceptions to the general corporate income tax rate including for businesses in the insurance industry.

As was the case for the State Budget, due to the overall deterioration of the Ukrainian economy in 2014 and 2015, tax revenues from corporate income tax decreased from UAH 40.2 billion in 2014 to UAH 39.1 billion in 2015. Improved conditions thereafter enabled tax revenues from corporate income tax to increase to UAH 60.2 billion in 2016. The proportions of corporate income tax in tax revenues of the Consolidated Budget and in overall revenues of the Consolidated Budget were, respectively, 10.9 per cent. and 8.8 per cent. in 2014, decreasing to 7.7 per cent. and 6.0 per cent. in 2015, before increasing in 2016 to 9.3 per cent. and 7.7 per cent. For the six months ended 30 June 2017, the Consolidated Budget of Ukraine received UAH 34.8 billion of corporate income tax revenues, which represented a 9.0 per cent. increase in the tax revenues and a 7.0 per cent. increase in the overall revenues of the Consolidated Budget compared to the same period in 2016.

### *Personal Income Tax and Single Social Contribution*

In 2014, 2015, and 2016 the personal income tax revenues of the Consolidated Budget amounted to UAH 75.2 billion, UAH 100.0 billion, and UAH 138.8 billion, respectively, which constituted approximately 16.5 per cent. of total revenue and 20.5 per cent. of total tax revenue of the 2014 Consolidated Budget; 15.3 per cent. of total revenue and 19.7 per cent. of total tax revenue of the 2015 Consolidated Budget; and 17.7 per cent. of total revenue and 21.3 per cent. of total tax revenue of the 2016 Consolidated Budget. For the six months ended 30 June 2017, the Consolidated Budget of Ukraine received UAH 84.6 billion of personal income tax and contribution revenues, which represented 17.1 per cent. of total revenue and 21.9 per cent. of total tax revenue of the Consolidated Budget.

### *VAT*

VAT collection constitutes a large proportion of revenues of the Consolidated Budget; actual revenues collected amounted to approximately 30.5 per cent. of total revenue and 37.8 per cent. of total tax revenue of the 2014 Consolidated Budget; 27.4 per cent. of total revenue and 35.2 per cent. of total tax revenue of the 2015 Consolidated Budget; 30.1 per cent. of total revenue and 36.2 per cent. of total tax revenue of the 2016 Consolidated Budget; and 29.9 per cent. of total revenue and 38.3 per cent. of total tax revenue of the Consolidated Budget for the six months ended 30 June 2017.

### **The Consolidated Budget Expenditure**

The 2014 Consolidated Budget, as amended, contemplated social expenditure at 58.8 per cent. of the total amount of expenditure. The 2014 State Budget Law, as amended, made provision for State Budget social expenditure of 42.3 per cent. of the total amount of State Budget expenditures. In 2014, actual social expenditure amounted to 59.1 per cent. of the Consolidated Budget and 41.6 per cent. of the State Budget. In 2014, the actual Consolidated Budget expenditures for debt servicing amounted to UAH 49.4 billion (or 9.4 per cent. of total expenditure) and for the state defence amounted to UAH 27.4 billion (or 5.2 per cent. of total expenditure).

The 2015 Consolidated Budget contemplated social expenditure at 54.8 per cent. of the total amount of expenditure. In 2015, actual social expenditure amounted to 55.6 per cent. of the Consolidated Budget and 37.7 per cent. of the State Budget. In 2015, the actual Consolidated Budget expenditures for debt servicing amounted to UAH 86.2 billion (or 12.7 per cent. of total expenditure) and for the state defence amounted to UAH 52.0 billion (or 7.7 per cent. of total expenditure).

The 2016 Consolidated Budget contemplated social expenditure at 56.1 per cent. of the total amount of expenditure. In 2016, actual social expenditure amounted to 57.4 per cent. of the Consolidated Budget and 41.7 per cent. of the State Budget. In 2016, the actual Consolidated Budget expenditures for debt servicing amounted to UAH 96.1 billion (or 11.5 per cent. of total expenditure) and for the state defence amounted to UAH 59.4 billion (or 7.1 per cent. of total expenditure).

The 2017 Consolidated Budget contemplated social expenditure at 56.0 per cent. of the total amount of expenditure. For the six months ended 30 June 2017, actual social expenditure amounted to 60.7 per cent. of the Consolidated Budget and 37.5 per cent. of the State Budget. For the six months ended 30 June 2017, the actual Consolidated Budget expenditures for debt servicing amounted to UAH 52.6 billion (or 11.8 per cent. of total expenditure) and for the state defence amounted to UAH 27.6 billion (or 6.2 per cent. of total expenditure).

### **Local Budgets**

On 1 April 2014, the Government of Ukraine approved a programme (the “**Local Authority Programme**”) intended to focus on the reform of local administration and territorial organisation, the purpose of which is to establish an effective local government and territorial organisation of state authority, provide qualified services to the population, as well as to protect the state’s and territorial communities’ interests. The Government adopted an Action Plan in 2014 to implement the Local Authority Programme.

In 2015, Ukraine commenced the decentralisation of budgetary responsibilities and implemented a reform of inter-budgetary relations, and, as a result, on 28 December 2014, Parliament adopted amendments to the Tax

Code of Ukraine and the Budget Code of Ukraine. Such amendments provided new financial means for the local authorities, set a new distribution of national taxes and introduced a new system of budget aligning.

The amendments to the Budget Code ensured full fiscal self-sustainability of local budgets, including by means of increasing their revenue and broadening the rights of local authorities, both as regards administration of taxes and charges and directing the use of budget funds.

The revenue of local budgets was increased by the transfer of certain revenues from the State Budget to local budgets, introduction of a new tax – the excise tax on sale of excisable goods, as well as the broadening of the tax base for the real estate tax. Amendments to the Tax Code enhanced the local authorities' fiscal independence as regards local taxes and duties, in particular by authorising them to define the rates of taxes and impose taxes prescribed by the Tax Code.

In addition, a new procedure for budget management was introduced – the previous system of total balancing of all local budgets was replaced by the system of horizontal alignment of the territories' taxpaying capacity depending on revenue per capita. Such aligning only applies to personal income tax, whereas other charges are fully within the control of the local authorities.

Another key feature of the reform of inter-budgetary relations is the introduction of a two-tier system of relations between the State Budget and local budgets.

Throughout 2015 and 2016, voluntary unification of territorial communities consolidated more than 1,800 local budgets into 366 unified territorial communities' budgets, which have established direct inter-budgetary relations with the State Budget and receive inter-budgetary transfers directly. In 2016, 159 unified territorial communities established direct inter-budgetary relations with the State Budget. As of the date of this Prospectus, 998 local budgets have established direct inter-budgetary relations with the State Budget.

New types of transfers from the State Budget to the local budgets were also introduced, namely educational and medical subsidies that are provided to fund the exercise of competencies in the field of education and healthcare, which state authorities delegated to local authorities.

In 2017, the second stage of the inter-budgetary relations reform commenced. Its principal task is to delineate the responsibilities between the state and local authorities regarding the funding of general education and healthcare establishments.

In the course of further decentralisation and in order to ensure the optimal and justified distribution of national wealth among all budgets, as well as to align their fiscal capacity, local budgets were made responsible for funding general education establishments, excluding salaries for teachers. Such funding is to be based on the proceeds of educational subsidy. In addition, local budgets will now cover payments for utilities made by healthcare establishments (other expenses to fund such establishments will be covered by the proceeds of the medical subsidy).

Inter-budgetary transfers to local authority budgets amounted to UAH 130.6 billion, UAH 174.0 billion and UAH 195.4 billion in 2014, 2015 and 2016, respectively. The 2017 State Budget Law estimates inter-budgetary transfers to local budgets totalling UAH 250.8 billion in 2017. For the six months ended 30 June 2017, inter-budgetary transfers to local budgets were UAH 136.8 billion. As at 24 July 2017, inter-budgetary transfers to local budgets were UAH 151.2 billion.

## PUBLIC DEBT

*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 2017 or previous years and also take no account of repayments from the Special Fund to the State Budget. See “—Special Fund Borrowings”. The data relating to outstanding State debt include 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 State (for more information on this see the relevant tables and notes).*

*Ukraine’s debt figures (including for the purposes of this section) include reference to the December 2013 Notes, however such inclusion is made without prejudice to Ukraine’s ongoing litigation in the High Court of England and Wales, see “Description of Ukraine – Legal Proceedings – December 2013 Notes Litigation”.*

*For the purposes of this Prospectus, ratios of (i) total debt and/or State external debt to GDP were calculated based on nominal GDP converted into U.S.\$ and (ii) State external debt and State external debt service (including principal and interest payments, but excluding debt owed to the IMF by the NBU) to State budget revenues or State budget expenditures were calculated based on revenues or expenditures converted into U.S.\$, in each case using the period end exchange rates specified under the heading “The Monetary System—Exchange Rates”.*

### **Debt Management Policy**

The Budget Code establishes the current legal framework for various types of State borrowing, including direct and guaranteed borrowing, State guaranteed borrowings and borrowings by the NBU, including limits on State indebtedness.

In addition, the Government has approved the draft budget resolution for 2018-2020, which is pending review by Parliament. The draft budget resolution sets out measures aimed at maintaining economic growth and steady social development, determining priorities for utilisation of budget funds, implementation of structural reforms, as well as a reasonable and consistent tax, budget, and debt management policies, including on a mid-term perspective. The draft budget resolution for 2018-2020 sets out (for the first time) caps on budget allocations for principal administrators of budget funds, pursuant to which the aims of the budget policy and the strategic goals of the State are expected to be achieved within the subsequent three years.

The Forecast of the Economic and Social Development of Ukraine for 2018-2020 (approved by a CMU Resolution No. 411 dated 31 May 2017) was prepared by the Ministry of Economic Development and Trade of Ukraine and outlines benchmarks for the economic and social development of Ukraine to be used in preparation of the medium-term budget resolution for 2018-2020, the 2018 State budget of Ukraine, as well as other programmatic and forward-looking documents. The document is developed under three scenarios and includes the recommendations of the IMF. As of the date of this Prospectus, the base case scenario of the forecast envisages real GDP growth of 3.0 per cent. in 2018, 3.6 per cent. in 2019 and 4.0 per cent. in 2020. It should be noted that all figures relating to the draft budget resolution for 2018-2020 are merely assumptions used for purposes of the new three year budgeting process and thus should not be relied upon as forecasts and actual GDP growth may vary materially from these figures.

The Government’s medium-term priority action plan (approved by a CMU Resolution No. 275-p dated 3 April 2017) contemplates that, by the end of 2020, a target ratio of outstanding State debt and State guaranteed debt to GDP at the level of 72 per cent. will have been achieved. The budget resolution for 2018-2020 assumes real GDP growth to be at 3.0 per cent. for 2018, 3.6 per cent. for 2019 and 4.0 per cent. for 2020, as well as target indicators of the State budget deficit of 3 per cent. in 2017, 2.4 per cent. in 2018, 2.2 per cent. in 2019, and 2.0 per cent. in 2020.

The limit for State debt (direct debt) was set by the respective State Budget Laws for 2014, 2015 and 2016 at UAH 968.35 billion (U.S.\$60.5 billion), UAH 1,393.95 billion (U.S.\$63.4 billion), and UAH 1,501.5 billion (U.S.\$61.5 billion), respectively. The State Budget Law for 2017 (as amended) sets the limit for State debt

(direct debt) at UAH 1,823.7 billion (U.S.\$65.6 billion), and for State guaranteed debt at UAH 579.4 billion (U.S.\$20.9 billion).

According to the calculations made in the draft budget resolution for 2018-2020, and based on the assumptions and projections contained therein, the ratio of outstanding State debt and State guaranteed debt to GDP ratio would be no higher than 84 per cent. at the end of 2018, 77 per cent. at the end of 2019, and 73 per cent. at the end of 2020. For comparison, under the 2017 budget and based on the assumptions and projections contained therein, the ratio of outstanding State debt and State guaranteed debt to GDP at the end of 2017 would be no higher than 84.4 per cent.

The outstanding State debt (direct debt) as at 31 December 2014 amounted to approximately UAH 947.03 billion (U.S.\$60.1 billion) and State guaranteed debt amounted to approximately UAH 153.8 billion (U.S.\$9.8 billion). The State debt as at 31 December 2015 amounted to approximately UAH 1,334.3 billion (U.S.\$55.6 billion) and State guaranteed debt amounted to approximately UAH 237.9 billion (U.S.\$9.9 billion). The State debt as at 31 December 2016 amounted to approximately UAH 1,650.8 billion (U.S.\$60.7 billion) and State guaranteed debt amounted to approximately UAH 279.0 billion (U.S.\$10.3 billion). The outstanding State debt as at 30 June 2017 amounted to approximately UAH 1,650.9 billion (U.S.\$63.3 billion) and State guaranteed debt amounted to approximately UAH 306.8 billion (U.S.\$11.8 billion).

The total debt of Ukraine (including IMF debt) as a percentage of GDP, including both State debt (direct debt) and State guaranteed debt (contingent liabilities), was 69.4 per cent., 79.1 per cent., and 81.0 per cent. as at 31 December 2014, 2015 and 2016, respectively. From 2014 to 2016, the level of public debt increased, primarily due to the devaluation of the hryvnia against the U.S. dollar and the euro, and the financing of the State Budget deficit. Other relevant factors included the need for additional financing due to falling levels of GDP, the need to support the financial system, the postponement of a number of planned privatisations and additional unexpected expenditures, such as to fund the military efforts in certain parts of the Donetsk and Luhansk regions.

According to the Budget Code of Ukraine, the volume of 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 GDP of Ukraine. If this threshold is exceeded, the Cabinet of Ministers of Ukraine must submit its proposed plan to return the level of total State debt and State guaranteed debt to within the set threshold for approval by Parliament. Notwithstanding this, this provision is not applicable due to ongoing antiterrorist operations on the territory of Ukraine (according to the final provisions of the Budget Code).

State external debt (direct debt) as a percentage of GDP was 30.6 per cent., 41.6 per cent., and 41.1 per cent. as at 31 December 2014, 2015 and 2016, respectively. The ratio of State external debt service (including principal and interest payments, but excluding debt owed to the IMF by the NBU) to GDP was approximately 4.3 per cent., approximately 2.3 per cent., and approximately 1.8 per cent. for the years ended 31 December 2014, 2015 and 2016, respectively. 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.”*

State external debt (direct debt) as a percentage of State Budget revenue amounted to 136.1 per cent., 154.5 per cent., and 159.0 per cent. for the years ended 31 December 2014, 2015, and 2016, respectively.

State external debt (direct debt) as a percentage of State Budget expenditure amounted to 113.0 per cent., 143.2 per cent., and 143.1 per cent. for the years ended 31 December 2014, 2015, and 2016, respectively.

The ratio of State external debt service (including principal and interest payments, but excluding debt owed to the IMF by the NBU) to State Budget revenue amounted to 19.2 per cent., 8.7 per cent., and 6.9 per cent. for the years ended 31 December 2014, 2015, and 2016, respectively.

The ratio of State external debt service (including principal and interest payments, but excluding debt owed to the IMF by the NBU) to State Budget expenditure amounted to 15.9 per cent., 8.0 per cent., and 6.2 per cent. for the years ended 31 December 2014, 2015, and 2016, respectively.

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

	As at 31 December						As at
	2014		2015		2016		30 June
	(in U.S.\$ billions)	(% of GDP)	(in U.S.\$ billions)	(% of GDP)	(in U.S.\$ billions)	(% of GDP)	(in U.S.\$ billions)
Total debt.....	69.8	69.4	65.5	79.1	71.0	81.0	75.0
State debt (direct debt).....	60.1	59.7	55.6	67.1	60.7	69.3	63.3
Internal debt (direct debt) <sup>(1)</sup> .....	29.2	29.1	21.2	25.5	24.7	28.1	26.0
External debt (direct debt).....	30.8	30.6	34.4	41.6	36.1	41.1	37.2
<i>of which: debt to the IMF owed by the</i>							
Government.....	3.7	3.6	5.3	6.5	5.2	5.9	5.4
State guaranteed debt (contingent liabilities).....	9.8	9.7	9.9	12.0	10.3	11.7	11.8
Internal debt <sup>(1)</sup> .....	1.8	1.8	0.9	1.1	0.7	0.8	0.8
External debt.....	8.0	7.9	9.0	10.9	9.6	10.9	11.0
<i>of which: debt to the IMF owed by the NBU....</i>	2.1	2.0	5.3	6.5	6.2	5.5	7.4

Note:

(1) Hryvnia amounts have been converted to dollar amounts using the period end exchange rate specified under the heading “The Monetary System—Instruments of monetary policy—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 owed by the NBU to the IMF) for the periods indicated:

	Year ended 31 December			Six months	Six months
	2014	2015 <sup>(2)</sup>	2016 <sup>(2)</sup>	ended 30 June	ended 30 June
	(in U.S.\$ millions)			2016 <sup>(2)</sup>	2017
<b>Total State debt service.....</b>	<b>13,737</b>	<b>8,897</b>	<b>8,090</b>	<b>3,737</b>	<b>3,400</b>
Internal State debt service <sup>(1)</sup> .....	8,551	6,780	6,476	2,948	2,549
Principal.....	5,827	4,119	4,023	1,764	1,259
Interest.....	2,724	2,661	2,452	1,184	1,290
External State debt service.....	5,186	2,117	1,614	789	851
Principal.....	3,903	1,140	355	174	184
<i>of which: debt to the IMF owed by the</i>					
Government.....	2,533	813	—	—	—
Interest.....	1,283	977	1,259	615	667
<i>of which: debt to the IMF owed by the</i>					
Government.....	56	99	108	54	64
<b>Total State borrowings incurred.....</b>	<b>23,847</b>	<b>10,585</b>	<b>10,819</b>	<b>3,668</b>	<b>2,339</b>
Internal borrowing <sup>(1)</sup> .....	16,576	4,632	9,457	3,307	1,722
External borrowing.....	7,271	5,953	1,361	361	617
<i>of which: securities issued by the State.....</i>	1,000	1,000	1,000	—	0
Multilateral creditors.....	6,271	4,953	361	361	617
<i>of which: IMF loans to the Government.....</i>	2,978	2,634	—	—	—

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.

(2) Payments and borrowings include non-cash debt securities transactions in connection with the restructuring of state debt and state guaranteed debt.

Source: Ministry of Finance

The following table sets out Ukraine’s projected State debt service obligations for the periods indicated:

	Year ended 31 December					
	2017	2018	2019	2020	2021	2022
	(in U.S.\$ millions)					
<b>Principal payments.....</b>	<b>4,660.4</b>	<b>6,444.1</b>	<b>7,286.0</b>	<b>9,018.5</b>	<b>8,404.9</b>	<b>8,132.4</b>
Internal debt <sup>(1)</sup> .....	3,547.5	4,394.8	2,554.3	4,017.8	4,479.5	5,056.9
External debt.....	1,112.9	2,049.3	4,728.7	5,000.7	3,925.4	3,075.5
<b>Interest payments.....</b>	<b>4,005.0</b>	<b>4,491.3</b>	<b>4,271.9</b>	<b>4,686.6</b>	<b>5,675.2</b>	<b>5,788.4</b>
Internal debt <sup>(1)</sup> .....	2,532.0	2,972.0	2,533.6	2,803.0	3,258.5	3,417.5
External debt.....	1,473.0	1,519.3	1,738.3	1,883.6	2,416.7	2,370.9
<b>Total payments.....</b>	<b>8,665.4</b>	<b>10,935.4</b>	<b>11,554.9</b>	<b>13,705.1</b>	<b>14,080.1</b>	<b>13,920.8</b>

Note:

(1) Hryvnia amounts have been converted to dollar amounts using an assumed average UAH/U.S.\$ exchange rate of UAH 27.8 to U.S.\$1.00 for 2017, UAH 30.1 to U.S.\$1.00 for 2018, UAH 30.8 to U.S.\$1.00 for 2019 and UAH 31.2 to U.S.\$1.00 for 2020 through 2022.

Source: Ministry of Finance

The 2017 State Budget Law (as amended) provides for anticipated total State debt service payments (including principal and interest payments, but excluding debt owed to the IMF by the NBU) of UAH 242.8 billion. Payments of principal are expected to amount to UAH 129.5 billion, 76.2 per cent. (or UAH 98.6 billion) of which will be internal debt payments and 23.8 per cent. (or UAH 30.9 billion) of which will be external debt payments. Payments of interest are expected to amount to UAH 113.3 billion. It is expected that the State borrowing for the General Fund of the State Budget will amount to UAH 174.8 billion, including external borrowing for the General Fund of UAH 70.9 billion and internal borrowing for the General Fund of approximately UAH 103.9 billion. In the six months ended 30 June 2017, 26.4 per cent. of borrowings were external and 73.6 per cent. were internal.

The Government's strategy concerning issuance of Eurobonds and T-bills aims at achievement of full or partial refinancing of expenditures for servicing State foreign currency.

### Internal Debt

Internal debt of Ukraine is made up of 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). The outstanding principal amount under the Government bonds issued during the Soviet period amounted to UAH 11,600 (equivalent to approximately U.S.\$400) as at 1 September 2017. As upon dissolution of the former Soviet Union it proved impossible to verify the holders of the Government bonds issued during the Soviet period, and there was no procedure to write off the debt outstanding under said bonds, that debt was never written off.

The State Budget Law sets the limit either for State internal debt (direct debt) specifically, or, alternatively, a combined limit for State internal and external debt (direct debt) for each year, although the relevant Budget Law may permit additional borrowing by the Government in certain extraordinary cases. In addition, the Budget Code permits the Government to switch borrowing sources (from external to internal or vice versa), *provided that* the combined limit on State debt is complied with.

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:

	As at 31 December			Six months ended 30 June
	2014	2015	2016	2017
	<i>(in UAH millions)</i>			
State internal debt (direct debt).....	461,003.6	508,001.1	670,645.5	678,883.3
<i>of which:</i>				
Obligations under T-bills and State savings bonds .....	458,226.3	505,356.1	668,132.7	676,436.6
of which denominated in foreign currency .....	67,112.8	61,075.8	105,668.6	93,379.9
Obligations to the NBU <sup>(1)</sup> .....	2,777.3	2,645.1	2,512.8	2,446.7
State guaranteed debt (contingent liabilities).....	27,863.3	21,459.5	19,084.5	19,721.4
Total internal debt.....	<b>488,866.9</b>	<b>529,460.6</b>	<b>689,730.0</b>	<b>698,604.7</b>
Budget cap for State debt (direct debt) <sup>(2)</sup> .....	968,354.6 <sup>(3)</sup>	1,393,950.8 <sup>(4)</sup>	1,501,479.7 <sup>(5)</sup>	1,823,730.2 <sup>(6)</sup>

#### 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 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 State Budget Revenues".
- (3) The 2014 State Budget Law limits State debt in 2014 to UAH 968,354.6 million, making no distinction between internal and external State debt.
- (4) The 2015 State Budget Law limits State debt in 2015 to UAH 1,393,950.8 million, making no distinction between internal and external State debt.
- (5) The 2016 State Budget Law limits State debt in 2016 to UAH 1,501,479.7 million, making no distinction between internal and external State debt.
- (6) The 2017 State Budget Law (as amended) limits State debt in 2017 to UAH 1,823,730.2 million, making no distinction between internal and external State debt.

Source: Ministry of Finance

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

	Year ended 31 December			Six months ended 30 June
	2014	2015	2016	2017
	<i>(in UAH millions)</i>			
T-bills .....	<b>458,137.9</b>	<b>505,257.4</b>	<b>668,132.7</b>	<b>676,436.6</b>
Less than one year maturity .....	1,015.0	0.0	3,899.9	4,787.8
One to three years maturity.....	95,599.6	74,620.2	112,073.8	114,159.8
Four to five years maturity.....	134,302.0	164,078.9	167,155.2	151,178.9
Six to ten years maturity .....	200,154.9	204,458.9	207,963.4	209,368.7
Over ten years maturity .....	27,066.5	62,099.5	177,040.4	196,941.4
State savings bonds.....	<b>88.4</b>	<b>98.6</b>	— <sup>(1)</sup>	—

Notes:

(1) As at 31 December 2016, all state savings bonds were redeemed in full.

Source: Ministry of Finance

As at 31 December 2014, 2015, 2016, and 30 June 2017, the ratio of State internal debt (direct debt) to total State debt (direct debt) was approximately 48.7 per cent., 38.1 per cent., 40.6 per cent., and 41.4 per cent., respectively.

In 2014, the average annual weighted T-bill yield was 15.3 per cent. in hryvnia, 6.1 per cent. in U.S. dollars and 7.5 per cent. in euro. In 2015, the average annual weighted T-bill yield was 17.0 per cent. in hryvnia, 8.7 per cent. in U.S. dollars; no T-bills in euro were outstanding in the said year. In 2016, the average annual weighted T-bill yield was 14.9 per cent. in hryvnia, 7.3 per cent. in U.S. dollars and 4.0 per cent. in euro. In the six months ended 30 June 2017, the average annual weighted T-bill yield was 14.94 per cent. in hryvnia and 5.49 per cent. in U.S. dollars.

International investment in T-bills is currently limited. As at 31 December 2014, 2015, 2016, and 30 June 2017, non-residents held approximately 4.7 per cent., 4.5 per cent., 1.0 per cent. and 0.1 per cent. of all outstanding T-bills, respectively. 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.

As at the date of this Prospectus, discussions are ongoing between the Government and the NBU to refinance (through maturity extension) a portion of the outstanding domestic obligations of Ukraine owned by the NBU.

#### *State Savings Bonds*

Since 21 May 2014, Ukraine has issued new “Military” State savings bonds. As at 31 December 2015 and 29 February 2016, the amount of such savings bonds outstanding was UAH 99.9 million and UAH 100.9 million, respectively. As at 31 December 2016, all State savings bonds were redeemed in full.

#### *Foreign currency T-bills*

On 9 December 2011, Parliament approved a law allowing issuances of foreign currency T-bills by the Government. In 2014, the Government issued U.S.\$792.5 billion of U.S. dollar denominated T-bills and €40.0 million of euro denominated T-bills. In 2015, the Government issued U.S.\$643.4 million of U.S. dollar/euro denominated T-bills, and in 2016, the Government issued U.S.\$2,998.6 million of US dollar denominated T-bills and €41.3 million of euro denominated T-bills. In the six months ended 30 June 2017, the Government issued U.S.\$38.1 million of U.S. dollar denominated T-bills.

In order to decrease the high percentage of foreign currency debt in the State debt (direct debt) (approximately 65 per cent.), issuances of foreign currency T-bills were limited.

Nevertheless, Ukraine along with experts from the World Bank, are in the process of developing the local bond market. The goal is to increase liquidity of the T-bills. To that end, the number of instruments was reduced, the quarterly calendar was established and the communications with primary dealers prior to auctions were improved.

Ukraine plans to switch to a well-known online trading terminal to conduct T-bill primary auctions and to start regular liquidity management operations on the local market in line with international practices.

## External Debt

Ukraine's external debt 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 2014, Ukraine's external debt was U.S.\$38.8 billion, including State debt (direct debt) of U.S.\$30.8 billion and State guaranteed debt of U.S.\$8.0 billion. As at 31 December 2015, external debt was U.S.\$43.4 billion, including State debt (direct debt) of U.S.\$34.4 billion and State guaranteed debt of U.S.\$9.0 billion. As at 31 December 2016, external debt was U.S.\$45.6 billion, including State debt (direct debt) of U.S.\$36.0 billion and State guaranteed debt of U.S.\$9.6 billion. For the six months ended 30 June 2017, external debt was U.S.\$48.2 billion, including State debt (direct debt) of U.S.\$37.2 billion and State guaranteed debt of U.S.\$11.0 billion.

In 2014, 2015, 2016 and for the six months ended 30 June 2017, 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.\$5,186.2 million, U.S.\$2,116.6 million, U.S.\$1,614.4 million, and U.S.\$850.8 million, respectively. The large amount of debt service in 2014 was primarily due to the scheduled repayment of debt owed to the IMF by the Government.

The following tables set out Ukraine's (i) State external debt structure as at 31 December 2014, 2015, and 2016 and 30 June 2017; (ii) projected payments of State external debt service for the years 2017 to 2023; and (iii) projected IMF debt service for the years 2017 to 2020:

### State External Debt Structure

	As at 31 December			As at
	2014	2015	2016	30 June
		<i>(in U.S.\$ millions)</i>		
<b>State external debt (direct debt)</b> .....	<b>30,822.5</b>	<b>34,427.0</b>	<b>36,048.4</b>	<b>37,245.0</b>
<i>of which:</i>				
Multilateral borrowings (IFI loans).....	10,723.2	14,059.2	13,675.4	14,766.7
<i>of which:</i>				
EBRD .....	594.2	582.2	591.1	625.1
EIB .....	485.3	522.1	534.1	599.5
EU .....	1,658.8	2,414.6	2,310.1	3,207.1
Debt to the IMF owed by the Government .....	3,651.9	5,341.8	5,182.3	5,363.6
World Bank.....	4,333.0	5,198.5	5,055.4	4,968.6
Clean Technology Fund (IBRD).....	—	—	2.5	2.9
Bilateral borrowings .....	1,038.3	1,362.8	1,678.8	1,726.3
<i>of which:</i>				
Russia .....	605.9	605.9	605.9	605.9
United States.....	10.4	9.0	7.6	7.6
France .....	—	—	—	—
Japan .....	241.5	233.7	549.9	565.7
Germany .....	8.5	226.2	220.0	240.1
Canada .....	—	—	295.4	307.1
Italy.....	—	—	—	—
SDR allocations received to the State Budget.....	1,779.1	1,701.7	1,650.8	1,708.6
Loans from foreign banks <sup>(1)</sup> .....	0.1	0.1	0.1	0.1
State External Bonds 2003.....	—	—	—	—
State External Bonds 2004.....	—	—	—	—
State External Bonds 2005.....	731.8	—	—	—
State External Bonds 2006.....	1,000.0	—	—	—
State External Bonds 2007.....	700.0	—	—	—
State External Bonds 2010.....	2,000.0	—	—	—
State External Bonds 2011.....	2,750.0	—	—	—
State External Bonds 2012.....	4,850.0	—	—	—
State External Bonds 2013 <sup>(2)</sup> .....	4,250.0	3,000.0	3,000.0	3,000.0
State External Bonds 2014.....	1,000.0	1,000.0	1,000.0	1,000.0
State External Bonds 2015.....	—	13,302.4	14,043.3	14,043.3

	As at 31 December			As at
	2014	2015	2016	30 June
State External Bonds 2016.....	—	—	1,000.0	1,000.0
<b>Limit of State external debt (direct debt) under the State Budget Law as at 31 December each year<sup>(3)</sup>.....</b>	<b>60,522.2<sup>(4)</sup></b>	<b>63,361.4<sup>(4)</sup></b>	<b>61,536.1<sup>(4)</sup></b>	<b>65,601.8<sup>(4)</sup></b>
State guaranteed external debt (contingent liabilities) .....	7,986.7	9,018.3	9,558.03	10,998.1
<i>of which:</i> .....				
Multilateral borrowings (IFI loans).....	2,543.7	5,867.8	7023.7	8,045.6
<i>of which:</i> .....				
European Atomic Energy Community.....	28.6	19.0	10.9	65.1
EBRD .....	88.3	126.9	388.4	110.0
European Investment Bank.....	—	—	36.6	39.9
Debt to the IMF owed by the NBU.....	2,058.5	5,329.4	6,132.8	7,368.8
World Bank.....	368.3	392.4	455.0	461.6
Bilateral borrowings <sup>(5)</sup> .....	243.7	195.0	146.2	121.8
Loans from foreign banks.....	3,273.4	2,842.7	2,278.5	2,717.4
Other.....	1,926.0	112.9	109.5	113.3
<b>Total external debt.....</b>	<b>38,809.3</b>	<b>43,445.4</b>	<b>45,606.5</b>	<b>48,243.1</b>

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) The December 2013 Notes are currently the subject of litigation in the English Courts. See “*Description of Ukraine—Legal Proceedings—December 2013 Notes Litigation*”.
- (3) 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 State Budget Revenues*”.
- (4) The 2014, 2015, 2016, and 2017 State Budget Laws limited State debt, at the respective year ends, to UAH 968,354.6 million, UAH 1,393,950.8 million, UAH 1,501,479.7 million, and UAH 1,823,730.2 without apportioning this between internal and external State debt.
- (5) Bilateral borrowings represent debt owed to Canada.

Source: Ministry of Finance

### Projected State External Debt Service for 2017 to 2023<sup>(1)</sup>:

	2017	2018	2019	2020	2021	2022	2023
	<i>(in U.S.\$ millions)</i>						
State external debt (direct debt) .....	<b>2,353.5</b>	<b>3,331.1</b>	<b>5,957.9</b>	<b>5,844.4</b>	<b>4,697.1</b>	<b>3,704.4</b>	<b>3,552.1</b>
Interest.....	1,373.7	1,417.5	1,385.8	1,195.8	1,055.1	902.0	756.0
Principal, incl.....	979.8	1,913.6	4,572.1	4,648.5	3,641.9	2,802.4	2,796.1
Eurobonds.....	0.0	0.0	2,822.2	2,779.8	2,409.3	1,383.7	1,355.2
IFIs .....	968.0	1,903.0	1,572.2	1,673.8	1,166.3	1,330.1	1,341.0
Official loans .....	11.8	10.6	177.6	194.9	66.3	88.7	99.8

Notes:

- (1) 2017 to 2023 for current debt obligations as at 30 June 2017.

Source: Ministry of Finance

### Projected IMF Debt Service for 2017 to 2020<sup>(1)</sup>:

	2017 <sup>(2)</sup>	2018 <sup>(2)</sup>	2019 <sup>(2)</sup>	2020 <sup>(2)</sup>
	<i>(in U.S.\$ millions)</i>			
<b>Total debt to IMF .....</b>	<b>1,278.0</b>	<b>2,714.9</b>	<b>2,223.5</b>	<b>1,638.0</b>
<b>Debt of the Government.....</b>	<b>741.6</b>	<b>1,627.9</b>	<b>1,231.5</b>	<b>596.7</b>
Interest.....	151.3	172.9	142.7	118.0
Principal.....	590.3	1,455.0	1,088.8	478.7
Debt of the NBU.....	<b>536.5</b>	<b>1,087.0</b>	<b>992.0</b>	<b>1,041.3</b>
Interest.....	207.2	312.5	351.3	338.0
Principal.....	329.2	774.5	640.8	703.3

Notes:

- (1) For current debt obligations owed to the IMF as at 30 June 2017.

- (2) SDR amounts have been converted to dollars using an assumed average 2017 to 2020 exchange rate of SDR 1 to U.S.\$1.5.

Source: Ministry of Finance

## ***Commercial Creditors***

Since 1997, Ukraine has been regularly issuing bonds in the international capital markets denominated in various foreign currencies. As of the date of this Prospectus, Ukraine has U.S.\$19.0 billion of outstanding bonds in foreign currency in the international capital markets (including the December 2013 Notes that are currently the subject of litigation in the English courts) with maturities ranging from 2019 to 2027.

## ***Public Debt Strategy***

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.\$19.0 billion from the IMF and U.S.\$5.6 billion from the World Bank. As at 31 July 2017, Ukraine and Ukrainian companies had raised approximately €12.0 billion from the EBRD in 355 projects. See “*Risk Factors—Risk Factors Relating to Ukraine—Should Ukraine be unable to obtain financing from external sources due to a failure to implement required structural reforms, the Government’s ability to meet the financing targets in the State budget could be jeopardised.*”

### *Ukraine’s external debt restructuring*

Following the Euro-Maidan Revolution, Russia’s illegal occupation of Crimea and the conflict in certain parts of the Donetsk and Luhansk regions triggered a substantial depreciation in the hryvnia, which by early 2015 had lost more than half of its value as compared with the exchange rates at 31 December 2013. Over the same period, Ukraine’s real GDP shrank by 18.9 per cent. due to the temporary loss of productive capacity in illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions. The substantial depreciation of the hryvnia, combined with reduced tax revenues due to the economic recession and increased fiscal expenditures associated with the conflict in certain parts of the Donetsk and Luhansk regions, created a financial crisis in Ukraine. In order to address this crisis, the Government agreed in connection with the 2015 EFF to undertake a debt operation aimed at restoring the sustainability of Ukraine’s external debt burden. To this end, on 4 April 2015, the Cabinet of Ministers passed a resolution permitting the restructuring of certain state and state guaranteed debt obligations of Ukraine in order for Ukraine to be able to meet its financing obligations under the 2015 EFF.

The Ministry of Finance subsequently engaged in negotiations with an ad hoc committee of creditors (the “**AHC**”), comprised of some of the largest holders of its outstanding Eurobonds. On 27 August 2015, the Government announced that it had reached an agreement with the AHC on restructuring Ukraine’s Eurobonds and state-guaranteed Eurobonds of the State Enterprise “Financing of Infrastructural Projects” (FinInPro). This agreement provided, inter alia, for a 20 per cent. nominal haircut, an increase in coupon to 7.75 per cent. per annum, the extension of the maturities of the notes to fall in the period from 2019 to 2027, and the issuance to bondholders participating in the debt restructuring of GDP-linked securities providing potential value recovery and upside to holders from 2021 to 2040, conditional on real-GDP growth in Ukraine reaching certain thresholds. The new sovereign notes and GDP-linked securities issued as a result of this restructuring were issued together as a package, in consideration for the exchange and cancellation of Ukraine’s then outstanding Eurobonds.

On 12 November 2015, the Ministry of Finance of Ukraine announced the settlement of Ukraine’s debt restructuring operation in respect of thirteen series of Ukraine’s Eurobonds and state-guaranteed Eurobonds. Following the passing of extraordinary resolutions for each series of Eurobonds at bondholder meetings held on 14 October 2015, the holders of such Eurobonds who submitted valid and timely participation instructions received distributions of new Ukrainian securities on 12 November 2015 in accordance with the terms of the exchange offer. Only one series of eligible debt instruments, the December 2013 Notes (the validity and enforceability of which is currently the subject of legal proceedings in the English courts), did not participate in the exchange offer. In November 2015, the Ministry of Finance of Ukraine stated that the Government of Ukraine remained open to finding a solution with the holders of the December 2013 Notes. On 18 December 2015, the Cabinet of Ministers of Ukraine announced the imposition of a moratorium on payments under the December 2013 Notes until a solution on restructuring was found. The moratorium also applied to certain state-guaranteed loans which were subsequently restructured in early 2016.

A number of further debt operations have been conducted in order to help Ukraine meet the 2015 EFF's financing targets. On the instructions of the Ukrainian authorities, the external notes of Ukreximbank and Oschadbank (the two largest state-owned banks) were successfully reprofiled on 7 July 2015 and 3 August 2015, respectively. Further, on 22 December 2015, the City of Kyiv authorities announced the successful restructuring of the majority of its U.S.\$250 million 8 per cent. loan participation notes due 2015 and all of its U.S.\$300 million 9.375 per cent. loan participation notes due 2016. On 14 March 2016, public joint-stock company "Ukrainian Railways" successfully completed the exchange of its U.S.\$500 million 9.5 per cent. loan participation notes due 2018 for its new U.S.\$500 million 9.875 per cent. loan participation notes due 2021.

In 2016, further tranches of Ukraine's existing Eurobonds and GDP-linked securities were issued in exchange for the termination of state-guaranteed loans of Ukravtodor with Sberbank, VTB and a syndicate of banks, respectively, as well as a state-guaranteed loan to Yuzhnoye State Design Office. Accordingly, following the final issuance of new tranches of Eurobonds and GDP-linked securities in 2016 to fulfil the final elements of the sovereign restructuring, the sovereign restructuring was completed in June 2016, other than in respect of the December 2013 Notes as discussed above.

### ***International Financial Institutions***

As at 31 December 2014, 2015, and 2016, and 30 June 2017, the total amount of debt owing to the IMF stood at U.S.\$5.7 billion, U.S.\$10.7 billion, U.S.\$11.3 billion and U.S.\$12.7 billion, respectively (including both debt owed to the IMF by the Government and the NBU). The total amount of direct debt owing to other international organisations stood at U.S.\$7.1 billion, U.S.\$8.7 billion, U.S.\$8.5 billion and U.S.\$9.4 billion as at 31 December 2014, 2015, and 2016, and 30 June 2017, respectively. Repayments of principal and interest in respect of IMF debt owed by the Government totalled approximately U.S.\$2,589.4 million for 2014, U.S.\$912.1 million for 2015, U.S.\$108.3 million for 2016, and U.S.\$63.7 million as at 30 June 2017. Repayments of principal and interest in respect of debt owed to international organisations other than the IMF amounted to U.S.\$280.9 million in 2014, U.S.\$384.3 million in 2015, U.S.\$442.9 million in 2016, and U.S.\$240.1 million in the six months ended 30 June 2017.

### ***IMF***

During the initial phase of Ukraine's market reforms, IMF support was crucial to facilitate monetary reform, support the exchange rate, increase currency reserves, service external debt and finance any payment shortfalls.

On 30 April 2014, Ukraine reached an agreement with the IMF on the terms of the 2014 Stand-by Arrangement ("**2014 SBA**") under which Ukraine was eligible to receive tranching disbursements of up to U.S.\$17 billion from the IMF between 2014 and 2016. On 7 May 2014, Ukraine received the first tranche under the 2014 SBA of U.S.\$3.194 billion (equivalent of 2.058 billion SDR). On 29 August 2014, Ukraine received a further, second tranche of U.S.\$1.378 billion (equivalent of 914.67 million SDR). In total, U.S.\$3.0 billion was allocated to the State Budget under the 2014 SBA.

On 11 March 2015, Ukraine reached agreement with the IMF on the terms of the 2015 EFF, which replaced the 2014 SBA (the remaining disbursements under which were cancelled). On 13 March 2015, Ukraine received the first tranche under the 2015 EFF in the amount of U.S.\$4.88 billion (equivalent of SDR 3.546 billion), U.S.\$2.63 billion of which was allocated to finance the State Budget deficit. After successful completion of the first review of the 2015 EFF by the IMF, on 4 August 2015, Ukraine received the second tranche under the 2015 EFF in the amount of U.S.\$1.66 billion (equivalent of SDR 1.182 billion), which was allocated toward replenishing Ukraine's foreign exchange reserves.

On 14 September 2016, the Executive Board of the IMF approved the second review of the 2015 EFF, following which Ukraine received the third tranche under the 2015 EFF in the amount of U.S.\$1.00 billion (equivalent of SDR 716.1 million), which was allocated toward replenishment of Ukraine's foreign exchange reserves.

On 3 April 2017, the Executive Board of the IMF approved the third review of the 2015 EFF, following which Ukraine on 5 April 2017 received the fourth tranche under the 2015 EFF in the amount of U.S.\$ 1.00 billion

(equivalent of SDR 734.1 million), which was also allocated toward replenishment of Ukraine's foreign exchange reserves.

The disbursement of further tranches of funds to Ukraine under the 2015 EFF by the IMF is conditional upon Ukraine continuing to meet certain agreed performance targets and implementing an agreed program of structural reforms. The next IMF mission to Ukraine is expected to be on 19 September 2017.

In addition to the financial assistance provided by the IMF, and in accordance with the Articles of Agreement of the IMF applicable to all member states, Ukraine also has access to its quota 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 onetime 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. Since 2010, Ukraine has not received any SDRs from IMF distributions. 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, when Ukraine joined the World Bank, and 31 July 2017, the World Bank has approved 54 loans amounting to U.S.\$12.74 billion and four Global Environment Facility grants to Ukraine amounting to approximately U.S.\$9.2 billion. As at 31 July 2017, U.S.\$8.8 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 agriculture, social sector, healthcare, education and road reconstruction.

The level of funds drawn down under the 10 pending programmes in 2015-2016 amounted to U.S.\$1.13 billion as at 31 January 2016. As at 30 June 2017, there were eight programmes, with total drawn-down funds for the six months ended 30 June 2017 amounting to U.S.\$52.04 million.

In 2014 and 2015, Ukraine and the World Bank started the preparation of six projects, two of which are in the municipal sector in the amount of up to U.S.\$732 million: a project on energy efficiency in the sphere of centralised heat supply in the amount of U.S.\$382 million and a municipal infrastructure development project in the amount of U.S.\$350 million. On 26 May 2014, loan agreements were executed between Ukraine and the IBRD for the provision of loans for each of the above two municipal sector projects.

In 2014, Ukraine commenced to introduce a project for the modernisation of the system of social support in Ukraine, which will involve loans from the World Bank of U.S.\$300 million in total, 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. On 9 July 2014, an agreement was executed between Ukraine and the IBRD for the provision of the loan for the above project.

In August 2014, loans for the total amount of U.S.\$ 1,250 million were approved aimed at supporting, among other things, the reforms in Ukraine's banking sector.

In addition, at that time two other projects aimed at supporting the ongoing reforms, amounting to U.S.\$1,250 million, were in progress (the Second Development Policy Loan and the Second Programmatic Financial Sector Development Policy Loan).

In 2014, the World Bank provided financing in the overall amount of U.S.\$ 1.25 billion aimed at supporting ongoing reforms in Ukraine on the whole (the First Development Policy Loan for U.S. \$750 million, approved by the World Bank Board of Directors in May 2014) and reforms in the banking sector in particular (The First Programmatic Financial Sector Development Policy Loan for U.S.\$500 million, approved by the World Bank Board of Directors in August 2014).

The First Development Policy Loan was co-funded by the Government of Japan via the Japan International Cooperation Agency, which provided funding in the amount of JPY 10.0 billion (approx. U.S.\$96.0 million).

These loans formed part of a package of financial support which was expected to provide Ukraine with up to U.S.\$3.5 billion by the end of 2014.

In June 2015, Ukraine commenced the implementation of the Second Power Transmission Project in the amount of U.S.\$378.43 million with the aim of improving the reliability of the power transmission system in Ukraine and establishing institutional backing for implementation of the energy sector reforms which Ukraine undertook as part of its membership in the Energy Community and pursuant to the terms of the Ukraine-EU Association Agreement. In addition, in June 2015, Ukraine commenced the Servicing People Improving Health Project in the amount of U.S.\$214.73 million with the aim to improve the quality of healthcare services in 8 regions of Ukraine (Vinnytsia, Volyn, Dnipropetrovsk, Zakarpattia, Zaporizhia, Lviv, Poltava, and Rivne regions) focusing on primary and secondary prevention of heart diseases and cancer, as well as improved public governance in the healthcare sector.

In 2015, the World Bank extended a loan to Ukraine in the amount of U.S.\$1.0 billion to implement the Second Development Policy Loan and the Second Programmatic Financial Sector Development Policy Loan projects (each amounting to U.S.\$ 500 million, approved by the World Bank Board of Directors in August 2015 and September 2015, respectively), aimed at stabilisation of the financial and economic conditions in Ukraine, as well as support of strategic reforms and provision of funding for the State Budget.

The Second Development Policy Loan was also co-funded by the Government of Japan via the Japan International Cooperation Agency, which provided funding in the amount of JPY 36.97 billion (approximately U.S.\$300 million).

In January 2016, the World Bank extended a loan to Ukraine in the amount of U.S.\$560.0 million to implement the Road Sector Development Project. The proceeds of this loan are intended to fund reconstruction of approximately 108 kilometres of the road between, Kyiv, Kharkiv, and Dovzhansky in the Poltava region, including reconstruction (reinforcement) of the existing road, implementation of safety measures for road traffic, creation of new jobs, reduction of expenses for transit of cargo and passengers, and the reduction of overall damages caused by road accidents.

In addition, Ukraine and the World Bank entered into the Agreement on Development of the Road Sector project in the amount of U.S.\$560 million; this took effect in February 2016.

On 26 June 2017, within the framework of the Access to Long Term Finance Project, two instruments were signed: a guarantee agreement between Ukraine and the World Bank, and a loan agreement between JSC “Ukreximbank” and the World Bank.

The World Bank’s current programme is intended to assist Ukraine to implement urgent reforms required to return Ukraine’s economy to a sustainable growth path.

### *EIB*

Ukraine has cooperated with the EIB since 2005, and a framework agreement with the EIB was signed and came into force in 2006.

The EIB’s mandate for 2014 to 2020 authorised lending operations for projects in the transport, energy, municipal infrastructure, telecommunications and environmental protection sectors. The Government expects that the EIB’s lending operations in the future (following the end of that mandate) will continue to focus on the transport sector (including construction, repair and modernisation of highways and railways), telecommunications, energy efficiency, energy infrastructure and environmental protection.

As at 31 July 2017, the EIB was involved in 16 projects with Ukraine involving the provision of up to €3.4 billion under these projects. As at 31 July 2017, €86 million was drawn down. In addition, as at 31 July 2017, the EIB approved a further four projects in Ukraine involving the provision of up to a further €440 million and including the extension of Kharkiv subway, safety of road traffic, modernisation of electric substations, and modernisation and extension of compressor stations.

### *EBRD*

As at 31 July 2017, the EBRD portfolio in Ukraine included 355 projects, valued at €12.0 billion, among which there were 26 projects in the public sector valued in aggregate at €2.1 billion and U.S.\$0.97 billion with total disbursements amounting to €1.1 billion and U.S.\$0.94 billion. From the outset of Ukraine’s relations with the EBRD, 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 energy saving technologies in the power consuming sectors of the economy.

As of 31 July 2017, the EBRD approved a project to extend the subway in Kharkiv involving the provision of up to €160 million in funding.

#### *KfW*

As at 31 July 2017, KfW’s portfolio in the public sector included seven projects valued in aggregate at €600 million, under which a total of €203.62 million was disbursed.

#### *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. As at 31 July 2017, the aggregate value of loans relating to 31 BSTDB projects implemented in Ukraine was approximately €425.6 million.

### ***Official Creditors***

#### *Paris Club*

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 and which was duly repaid. Ukraine paid the Paris Club creditors (other than Russia and Turkmenistan) U.S.\$8.8 million in 2014, U.S.\$14.6 million in 2015, and U.S.\$22.1 million in 2016. As at 31 December 2015 and 2016, and for the six months ended 30 June 2017, Ukraine’s outstanding debt to Paris Club creditors was approximately U.S.\$468.9 million, U.S.\$777.5 million, and U.S.\$813.4 million, respectively.

#### *Russia*

Ukraine’s largest official bilateral creditor is Russia, and despite the current political situation, Ukraine’s existing debt to Russia as at 30 June 2017 amounts to U.S.\$605.9 million. Since 1997, in exchange for a 20 year lease in favour of the Russian Navy for port facilities in Sevastopol in Crimea, Ukraine was able to benefit from decreased payments under its Russian debt obligations. However, since the recent developments in Crimea, the benefit of this agreement has been lost. From 2001 to 2010, Ukraine’s debt to Russia was reduced by approximately U.S.\$97.8 million annually pursuant to this agreement.

On 17 December 2013, the President of Russia and the former President of Ukraine announced a package of economic and financial support for Ukraine to be provided by Russia. As part of this promised financial package Russia provided U.S.\$3 billion of financial support by purchasing, indirectly, the entirety of Ukraine’s December 2013 Notes. The remainder of the promised U.S.\$15 billion of financial support was suspended following the fall from power of Mr. Yanukovich. The December 2013 Notes are currently the subject of litigation in the English Courts. See “*Description of Ukraine—Legal Proceedings—December 2013 Notes Litigation*”.

On 31 March 2014, Russia unilaterally terminated the following agreements between Russia and Ukraine (i) the Agreement on Parameters of Division of the Black Sea Fleet dated 28 May 1997, (ii) the Agreement on Status and Conditions of Russian Black Sea Fleet stationing within the territory of Ukraine dated 28 May 1997, (iii) the Agreement on mutual settlements related to the division of Russian Black Sea Fleet and the Black Sea Fleet Stationing within the territory of Ukraine dated 28 May 1997, and (iv) the Agreement on Matters related to Russian Black Sea Fleet stationing within the territory of Ukraine dated 21 April 2010, which extended 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. Ukraine has officially rejected the termination of the above agreements.

## *EU*

As part of its cooperation with the EU, throughout 2014-2017, Ukraine received financial support amounting to €2.81 billion from the EU, based on (i) the Memoranda of Understanding between Ukraine as borrower and the EU as lender concerning the provision of macro financial aid by the EU in the amount of €610 million (ratified by Ukraine on 4 March 2014), (ii) the Memorandum of Understanding between Ukraine as borrower and the EU as lender concerning the provision of macro financial aid by the EU in the amount of €1 billion (ratified by Ukraine on 20 May 2014), and (iii) the Memorandum of Understanding between Ukraine as borrower and the EU as lender concerning the provision of macro financial aid by the EU in the amount of €1.8 billion (ratified by Ukraine on 18 June 2015).

The aim of this support is to reduce the external financial pressure on Ukraine, to improve its balance of payments and to strengthen its positions in foreign exchange reserves.

### **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. From 1999 to 2003, Ukraine has been limited to issuing guarantees in favour of State owned entities. The Budget law sets out caps for guarantees provided by Ukraine for any given year. The cap was set at UAH 25 billion for 2014.

Ukraine paid U.S.\$130.5 million, U.S.\$82.1 million, U.S.\$35.6 million, and U.S.\$22.9 million in 2014, 2015, and 2016 and for the six months ended 30 June 2017 under its obligations for State guarantees.

As at 31 December 2014, 2015, 2016 and 30 June 2017, the total value of guarantees outstanding provided by Ukraine amounted to UAH 153.8 billion, UAH 237.9 billion, UAH 279.0 billion and UAH 306.8 billion, respectively.

The 2014, 2015 and 2016 State Budget Laws authorised the Cabinet of Ministers to issue sovereign guarantees in 2014, 2015 and 2016, with a cumulative total amount not exceeding UAH 25.0 billion, UAH 26.0 billion, and UAH 28.9 billion, respectively. In 2014, 2015 and 2016, Ukraine granted sovereign guarantees in the total amount of UAH 17.4 billion, UAH 7.4 billion, and UAH 21.9 billion, respectively. The 2017 State Budget Law authorised the Cabinet of Ministers to issue sovereign guarantees in 2017 with a cumulative total amount not exceeding UAH 31.7 billion and U.S.\$700.0 million; for the six months ended 30 June 2017, Ukraine has not granted any sovereign guarantees.

### **Special Fund Borrowings**

In addition to borrowing accounted for in the General Fund of the State Budget, certain Government borrowing is 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 Euro 2012 Championships in Ukraine and 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 2014, 2015, 2016, and for the six months ended 30 June 2017, the amount of borrowing of the Special Fund was UAH 22,390.9 million (U.S.\$1,838.9 million), UAH 6,341.2 million (U.S.\$248.5 million), UAH 6,757.2 (U.S.\$63.6 million) and UAH 2,404.8 million (U.S.\$90.0 million), respectively.

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			Six months ended
	2014	2015	2016	30 June
				2017
	<i>(in U.S.\$ millions)</i>			
Borrowing accounted for in the Special Fund.....	<b>1,838.9</b>	<b>284.5</b>	<b>263.6</b>	<b>90.0</b>
Internal borrowing .....	1,494.8	—	—	—
External borrowing .....	344.1	284.5	263.6	90.0
Repayments from the Special Fund .....	—	—	—	—
Internal borrowing .....	—	—	—	—
External borrowing .....	—	—	—	—

### Debt Ratings

As at the date of this Prospectus, the foreign currency long term debt of Ukraine is rated B- by Standard & Poor's Credit Market Services Europe Limited and B- by Fitch Ratings Ltd.

## 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 Ukrainian law, and governed in accordance with the Constitution and Ukrainian law, the NBU is a State authority with the principal objective of ensuring the stability of the national currency. This objective is achieved by monitoring 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 is the highest governing body of the NBU and consists of nine members, four of whom are appointed by Parliament and four of whom by the President; it is responsible for the development of fundamental principles of monetary policy as well as supervision of the performance thereof. The NBU Governor acts *ex officio* as the ninth member of the Council, and is nominated by the President and appointed by Parliament for a seven year term.

### Monetary Policy

The NBU is responsible for implementing monetary policy.

In recent decades, the Ukrainian economy suffered from volatile and unpredictable inflation, which reduced the credibility of the hryvnia and led to high interest rates on deposits and loans and high levels of dollarisation. With this in mind, the Monetary Policy Guidelines for 2016 to 2020 set out (for the first time) quantitative targets on inflation and the principles of monetary policy realisation based on inflation targeting. The NBU's monetary policy also aims at meeting objectives such as increasing the level of international reserves and achieving other quantitative performance criteria and indicative targets under the programme of cooperation with the IMF (including cooperation in relation to inflation).

The mid-term inflation objective for the annual CPI growth rate is set at 5 per cent. (+/- 1.0 per cent.) and will be achieved gradually. Short-term target rates for the annual change of CPI are set as follows: 12 per cent. (+/- 3.0 per cent.) as of December 2016, 8.0 per cent. (+/- 2.0 per cent.) as of December 2017, 6.0 per cent. (+/- 2.0 per cent.) as of December 2018 and 5.0 per cent. (+/- 1.0 per cent.) as of December 2019. The inflation target for 2016 was achieved with consumer inflation at 12.4 per cent. per year.

In December 2016, the NBU Council approved the governing principles of the monetary policy for 2017 and the mid-term inflation objective. The document essentially confirmed that the new monetary regime would continue with inflation targeting, and specified the inflation targets for subsequent years (which should remain unchanged once declared).

The NBU achieves inflation targets primarily by changing the key interest rate of the monetary policy (the discount rate). Other instruments of monetary policy play a supporting role; they contribute to smoothing the effects of the key interest rate of the monetary policy changes on the economy as well as to the balanced development of the financial markets.

To improve the NBU's ability to achieve the inflation targets, the operational design of the monetary policy was improved in April 2016; in particular, the discount rate was synchronised with the key interest rate by major operations on liquidity regulation, notably the issue of the NBU's two-week deposit certificates. As such, the discount rate has become the *de facto* key interest rate of the monetary policy.

There is a symmetrical interest rate corridor, meaning the key interest rate may deviate for +/- 2 per cent. for continued access operations around the key interest rate. As a result, the NBU keeps interest rates on the interbank credit market at a level close to the key interest rate.

The NBU takes all necessary measures to maintain the floating exchange rate regime; its monetary policy is not aimed at achieving a certain level or range of the exchange rate. Peculiarities of the currency intervention under the inflation targeting regime are defined in the Monetary Policy Strategy for 2016 to 2020, which was approved by the Board of the NBU in October 2016. This Strategy provides for currency intervention objectives, including accumulation of international reserves, smooth functioning of the currency market and transmission of the key interest rate as the main tool of monetary policy.

Building international reserves to a sufficient level is considered an important task of the NBU in the coming years. Sufficient levels of international reserves are expected to serve as a stabilising protective mechanism for the state financial system and economy and should minimise the impact of external shocks. Currency interventions are made in order to build international reserves to the target level, which is equal to 100 per cent. of the IMF composite criterion (ARA metrics) at the end of 2018. After the target level is attained, the NBU plans to minimise its presence on the foreign exchange market.

The NBU is currently working on draft laws “On Currency”, “On Amendments to Law of Ukraine “On Banks and Banking Activities” and “On Amendments of Certain Legislative Acts on Establishment and Administration of the Loan Register of the National Bank of Ukraine”.

The draft law “*On Currency*” addresses currency regulation and provides for the establishment of the free movement of capital on the cross-border level. The concept of the draft law provides for the freedom of the currency transactions, establishing the principle of “*what is not forbidden is allowed*”.

The draft law “*On Amendments to Law of Ukraine “On Banks and Banking Activities*” intends to bring corporate governance standards in line with the Basel Principles of Banking Supervision and to expand legal forms of bank organisation. The draft law also enhances responsibility of the bank’s board in terms of expanding its responsibilities by establishing committees of the bank’s board carrying out annual evaluation of their activities/committees’ activities, defining wage policy, and establishing corporate ethics code and policies for preventing conflicts of interest, as well as introduction of a mechanism for confidential notification by the employees of the bank about illegal, unethical, suspicious practices in the bank.

The draft law “On Amendments of Certain Legislative Acts on Establishment and Administration of the Loan Register of the National Bank of Ukraine” empowers the NBU to establish a loan register and to use information contained in such register for the purpose of banking regulation and supervision. The draft law intends to increase the reliability of the banking system and to enhance protection of depositors’ and lenders’ interests.

### Instruments of monetary policy

The following table describes operations aimed at regulating the liquidity of banks in Ukraine in 2014, 2015, 2016 and 2017:

	2014	2015	2016	As of 1 July 2017
	<i>(UAH billion)</i>			
<b>Operations for maintenance of liquidity</b>				
Refinancing operations .....	150.6	61.3	50.8	7.2
REPO operations .....	20.4	2.3	0.0	0.0
Stabilising loans.....	28.2	11.7	25.0	0.0
Other loans.....	23.0	0.0	0.0	0.0
<b>Operations for prevention of excessive liquidity</b>				
Reverse REPO operations.....	0.0	0.0	—	—
Issuing of deposit certificates of NBU.....	1,472.7	2,849.2	2,946.9	1,452.9
<b>Sale purchase of securities</b>				
Repurchase of securities in the national currency.....	183.3	93.7	27.9	3.9
on a two way quotation basis.....	1.0	0.3	0.0	0.0
Sale of securities in the national currency.....	1.0	1.9	0.0	0.0
on a two way quotation basis.....	1.0	0.3	0.0	0.0

Methods and instruments currently used by the NBU for the implementation of its policies include interest rate policy, mandatory reserve requirements, liquidity requirements and a wide range of instruments for the regulation of bank liquidity, namely refinancing operations, direct repo operations, mobilisation operations and transactions involving the sale and purchase of T-bills in the open market.

#### *Refinancing operations*

The NBU conducts refinancing operations daily and weekly, as follows:

- daily by overnight loans to banks (secured by Ukrainian sovereign bonds, deposit certificates of the NBU and bonds of international financial organisations);

- weekly (every Wednesday) by way of a tender process as follows:
  - for three consecutive Wednesdays, refinancing loans up to 14 days;
  - on the fourth Wednesday, refinancing loans up to 90 days.

Tenders can be quantitative and interest-based. Bank refinancing by way of tender can be secured against Ukraine governmental bonds, which are owned by banks, deposit certificates of the NBU and foreign currency (U.S. dollar, EUR, GBP, CHF, and JPY) and bonds of international financial institutions issued in Ukraine.

*Direct repo operations* (purchase with further sale commitments) are held with Ukrainian sovereign bonds and bonds of international financial institutions for up to 90 days.

*Open market operations on the sale and purchase of Ukrainian sovereign bonds* can be carried out by means of participation both in trading, held by organisers of securities trading and on the over-the-counter market.

*Operations of two-sided quoting of Ukrainian sovereign bonds*, which are held in the NBU's portfolio with a mandatory guarantee of repurchase from the owners at any time, are conducted to regulate the monetary market.

### *Interest Rate*

A reduction in risks to price stability in the second half of 2015 allowed the NBU to start easing monetary policy; the discount rate was reduced from 30 per cent. to 22 per cent. per annum. In 2016, the NBU continued its active easing of monetary policy; the discount rate was decreased 6 times, from 22 per cent. to 14 per cent.. Since the end of 2016 and in the first quarter of 2017, the NBU Board refrained from reducing the discount rate in order to moderate the risks connected with achieving the inflation targets in 2017 and 2018. However, in April 2017, the NBU renewed the monetary easing cycle and on 14 April 2017, reduced the discount rate by 1.0 per cent. to 13 per cent. per annum. On 26 May 2017, the discount rate was reduced by a further 0.5 per cent. to 12.5 per cent. per annum. The rate and extent of possible further reduction of the discount rate will depend on the assessment of medium-term risks and the achievement of the inflation targets for 2017 and 2018.

Consistent easing of the monetary policy by the NBU in mid-2015 was reflected in the corresponding decrease in cost of funds in national currency on the interbank monetary market and retail bank rates. In particular, the average cost of interbank loans in hryvnia decreased from 19.3 per cent. in December 2015 to 13.6 per cent. in December 2016 and to 12.5 per cent. in April 2017.

According to NBU data, the average weighted interest rate on hryvnia deposits of residents was approximately 11.9 per cent. in 2014, 13.0 per cent. in 2015 and 11.4 per cent. in 2016. The average weighted interest rate on foreign currency deposits of residents decreased from 6.8 per cent. in 2014 to 6.7 per cent. in 2015 and 4.7 per cent. in 2016. The average weighted interest rate on loans to residents in the national currency excluding overdrafts increased from 17.2 per cent. in 2014 to 21.2 per cent. in 2015, before decreasing to 17.4 per cent. in 2016. The average weighted interest rate on loans to residents in foreign currency excluding overdrafts decreased from 9.0 per cent. in 2014 to 8.9 per cent. in 2015 and 8.8 per cent. in 2016. As of June 2017, the average weighted interest rate on hryvnia deposits of residents was equal to 8.9 per cent.; the average weighted interest rate on foreign currency deposits of residents was 3.3 per cent.; the average weighted interest rate on loans to residents in the national currency, excluding overdrafts, was equal to 14.7 per cent.; and the average weighted interest rate on loans to residents in the foreign currency, excluding overdrafts, was equal to 7.3 per cent.

### *Basic operations on liquidity regulation*

Where there is a surplus in the structural liquidity of the banking system of Ukraine, the main monetary policy operations employed are two-week placements of NBU deposit certificates. NBU deposit certificates are a form of monetary instrument representing debt obligations of the NBU, which evidence the placement of bank funds with the NBU and the right of such banks to receive the placed funds with accrued interest on the redemption date of such certificates. Such operations are aimed at a reduction of the liquidity of the banking system.

The NBU places deposit certificates by way of tender. If necessary, the NBU may conduct unscheduled tenders on deposit certificates placement, as well as decide on their early repayment, upon prior notification to the relevant banks.

Where there is a deficit in the structural liquidity of the Ukrainian banking system, the NBU will turn its focus to liquidity operations and instruments, including (but not limited to) overnight loans, loans for liquidity support and repo operations, as described below.

#### *Instruments of permanent access*

Instruments of permanent access employed by the NBU include operational maintenance of banks' liquidity by means of overnight loans (with a next business day deadline) or operational removal of banks' liquidity by means of placing deposit certificates overnight.

The corridor of overnight interest rates in the interbank credit market is formed of interest rates under the instruments of permanent access. The possibility of daily free access to these instruments is the key to the effectiveness of the interest rate policy of the NBU, which is based on the maintenance of market interest rates within the limits of the defined corridor. Since April 2016, interest rates under the instruments of permanent access have been set within +/- 2 per cent. of the discount rate.

#### *Emergency liquidity assistance*

The NBU provides emergency liquidity assistance to solvent banks by providing loans for liquidity support in case of emergency, once a bank has already exhausted all other sources of liquidity support, including shareholders' injections and standard NBU refinancing instruments. Banks should use such disbursements for the satisfaction of their obligations to depositors and other creditors (other than related parties). Such loans are provided for a term of up to 90 days and may be further extended for a further 90 days. The aggregate term of loans provided as emergency liquidity assistance to banks (including all extension periods) cannot exceed one year.

#### *T-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*".

In 2014, the Government placed T-bills denominated in both the national currency (UAH) and U.S. dollars into the market, with the maturity of these T-bills ranging from 19 days to ten years. Approximately UAH 67.5 billion of these T-bills are denominated in UAH, approximately U.S.\$0.8 billion are denominated in U.S. dollars and €40 million are denominated in Euro. The purpose of the T-bills issued amounted to UAH 96.6 billion to finance the increase of the charter capital of Naftogaz, UAH 16.6 billion to finance state-owned banks, UAH 10.18 billion to finance the Deposits Guarantee Fund and UAH 6.88 billion to finance VAT refunds.

In 2015, the Government again placed T-bills denominated in UAH and U.S. dollars into the market; the maturity of these T-bills ranged from three months to two years. Approximately UAH 10.0 billion of these T-bills are denominated in UAH, and approximately U.S.\$0.64 billion are denominated in U.S. dollars. The T-bills issued amounted to UAH 29.7 billion to finance the increase of the charter capital of Naftogaz, UAH 3.8 billion to finance the increase of the charter capital of banks and UAH 41.5 billion to issue a loan to Deposits Guarantee Fund.

The Government placed further T-bills into the market in 2016, denominated in UAH, U.S. dollars and EUR, with the maturity of these T-bills ranging from three months to five years. Approximately UAH 36.6 billion of these T-bills are denominated in UAH, approximately U.S.\$3 billion in U.S. dollars and approximately €0.14 billion in EUR. The T-bills issued to finance the increase of the charter capital of banks amounted to UAH 121.3 billion (including UAH 107 billion to PrivatBank, UAH 5 billion to Oschadbank and UAH 9.3 to Ukreximbank), and approximately UAH 8.0 billion to issue a loan to the Deposits Guarantee Fund.

As of 30 June 2017, the Government had placed UAH 18.2 billion T-bills denominated in UAH in total and U.S.\$0.04 billion (equivalent to UAH 1.1 billion) T-bills denominated in U.S. dollars. The T-bills issued to finance the increase of the charter capital of banks amounted to UAH 26.4 billion.

As at 31 December 2014, 2015 and 2016, holdings of Ukrainian T-bills by non-residents were approximately 4.7 per cent., 4.5 per cent. and 1.0 per cent., respectively. As at 30 June 2017, T-bills held by non-residents represented approximately 0.1 per cent.

In 2014, the average yield for T-bills sold in the primary market was 15.2 per cent. for T-bills denominated in hryvnia, 5.8 per cent. for T-bills denominated in U.S. dollars and 7.5 per cent. for T-bills denominated in Euro. In 2015, the average yield for T-bills sold in the primary market was 17.0 per cent. for T-bills denominated in hryvnia and 8.7 per cent. for T-bills denominated in U.S. dollars. In 2016, the average yield for T-bills sold in the primary market was 14.9 per cent. for T-bills denominated in UAH, 7.3 per cent. for T-bills denominated in U.S. dollars and 4 per cent. for T-bills denominated in Euro. As of 30 June 2017, the average yield for T-bills sold in the primary market was 14.9 per cent. for T-bills denominated in UAH and 5.5 per cent. for T-bills denominated in U.S. dollars.

### *Savings Bonds*

On 21 May 2014, the Ministry of Finance launched an issue of UAH 100 million of saving bonds (military) with a 2 year term and an interest rate of 7 per cent. per annum. This was in addition to two separate savings bonds issuances in 2012, which totalled U.S.\$200 million.

### *Mobilisation Operations*

The NBU conducts mobilisation operations by issuing deposit certificates of the NBU on a daily and weekly basis. Daily certificates may be based on the permanent line of tenders for placement of deposit certificates overnight; weekly certificates may be based on deposit certificates with a term of up to 14 days (every Wednesday). The NBU, depending on the market situation and banks' liquidity position, may announce extraordinary tenders for the placement of deposit certificates with a term up to 90 days, under which it informs the banks.

The total amount of mobilisation operations amounted to UAH 1,472.7 billion in 2014, UAH 2,849.2 billion in 2015 and UAH 2,946.9 billion in 2016. For the first half of 2017, the total sum of mobilisation operations amounted to UAH 1,452.9 billion.

In 2014, the NBU sold T-bills only on a two-way quotation basis in the nominal amount of UAH 1.0 billion and T-bill purchase transactions amounted to UAH 183.3 billion; UAH 1.0 billion of which were on a two-way quotation basis. In 2015, the NBU sold T-bills amounting to UAH 1.9 billion, of which UAH 262 million was on a two-way quotation basis. T-bills purchase transactions in 2015 amounted to UAH 93.7 billion, of which UAH 262 million was on a two-way quotation basis. The NBU did not sell T-bills in 2016 or in the first half of 2017. In 2016, T-bills purchase transactions amounted to UAH 27.9 billion, and in the first six months of 2017 amounted to UAH 3.9 billion.

### *Banks refinancing operations and REPO*

The total sum of transactions providing overnight loans to banks and tender loans amounted to UAH 150.6 billion in 2014, UAH 61.3 billion in 2015, UAH 50.8 billion in 2016 and UAH 7.2 billion during the first six months of 2017.

The total sum of repo operations amounted to UAH 20.4 billion in 2014 and UAH 2.3 billion in 2015. Repo operations were not conducted in 2016 or during the first six months of 2017.

### *Reserve requirements*

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 5.0 per cent. of their profits annually until (and unless) the reserve fund is equal to 25.0 per cent. of their regulatory capital. The NBU can require additional allocations to be made to the reserve fund.

Since 1991, the NBU establishes a mandatory reserve requirement, which allows it to even out unforeseen market liquidity fluctuations, as well as limit excess liquidity in the banking system. Banks are required to maintain a percentage of bank liabilities (reserve normative) as reserve costs on their correspondent accounts. Such amount should be based on the average over the period of reservation.

Based on the results of consultations with IMF experts, the NBU unified the requirements related to the maintenance of the mandatory reserves of the banks. In particular, the NBU adopted the Regulation on the Procedure for the Formation and Maintaining of the Mandatory Reserves by Ukrainian Banks and Branches of Foreign Banks Operating in Ukraine, which was approved by Resolution of the NBU Board No. 806, dated 11 December 2014. The NBU also adopted Resolution No. 820 “*On the Change of the Procedure for the Formation and Maintaining of the Mandatory Reserves*”, dated 18 December 2014. Consequently, according to the applicable requirements, all funds in local and foreign currency received by the bank from individuals and legal entities are subject to mandatory reserves, except for loans from resident banks, funds from international financial organisations, and funds provided on subordinated debt terms. Banks reserve and store mandatory reserve costs on their correspondent accounts in the NBU. The mandatory reserve requirement for funds on demand is equal to 6.5 per cent. and 3.0 per cent. of the base amount for fixed term deposits.

The amount of mandatory reserves to be maintained on a day-to-day basis at the beginning of the operational day on the bank’s correspondent account with the NBU should be not less than 40 per cent. of the reserve base calculated for the relevant period. Should the banks fail to comply with these mandatory reserve requirements more than 10 times within three consecutive months (periods), they will be subject to a penalty.

From December 2014, for the purposes of complying with the requirements of mandatory reserves, banks were allowed to credit the balances of funds kept on certain bank accounts. Banks were allowed to credit the balances of funds on these accounts in the amount of 100 per cent. Banks were also able to cash balances in UAH in the bank office accounted on the balance sheet of the bank accounts in the amount of 50 per cent. On 10 March 2015, banks were allowed to enrol cash balances in the national currency in the bank office into mandatory reserves accounted on the respective bank accounts at the rate of 100 per cent., and since 10 November 2015, at the rate of 75 per cent.

On 10 January 2016, banks’ ability to credit cash balances in local currency for the coverage of mandatory reserves was revoked and, on 10 April 2016, their ability to credit balances on bank accounts No. 1500 and No. 1502 (with PJSC “Accounting Centre For Servicing Agreements In Financial Markets”) for the coverage of mandatory reserve was also revoked.

#### *Mandatory reserves*

The NBU will apply this instrument in order to level out possible unforeseen fluctuations in banking system liquidity.

#### *Currency markets interventions*

On 6 September 2016, the decision of the Board of the NBU No. 261-PU approved the strategy of currency interventions of the NBU in 2016-2020. The strategy defined the following objectives for the implementation of the NBU’s foreign exchange intervention: the accumulation of international reserves; levelling out of the foreign exchange market to avoid the negative effects of excessive exchange rate volatility and extraordinary events on price and financial stability in the currency market; and maintaining the transmission of the key interest rate as the main tool of monetary policy.

Currency interventions can be implemented in the following forms: currency auctions, interventions on a single exchange rate basis, inquiries as to the best exchange rate, and targeted intervention.

#### **Money Supply**

Improvement of economic expectations and the clean-up of the banking system in 2016 and 2017 increased the demand for hryvnia; this required an increase in money supply. Previous low demand for money in 2014 to 2015 had been caused by various factors, including the economic crisis, increased inflation and devaluation expectations and hryvnia turnover in the temporarily occupied territories. The improvement of economic expectations and the clean-up of the banking system increased the demand for hryvnia in 2016 and 2017; this required an increase in money supply.

In 2014, money supply increased by 5.3 per cent. and amounted to UAH 956.7 billion; in the same period, the monetary base increased by 8.5 per cent. and amounted to UAH 333.2 billion. In 2015, money supply increased by 3.9 per cent., amounting to UAH 994.1 billion; during the same period, the monetary base increased by 0.8 per cent. and amounted to UAH 336 billion. In 2016, money supply increased by 10.9 per cent. and amounted to UAH 1,102.7 billion. The monetary base in 2016 increased by 13.6 per cent. and amounted to UAH 381.6 billion. As at the end of June 2017, the money supply was equal to UAH 1,103.5 billion, and the monetary base was equal to UAH 381.8 billion.

As at 1 January 2017, the money multiplier was 2.89, compared with 2.96, 2.87 and 2.96 as at 1 January 2016, 2015 and 2014, respectively.

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 30 June
	2014	2015	2016	2017	2017
	<i>(in UAH millions except as noted)</i>				
Money outside banks (M0).....	237,777	282,947	282,673	314,392	307,780
Money supply (M1).....	383,821	435,475	472,217	529,928	543,462
Money supply (M2).....	906,236	955,349	993,812	1,102,391	1,103,160
Money supply (M3).....	908,994	956,728	994,062	1,102,700	1,103,480
as % before beginning of year .....	117.6	105.3	103.9	110.9	100.1
Monetary base .....	307,139	333,194	336,000	381,575	381,757
as % before beginning of year .....	120.3	108.5	100.8	113.6	100.0
Deposits in local currency.....	422,351	365,890	391,539	425,697	447,337
Deposits in foreign currency included into M3.	246,109	306,512	319,599	362,302	348,043
Loans extended.....	910,782	1,020,667	981,627	998,682	955,223

### **Exchange Rates**

Ukraine's currency, the hryvnia, was introduced in 1996. As at 31 December 2013, immediately prior to the Euro-Maidan Revolution, the NBU official UAH/U.S. dollar exchange rate was pegged at UAH 7.9930 to one U.S. dollar. In February 2014, due to increasing pressure on the hryvnia and a low level of reserves, the NBU allowed the exchange rate to float against the U.S. dollar, helping to stabilise the financial market. Based on the NBU resolutions of 19 March 2015, as of 31 March 2015, the official exchange rate of hryvnia was established by the NBU as the average weighted ratio of buyers and sellers on the interbank exchange market at the end of the preceding business day. The NBU intends to maintain a floating exchange rate regime; a money-based monetary framework will therefore be developed.

In 2014, the hryvnia depreciated against the U.S. dollar by 97.3 per cent. and against the euro by 74.2 per cent. As at 31 December 2014, the NBU official UAH/U.S. dollar exchange rate was UAH 15.77 to one U.S. dollar. As at 31 December 2015, the NBU official UAH/U.S. dollar exchange rate was UAH 24.00 to one U.S. dollar; hryvnia depreciation against one U.S. dollar was 52.2 per cent. during 2015. In 2016, the hryvnia depreciated against the U.S. dollar by 13.3 per cent., while the NBU set the official exchange rate to the U.S. dollar of UAH 27.19 per one U.S. dollar as of 31 December 2016.

The situation in the currency market from January to July 2017 mostly remained stable; this was primarily due to favourable external price conditions and significant volumes of grain exports following a record harvest in 2016. The official hryvnia/U.S. dollar exchange rate reported by the NBU on 25 July 2017 was UAH 25.82 to U.S.\$1.00, strengthening by 5 per cent. as compared to the beginning of 2017.

Following the change to a floating exchange rate, the NBU maintained its presence on the interbank currency market, evening out temporary excessive exchange rate fluctuations. The regulator did not take any action to defend the exchange rate against fluctuations due to the influence of fundamental market factors. The NBU did, however, take action to increase the level of international reserves. The net cumulative balance of the NBU foreign exchange operations in 2015 had been negative, amounting to U.S.\$157.0 million; this became positive in 2016 and as of 30 June 2017 stood at U.S.\$1.55 billion and U.S.\$1.36 billion, respectively.

The following table sets out the average official hryvnia/U.S. dollar exchange rates for the relevant periods, as reported by the NBU:

	<u>Average</u>	<u>Period end</u>
2014.....	11.89	15.77
2015.....	21.84	24.00
2016.....	25.55	27.19
2017 (as of 30 June).....	26.76	26.10

Source: NBU

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.

### ***Inflation-targeting***

Taking into account that low and stable inflation is one of the key contributors to sustainable economic growth, the NBU believes that inflation targeting is the most favourable monetary policy regime. See “*Economy of Ukraine—Inflation*”.

The NBU started using inflation targeting in 2016. There was a rapid decrease in the annual rate of consumer inflation from 43.3 per cent. in late 2015 to 12.4 per cent. in December 2016, according to a predetermined target (12 per cent. +/- 3 per cent.).

In December 2016, the NBU Council approved the governing principles of monetary policy for 2017 and the mid-term perspective, thereby officially recognising inflation targeting as the monetary policy regime. At the same time, the inflation rate targets for 2017 to 2020 were set at the same level.

As of the date of this Prospectus, Ukraine continues to cooperate with the IMF under the 2015 EFF. The success achieved by the NBU in inflation targeting has led to amendments to the 2015 EFF in terms of monetary policy; consumer inflation was added to the indicative parameters of the programme.

During the next revision of the EFF, the NBU will continue to negotiate the transition from quantitative monetary targets to consultation with the IMF regarding inflation targets.

### ***Currency Control***

On 19 November 2012, the NBU introduced temporary requirements for the compulsory sale of 50 per cent. of foreign currency revenues received by Ukrainian exporters from sales of goods under foreign economic contracts. Accordingly, Ukrainian banks servicing Ukrainian exporters’ accounts were required to initiate compulsory sales of foreign currency funds within one business day of crediting such foreign currency funds to the relevant Ukrainian exporter’s account, regardless of whether the Ukrainian bank had obtained instruction from its client. In August 2014, the NBU increased the amount of foreign currency proceeds subject to the compulsory sale requirement to 100 per cent. of foreign currency proceeds, but subsequently decreased it to 75.0 per cent. in September 2014. The same mandatory exchange requirement remained in place throughout the remainder of 2014, 2015 and until 8 June 2016. Starting from 9 June 2016, the mandatory sale requirement of foreign currency proceeds was reduced to 65 per cent. and, with effect from 5 April 2017, reduced to 50 per cent. Although such compulsory sale requirement is temporary, the NBU is authorised to adopt a new resolution on the compulsory sale of foreign currency proceeds at any time for another period of up to six months.

In addition to compulsory sale requirements, the NBU reduced the maximum permitted period for effecting settlements under export contracts from 180 calendar days to 90 calendar days. On 29 July 2016, this period was increased to 120 calendar days, and, on 26 May 2017, returned to 180 days.

On 1 June 2014, taking into account difficulties in the macroeconomic situation in Ukraine, the NBU introduced a limitation on the receipt of cash assets in foreign currency from current and deposit accounts in an amount up to UAH 15,000.00 or its equivalent in foreign currency per day at the NBU rate (subject to certain exceptions). On 9 April 2015, the limit on cash withdrawal in foreign currency from current and

deposit accounts was increased to the equivalent of UAH 20,000.00; as of 3 May 2016, it was increased to the equivalent of UAH 50,000.00; as of 6 September 2016, it was increased to the equivalent of UAH 100,000.00 and as of 15 September 2016, it was increased to the equivalent of UAH 250,000.00.

Purchases of cash in foreign currency by individuals were limited to the equivalent of UAH 3,000.00 per day per bank. On 5 March 2016, this limit was increased to the equivalent of UAH 6,000.00 per day per bank, and on 9 June 2016, was increased to the equivalent of UAH 12,000.00 per day per bank. Beginning 5 April 2017, individuals are able to purchase cash in foreign currency up to the equivalent of UAH 150,000.00 per day per bank.

From 31 May 2017, the prohibition on the purchase of foreign currency for clients who have their own funds on accounts in an amount exceeding U.S.\$100,000 or equivalent was cancelled. Banks were also permitted to conduct foreign currency exchange transactions without limitations as to the group of the “Classifier of Foreign Currencies” in the interbank market and in the international currency market. Additionally, from 12 June 2017, the restriction on transfer of funds abroad under non-trading operations by individuals from their current accounts was cancelled.

Commencing 26 June 2017, (i) banks were allowed to perform their own foreign currency transactions under “forward” terms without limitations as to the group of the Classifier of Foreign Currencies, the maturity and type of transaction that is hedged (pair currency/currency; UAH/foreign currency); (ii) terms for forward transactions for bank customers engaged in foreign trade operations were simplified; (iii) the range of transactions in investment metals was broadened: banks were allowed to perform interbank transactions involving the purchase/sale of investment metals under “tod”, “tom”, “spot”, “forward” or “swap” terms not only in hryvnias but also in foreign currency; (iv) restrictions on cashless foreign exchange transactions as to the group of the Classifier and the number of such transactions per day for individuals other than entrepreneurs were removed.

From 16 June 2017 to 13 December 2017 the rule regarding the mandatory sale of foreign currency receipts from abroad in favour of legal entities will be in effect. The sale rate of such revenues is equal to 50 per cent.

With effect from 23 September 2014, the NBU restricted cross-border payments of dividends by Ukrainian companies until (and including) 4 December 2014. The same restrictions on cross-border payments of dividends by Ukrainian companies remained in place after 4 December 2014 and throughout 2015 and were further extended until (and including) 8 June 2016. On 16 December 2016, repatriation of dividends to foreign investors for the 2014 to 2015 period was allowed (in amounts not exceeding the established threshold for such transfers). On 14 April 2017, this rule was extended to the repatriation of dividends for 2016. On 26 May 2017, relaxed restrictions were introduced on purchase, transfer of funds received by foreign investors for transactions involving the sale of corporate rights in foreign currency to return abroad, reduction of the capital of legal entities and retirement of foreign investors from economic associations (subject to further specified conditions), in order to improve the investment climate in Ukraine.

Certain other restrictions related to foreign exchange controls have been introduced by the NBU to stabilise Ukraine’s foreign exchange market, including limiting payments abroad on the basis of NBU individual licences (excluding payment(s) of legal entities which together do not exceed U.S.\$ 50,000.00 (or its equivalent in another currency) per month per licence and fees for certain transactions on the special list); prohibiting early repayment of loan payments in foreign currency from non-resident Ukrainian companies; and stringent requirements for the registration of international credit

Apart from the abovementioned, a number of other currency control restrictions, introduced by the NBU for the stabilisation of the Ukrainian currency market, were liberalised, including limitations on payments abroad under NBU individual licences in certain cases and the prohibition on early repayment under cross-border foreign currency loans except for certain cases.

From 12 June 2017, the limit on investments abroad for legal entities under NBU individual licences was increased to U.S.\$2,000,000 within one calendar year (per one NBU individual license). From 3 July 2017, the NBU has established an electronic system for obtaining NBU individual licences for fulfilment of obligations to non-residents arising from life insurance contracts, depositing funds in their foreign accounts or making investments abroad.

Additionally, commencing 11 July 2017, early repayment under cross-border foreign currency loans was allowed for loans extended to Ukrainian banks, Ukrainian borrowers by any foreign bank, and Ukrainian borrowers by any foreign lender, if such international financial organisation is a shareholder of such Ukrainian borrower and/or of such foreign lender.

In 2016, the NBU presented the new concept of currency regulation, which provides for a phased and gradual simplification/cancellation of currency restrictions towards a regime of free movement of capital defined in an agreement with the EU. In addition, the roadmap for the gradual cancellation of currency restrictions with implementation phases which are tied to specific macroeconomic conditions instead of calendar dates was developed together with IMF experts. Moreover, the NBU, together with experts brought in by the European Commission, are working on a draft law intended to determine the basic principles of currency regulation in Ukraine and replace the existing Decree “*On Currency Regulation and Currency Control*” as well as numerous other regulations.

### International Reserves

As at 31 December 2014, Ukraine’s international reserves amounted to U.S.\$7.5 billion; this was a decrease of U.S.\$12.9 billion within one year. The decrease was due to a number of factors, including the negative balance of foreign exchange intervention in the amount of U.S.\$9.2 billion, repayment and servicing by the State Government and state-guaranteed debt and state securities in foreign currency in the amount of U.S.\$6.6 billion, repayment of debt to the IMF in the amount of U.S.\$3.8 billion, and repayment of NJSC “Naftogaz of Ukraine” debt in the amount of U.S.\$3.1 billion. The amount of reserves subsequently increased by U.S.\$10.1 billion in proceeds within a year, including U.S.\$4.6 billion from the IMF received by the Government.

As at 31 December 2015, international reserves amounted to U.S.\$13.3 billion, an increase of U.S.\$5.8 billion as compared to 1 January 2015. The increase was primarily as a result of revenue in favour of the government in the amount of U.S.\$4.0 billion, receipt of funds from the IMF in the amount of U.S.\$6.5 billion and other factors.

As at 31 December 2016, international reserves amounted to U.S.\$15.5 billion, an increase of U.S.\$2.2 billion as compared with 31 December 2015. The increase was the result of revenue in favour of the government in the amount of U.S.\$4.6 billion, receipt of funds from the IMF in the amount of U.S.\$1.0 billion and positive balance of interventions in foreign currency amounting to U.S.\$1.6 billion.

As of 30 June 2017, international reserves amounted to U.S.\$18.0 billion. The increase in international reserves was the result of a positive balance of interventions in foreign currency amounting to U.S.\$1.4 billion, revenue in favour of the Government in the amount of U.S.\$0.6 billion, and receipt of U.S.\$1.0 billion from the IMF.

	As at 31 December			
	2014	2015	2016	30 June 2017
	<i>(U.S.\$ millions, unless otherwise indicated)</i>			
International reserves <sup>(1)</sup> .....	7,533.3	13,300.0	15,539.3	17,971.2
Including:.....				
Monetary gold <sup>(2)</sup> .....	911.1	931.9	941.7	1,017.2
Reserves in SDR and reserve position in IMF.....	3.77	8.9	2,703.9	3,156.1
Foreign currency <sup>(3)</sup> .....	6,618.5	12,359.2	11,893.7	13,797.9
Import coverage (months) <sup>(4)</sup> .....	1.8	3.1	3.2	3.6

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

## 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 NBU has the power and independence to pursue monetary policy and to regulate and supervise the banking sector; this includes, for example, the power to limit, terminate or suspend certain transactions and to revoke a bank's licence.

As at 1 July 2017, there were 90 active banks in Ukraine (in addition to three banks declared insolvent but retaining their banking licences). On 10 February 2017, the NBU adopted new criteria for the classification of banks in 2017, as follows:

- state-owned banks (where state ownership exceeds 75 per cent. of the share capital);
- banks that are controlled by foreign banking institutions;
- privately owned banks (where one or more private investors directly and/or indirectly own not less than 50 per cent. of the share capital).

As at 1 July 2017, there were six banks with state ownership in their share capital; 25 foreign banking groups and 59 privately-owned banks operating in Ukraine. As at 1 July 2017, of the top ten largest Ukrainian banks (by aggregate value of assets), four banks were controlled by the state of Ukraine, one bank was controlled by Ukrainian citizens and five banks were controlled by foreign citizens and legal entities.

Since 5 August 2009, newly-established banks have been required to be in the form of a public joint stock company or cooperative bank. Furthermore, in June 2011, a minimum statutory capital requirement for banks, as at the date of their registration, of UAH 120 million was introduced. In July 2014, the minimum statutory capital requirement for banks which acquired a banking license after 11 July 2014 was increased to UAH 500 million, and from that date, all banks that registered before 11 July 2014 have been obliged to gradually increase their charter capital on an annual basis to reach UAH 500 million by 11 July 2024.

The NBU's current regulatory capital sufficiency (adequacy) ratio (solvency ratio) requirement is at least 10 per cent. of the 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 12.7 per cent. as at 1 January 2017 and 13.8 per cent. as at 1 May 2017. As at 1 January 2015, 2016 and 2017 and 1 July 2017, the regulatory capital sufficiency (adequacy) was 15.6 per cent., 12.3 per cent., 12.7 per cent. and 12.4 per cent., respectively. Since February 2008, the NBU has required banks to take account of foreign exchange risks in the calculation of the regulatory capital sufficiency (adequacy) ratio. In order to calculate the actual amount of the regulatory capital, taking into account the risks of banking activity, banks are required to constantly monitor the quality of current transactions, as well as to determine the level of credit risk.

#### *Foreign capital in the Banking Sector*

Since 16 May 2008, foreign banks have been permitted to operate branches in Ukraine, subject to certain criteria. There are a number of prerequisites to be satisfied before general permission is granted to open and operate a branch, of which the most significant is that the NBU and the bank supervisory authority of the foreign state where the relevant parent is incorporated execute a cooperation agreement 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.

As at 1 July 2017, 39 banks with foreign shareholders holding more than 10 per cent. of the share capital thereof were operating in Ukraine and 18 of these banks were wholly owned by foreign entities. The share of foreign capital in the total registered charter capital of Ukrainian banks having a banking licence amounted to 34.7 per cent.

As at 1 July 2017, the total assets of banks with foreign shareholders amounted to UAH 588 billion (U.S.\$23 billion); the total amount of loans guaranteed by these banks was UAH 384 billion (U.S.\$15 billion); the capital of these banks amounted to UAH 65 billion (U.S.\$2 billion); loans to companies from such banks amounted to UAH 295 billion (U.S.\$11 billion); and loans to individuals from such banks amounted to UAH 76 billion (U.S.\$3 billion). The above figures are based on an exchange rate of U.S.\$1.00 to UAH 26.10 as of 1 July 2017.

### *Banking Sector Regulation*

The NBU is responsible for banking regulation and supervision. 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 financial and statistical data to the NBU, 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 post quarterly and annual financial statements and audit reports on their websites, as well as certain other information required by the NBU, including information on ultimate key shareholders, owners of material shareholdings (directly or indirectly, individually or together with other persons holding 10 per cent. or more of the share capital of the bank or voting rights in the bank or having decisive impact on the bank's management and activities regardless of formal ownership), and on the ownership structure chart.

The NBU oversees the activities of banks using both off-site and on-site inspections. Planned inspections are usually carried out on an annual basis, although the NBU also has the power to decide to carry out extra (unplanned) inspections if it has sufficient grounds. Financial statements of banks that are submitted to the NBU are subject to annual inspection by an authorised firm of auditors.

If a bank violates banking laws and regulations, including financial monitoring laws, performs risk-related activity threatening the interests of depositors or other lenders, or has sanctions imposed on it or on an owner of a material shareholding in it by any foreign state, interstate organisation or intergovernmental organisation threatening the interests of depositors or other creditors and/or the stability of the banking system, the NBU may impose any of a variety of sanctions available to it, depending on the nature of the violation or the risk level.

Such measures include written warnings, the ability to convene a general meeting of the bank's shareholders, management board or board of directors; increasing the bank's reserves in order to reimburse potential losses under its active operations; limiting, terminating or suspending certain types of banking operations, including related party transactions; prohibiting the grant of unsecured loans; suspending payment of dividends or capital distributions in any form; imposing stricter performance requirements for the bank; imposing penalties on the bank or any owners of material interests in the bank; temporarily prohibiting voting rights for owners of material shareholdings; temporary removal of managers from their posts (until the violation is remedied); withdrawing general licences for foreign currency transactions; declaring the bank problematic or insolvent; executing written agreements with the bank; withdrawing the licence of the bank; and putting the bank into liquidation.

The NBU also carries out consolidated supervision in respect of banking groups in order to ensure stability of the banking system and containment of risks which a bank may face in view of it being a member of the banking group, by means of regulating, monitoring, and controlling risks of the banking group following the procedure set forth by the NBU. Non-banking financial companies which are members of a banking group are also subject to the NBU's consolidated supervision. As at 1 January 2016, there were 15 banking groups in Ukraine. In 2016, the NBU recognised six banking groups and terminated recognition of two banking groups. As at 31 December 2016, there were 19 banking groups in Ukraine, and as at 1 July 2017, the NBU recognises and carries out consolidated supervision in respect of 24 banking groups.

The NBU has significant powers over banking groups, including the right (i) to impose the sanctions described above on the responsible member of the group; (ii) to impose increased economic ratios and limits, as well as restrictions on the performance of certain types of transactions; (iii) to prohibit transactions between the bank and other members of the banking group; (iv) to require a bank to dispose of its participation interests in the charter capital of its subsidiaries and associated companies; and (v) to terminate agreements based on which a bank exercises decisive influence over the management and/or operation of these entities in the absence of formal ownership.

In March 2015, legislation was enacted to strengthen the liability regime relating to banks' related parties. In particular, such legislation significantly expanded the list of persons treated as related parties of the bank. The NBU is authorised under such legislation to determine which persons are considered related parties of the bank; sanctions include administrative, criminal and civil liability for a bank's related parties for committing actions that led to the bank being declared problematic or the bank's insolvency. Criminal liability is triggered if damages were inflicted on either the state or a creditor in the amount of at least UAH 170,000, or U.S.\$6,460 (according to the NBU's exchange rate as at 1 June 2017).

#### *Deposit Guarantee Scheme*

The law “*On the System of Guaranteeing the Deposits of Individuals*” (the “**Deposit Guarantee Law**”) became effective in full on 21 September 2012 and introduced new rules for monitoring the activities of problem banks by the NBU. In addition, the Ukrainian Deposit Guarantee Fund (which covers the deposits of individuals (natural persons) and sole traders and of which all duly licensed banks in Ukraine are members (the “**Deposit Guarantee Fund**”) obtained the right to alienate all or a part of the assets and liabilities of an insolvent bank to the receiving bank, accompanied by the withdrawal of the insolvent bank's banking licence and its further liquidation. The Deposit Guarantee Fund may also incorporate and sell a transitional bank and transfer all or a part of the insolvent bank's assets and liabilities to such transitional bank followed by liquidation of the insolvent bank. In accordance with the Deposit Guarantee Law, participants of the Deposit Guarantee Fund should pay an initial duty of 1 per cent. of their registered statutory capital (except for transitional banks) as well as a regular duty of a base annual rate of 0.5 per cent. in domestic currency and of 0.8 per cent. in foreign currency. As of 1 June 2017, the Deposit Guarantee Fund had 92 member banks. The aggregate amount of assets accumulated by the Deposit Guarantee Fund was UAH 13.13 billion as at 1 July 2017.

The Administrative Council of the Deposit Guarantee Fund has determined the indemnification threshold for deposits by individuals including interest thereon at UAH 200,000.

#### *Bank Reserves*

Since 2015, banks have been required to set up reserves for active banking operations exclusively in accordance with International Financial Reporting Standards (“**IFRS**”). Thus, the NBU has no rules of its own to regulate the methodology of setting up of reserves for active banking operations.

At the same time, under Principle 18 “*Problem assets, provisions and reserves*” of the Basel Committee's Core Principles for Effective Banking Supervision, the supervisory body must determine that the reserves, set up by banks in accordance with IFRS, are sufficient under banking supervision rules, and that such reserves can account for prospective losses. The NBU in June 2016 set minimum requirements for the assessment of credit risk by banks that have been mandatory for Ukrainian banks since the beginning of 2017.

This requirement is intended to ensure that banks conduct full and timely assessments of credit risk, thus making determination of the amount of regulatory capital required more accurate, to in turn enhance the financial stability of the banking system, and sets out improved approaches to the assessment of prospective losses from credit risk (based on the Basel Principles for Banking Supervision), allowing banks and the regulator to use their reasonable judgement.

Under the rules of determining the regulatory capital, effective from 1 January 2016, if the total credit risk exceeds the total amount of reserves set up under IFRS to cover losses from active banking operations, then the amount of the regulatory capital is decreased by the difference resulting from such excess (uncovered credit risk exposure).

Based on the results of consultations with IMF experts, the NBU unified the requirements related to the formation and maintenance of the mandatory reserves by the banks. As a result, according to the applicable requirements, all funds in local and foreign currency received by a bank from individuals and legal entities are subject to a mandatory reserve, save for loans granted by resident banks, international financial institutions, as well as the amounts of subordinated debt. Such funds must be reserved and kept on a correspondent account opened for the relevant bank with the NBU. The mandatory reserve requirement for funds on demand and funds kept on current accounts are 6.5 per cent. and 3.0 per cent. of the funds raised by the bank, respectively.

The banks are required to ensure that no less than 40 per cent. of the amount of mandatory reserves are kept on their correspondent accounts with the NBU at the beginning of each operational day. The banks may fail to comply with these mandatory reserve requirements no more than 10 times within three consecutive months (periods) without penalty.

Since 23 May 2014, authorised banks may purchase currency on the interbank foreign exchange market of Ukraine for the purposes of forming reserves to cover any losses under active bank operations in foreign currency.

### *Liquidity*

The NBU has 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.

On 14 December 2016, the NBU introduced a new means of emergency liquidity support for solvent banks, the Emergency Liquidity Assistance programme (the “**ELA Programme**”). Loans provided under the ELA Programme, must be used for the sole purpose of covering the temporary deficit of a bank’s liquidity in the event of an emergency, where the bank has no other means to support its liquidity, in particular by using shareholders’ funds and NBU’s standard refinancing tools. Banks must apply the proceeds of such loans only to meet their commitment to depositors and lenders (excluding bank’s related parties).

### *Accounting Standards*

Since 2012, banks in Ukraine have been preparing and disclosing their financial reports in accordance with IFRS using a transition method. Transformational adjustments for IFRS financial statements are made where requirements of IFRS differ from those of Ukrainian legislation.

Since 1 December 2015, banks have been required to record transactions in their accounting systems in accordance with IFRS.

### **Performance and Balance Sheet of the Banking System**

The banking sector’s asset and liability structure reflects the history of Ukraine’s macroeconomic development.

The following table sets out information on the Ukrainian banking system as at the dates indicated:

	As at 31 December			As at 1 July
	2014	2015	2016	2017
	<i>(UAH millions, unless otherwise indicated)</i>			
<b>Total assets</b> .....	1,520,817	1,598,401	1,781,380	1,762,586
Correspondent accounts in other banks .....	99,752	129,529	121,739	124,386
Assets in (including correspondent accounts of banks in NBU) NBU .....	27,554	27,544	41,321	50,489
Interbank loans and deposits .....	19,825	23,627	23,084	20,225
Loans to customers .....	981,672	960,047	966,978	935,689
Accumulated interest income .....	81,796	73,797	72,988	73,709
Other assets** .....	310,218	383,857	555,270	558,088
<b>Total liabilities</b> .....	<b>1,168,829</b>	<b>1,170,894</b>	<b>1,154,661</b>	<b>1,119,026</b>
Interbank loan and deposits .....	140,054	122,066	73,567	49,934
Customer deposits .....	704,090	743,711	833,861	812,997
Securities of active debt .....	4,613	9,717	13,635	9,967
Other liabilities .....	320,072	295,400	233,598	246,128
<b>Total capital</b> .....	<b>148,023</b>	<b>101,594</b>	<b>124,681</b>	<b>138,599</b>
<b>Total liabilities and capital</b> .....	<b>1,316,852</b>	<b>1,272,489</b>	<b>1,279,342</b>	<b>1,257,625</b>
Capital adequacy ratio, % .....	15.59	12.31	12.69	12.42
Total deposits/total liabilities, % .....	60.2	63.5	72.2	72.7
Provisions/total loans, % .....	19.58	32.33	48.95	50.7
Foreign currency loans/total loans, % .....	47.18	57.09	49.84	47.0
Non-performing loans/total loans, % .....	25.36	38.37	42.00	61.6
Foreign currency deposits/total deposits, % .....	47.88	46.77	48.13	44.0
Interest margin, % .....	4.16	3.02	3.56	4.01
Interest rate spread (basis points) .....	547	772	600	637*
Total assets (in billions of U.S. dollars) .....	96,446	66,598	65,514	67,535

Source: NBU

\* As at June 2017.

\*\* "Other assets" includes assets which are not mentioned in other rows of the table (such as securities, derivatives, receivables, fixed assets, etc.). An increase in other assets in 2016 was due to increased amounts of T-Bills refinanced by the NBU (an increase of UAH 134,071 million) and derivatives (an increase of UAH 33,136 million).

### Deposits and Loans

According to monetary statistics data, in 2014, the total amount of deposits made by Ukrainian residents increased by 0.8 per cent. to UAH 675.1 billion, following an increase of 24.7 per cent. in the amount of deposited foreign currency funds and a simultaneous decrease of 13.3 per cent. in the amount of deposited Ukrainian hryvnia funds. In 2015, the total amount of deposits made by Ukrainian residents increased by 6.2 per cent. to UAH 716.7 billion following an increase of 7.2 per cent. in the amount of deposited Ukrainian hryvnia funds and an increase of 4.9 per cent. in the amount of deposited foreign currency funds. In 2016, the total amount of deposits made by Ukrainian residents increased by 10.7 per cent. to UAH 793.5 billion following an increase of 8.8 per cent. in the amount of deposited Ukrainian hryvnia funds and an increase of 13.0 per cent. in the amount of deposited foreign currency funds. In the six months ended 30 June 2017, the total amount of deposits made by Ukrainian residents increased by 6.3 per cent. to UAH 843.4 billion following an increase of 8.7 per cent. in the amount of deposited Ukrainian hryvnia funds and an increase of 3.5 per cent. in the amount of deposited foreign currency funds.

Term deposits as a percentage of overall deposits made by Ukrainian borrowers amounted to 62.9 per cent., 57.4 per cent., and 54.1 per cent. in 2014, 2015 and 2016, respectively, and 50.5 per cent. in the six months ended 30 June 2017. Foreign currency deposits made by Ukrainian residents accounted for 45.9 per cent. in 2014, 45.3 per cent. in 2015, 46.3 per cent. in 2016, and 45.0 per cent. in the six months ended 30 June 2017. The proportion of long-term deposits of total deposits made by Ukrainian residents was 41.1 per cent., 31.8 per cent., 19.5 per cent. as at 1 January 2014, 2015 and 2016, respectively, 19.8 per cent. as at 1 January 2017, and 19.5 per cent. as at 30 June 2017.

In 2014, the amount of loans extended to Ukrainian residents increased by 12.1 per cent. to UAH 1,021 billion, decreasing by 9.1 per cent. in respect of domestic currency lending and increasing by 53.5 per cent. in respect of foreign currency lending. In 2015, the amount of loans extended to Ukrainian

residents decreased by 3.8 per cent. to UAH 982 billion (in particular in domestic currency there was a decrease of 20.8 per cent. whereas in foreign currency there was an increase of 15.9 per cent.). In 2016, the amount of loans extended to Ukrainian residents increased by 1.7 per cent., to UAH 999 billion; there was an increase of 16.4 per cent. in respect of domestic currency and a decrease of 9.9 per cent. for foreign currency lending. For the six months ended 30 June 2017, the amount of loans extended to Ukrainian residents decreased by 4.4 per cent., to UAH 955 billion; there was an increase of 2.5 per cent. in respect of domestic currency and a decrease of 11.4 per cent. for foreign currency lending.

### *Revenues and Profitability*

In 2014, the revenues of the banking sector increased by 24.5 per cent. as compared to 2013. As at 31 December 2014, revenue of the banking sector amounted to UAH 210.2 billion, including interest revenues in the amount of UAH 151.2 billion (or 72.0 per cent. of total revenues) and commission revenues in the amount of UAH 28.3 billion (or 13.5 per cent. of total revenues). As at 31 December 2014, losses in the banking sector amounted to UAH 53.0 billion.

In 2015, the revenues of banks amounted to UAH 203.3 billion, including interest income constituting UAH 138.7 billion (68.2 per cent. of the total revenues), while fees income totalled UAH 28.6 billion (14.1 per cent. of the total revenues). In 2015, the financial result of the banking system of Ukraine was a loss of UAH 72.5 billion.

In 2016, the revenues of banks amounted to UAH 194.2 billion, including interest income constituting UAH 138.5 billion (71.3 per cent. of the total revenues), while fees income totalled UAH 31.4 billion (16.2 per cent. of the total revenues). In 2016, the financial result of the banking system of Ukraine was a loss of UAH 160.1 billion.

In the six months ended 30 June 2017, the revenues of banks amounted to UAH 88.3 billion, including interest income constituting UAH 62.2 billion (70.4 per cent. of the total revenues), while fees income totalled UAH 18.1 billion (20.5 per cent. of the total revenues). In the six months ended 30 June 2017, the financial result of the banking system of Ukraine was a loss of UAH 4.4 billion.

### **Measures taken to stabilise the Banking Sector**

In order to enhance the effectiveness of banking supervision and ensure the stability of the banking system in Ukraine, the NBU, pursuant to the Memorandum on Economic and Financial Policy, which is part of the IMF's 2015 EFF, regularly carries out stress testing of Ukrainian banks.

In 2015, the NBU Board approved results of testing of Ukraine's 20 largest banks, of which four were found not to require additional capitalisation and 16 were found to require additional capitalisation in the total amount of UAH 203.0 billion. Measures set out in the relevant plans/programmes are generally being implemented. Likewise, the banks generally comply with the minimum capital adequacy requirements of not less than 5 per cent. As at the date of this Prospectus, 10 banks have implemented the additional capitalisation requirements in full. In the case of two banks, the NBU Board decided to revoke banking licences and liquidate them due to failure to comply.

In 2016, the NBU Board approved the results of a diagnostic inspection of:

- (i) the 20 largest banks, of which seven were found not to require additional capitalisation and 12 were found to require additional capitalisation in the total amount of UAH 16.6 billion (whereas four banks were declared insolvent); and
- (ii) the 20 next largest banks, of which 10 banks were found not to require additional capitalisation and 11 were found to require additional capitalisation in the total amount of UAH 4.3 billion (whereas one bank was declared insolvent).

In February 2017, further testing of banks was approved. This provides that the results of further testing and the total amount of additional capitalisation will be approved by the NBU Board by 1 July 2017 in relation to the 16 largest banks, and by 1 September 2017 in relation to the 21 next largest banks.

Results of such further testing, approved by an NBU Board resolution, showed that 13 of the 16 largest banks do not require additional capitalisation, whereas three banks do require additional capitalisation in the total amount of UAH 60.2 million.

Banks which are found to require additional capitalisation must file an additional capitalisation programme/a restructuring plan with the NBU by no later than 1 August 2017 for the 16 largest banks, and by no later than 1 October 2017 for the 21 next largest banks.

### *Refinancing Transactions*

The overall amount of the NBU transactions relating to refinancing loans in 2014 constituted UAH 222.3 billion and the average annual interest rate was 15.57 per cent. The overall amount of refinancing transactions in 2015 was UAH 75.4 billion and the average annual interest rate was 25.22 per cent. The overall amount of refinancing transactions in 2016 was UAH 75.8 billion and the average annual interest rate was 17.36 per cent. per annum. For the six months ended 30 June 2017, the aggregate volume of refinancing loans was UAH 7.2 billion and the weighted average interest rate was 15.57 per cent. per annum.

### *Recent Developments*

In line with discussions with the IMF and the credit programme under the 2015 EFF, there has been greater scrutiny on the state of the banking system and, as a result, certain measures have been taken to further stabilise and reform the under-capitalised and fragmented banking sector in Ukraine.

Cleansing of the financial sector is one of the main steps the NBU is taking towards promoting a stable and flexible financial system. Since the beginning of 2014, 90 banks have been removed from the market, including five banks which did not comply with the requirement on transparent ownership structure, three banks which were voluntarily wound-up, four banks which were based in Crimea and the ATO Zone, nine banks which carried out risky activities under financial monitoring regulations (including six banks which were declared insolvent and put into liquidation, and three banks which were put into liquidation without being declared insolvent in advance), and other banks which breached various banking regulations, including regulations concerning capital adequacy, satisfactory business reputation of the owners, and other regulations.

Despite the removal of certain banks from the market, the overall capitalisation of the banking system increased during the period. In 2014, 2015 and 2016, a series of stress tests were carried out on the 60 largest banks in Ukraine. According to the results of the stress tests, the majority of the banks required additional capitalisation (39 out of 60 banks) and filed an additional capitalisation programme/a restructuring plan with the NBU. In view of the above, the banking sector increased the total amount of charter capital. In the last three years, the total growth of registered charter capital amounted to UAH 119 billion. Since the beginning of 2017, the registered charter capital increased by UAH 140 billion. The total growth of registered charter capital amounted to 148 per cent. compared to the level as at the beginning of 2014.

In order to ensure the security and financial stability of the banking system, as well as to ensure the interests of depositors and creditors, the NBU designed a Plan of Measures to Improve Banking Supervision in Ukraine. This was launched on 4 May 2017 and, among other things, contemplates the following measures: enhancement of NBU's independence and broadening of its regulatory and supervisory functions; further regulation of risk management; improvement of banks' corporate governance in accordance with the latest Basel Committee principles and provisions of EU law; implementation of requirements to the new capital structure in accordance with Basel III and CRD IV/CRR; implementation of requirements in relation to short term liquidity indications; a liquidity coverage ratio in accordance with Basel III and CRD IV/CRR; enhancement of control over related-party transactions; enhancement of cooperation with banks in the course of supervisory dialogue implementing preventive measures to avert the deterioration of banks' financial conditions; enhancement of cooperation between the NBU and the Deposit Guarantee Fund; and establishment of the loan register by the NBU.

Basel III and CRD IV/CRR requirements on new capital structure and liquidity indications are being implemented in Ukraine within a long-term (up to four years) project to be carried out gradually in accordance with the implementation schedule set out in the EU – Ukraine Association Agreement. As at the date of this Prospectus, this project is in the preparatory stage, which includes consultations with international experts,

setting up of working parties and formulation of proposal on amendments to the legislation necessary in view of the Basel III and CRD IV/CRR implementation.

## **The Securities Markets in Ukraine**

### *The Securities Markets*

Currently, exchange based trading of corporate and municipal securities in Ukraine is concentrated on two main exchanges, although the country has five stock exchanges in total. The two main exchanges are PJSC “First Securities Trading System Stock Exchange” and PJSC “Perspectyva”, which as at 31 August 2017 had 60 and 86 member companies, respectively.

The aggregate volume of the securities that were registered with the National Securities and Stock Market Commission of Ukraine (the “**National Securities Commission**”) amounted to UAH 1,619.2 billion, UAH 1,840.4 billion, and UAH 1,874.9 billion as at 31 December 2015 and 2016 and 30 June 2017, respectively, representing increases of UAH 148.5 billion, UAH 222.5 billion, and UAH 34.5 billion as compared to the relevant periods in 2014, 2015, and 2016, respectively. In the six months ended 30 June 2017, the aggregate volume of the securities that were registered with the National Securities Commission amounted to UAH 53.9 billion, representing a decrease of UAH 918 million compared to the relevant period in 2016 (for which the aggregate volume of securities registered with the Commission amounted to UAH 54.8 billion).

In 2014, the aggregate volume of share issuances in Ukraine increased by UAH 80.1 billion, as compared to 2013, and amounted to UAH 144.4 billion as at 31 December 2014. In 2015, the aggregate volume of share issuances in Ukraine decreased by UAH 22.1 billion, as compared to 2014 and amounted to UAH 122.3 billion. In 2016, the aggregate volume of share issuances in Ukraine increased by UAH 77.1 billion, as compared to 2015 and amounted to UAH 199.4 billion. In the six months ended 30 June 2017, the aggregate volume of registered share issuances in Ukraine increased by UAH 7.2 billion, as compared to the relevant period of 2016, and amounted to UAH 48.2 billion.

In 2014, the aggregate volume of corporate bond issuances decreased by UAH 13.5 billion, as compared to 2013, and amounted to UAH 29.0 billion. In 2015, the aggregate volume of corporate bond issuances decreased by UAH 17.6 billion, as compared to 2014, and amounted to UAH 11.4 billion. In 2016, the aggregate volume of corporate bond issuances decreased by UAH 5.9 billion, as compared to 2015, and amounted to UAH 5.5 billion. In the six months ended 30 June 2017, the aggregate volume of corporate bond issuances decreased by UAH 2.5 billion, as compared to the relevant period of 2016 and amounted to UAH 1.7 billion.

In 2014, trading volumes on organised securities markets in Ukraine increased by 33.7 per cent., as compared to 2013, and amounted to UAH 619.7 billion as at 31 December 2014. In 2015, there was a decrease of 53.8 per cent., as compared to 2014, with trading volumes amounting to UAH 286.2 billion. In 2016, trading volumes further decreased, by 17.8 per cent., as compared to 2015 and amounted to UAH 235.4 billion. In the six months ended 30 June 2017, trading volumes on organised securities markets in Ukraine decreased by 8.9 per cent., as compared to the relevant period of 2016 and amounted to UAH 99.1 billion.

### *Regulation of the Securities Market in Ukraine*

The National Securities Commission, which was established on 23 November 2011, 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.

State regulation of the securities market includes comprehensive measures aimed at organising the market, controlling and supervising it, as well as preventing abuses and violations on the market. The National Securities Commission aims to reconcile the interests of all the participants in the securities market. In doing so, the National Securities Commission uses different approaches to regulate activities of different market participants. All such approaches are designed to ensure equal treatment of all participants, equal access to the market for all participants, and maximum transparency in the market.

Under the 2012 to 2014 Securities Markets’ Development Programme, the National Securities Commission made a number of regulatory changes 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. In addition, the National Securities Commission published a draft of a new Securities Markets' Development Programme for 2015-2017, focusing on continuous corporate reform, strengthening efficiency of regulatory framework of securities' issuers and development of stock markets' instruments.

During 2016, measures for the implementation of more thorough checks during the issuance of licences for conducting professional activity on the securities market and in respect of increasing requirements for licences were carried out. In addition, requirements for audit firms entitled to perform audits of professional participants were increased. These measures resulted in a 12 per cent. decrease in the number of professional participants in all kinds of activities in the securities market and an 11 per cent. decrease in quantity of audit firms. By the end of 2016, there were 843 licensed professional participants of the stock market. At the same time, 666 professional participants of the stock market conducted professional activity on the securities market.

The National Securities Commission's further plans in connection with the reform of the securities market include addressing the following issues: insufficient administrative and financial independence of the National Securities Commission, insufficiently effective regulatory response to abuses on the securities market, inefficiency and the underdeveloped state of the capital markets' infrastructure, introduction of new and development of existing financial instruments, various deficiencies in applicable disclosure rules, and low level of financial awareness among the population.

To address the above issues, the National Securities Commission designed a Comprehensive Programme for Development of Financial Sector of Ukraine for the Period until 2020, which was approved by the National Bank, the National Securities Commission itself, and the National Commission for the Regulation of Financial Services Markets in Ukraine.

### The Financial Services Markets in Ukraine

The National Commission for the Regulation of Financial Services Markets in Ukraine, which was established in 2011, is responsible 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 total assets of the non-bank financial sector are significantly smaller in comparison with the total assets of commercial banks. The total assets of non-banking financial institutions amounted to UAH 147.8 billion, UAH 162.8 billion and UAH 160.9 billion in 2014, 2015 and 2016, respectively. In the three months ended 31 March 2017, the total assets of the non-bank financial sector amounted to UAH 170.5 billion.

The following table sets forth the total assets of non-bank financial institutions as at the dates indicated below:

	As at 31 December			Three months ended 31 March
	2014	2015	2016	2017
	<i>(UAH million)</i>			
Insurance .....	70,261.2	60,729.1	56 075,6	53,682.7
Financial companies .....	51,264.8	71,120.0	67 401,4	102,003.7
Credit unions .....	2,338.7	2,064.3	2 032,5	2,086.7
Pawnbrokers .....	1,710.3	2,218.7	3 317,7	3,298.1
Other credit institutions .....	12,660.2	17,441.7	22 786,1	*
Public entities .....	7,111.9	7,263.3	7 144,5	7,247.4
Non-State pension funds.....	2,469.2	1,980.0	2 138,7	2,206.3

\* On 15 November 2016, the definition of a "credit institution" under Ukrainian law was amended. Pursuant to said amendments, a "credit institution" is a financial institution which may, in accordance with the law governing the activities of the relevant financial institutions, provide financial loans at its own risk. As at the date of this Prospectus, two such laws were in place, governing activities of the banks and the credit unions respectively, and, accordingly, only banks and credit unions were deemed a "credit institution" under Ukrainian law.

Non-resident insurance and reinsurance brokers are currently permitted to offer services in Ukraine. However, before authorisation can be granted for a foreign insurer to perform any activities in Ukraine,

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.

The main focus of the National Commission for Regulation of Financial Services Markets is harmonisation of local Ukrainian financial markets regulations with the relevant European Union legislation.

On 4 December 2015 at a meeting of the National Council for Reforms, the President of Ukraine proposed to liquidate the National Commission for the Regulation of Financial Services Market in Ukraine, with the aim is to improve efficiency of government agencies and eliminate double oversight over certain regulated areas and industries. It is expected that the powers and functions of the National Commission for the Regulation of Financial Services Market in Ukraine will be transferred to the National Securities Commission and the NBU. However, no specific steps or implementation timelines have been announced so far in relation to such liquidation, in view of which the National Commission for the Regulation of Financial Services Market continues to perform its statutory functions.

Throughout 2015-2017, the National Commission for Regulation of Financial Services Markets has been an active participant of the Target Team for Financial Sector Reform, whose main task is the implementation of the Comprehensive Programme for the Development of the Financial Sector of Ukraine until 2020. The following measures have been carried out under the programme:

- legislative proposals aimed at the development of the non-banking financial services markets and the strengthening of the institutional capacity of the financial regulator, which provide for the re-distribution of functions of National Commission for Regulation of Financial Services Markets on regulation and supervision over the non-banking financial services market between the NBU and the National Securities and Stock Market Commission. Specifically, the National Commission for Regulation of Financial Services Markets contributed to drafting the laws on mandatory insurance of land vehicle owners' liability, on financial leasing, on credit unions, and on state support to agricultural insurance, among other things.
- Legislative measures on approximation of Ukrainian legislation to EU laws, as provided by the Association Agreement between Ukraine and the EU. Specifically, the National Commission for Regulation of Financial Services Markets contributed to implementation of Directive 2009/138/EC (Solvency II), Directive 2016/97/EU, Directive 2009/103/EU, and Directive 2003/41/EC.
- Regulatory acts and other measures of the National Commission for Regulation of Financial Services Markets, which are intended to improve consumer and investor protection in financial and insurance markets, improve the regime for filing by non-banking financial companies of financial statements prepared in accordance with the IFRS, enhance prudential supervision over non-banking financial companies (including by means of designing rules for consolidated supervision over non-banking financial groups), improve the rules for regulatory approval of acquisition or increase of significant shareholding in a financial company, disclosure by financial companies, consumer lending, and simplify regulations for purchase of foreign currency in banks and procedures for obtaining financial services licences, among other things.

## TAXATION

*The following discussion summarises certain United States federal income tax and Ukrainian tax considerations that may be relevant to holders of Notes. 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**

The following is a summary of certain 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 at their initial “issue price” that are U.S. Holders and that will hold the Notes as capital assets. The “issue price” of a series of Notes is generally equal to the first price at which a substantial amount of the Notes are sold for money to investors (excluding sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers). 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.**

## **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.

### ***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 original issue discount ("**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. 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 Ukraine, a U.S. Holder may not be able to utilise 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 realised 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 advisers 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.*

### ***Certain Ukrainian Tax Consequences***

This summary is based upon Ukrainian tax law in force, as well as practice and interpretation available, at the date of this Prospectus, which is subject to change at any time, possibly with retroactive effect. Should such a change occur, Ukraine will not update this section even if, as a result thereof, the information contained herein should be no longer complete and/or accurate. The following summary is included for general information only and does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Notes, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules. 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 that the law may be amended. 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.

#### ***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. Given that the Notes qualify as state securities for Ukrainian tax purposes, and given that such state securities have been sold to (placed among) non-residents 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.

This 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.

Income of non-resident individuals in the form of interest or income (discount) on Notes will be subject to a military duty at the rate of 1.5 per cent. Non-resident individual investors receiving interest or income (discount) on the Notes have an obligation to determine the amount of relevant military duty by self-assessment and pay it. Whether the military duty can be reduced or eliminated based on the relevant double tax treaty depends on the provisions of such treaty. However, there is a risk that the double-tax treaties will not apply to the military duty.

Any capital gains realised by a non-resident legal entity 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. 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.

No withholding tax shall be levied on capital gains realised by a non-resident individual from disposal of Notes. However, a military duty of 1.5 per cent. applies to capital gains from disposal of the Notes. Non-resident individual investors receiving capital gains from the disposal of the Notes have an obligation to independently declare the income and pay military duty on it (unless the income is received from a person who would be deemed a tax agent in Ukraine). Whether the military duty can be reduced or eliminated based on the relevant double tax treaty depends on the provisions of such treaty. However, there is a risk that the double-tax treaties will not apply to the military duty.

#### ***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, as well as capital gains realised by resident legal entities from disposal of the Notes will be subject to corporate profit taxation in Ukraine by self-assessment at the rate of 18 per cent.

Interest income received by resident individuals from the Notes as well as capital gains realised by resident individuals from disposal of Notes are not subject to personal income tax but subject to a military duty at the

rate of 1.5 per cent. Individual investors receiving interest, income (discount) or capital gains on the Notes have an obligation to independently declare the income and pay military duty on it (unless the income is received from a person who would be deemed a tax agent in Ukraine).

## 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 “Terms and Conditions of the Notes”.*

### 1. Form of Notes

All Notes will be in registered form, without interest coupons attached. Notes offered and sold outside the United States in reliance on Regulation S will be represented by interests in the Unrestricted Global Note, in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with the Common Depositary in respect of interests held through Euroclear and Clearstream, Luxembourg.

Notes offered and sold in reliance on Rule 144A will be represented by interests in the Restricted Global Note in registered form without interest coupons attached, which will be deposited on or about the Closing Date with the Custodian for, and registered in the name of Cede & Co. as nominee for, DTC.

The Restricted Global Note (and any Note Certificates issued in exchange therefore) will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Note as set forth under “—*Transfer Restrictions*” below.

The Unrestricted Global Note and the Restricted Global Note will have separate CUSIPs, ISINs and Common Codes.

### 2. Transfer Restrictions

Transfers of interests in Global Notes within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system.

On or prior to the 40th day after the Closing Date, a beneficial interest in the Unrestricted Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Restricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form scheduled to the Agency Agreement) 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 Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144A (if available) under the Securities Act.

Any beneficial interest in either the Restricted Global Note or the Unrestricted Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other relevant Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other relevant Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other relevant Global Note for so long as such person retains such an interest.

The Notes are being offered and sold in the United States only to qualified institutional buyers within the meaning of and in reliance on Rule 144A. Because of the following restrictions, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

The Issuer is a foreign government as defined in Rule 405 under the Securities Act and is eligible to register securities on Schedule B of the Securities Act. Therefore the Issuer is not subject to the information provisions requirements of Rule 144A(d)(4)(i) under the Securities Act.

### **Restricted Notes**

Each prospective purchaser of Notes in reliance on Rule 144A (a “**144A Offeree**”), by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged as follows:

- (i) such 144A Offeree acknowledges that this Prospectus is personal to such 144A Offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Notes. Distribution of this Prospectus, or disclosure of any of its contents to any person other than such 144A Offeree and those persons, if any, retained to advise such 144A Offeree with respect thereto and other persons meeting the requirements of Rule 144A or Regulation S is unauthorised, and any disclosure of any of its contents, without the prior written consent of the Issuer, is prohibited.
- (ii) such 144A Offeree agrees to make no photocopies of this Prospectus or any documents referred to herein.

Each purchaser of Restricted Notes within the United States, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged as follows (terms used herein that are defined in Rule 144A or in Regulation S are used herein as defined therein, as applicable):

- (a) the purchaser (i) is a QIB, (ii) is acquiring the Notes for its own account or for the account of a QIB and (iii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account;
- (b) the purchaser understands that such Restricted Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, such Restricted Notes have not been and will not be registered under the Securities Act or any other applicable State securities laws, the purchaser acknowledges that such Restricted Note is a “restricted security” (as defined in Rule 144(a)(3) under the Securities Act) and that (i) if in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Restricted Notes, such Restricted Notes may be offered, sold, pledged or otherwise transferred only (A) in the United States to a person that the seller reasonably believes is a QIB purchasing for its own account in a transaction meeting the requirements of Rule 144A whom the seller has notified, in each case, that the offer, resale, pledge or other transfer is being made in reliance on Rule 144A, (B) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or (D) to the Issuer or an affiliate of the Issuer (upon redemption thereof or a similar transaction); in each case in accordance with any applicable securities laws of any state of the United States and (ii) no representation can be made as to the availability at any time of the exemption provided by Rule 144 for the resale of the Restricted Notes;
- (c) the Restricted Notes offered hereby will bear a legend to the following effect, unless the Issuer determines otherwise in accordance with applicable law:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE 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, 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 REGULATIONS 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 REALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT”;

- (d) the purchaser understands that Notes offered in reliance on Rule 144A will be represented by the Restricted Global Note. Before any interest in a Note represented by the Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note, it will be required to provide the Registrar with a written certification (in the form provided in the Agency Agreements) as to compliance with applicable securities laws; and
- (e) the Issuer and the Joint Lead Managers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

For so long as the Notes of the relevant series are held in global form, Noteholders of such series may not require transfers to be registered during the period beginning on the third business day before the due date for any payment of principal or interest in respect of such Notes.

**Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

#### **Unrestricted Notes**

Each purchaser of Notes pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.
- (2) it understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB or (b) in an offshore transaction

in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

- (3) the Issuer, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.
- (4) it understands that the Notes offered in reliance on Regulation S will be represented by the Unrestricted Global Note. Prior to the expiration of the distribution compliance period, before any interest in the Unrestricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Restricted Global Note, it will be required to provide the Registrar with a written certification (in the form provided in the Agency Agreements) as to compliance with applicable securities laws.
- (5) none of the Issuer, the Joint Lead Managers or any person representing any such entity has made any representation to it with respect to any such entity or the offering or sale of any Notes, other than the information in this Prospectus.
- (6) it understands that the Notes, while represented by the Unrestricted Global Note or if issued in exchange for an interest in the Unrestricted Global Note or for Note Certificates, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”). THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF ANY U.S. PERSON EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED.

### 3. Exchange of Interests in Global Notes for Note Certificates

Registration of title to Notes initially represented by a Restricted Global Note in a name other than DTC or a successor depository or one of their respective nominees will not be permitted in respect of the Notes unless (a) such depository notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository 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 depository or (b) following a failure to pay principal in respect of the relevant Notes at maturity or upon acceleration of any such Note, and the Trustee has received a request from the registered holder of the Restricted Global Note requesting exchange of the Restricted Global Note for individual note certificates (the “**Restricted Note Certificates**”).

Registration of title to Notes initially represented by the Unrestricted Global Note in a name other than the nominee of the common depository for Euroclear and Clearstream, Luxembourg will not be permitted unless (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available or (b) following a failure to pay principal in respect of any relevant Note at maturity or upon acceleration of any such Note, and the Trustee has received a request from the registered holder of the Unrestricted Global Note requesting exchange of the Unrestricted Global Note for individual note certificates (the “**Unrestricted Note Certificates**”, and together with the Restricted Note Certificates, the “**Note Certificates**”).

In such circumstances, the relevant Global Note shall be exchanged in full for Note Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Note Certificates to be

executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Note Certificates and (b) in the case of the Restricted Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A or Regulation S, a certification that the transfer is being made in compliance with the provisions of Rule 144A or Regulation S. Note Certificates issued in exchange for a beneficial interest in a Restricted Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under “—*Transfer Restrictions*” above.

The holder of a Note may transfer such Note in accordance with the provisions of Condition 2 of the Conditions. 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 depository is the registered holder of a Global Note, DTC Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Trust Deeds, Agency Agreements and the Notes. Payments of principal, interest and additional amounts, if any, in respect of the Global Notes will be made to DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, the Trustee, any Agent, or the Joint Lead Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg from the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system’s rules and procedures.

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

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because DTC, Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in

the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book entry interests in the Notes through Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of (i) The Bank of New York Depository (Nominees) Limited and (ii) Cede & Co. to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg and DTC, respectively. Beneficial ownership of Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

Interests in the Unrestricted Global Note and the Restricted Global Note will be in uncertificated book entry form.

## **5. Secondary Market Trading in Relation to Global Notes**

The Issuer has obtained the information in this section concerning DTC, Euroclear and Clearstream, Luxembourg and their book entry systems from sources made publicly available by DTC, Euroclear and Clearstream, Luxembourg, which the Issuer believes to be reliable and which has been accurately extracted and/or summarised from those sources. The Issuer takes no responsibility for the accuracy of this information and only accepts responsibility for accurately extracting the information from those sources.

### **Trading between Euroclear and/or Clearstream, Luxembourg participants**

Secondary market sales of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

### **Trading between DTC Participants**

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

### **Trading between DTC Seller and Euroclear/Clearstream Purchaser**

When a book entry interest in Notes is to be transferred from the account of a DTC participant holding a beneficial interest in the Restricted Global Note to the account of a Euroclear or Clearstream accountholder wishing to purchase a beneficial interest in the Unrestricted Global Note (subject to such certification procedures as are provided in the Agency Agreements), the purchaser must send instructions to Euroclear or Clearstream at least one business day prior to the settlement date. Euroclear or Clearstream, as the case may be, will instruct the common depository 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 depository 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 account holder 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 account holder, 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 account holder 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 account holder'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 depository for the benefit of the Euroclear or Clearstream account holder. 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 account holder 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 depository to credit the beneficial interest in the Global Notes to the DTC participant's account and receive payment. Payment will include interest accrued on the beneficial interest in the Notes from and including the last interest payment date to and excluding the settlement date. Payment will be reflected in the account of the Euroclear or Clearstream account holder the following day. Receipt of cash proceeds in the Euroclear or Clearstream account holder'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 account holder 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 account holder's account will instead be valued as of the actual settlement date, whenever that may be.

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

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

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

Euroclear and Clearstream have advised the Issuer as follows: Euroclear and Clearstream hold securities for participating organisations and facilitate the clearance and settlement of securities between their respective accountholders through electronic book entry changes in accounts of such accountholders. Euroclear and Clearstream provide to their accountholders, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream accountholders are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream accountholder, either directly or indirectly.

Although the foregoing sets out the procedures of DTC, Euroclear and Clearstream to facilitate transfers of beneficial interests in global bonds among participants and accountholders of DTC, Euroclear and Clearstream, none of DTC, Euroclear or Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor any agent of the Issuer nor any person by whom any of them is controlled for purposes of the Securities Act will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or the sufficiency for any purpose of the arrangements described above.

While a Global Note is lodged with DTC or the Custodian, Notes represented by individual Notes Certificates will not be eligible for clearing or settlement through DTC. While a Global Note is lodged with Euroclear or Clearstream or the common depository for Euroclear or Clearstream, Notes represented by individual Note Certificates will not be eligible for clearing or settlement through Euroclear or Clearstream.

## **6. Amendments to Conditions**

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effects of the relevant terms and conditions. The following is a summary of those provisions:

## **Payments**

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to, or to the order of, the person whose name is entered on the relevant register of holders at the close of business on the Clearing System Business Day immediately prior to the date for payment, where “Clearing System Business Day” means Monday to Friday inclusive, except 25 December and 1 January.

## **Meetings**

The holder of each Global Note will be treated as being one person for the purposes of any quorum requirements of, or have the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each U.S.\$1,000 principal amount of Notes for which the relevant Global Note may be exchangeable.

## **Purchase and Cancellation**

Cancellation of any Note required by the relevant terms and conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the relevant Global Note.

## **Notices**

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

## SUBSCRIPTION AND SALE

The Joint Lead Managers have, in a subscription agreement dated 21 September 2017 (the “**Subscription Agreement**”) and made between Ukraine and the Joint Lead Managers upon the terms, and subject to the conditions, contained therein, agreed to subscribe and pay for the respective number of Notes set forth opposite their names in the table below at the issue price of 100 per cent. of their principal amount. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

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

	<u>Principal Amount of Notes</u> (U.S.\$)
<b>Joint Lead Managers</b>	
BNP Paribas.....	1,000,000,000
Goldman Sachs International.....	1,000,000,000
J.P. Morgan Securities plc .....	1,000,000,000
<b>Total</b> .....	<u>3,000,000,000</u>

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Joint Lead Managers have agreed (severally and not jointly) to offer the Notes for resale in the United States initially only to persons they reasonably believe to be qualified institutional buyers in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the respective meanings given to them by Regulation S.

The Notes are being offered and sold outside of the United States in reliance on Regulation S. The Subscription Agreement provides that each of the Joint Lead Managers may through its respective U.S. agents or affiliates resell a portion of the Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

### United Kingdom

Each of the Joint Lead Managers has represented and agreed (severally and not jointly) that:

it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### Ukraine

Each of the Joint Lead Managers has represented and agreed (severally and not jointly) that it has not offered or sold, and will not offer or sell, any Notes constituting part of its allotment to any purchaser located within the territory of Ukraine, except in compliance with applicable laws and regulations.

A Ukrainian resident may purchase Notes in the secondary market *provided that* it obtains an individual licence from the NBU authorising the transfer of foreign currency for the purchase of such Notes. However, currently Ukrainian residents may not make foreign currency payments on the basis of individual licenses

from the NBU (subject to certain exceptions). Individual licence is not required for individuals that are not entrepreneurs if residents are using funds already available to them outside of Ukraine. A Ukrainian resident may also need to involve a licensed professional securities trader for the purposes of its transactions with the Notes, unless it is a licensed institution itself.

## **Republic of Italy**

The offering has not been cleared by the Commissione Nazionale per la Società e la Borsa (“**CONSOB**”) (the Italian securities exchange commission), pursuant to Italian securities legislation. Accordingly, no Notes may be offered, sold or delivered, directly or indirectly nor may copies of this Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except (a) to qualified investors (investitori qualificati) as defined in Article 26, first paragraph, letter (d) of CONSOB Regulation No. 16190 of 29 October 2007, as amended (“**Regulation No. 16190**”), which shall apply as provided by Article 34-ter, first paragraph letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended (the “**Issuer Regulation**”), implementing Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the “**Italian Financial Act**”); and (b) in any other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Financial Act and Article 34-ter, first paragraph of the Issuer Regulation and/or any other implementing CONSOB regulations.

Each Joint Lead Manager has severally and not jointly represented and agreed that any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or of any other document relating to the Notes in the Republic of Italy will be carried out in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Any such offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy according to the provisions above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Italian Financial Act, Legislative Decree No. 385 of September 1, 1993, Regulation No. 16190 (in each case, as amended from time to time) and any other applicable laws and regulations; and
- (b) in compliance with all relevant Italian securities, tax and exchange control and other applicable laws and regulations and any other applicable requirement or limitation that may be imposed from time to time by CONSOB, the Bank of Italy (including, the reporting requirements, where applicable, pursuant to Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) or any other relevant Italian authorities.

Any investor purchasing the Notes is solely responsible for ensuring that any offer or resale of the Notes by such investor occurs in compliance with applicable laws and regulations.

This Prospectus and the information contained herein are intended only for the use of its recipient and are not to be distributed to any third party resident or located in Italy for any reason. No person resident or located in Italy other than the original recipients of this Prospectus may rely on them or their contents.

## **General**

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

**Other Relationships**

The Joint Lead Managers and their respective affiliates have engaged and may engage in transactions with the Issuer in the ordinary course of their business, performing various investment banking, financial advisory, and other services for the Issuer, for which they received and may receive customary fees. The Joint Lead Managers and their respective affiliates expect to provide such services in the future.

## GENERAL INFORMATION

### Authorisation

The issue of the Notes is duly authorised by the Instruction of the Cabinet of Ministers of Ukraine “*On Mandating the Execution of External State Borrowings in 2017*” dated 1 March 2017, No. 143-p and the Resolution of the Cabinet of Ministers of Ukraine “*On Carrying Out of State External Borrowings in 2017*” dated 18 September 2017, No. 696.

### 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 Plc for the Notes to be admitted to the Official List and trading on the Market. The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive.

The expenses in connection with the admission of the Notes to the Official List and to trading on the Market are expected to amount to approximately €1,540.

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 Plc for the purpose of the Prospectus Directive.

### Clearing Systems

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Unrestricted Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code No.157795295. The ISIN for the Unrestricted Global Note is XS1577952952.

The Restricted Global Note has been accepted for clearance through DTC. The ISIN for the Restricted Global Note is U.S.90372BM37. The CUSIP for the Restricted Global Note is 903724 BM3.

### 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*” beginning on page 66; “*Economy of Ukraine*” beginning on page 86; “*The Labour Market*” beginning on page 117; “*External Sector*” beginning on page 122; “*Public Finance and Fiscal Policy*” beginning on page 133; “*Public Debt*” beginning on page 147; and “*The Monetary System*” beginning on page 161 since 31 December 2016.

### Litigation

Save as disclosed in this Prospectus in “*Description of Ukraine – Legal Proceedings*”, 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 Plc, physical copies of the Agency Agreement may be inspected at the registered office of the Fiscal Agent and the offices of the Issuer, as set out on the back cover of this Prospectus and the latest law “*On the State Budget of Ukraine*” (in the Ukrainian language) will be available at [www.rada.gov.ua](http://www.rada.gov.ua). This internet site does not form part of this Prospectus for the purpose of its approval or the listing of the Notes.

**Foreign Language**

The language of this 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  
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