



**U.S.\$300,000,000 9.375 per cent. Loan Participation Notes due 2016**  
**issued by, but with limited recourse to,**  
**Kyiv Finance plc**  
**for the sole purpose of financing a corresponding loan to**  
**The City of Kyiv**  
**acting through**  
**the Kyiv City Council**

**Issue Price of the Notes: 100 per cent.**

Kyiv Finance plc, incorporated under the laws of England and Wales (the “**Issuer**”), is issuing an aggregate principal amount of U.S.\$300,000,000 9.375 per cent. Loan Participation Notes due 2016 (the “**Notes**”) for the sole purpose of financing a U.S.\$300,000,000 loan (the “**Loan**”) to The City of Kyiv, acting through the Kyiv City Council, a legal entity under the laws of Ukraine (the “**Borrower**” or the “**City**”), pursuant to a loan agreement dated 4 July 2011 (the “**Loan Agreement**”) between the Issuer and the Borrower.

Pursuant to the trust deed (the “**Trust Deed**”) relating to the Notes between the Issuer and Deutsche Trustee Company Limited, as trustee (the “**Trustee**”), the Issuer will provide certain security for all payment obligations in respect of the Notes for the benefit of the Noteholders (as defined in the Loan Agreement), including a first fixed charge in favour of the Trustee of all amounts paid and payable to it under the Loan Agreement and an assignment to the Trustee of the Issuer’s rights and interests under the Loan Agreement, other than in respect of certain reserved rights (as more fully described in “*Description of the Transaction and the Security*”). Interest on the Notes will be paid at an annual rate equal to 9.375 per cent., subject to receipt of funds therefor from the Borrower. The Issuer will make interest payments on the Notes in arrear on 11 January and 11 July in each year, commencing on 11 January 2012, as described under “*Terms and Conditions of the Notes-Interest*”. The Terms and Conditions of the Notes shall be referred to as the “*Terms and Conditions of the Notes*”.

The Notes are limited recourse obligations of the Issuer. In each case where amounts of principal, interest, premium (if any) and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest, premium (if any) and additional amounts (if any) are due, for an amount equivalent to the principal, interest, premium (if any) and additional amounts (if any) actually received by or for the account of the Issuer from the Borrower pursuant to the Loan Agreement. The Issuer will have no other financial obligation under the Notes. Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of the Borrower in respect of the financial servicing of the Notes.

Except as set forth herein, payments in respect of the Notes will be made without any deduction or withholding for, or on account of, the taxes of any relevant jurisdiction. The Loan and the Notes may be redeemed early at the option of the City in certain circumstances all as more fully described in the Loan Agreement and the Terms and Conditions of the Notes.

**AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “RISK FACTORS” BEGINNING ON PAGE 7.**

The Notes and the Loan (together, the “**Securities**”) have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act (“**Regulation S**”)). The Notes may be offered and sold (i) within the United States only to qualified institutional buyers (“**QIBs**”), as defined in Rule 144A under the Securities Act (“**Rule 144A**”), that are also qualified purchasers (“**QPs**”), as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended (the “**Investment Company Act**”), in reliance on the exemption from registration provided by Rule 144A or on another exemption therefrom, (the “**Rule 144A Notes**”) and (ii) to non-U.S. Persons in offshore transactions as defined in and in reliance on Regulation S (the “**Regulation S Notes**”). The Issuer has not been and will not be registered under the Investment Company Act. 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. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and this distribution of the Prospectus, see “*Subscription and Sale*” and “*Transfer Restrictions*”.

The Prospectus has been approved by the Central Bank of Ireland, (the “**Central Bank**”), as competent authority under Directive 2003/71/EC, (the “**Prospectus Directive**”). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List (the “**Official List**”) and trading on its regulated market (the “**Regulated Market**”). Such approval relates only to the Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any member state of the European Economic Area. Reference in this Prospectus to Notes being “**listed**” (and all related references) shall mean that such Notes have been admitted to trading on the Regulated Market. This Prospectus constitutes a “**Prospectus**” for the purposes of the Prospectus Directive.

The Notes have received a rating of B- from Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies Inc. (“**S&P**”), B2 from Moody’s Investors Service, Inc. (“**Moody’s**”) and B- from Fitch Ratings Ltd. (“**Fitch**”). The Borrower’s current long term debt rating is B- (stable outlook) from S&P, B2 (stable outlook) from Moody’s and B- (negative outlook) from Fitch. 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. Credit ratings included or referred to in this Prospectus have been or, as applicable, may be, issued by Fitch, Moody’s and S&P, each of which is established or has offices established in the European Union and has applied to be (or have its European Union based offices) registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the “**CRA Regulation**”). At the date of this Prospectus, neither Fitch, Moody’s nor S&P is registered under the CRA Regulation.

The Notes will be offered and sold in the minimum denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 thereafter. The Regulation S Notes will initially be represented by interests in a global note certificate in registered form in respect of the Notes (the “**Regulation S Global Note Certificate**”) without interest coupons, which will be deposited with a common depositary for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”), and registered in the name of a nominee, on or about 11 July 2011 (the “**Issue Date**”). The Rule 144A Notes will initially be represented by interests in a global note certificate in registered form in respect of the Notes (the “**Rule 144A Global Note Certificate**”), and together with the Regulation S Global Note Certificate, the “**Global Note Certificates**”), each without interest coupons which will be registered in the name of Cede & Co., as nominee of, and deposited with a custodian for, The Depository Trust Company (“**DTC**”) on or about the Issue Date. Beneficial interests in the Global Note Certificates will be shown on, and transfers thereof will be effected only through records maintained by, DTC, Euroclear or Clearstream, Luxembourg (as the case may be) and their respective participants. See “*Clearing and Settlement*”. Individual note certificates in registered form (“**Individual Note Certificates**”) evidencing holdings of Notes will only be available in certain limited circumstances as described herein.

*Joint Lead Managers*

**CREDIT SUISSE**

**DEUTSCHE BANK**

**VEB CAPITAL**

**VTB CAPITAL**

*Co-Manager*

**COMMERCIAL BANK KHRESCHATYK**

The date of this Prospectus is 4 July 2011.

## IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This Prospectus comprises a Prospectus for the purposes of Article 5 of the Prospectus Directive as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the “**Prospectus Regulations**”), and for the purpose of giving information with respect to the Issuer, the City, the Loan and the Notes, which, according to the particular nature of the Issuer, the City, the Loan and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the City.

The City accepts responsibility for the information contained in this Prospectus, except for the information contained in Annex A to this Prospectus entitled “*Description of Ukraine*”, in respect of which the City only takes responsibility for the correct extraction, without updating, of the information related to Ukraine from the Prospectus relating to the issue of U.S.\$1,250,000,000 6.25 per cent. Notes due 2016 issued by Ukraine dated 16 June 2011. In addition, certain statistical information contained in this Prospectus was derived from publicly available sources, including data published by certain Ukrainian government agencies, including the State Committee of Statistics of Ukraine and the National Bank of Ukraine. The City confirms that such information, including the information in Annex A to this Prospectus entitled “*Description of Ukraine*” has been accurately reproduced from its sources and, as far as the City is aware and is able to ascertain from the information published by such third parties, no facts have been omitted that would render the reproduced information, as of the date thereof, inaccurate or misleading. However, the City has relied on the accuracy of such information without carrying out an independent verification thereof. To the best of the knowledge of the City (which has 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.

The Issuer accepts responsibility in respect of the information contained in the section entitled “*The Issuer*” only. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in the section entitled “*The Issuer*” is in accordance with the facts and contains no omission likely to affect the import of such information.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the City, the Managers (as defined in “*Subscription and Sale*”) or the Trustee to subscribe for or purchase any Notes in any jurisdiction where it is unlawful to make such an offer or invitation. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the City, the Managers and the Trustee to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Notes and distribution of this Prospectus, see “*Subscription and Sale*” and “*Transfer Restrictions*”.

No person is authorised to provide any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the City, the Managers or the Trustee. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the City since the date of this Prospectus.

None of the Issuer, the City, the Managers, the Trustee or any of its or their respective representatives or affiliates makes any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of an investment by such offeree or purchaser under applicable legal, investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of the purchase of the Notes.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Issuer, the City, the Managers and the Trustee are not responsible for compliance with these legal requirements. The appropriate characterisation of the Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase the Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether, or the extent to which, the Notes constitute a legal investment for investors whose investment authority is subject to legal restrictions, and investors should consult their legal advisers regarding such matters.

This Prospectus will be filed with and has been approved by the Central Bank as required by the Prospectus Regulations.

Any investment in the Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank. The Issuer is not and will not be regulated by the Central Bank as a result of issuing the Notes.

In connection with the issue of the Notes, Credit Suisse Securities (Europe) Limited (the “**Stabilising Manager**”) (or any person acting on behalf of the Stabilising Manager) may 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. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if commenced, may be discontinued at any time and must be brought to an end no later than the earlier of 30 days after the Issue date of the Notes and 60 days after the date of the allotment of the Notes.

No representation or warranty, express or implied, is made by the Managers, the Trustee or any of its or their affiliates or any person acting on their behalf as to the accuracy or completeness of the information set forth in this Prospectus. Nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

Each person receiving this Prospectus acknowledges that such person has not relied on the Managers, the Trustee or any of its or their affiliates or any person acting on their behalf in connection with its investigation of the accuracy or completeness of such information or its investment decision. Each person contemplating making an investment in the Notes from time to time must make its own investigation and analysis of the creditworthiness of the City 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 investment.

No representation or warranty is made as to whether or the extent to which any Notes constitute a legal investment for investors whose investment authority is subject to legal restrictions. Such investors should consult their legal advisers regarding such matters.

The Issuer reserves the right to withdraw this offering at any time and the Managers reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective investor less than the full amount of Notes sought by such investor.

In this document, all references to “hryvnia” and “UAH” are to the lawful currency for the time being of Ukraine, all references to “dollars”, “US dollars”, “USD” and “U.S.\$” are to the lawful currency for the time being of the United States of America and all references to “EUR”, “Euro”, “euros” and “€” are to the 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.

Translations of amounts from hryvnia to dollars are solely for the convenience of the reader and are made at exchange rates effective on various dates. No representation is made that the hryvnia or dollar amounts referred to herein could have been converted into dollars or hryvnia, as the case may be, at any particular exchange rate or at all. The National Bank of Ukraine’s hryvnia/dollar exchange rate as reported on 29 June 2011 was UAH 7.97 to the dollar.

**The Notes are not guaranteed by, and do not constitute the obligation of, the country of Ukraine (“Ukraine” or the “State”), either directly or acting through the Ministry of Finance of Ukraine, nor does Ukraine have any responsibility to facilitate enforcement in the event of a default on the Notes.**

## NOTICE TO UNITED KINGDOM RESIDENTS

This document is only being distributed to and is only directed at (1) persons who are outside the United Kingdom or (2) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (3) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “**Relevant Persons**”). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this document or any of its contents.

## NOTICE TO PROSPECTIVE UNITED STATES INVESTORS

The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission (the “SEC”), 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 Notes or the accuracy or the adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

This offering is being made in the United States in reliance upon an exemption from registration under the Securities Act for an offer and sale of the Notes which does not involve a public offering. In making your purchase, you will be deemed to have made certain acknowledgments, representations and agreements. See “*Subscription and Sale*” and “*Transfer Restrictions*”.

This Prospectus is being provided (1) to a limited number of investors in the United States that the Issuer reasonably believes to be QIBs as defined in Rule 144A that are QPs within the meaning of Section 2(a)(51) of the Investment Company Act for informational use solely in connection with their consideration of the purchase of the Notes and (2) to investors outside the United States who are not U.S. Persons in connection with offshore transactions complying with Rule 903 or Rule 904 of Regulation S.

To ensure compliance with United States Treasury Department Circular 230 (“**Circular 230**”), Noteholders are hereby notified that: (a) any discussion of United States federal tax issues in this Prospectus is not intended to be relied upon, and cannot be relied upon, by Noteholders for the purpose of avoiding penalties that may be imposed on Noteholders under the Internal Revenue Code; (b) such discussion is included herein by the Issuer and the City in connection with the promotion or marketing (within the meaning of Circular 230) by the Issuer and Managers of the transactions or matters addressed herein; and (c) Noteholders should seek advice based on their particular circumstances from an independent tax advisor.

## NOTICE TO NEW HAMPSHIRE RESIDENTS

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

## AVAILABLE INFORMATION

The Issuer and the City have agreed that, for so long as any Notes are “*restricted securities*” within the meaning of Rule 144(a)(3) under the Securities Act, they will, during any period in which they are neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or the Trustee, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

## ENFORCEABILITY OF JUDGMENTS

Courts in Ukraine will recognise and/or enforce any judgment obtained in a court established in a country other than Ukraine if such recognition and/or enforcement is provided for in an international treaty to which Ukraine is a party, in accordance with the terms of such treaty. There is no such treaty between Ukraine and the United Kingdom or the United States providing for the enforcement of judgements.

In the absence of an international treaty providing for the recognition and/or enforcement of judgments, the courts of Ukraine may only recognise and/or enforce a foreign court judgment on the basis of the principle of reciprocity. Under Article 390 of the Civil Procedure Code, unless provided otherwise, reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was 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.

Ukraine is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”). Consequently, an arbitral award obtained in a state that is party to the New York Convention should be recognised and enforced by a Ukrainian court (under the terms of the New York Convention).

A Ukrainian court may apply Ukrainian law notwithstanding the choice of foreign law by the parties if the court determines that (a) the content of foreign law in respect of the relevant matter cannot be established within a reasonable time, (b) the relevant matter is not of a contractual nature and falls under the mandatory regulatory requirements of Ukraine or another relevant jurisdiction (including tax, currency exchange, banking or financial services legislation) or (c) the application of the relevant foreign law provisions would produce a result incompatible with the public order of Ukraine. Ukrainian legislation and court practice do not determine the precise scope or content of the concept of the “public order” of Ukraine.

## PRESENTATION OF FINANCIAL, BUDGETARY AND OTHER INFORMATION

### Statistical Information

Prior to the dissolution of the Soviet Union in 1991, the collection of data and production of official statistical information with respect to the economy of the City was geared to the needs of central planning. Since that time, the means employed in collecting data and methodologies used in the production of statistics have evolved significantly from year to year. This notwithstanding, official statistics and other data published by Ukrainian central or regional governments may be substantially less complete or transparent than those of Western countries. Official statistics may also be compiled on the basis of methodologies different from those used in Western countries. Statistical information reported herein has been derived from official publications of, and information supplied by, the Main Financial Office of the Kyiv City State Administration (the “**Main Financial Office**”), the Main Office of Economics and Investments of the Kyiv City State Administration (the “**Main Office of Economics and Investments**”) and other departments and committees of the City, as well as by the State Committee of Statistics of Ukraine (the “**State Committee of Statistics**”) (which is in the process of being reorganised into the State Statistics Service of Ukraine). See “The City of Kyiv—Overview of Municipal Administration”.

### Budget Principles

The foundation of the City’s budgetary system is the Budget Code. The City Budget includes both general fund revenues and expenditures as well as special fund revenues and expenditures. See “City Budget and Financial Information—City Budgetary System”.

The City maintains its books and records in hryvnia and prepares its budget in accordance with the resolutions on the City Budget for the relevant year adopted by the Kyiv City Council (the “**City Council**”) and pursuant to the procedures prescribed by the new Budget Code of Ukraine, dated 8 July 2010 (the “**Budget Code**”), which came into force on 1 January 2011, and certain internal directives adopted by the City. The main principle underlying these procedures is that revenues are recognised in the period in which they are collected by the City and expenditures (including capital expenditures) are recognised when paid by the City. The City has not adopted an accrual based system.

The budgetary and financial information relating to the City presented in this Prospectus is derived from the City’s records maintained by each of the relevant City departments and compiled by the Main Financial Office. The City Council’s Commission on Budget and Social and Economic Development (the “**Budget Commission of the City Council**”) monitors the implementation of the City Budget. The Budget Commission of the City Council carries out regular reviews of the Kyiv City State Administration’s activities, including in relation to its compliance with financial and budgetary legislation. See “City Budget and Financial Information—City Budgetary System—Budget Implementation”.

The Budget Code (i) sets out the distinction between general and special purpose funds, (ii) prohibits the creation of off-budget funds and (iii) establishes the concept of a “budget deficit” and regulates the procedure for borrowings by local authorities. See “City Budget and Financial Information—City Budgetary System”. The budgetary and accounting principles applicable to the City continue to evolve, with an increasing emphasis being placed on the level of detail to which the City Budget is prepared and implemented, and on control over the flow and use of Budget funds. This process is expected to continue.

### Budgetary Information for 2007, 2008, 2009 and 2010

The budgetary information set forth in this Prospectus for the years ended 31 December 2007, 2008, 2009 and 2010 is derived from the City Council resolutions approving the reports on the implementation of the City Budgets for 2007, 2008, 2009 and 2010, respectively, as well as orders of the State Treasury of Ukraine approving reports on the financial performance of the City in such years, and represents the consolidated financial data of the City and the City’s administrative districts. See “City Budget and Financial Information—City Budgetary System—Budget Process”.

### Budgetary Information for 2011

The 2011 City Budget was approved by City Council Resolution No. 573/5385 of 30 December 2010, and as amended on 24 February 2011 by Resolution No. 55/5442, on 28 April 2011 by Resolution No. 158/5545, on 25 May 2011 by Resolution No. 236/2623 and on 23 June 2011 by Resolution No.

240/5627 (the “**2011 City Budget Resolution**”). References in this Prospectus to the “2011 City Budget” or to budgeted financial information for the City for 2011 are to the City’s financial information as budgeted for 2011. As of 31 October 2010, following the dissolution of the district councils, the City’s administrative districts no longer have distinct budgets. See “The City of Kyiv – September 2010 Legislative Charges Affecting Municipal Administration”. See also “Forward Looking Statements” below.

The amendments to the 2011 Budget Resolution of 24 February 2011 introduced a new budget classification system that was approved by the Ministry of Finance on 14 January 2011. As a result of such revision, the figures presented herein may differ from 2011 City Budget figures presented at earlier dates or derived from other sources.

**Restatement of Budgetary Information**

Results of the implementation of the annual budget are ordinarily approved by the City Council in the year following that budget year. Under the Budget Code, budget results are subject to technical adjustment during the budget year and the year following that budget year. Therefore, the City’s planned revenues and expenditures may differ from the results of implementation of the City Budget for the relevant year. The final figures reflecting the results of the implementation of the annual budget are not normally available until the City Council approves the previous year’s budget results, which ordinarily occurs within seven months after the end of a given budget year. Budget information may not be changed after the City Council has approved the results of the previous year’s budget. See “Forward Looking Statements” and “Risk Factors”.

**Inflation**

Financial information in this document relating to the City’s revenues and expenditures has not been adjusted for the effects of inflation and is presented on the basis of those hryvnia values that applied at the time of receipt of revenues or payment of expenditures. The following table sets forth the consumer price indices and producer price indices for the City and Ukraine for 2007 to 2010:

	2007		2008		2009		2010	
	Kyiv	Ukraine	Kyiv	Ukraine	Kyiv	Ukraine	Kyiv	Ukraine
Consumer Price Index .....	21.0	16.6	21.6	22.3	13.4	12.3	9.8	9.1
Producer Price Index .....	27.1	23.3	35.6	23.0	9.0	14.3	16.0	18.7

Source: State Committee of Statistics.

According to the State Committee of Statistics, Ukraine’s Consumer Price Index for the period from 1 January 2011 to 1 June 2011 was 5.5 and the Producer Price Index for the period from 1 January 2011 to 1 June 2011 was 15.0.

Unless otherwise stated, references in this document to “inflation” in the City in any period refer to the average annual or average annualised percentage change in the City’s Consumer Price Index, as appropriate.

**Exchange Rates**

Since late 1994, the National Bank of Ukraine (the “**NBU**”) has allowed the currency to float freely. The present currency of Ukraine, the hryvnia, was introduced in 1996. In April 1997, the authorities introduced a “currency band” for the hryvnia, allowing it to float within the rate range of UAH 1.7 to UAH 1.9 per U.S.\$1.00. Under this policy, the UAH/U.S.\$ exchange rate was allowed to float within the stated minimum and maximum levels, which the NBU pledged to defend through market intervention. In order to achieve stabilisation in Ukraine’s currency and financial markets, which were severely affected in 1998 by the emerging markets financial crisis, the NBU adopted a series of anti-crisis measures. These measures were aimed at limiting foreign currency exchange transactions and included extending the currency band in effect at that time to UAH 2.5 to 3.5 per U.S.\$1.00. The NBU subsequently established a new band, effective until the end of 1999, of UAH 3.4 to 4.6 per U.S.\$1.00. That new currency trading band helped to stabilise currency demand and, in line with the programme agreed with the IMF, the NBU had withdrawn most of the foreign exchange restrictions previously imposed as a temporary measure.

In 2001, the average hryvnia/US dollar exchange rate appreciated by 1.3 per cent. due to a favourable trade balance and policies adopted by the NBU. Purchases of foreign currency in the inter-bank market throughout 2001 and 2002 helped to prevent a substantial nominal appreciation of the hryvnia. In 2002, the average hryvnia/US dollar exchange rate appreciated by 0.08 per cent. due to a favourable balance of payments and policies adopted by the NBU. On 21 April 2005, the official exchange rate of the Ukrainian hryvnia relative to many foreign currencies appreciated sharply. In particular, the exchange rate of the Ukrainian hryvnia to the US dollar strengthened from UAH 5.19 as of 20 April 2005 to UAH 5.05 as of 21 April 2005. The aggregate appreciation of the hryvnia relative to the US dollar from the end of 2004 to 21 April 2005 was approximately 5 per cent. The NBU lifted some measures that were (or could have been) used to support the value of the hryvnia, such as mandatory exchanges of 50 per cent. of hard currency earnings by exporters and mandatory exchanges of foreign currency by investors. However, other monetary intervention measures, such as foreign exchange licensing, reserve requirements and the imposition of a maximum 90-day limit between the payment for imported goods and their importation, remained in place.

In 2007, the official NBU exchange rate remained unchanged at 5.05 hryvnia/US dollar (the market exchange range was kept in the 5.00 to 5.07 range). In 2008, due to the financial crisis the average hryvnia/US dollar exchange rate weakened by 52.5 per cent. (from UAH 4.86 in September of 2008 to UAH 7.70 by the year end). In 2009, the hryvnia/US dollar exchange rate depreciated by 3.7 per cent. To prevent substantial further depreciation of hryvnia, in 2008 and 2009 several anti-crisis laws and decrees of the President of Ukraine introduced a range of measures supporting the stabilization of the economic situation in Ukraine and strengthening of the national currency. Also, the NBU approved a number of regulations preventing the outflow of foreign currency from Ukraine, in particular restrictions on the purchase and use of foreign currency for certain purposes and strict provisioning requirements for financing in foreign currency by Ukrainian banks. Most of the anti-crisis measures were temporary and terminated by 1 January 2011. In 2010, the average hryvnia/US dollar exchange rate strengthened by 0.38 per cent., according to the NBU.

The tables below set forth, for the periods indicated, certain information concerning the exchange rates for hryvnia per US dollar. The NBU's hryvnia/US dollar exchange rate as reported on 29 June 2011 was UAH 7.97 to the dollar.

<b>Year</b>	<b>High</b>	<b>Low</b>	<b>Average<sup>(1)</sup></b>	<b>Year End</b>
2007 .....	5.05	5.05	5.05	5.05
2008 .....	7.88	4.84	5.27	7.70
2009 .....	8.01	7.61	7.79	7.99
2010 .....	8.01	7.89	7.94	7.96

Source: NBU

Note:

(1) The average exchange rates were calculated based on the average exchange rate on each day of each relevant year.

<b>Period</b>	<b>High</b>	<b>Low</b>	<b>Average<sup>(1)</sup></b>	<b>Period End</b>
January 2010.....	8.01	7.99	8.00	8.00
February 2010.....	8.01	7.99	8.00	7.99
March 2010.....	7.99	7.93	7.97	7.93
April 2010.....	7.93	7.92	7.93	7.93
May 2010.....	7.93	7.93	7.93	7.93
June 2010.....	7.93	7.91	7.92	7.91
July 2010.....	7.91	7.89	7.90	7.89
August 2010.....	7.89	7.89	7.89	7.89
September 2010.....	7.92	7.89	7.91	7.91
October 2010.....	7.91	7.91	7.91	7.91
November 2010.....	7.94	7.91	7.93	7.94
December 2010.....	7.96	7.94	7.96	7.96
January 2011.....	7.96	7.93	7.95	7.94
February 2011.....	7.95	7.93	7.94	7.93
March 2011.....	7.96	7.93	7.94	7.96
April 2011.....	7.97	7.96	7.97	7.97
May 2011.....	7.98	7.97	7.97	7.97
June 2011 <sup>(2)</sup> .....	7.97	7.97	7.97	7.97

Source: NBU

Note:

(1) The average exchange rates were calculated based on the average exchange rate on each day of each relevant period.

(2) The exchange rates are provided for the period from 1 June 2011 till 29 June 2011.

### **Rounding Adjustments**

Data included in this document have been subject to rounding adjustments. Accordingly, figures that are totals may not be the arithmetical sum of their components.

## FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Prospectus, as well as written, oral and electronic statements that the City 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 within the meaning of the U.S. securities laws. These forward looking statements include, but are not limited to, statements about the City's future financial condition, budget, strategies, plans, objectives, goals and targets and other statements that are not historical facts. These statements are based on current plans, objectives, assumptions, estimates and projections. Therefore, undue reliance should not be placed on them. In some cases, forward looking statements are characterised by words such as "anticipate", "believe", "continue", "could", "estimate", "expect", "forecast", "intend", "may", "plan", "potential", "predict", "should" or "will" or comparable terminology. Such forward looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond the City's control, which may cause actual results, performance or achievements expressed or implied by such forward looking statements to differ materially from historical results or those anticipated by the City. Such forward looking statements are based on numerous assumptions that are subject to various risks, uncertainties and other factors, including, among other things, those listed under "Risk Factors" as well as those included elsewhere in this Prospectus. Prospective investors should be aware that a number of important factors could cause the City's actual results, performance or achievements to differ materially from those in the forward looking statements. These factors include, among others:

- inflation, interest rate and exchange rate fluctuations in Ukraine;
- prices for securities issued by Ukrainian entities;
- the health of the Ukrainian economy;
- the effects of, and changes in, the policy of the government of Ukraine; and
- the City's success at managing the risks associated with the aforementioned factors.

In particular, the budget of the City (the "**City Budget**") for 2011 (the "**2011 City Budget**") was approved prior to the commencement of the 2011 budget year and revised on 24 February 2011, 28 April 2011 and 25 May 2011 by amendments to the 2011 City Budget Resolution. See "Presentation of Financial, Budgetary and Other Information". The results of implementation of the 2011 City Budget will be approved by the City following the 2011 budget year. Historically, the City's planned revenues and expenditures have differed materially from the results of implementation of the City Budget for the relevant year. Accordingly, the results of implementation of the 2011 City Budget may differ materially from the information relating to the 2011 City Budget contained herein.

These forward looking statements speak only as of the date of this Prospectus and the City undertakes no obligation to update publicly any forward looking statements or risk factors to reflect new information, future events or otherwise. The City can give no assurance that such plans, intentions or expectations will be achieved. In addition, you should not interpret statements regarding past trends or activities as assurances that those trends or activities will continue in the future. All written, oral and electronic forward looking statements attributable to the City or persons acting on the City's behalf are expressly qualified in their entirety by this cautionary statement.

## TABLE OF CONTENTS

	<b>Page</b>
ENFORCEABILITY OF JUDGMENTS .....	v
PRESENTATION OF FINANCIAL AND OTHER INFORMATION .....	vi
FORWARD-LOOKING STATEMENTS.....	x
OVERVIEW .....	1
SUMMARY OF THE OFFERING.....	3
RISK FACTORS .....	7
USE OF PROCEEDS .....	33
DESCRIPTION OF THE TRANSACTION AND THE SECURITY .....	34
THE CITY OF KYIV .....	36
CITY BUDGET AND FINANCIAL INFORMATION .....	61
THE ISSUER .....	82
TERMS AND CONDITIONS OF THE NOTES.....	84
THE LOAN AGREEMENT .....	98
SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM TAXATION .....	122
SUBSCRIPTION AND SALE .....	125
TRANSFER RESTRICTIONS .....	131
CLEARING AND SETTLEMENT .....	135
CERTAIN ERISA CONSIDERATIONS .....	139
GENERAL INFORMATION.....	143
ANNEX A: DESCRIPTION OF UKRAINE.....	144
	146

## OVERVIEW

The City of Kyiv, which was founded over 1,500 years ago, is among the oldest cities in the world. One time capital of Kyivan Rus, the ancient Slavic state, it is now the capital of the independent nation of Ukraine. Today's Kyiv, with a population of approximately 2.8 million as at 1 December 2010, is the financial, commercial, political, scientific and cultural centre of Ukraine. Kyiv covers an area of approximately 839 square kilometres and stands on both sides of the Dnipro River, which is the third longest river in Europe and runs from Russia through Belarus and Ukraine and into the Black Sea. The average temperature in 2010 in Kyiv ranged from approximately 19.3°C in July to approximately minus 5.6°C in January.

The City covers approximately 0.1 per cent. of the territory of Ukraine. As at 1 January 2011, the City's population accounted for approximately 6.1 per cent. of Ukraine's total population according to the State Committee of Statistics. According to the State Committee of Statistics, in 2010 Kyiv's GCP represented 18.0 per cent. of the GDP of Ukraine. In the year of 2010 the City generated 38.0 per cent. of Ukraine's consolidated tax revenues, and received 17.1 per cent. of the aggregate capital investments and 49.0 per cent. of the aggregate direct foreign investments in Ukraine, according to the State Committee of Statistics.

The following tables set out certain budgetary and economic data for the City for the years specified:

	Year ended 31 December <sup>(1)</sup>				
	2007	2008	2009	2010	2011 <sup>(2)</sup>
	<i>(UAH millions)</i>				
<b>Revenues:</b>					
Tax revenues .....	8,743.8	12,231.0	11,771.5	12,760.3	10,305.9
Non-tax revenues .....	959.4	1,003.0	793.2	881.2	1,308.6
Revenues from operations with capital (fixed assets) .....	1,986.8	1,557.9	971.1	818.3	2,146.9
Purpose Funds .....	1,510.2	1,314.1	415.1	358.7	533.6
Grants and subsidies from the State Budget .....	3,055.8	4,426.3	1,586.8	2,374.9	3,405.8
<b>Total City revenues .....</b>	<b>16,256.0</b>	<b>20,532.3</b>	<b>15,537.7</b>	<b>17,193.4</b>	<b>17,700.8</b>
<b>Expenditures:</b>					
Budget expenditures .....	14,165.4	15,877.7	11,751.0	12,394.1	17,305.0
Funds transferred to the State Budget .....	2,774.4	5,500.9	6,302.2	5,721.3	1,472.0
<b>Total City expenditures .....</b>	<b>16,939.8</b>	<b>21,378.6</b>	<b>18,053.2</b>	<b>18,115.4</b>	<b>18,777.0</b>
<b>Repayment of City Budget Loans<sup>(3)</sup> ..</b>	<b>(6.3)</b>	<b>(3.8)</b>	<b>(2.9)</b>	<b>(2.8)</b>	<b>(3.0)</b>
<b>Financing of the City Budget<sup>(4)</sup> .....</b>	<b>(677.5)</b>	<b>(842.5)</b>	<b>(2,512.6)<sup>(5)</sup></b>	<b>(919.2)</b>	<b>(1,073.2)<sup>(6)</sup></b>

Source: Main Financial Office of the Kyiv City State Administration

Notes:

- (1) The figures presented in this table represent consolidated data from the City Budget and the budgets of the City's administrative districts for each respective year to 2010. As of 31 October 2010, following the dissolution of the district councils, the City administrative districts no longer have distinct budgets. See "The City of Kyiv—September 2010 Legislative Charges Affecting Municipal Administration".
- (2) Figures for year ended 31 December 2011 are budgeted figures sourced from the 2011 City Budget as approved by the City Council, not the results of implementation (as for the years 2007 to 2010). The results of implementation of the 2011 City Budget may differ materially from the information relating to the 2011 City Budget contained in this table, which may result in a budgeted surplus being revised down to a deficit. See "Forward Looking Statements". The amendments to the 2011 Budget Resolution of 24 February 2011 introduced a new budget classification system that was approved by the Ministry of Finance on 14 January 2011. As a result of such revision, the figures presented herein may differ from 2011 City Budget figures presented at earlier dates or derived from other sources.
- (3) Proceeds of the repayment of loans extended from the City Budget to young persons (up to the age of 35) for the purposes of construction/renovation and acquisition of residential property. The loans are a form of state support for the acquisition of residential property offered to young adults in accordance with the Law of Ukraine No. 2998-XII dated 5 February 1993 "On Assistance in Social Formation and Development of the Young People of Ukraine". The loans can be extended to young families

and young single adults who require improvement in their housing conditions, for a period of up to 30 years. The interest rate on these loans is calculated as the NBU interest rate (which is currently 7.75 per cent. per annum) plus 5.5 per cent. The details of the procedure for extending loans to young adults are approved by City Council Regulation No. 570/1980 dated 18 November 2004 “On Approval of the Regulation on the Procedure of Financial Support of Young Families and Single Young Citizens for Construction (Renovation) of Residential Property in the City of Kyiv”.

- (4) For the years 2007 to 2010, a negative figure represents the deficit of revenues as compared to expenditures. A positive figure represents the surplus of revenues as compared to expenditures. For 2011, a positive figure represents a planned surplus of revenues as compared to expenditures, while a negative figure would represent a planned shortfall of revenues as compared to expenditures. Financing shortfalls in the City Budget may be financed from the following sources: (i) retained funds from the current accounts of the budget institutions for the previous budget year, (ii) retained funds of the City Budget, (iii) funds from the unified treasury account through interest-free loans, and (iv) loans from commercial banks and other lenders.
- (5) This figure includes the amount of the 2009 Domestic Loan (as defined below). See “City Budget and Financial Information—Borrowings and Guarantees of the City of Kyiv—Outstanding Indebtedness” below for further information.
- (6) The City Budget anticipates utilising the balance of 2010 budget funds upon the completion of the 2010 budget year as well as loans from foreign banks and other bank institutions to cover the deficit.

**Year ended 31 December**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<i>(UAH billion unless otherwise indicated)</i>			
<b>City Economic Data:</b>				
GCP <sup>(1)</sup> at current prices: .....	129.3	161.2	169.5	197.5
– Industrial sector <sup>(2)</sup> .....	14.3	11.9	9.1	8.8
– Services sector .....	85.7	88.1	90.9	91.2
Population (thousands) <sup>(3)</sup> .....	2718.1	2740.2	2765.5	2785.1
GCP per capita at current prices (in thousands of UAH) .....	47.4	58.6	61.1	70.6
City Consumer Price Index (per cent.).....	121	121.6	113.4	109.8
Producer Price Index (per cent.) .....	127.1	135.6	109.0	116.0
<b>Ukraine Economic Data:</b>				
GDP <sup>(4)</sup> at current prices.....	720.7	948.1	913.3	1,094.6
GDP per capita at current prices (in thousands of UAH).....	15.5	20.5	19.8	23.9
Consumer Price Index (per cent.).....	116.6	122.3	112.3	109.1
Producer Price Index (per cent.) .....	123.3	123.0	114.3	118.7

Source: State Committee of Statistics, Main Directorate for the City of Kyiv

Notes:

- (1) GCP is calculated as the value of newly manufactured goods and services provided in the City less the production costs of these goods and services.
- (2) Includes industry and construction.
- (3) As at 1 January of the relevant period.
- (4) GDP is calculated as the value of newly manufactured goods and services provided in Ukraine less the production costs of these goods and services, and less the subsidies related to such goods and services.

## SUMMARY OF THE OFFERING

The following overview of the offering should be read in conjunction with, and is qualified in its entirety by “Terms and Conditions of the Notes”, “Clearing and Settlement” and the form of the Loan Agreement.

### The Notes

<b>Issuer:</b>	Kyiv Finance plc.
<b>Managers:</b>	Credit Suisse Securities (Europe) Limited (“ <b>Credit Suisse</b> ”), Deutsche Bank AG, London Branch (“ <b>Deutsche</b> ”), LLC VEB Capital (“ <b>VEB</b> ”), VTB Capital plc (“ <b>VTB</b> ”) and Public Joint Stock Company “Commercial Bank “ <b>KHRESCHATYK</b> ” (“ <b>Bank Khreschatyk</b> ”).
<b>Notes Offered:</b>	U.S.\$300,000,000 9.375 per cent. Loan Participation Notes due 2016.
<b>Issue Price of the Notes:</b>	100 per cent. of the principal amount of such Notes.
<b>Maturity Date of the Notes:</b>	11 July 2016.
<b>Issue Date of the Notes</b>	11 July 2011.
<b>Trustee:</b>	Deutsche Trustee Company Limited.
<b>Principal Paying Agent and London Transfer Agent:</b>	Deutsche Bank AG, London Branch.
<b>U.S. Paying Agent, U.S. Registrar and U.S. Transfer Agent:</b>	Deutsche Bank Trust Company Americas
<b>Luxembourg Registrar:</b>	Deutsche Bank Luxembourg S.A.
<b>Interest:</b>	On each interest payment date (being 11 July and 11 January in each year and commencing on 11 January 2012) or such later date as amounts equivalent to amounts of interest due on such date are received, the Issuer shall account to the Noteholders for an amount equal to the amount of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement. Interest under the Loan is payable at a rate of 9.375 per cent. per annum from and including the Issue Date.
<b>Form and Denomination:</b>	The Notes will be issued in registered form, in denominations of U.S.\$200,000 and multiples of U.S.\$1,000 in excess thereof. The Notes will be represented by a Regulation S Global Note Certificate and a Rule 144A Global Note Certificate. The Regulation S Global Note Certificate and the Rule 144A Global Note Certificate will be exchangeable for Individual Note Certificates in the limited circumstances specified in the Regulation S Global Note Certificate and the Rule 144A Global Note Certificate.
<b>Initial Delivery of Notes:</b>	On or before the Issue Date, the Regulation S Global Note Certificate shall be registered in the name of a nominee of, and deposited with a common depository for, Euroclear and Clearstream, Luxembourg and the Rule 144A Global Note Certificate shall be registered in the name of Cede & Co. as nominee of, and deposited with a custodian for, DTC.
<b>Status of the Notes:</b>	<p>The Notes are limited recourse, secured obligations of the Issuer as more fully described in “<i>Terms and Conditions of the Notes—Condition 1—Status</i>”.</p> <p>The Notes will constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan to the City and to account to the Noteholders for an amount equivalent to sums of principal, interest and other amounts (if any) actually received and retained (net of tax) by or for the account of</p>

the Issuer pursuant to the Loan Agreement less any amount in respect of Reserved Rights, all as more fully described in “*Terms and Conditions of the Notes—Condition 1—Status*”.

**Security:**

The Notes will be secured by the Charge (as defined in “*Description of the Transaction and the Security*”) on:

- all rights to principal, interest and other amounts payable to the Issuer by the Borrower under the Loan Agreement;
- the right to receive all sums which may be or become payable by the Borrower under any claim, award or judgment relating to the Loan Agreement; and
- all the rights, title and interest in and to all sums of money held from time to time in the relevant Account (as defined in “*Description of the Transaction and the Security*”) and the debts represented thereby (including interest from time to time earned on such Account, if any), pursuant to the Trust Deed,

*provided that* Reserved Rights and any amounts relating to Reserved Rights are excluded from such Charge.

The Notes will also each be secured by an absolute assignment with full title guarantee by the Issuer to the Trustee of its rights under the Loan Agreement (save for the Reserved Rights and those rights subject to the Charge) pursuant to the Trust Deed.

**Withholding Taxes:**

All payments of principal and interest in respect of the Notes will be made free and clear of and without deduction or withholding for or on account of any taxes, duties, assessments, fees or other governmental charges of the United Kingdom or Ukraine save as required by law. If any such withholding or deduction is so required, the Issuer shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as they would have received had no such withholding or deduction been required. The sum payable by the Borrower under the Loan will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Issuer receives a net sum of sufficient amount to enable it to pay such additional amounts. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from the Borrower. See Condition 7 (Taxation) in “*Terms and Conditions of the Notes*”.

**Redemption by the Issuer for Illegality, Tax Reasons or Increased Costs:**

In limited circumstances as more fully described in the Loan Agreement, the Notes shall be redeemed by the Issuer in whole, but not in part, at any time, upon giving notice to the Trustee and the Noteholders, at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of redemption, in the event that (i) it becomes unlawful for the Issuer to fund the Loan or allow the Loan to remain outstanding under the Loan Agreement (and in such case the Issuer shall require the Loan to be repaid in full) or (ii) if the Borrower elects to prepay the Loan for tax reasons or by reason of increased costs.

**Relevant Events:**

Upon the occurrence of a Relevant Event (as defined in “*Description of the Transaction and the Security*”), the Trustee may, subject as provided in the Trust Deed and subject to being indemnified and/or secured and/or prefunded to its satisfaction, enforce the security created in its favour pursuant to the Trust Deed.

<b>Ratings:</b>	The Notes have received a rating of B- from Fitch, B2 from Moody's and B- from S&P. The Borrower's current long term debt rating is B- (stable outlook) from S&P, B2 (stable outlook) from Moody's and B- (negative outlook) from Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by Fitch and/or Moody's and/or S&P. A suspension, reduction or withdrawal of either or both of the ratings assigned to the Notes or the City may adversely affect the market price of the Notes.
<b>Listing:</b>	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Regulated Market. The Regulated 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.
<b>Selling Restrictions:</b>	The Notes and the Loan have not been, and will not be, registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S). The Notes may be offered and sold (i) within the United States to QIBs that are also QPs in reliance on the exemption from registration provided by Rule 144A and (ii) to non-U.S. Persons in offshore transactions in reliance on Regulation S. The Notes may be offered and sold in the United Kingdom, the Republic of Italy, Hong Kong, Singapore and the Republic of Ireland only in compliance with applicable laws. The Notes may be sold in other jurisdictions only in compliance with applicable laws and regulations. The Notes have not been registered in Ukraine and may not be offered or sold in Ukraine without prior registration in Ukraine. The offer and sale of the Notes may also be restricted in other jurisdictions. See "Subscription and Sale".
<b>Governing Law:</b>	The Notes, the Trust Deed, the Agency Agreement (as defined herein) relating to the Notes and any non-contractual obligations arising out of or in connection with them shall be governed by and construed in accordance with English law.
<b>Security Codes:</b>	<p><i>Regulation S Notes:</i></p> <p>Common Code: 064475002</p> <p>ISIN: XS0644750027</p> <p><i>Rule 144A Notes:</i></p> <p>Common Code: 064518020</p> <p>ISIN: US50154TAA34</p> <p>CUSIP: 50154TAA3</p>
<b>Clearing Systems:</b>	DTC (in the case of the Rule 144A Notes) and Euroclear and Clearstream, Luxembourg (in the case of the Regulation S Notes).
<b>Yield:</b>	The annual yield of the Notes when issued is 9.375 per cent.
<b>Risk Factors:</b>	An investment in the Notes involves a high degree of risk. See " <i>Risk Factors</i> ".
<b>Certain Covenants:</b>	The Issuer has covenanted under the Trust Deed that, as long as any Notes remain outstanding, it will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution, agree to any amendment or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement.

**The Loan**

<b>Lender:</b>	Kyiv Finance plc, a company incorporated under the laws of England and Wales.
<b>Borrower:</b>	The City of Kyiv acting through the Kyiv City Council.
<b>Status of the Loan:</b>	The Loan is a direct, unconditional, unsubordinated and unsecured obligation of the City and obligations under the Loan will rank at least <i>pari passu</i> with all other direct, unconditional, unsubordinated and unsecured indebtedness of the City, except as provided otherwise by mandatory provisions of applicable law.
<b>Principal Amount of the Loan:</b>	U.S.\$300,000,000
<b>Interest on the Loan:</b>	9.375 per cent. per annum, payable semi-annually in arrear on 11 January and 11 July in each year starting on 11 January 2012.
<b>Use of Proceeds:</b>	The proceeds from the offering of the Notes, being U.S.\$300,000,000, will be used by the Issuer for the sole purpose of financing the Loan. The City will apply the net proceeds of the Loan to refinance a U.S.\$200 million loan which was funded from the proceeds of the offering of 8.625 per cent. loan participation notes issued by Bayerische Hypo- und Vereinsbank on 15 July 2004 and due for repayment on 15 July 2011. To the extent, if any, that the proceeds from the offering of the Notes exceed the amounts necessary for such refinancing, the City will use such excess proceeds towards the satisfaction of the City's budgetary expenditure objectives, particularly through capital investments in the areas of transportation infrastructure and health care. See "City Budget and Financial Information—Budget Expenditures—Construction and Other Capital Investments".
<b>Early Prepayments by the City:</b>	See " <i>—Redemption by the Issuer for Illegality, Tax Reasons or Increased Costs</i> ".
<b>Withholding Taxes and Increased Costs:</b>	Payments under the Loan Agreement shall, except in certain limited circumstances, be made without deduction or withholding for or on account of Ukrainian or United Kingdom taxes, except as required by law. In the event that any deduction or withholding is required by law with respect to payments under the Notes or the Loan Agreement, the City will be obliged, except in certain limited circumstances, to increase the amounts payable under the Loan Agreement by an amount equivalent to the required tax payment.
<b>Certain Covenants:</b>	As described in " <i>The Loan Agreement</i> " with respect to the Loan.
<b>Events of Default:</b>	As described in " <i>The Loan Agreement</i> " with respect to the Loan.
<b>Governing Law:</b>	The Loan Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

## RISK FACTORS

*Investment in the Notes involves a high degree of risk. Prospective investors should carefully review this entire Prospectus and, in particular, the following risk factors before making a decision to invest in the Notes and should understand that the risks set forth below (which do not purport to be in any way exhaustive) could, individually or in the aggregate, have a material adverse effect on the City's capacity to repay principal and make payments of interest and additional amounts (if any) on the Loan, which is the only source of servicing payments under the Notes. Words and expressions that are defined in "Terms and Conditions of the Notes" have the same meanings in this section.*

### **Risks Associated with Ukraine**

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

An investment in a country such as Ukraine, which achieved independence 20 years ago and whose economy is in transition, is subject to substantially greater risks than an investment in a country with a more developed economy and more mature political and legal systems. Although some progress has been made since independence in 1991 in reforming Ukraine's economy and political and judicial systems, to a large extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that are essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. As a consequence, an investment in Ukraine carries risks that are not typically associated with investing in more mature markets. These risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on Ukraine, including elements of the information provided in this Prospectus. See "—Official economic data and third party information may not be reliable". Accordingly, investors should exercise particular care in evaluating the risks involved in an investment in the Notes and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investments in emerging markets, such as Ukraine, are only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult their own legal and financial advisors before making an investment in the Notes.

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

The global economic crisis which began in 2007 had a severe impact on Ukraine's economy. The severity with which the Ukrainian economy was affected was primarily due to the fact that a significant portion of Ukraine's economy is related to the production and exploration of metal and agricultural products and is therefore especially vulnerable to decreases in demand for exports, decreases or fluctuations in world commodity prices and the imposition of import tariffs by the United States, the EU or other major export markets. For instance, Ukraine's industrial output decreased dramatically in the fourth quarter of 2008: the full year drop in industrial output in 2008 amounted to 5.2 per cent., compared to a growth of 7.6 per cent. in 2007. Industrial output further declined in 2009 by 21.9 per cent., as a result of which industrial output returned to the levels recorded in 2003-2004, or approximately 80 per cent. of the level recorded in 1990. In particular, Ukraine's relatively heavy reliance on exports of ferrous and non ferrous metals and their products (32.3 per cent. and 33.7 per cent. of total goods exports value in 2009 and 2010, respectively) makes the country's export revenues and, by extension, its broader macroeconomic performance, vulnerable to decreases or fluctuations in global metal demand or prices. In line with a decrease in industrial output, real gross domestic product ("GDP") declined by 14.8 per cent. in 2009 as compared to 2008, as a result of which real GDP returned to the level recorded in 2005. However, in 2010, industrial production started to recover and increased by 11.2 per cent. compared to 2009. In addition, during the first quarter of 2010, Ukraine's real GDP increased by 4.8 per cent. as compared to a 20.2 per cent. decline for the first quarter of 2009; in the second quarter of 2010 real GDP increased by 5.5 per cent., as compared to a 17.8 per cent. decline for the second quarter of 2009, and during the third quarter of 2010 real GDP increased by 3.6 per cent. as compared to a 16.0 per cent. decline for the third quarter of 2009 and during the fourth quarter of 2010 GDP increased by 3.3 per cent. as compared to a 7.0 per cent. decline for same period of 2009. According to the data of the State Committee of Statistics, in 2010 real GDP increased by 4.2 per cent. as compared to a 14.8 per cent. decline in 2009.

The economic crisis also contributed to an increase in Ukraine's State Budget deficit as a percentage of its GDP. Although this percentage remains relatively low in absolute terms, it increased significantly from 1.3 per cent. for 2008 to 3.9 per cent. for 2009 and 5.0 per cent. for 2010. The

2011 State Budget Law provides for a budget deficit of not more than 3.1 per cent. of GDP as a target of 2011 budgetary policy.

Consumer price inflation (“CPI”) was 12.8 per cent. in 2007, 25.2 per cent. in 2008, 15.9 per cent. in 2009 and 9.4 per cent. in 2010, in each case as compared to the previous year. Wholesale prices are also vulnerable to the increases in world prices for metal products and grain, as well as natural gas and oil. Wholesale price inflation (“WPI”) has a direct bearing on CPI and both have been high in recent years, threatening macroeconomic stability and performance. WPI was 35.5 per cent. in 2008, 6.5 per cent. in 2009 and 20.9 per cent. in 2010, in each case as compared to the previous year. Furthermore, inflation can directly impact the State budget performance, as Ukraine subsidises the cost of certain basic food items, and any increase in the real costs of these items could impact the State budget expenditures.

Further, Ukraine’s economy was significantly affected by the global financial crisis that began in 2008, as a result of which Ukrainian borrowers were unable to access funding in the international capital markets. Prior to the global financial crisis, relatively easy access to liquidity, both from within Ukraine and internationally, was a significant factor facilitating growth in Ukraine’s GDP. Reduced external financing available for Ukrainian companies contributed to a decrease in industrial production, investment projects and capital expenditures generally. Any further deterioration of global or regional economic conditions, including a so called “double dip” recession, may stall any current recovery or lead to worsening of the economic and financial condition of Ukraine. Any such developments, including continued unavailability of external funding and increases in world prices for goods imported to Ukraine or decreases in world prices for goods exported from Ukraine, may have or continue to have a material adverse effect on the Ukrainian economy and thus on the ability of the City to perform its obligations under the Loan and in turn on the Issuer’s ability to perform its obligations under the Notes.

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

Historically, a lack of political consensus in the *Verkhovna Rada* (the “Parliament”) of Ukraine has made it difficult for the Government to sustain a stable coalition of parliamentarians to secure the necessary support to implement a variety of policies intended to foster liberalisation, privatisation and financial stability.

The 2010 presidential elections were the subject of a number of controversies between the Parliament, the Government and the President. Eighteen candidates, including the then incumbent President and Prime Minister and Speaker of Parliament, participated in the first round of elections on 17 January 2010. The two candidates who received the largest number of votes in the first round, Viktor Yanukovich and Yuliya Tymoshenko, participated in a run-off that took place on 7 February 2010. On 14 February 2010, Mr. Yanukovich was declared the official winner of the run-off, having received 48.95 per cent. of votes, compared to 45.47 per cent. received by Ms. Tymoshenko. Although Ms. Tymoshenko initially challenged the results of the run-off, she subsequently withdrew her challenge, and Mr. Yanukovich was inaugurated as President on 25 February 2010. On 11 March 2010, the Parliament also appointed Mykola Azarov, a member of the Party of Regions, as the new Prime Minister and endorsed the coalition Government.

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

On 1 February 2011 the Parliament adopted a law amending the Constitution to unify the terms of office of the President, the Parliament, and local councils (the “2011 Constitution Amendment Law”), which came into effect on 4 February 2011. The 2011 Constitution Amendment Law provides, *inter alia*, for the reinstatement of the five-year term of office of Parliament which was reduced to four years as a result of the CCU Ruling. According to the 2011 Constitution Amendment Law, the next parliamentary elections will take place in October 2012. However, on 9 February 2011, 53 members of Parliament requested the Constitutional Court to opine on the constitutionality of the 2011 Constitution Amendment Law. This request is currently under consideration of the Constitutional Court. Should the Constitutional Court opine that the 2011 Constitution Amendment Law is

unconstitutional and thus ineffective, the previously effective provisions of the Constitution governing the terms of office of the President, Parliament and local councils will resume effect. This may result in uncertainty in the term of office of the current Parliament and timing for the next parliamentary elections may become unclear. Whilst the long term consequences of the recent judgment of the CCU Ruling are not yet clear, it may result in continued or heightened political instability in Ukraine which, in turn, could impair the City's efforts to implement all the necessary reforms as described in this Prospectus.

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

A number of additional factors could adversely affect political stability in Ukraine, including the lack of agreement within the factions and amongst individual deputies, disputes between factions that form a majority and opposition factions on major policy issues, including Ukraine's foreign and energy policy, court action taken by opposition parliamentarians against decrees and other actions of the President or Government or the majority factions and court action by the President against Parliamentary or Governmental resolutions or actions.

If political instability continues or heightens, it could have an adverse effect on relationships between the Government or the President on the one hand and the City on the other. It could also have negative effects on the Ukrainian economy generally, which could have an adverse effect on the City's financial condition and its ability to perform its obligations under the Loan, which would in turn impair the Issuer's ability to perform its obligations under the Notes. Such instability could also cause trading in the Notes to be volatile or adversely affect the trading price of the Notes.

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

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

Although Ukraine made significant progress in 2007 and 2008 in increasing its GDP, increasing real wages and improving its trade balance, political instability compounded the negative effects that the global economic downturn had on key economic indicators in 2009. However, GDP returned to growth in 2010, and according to the data of the State Committee of Statistics, has increased by 4.2 per cent. for the year, primarily as a result of increases in gross added value in almost all sectors of the economy. If political instability continues or heightens, it may have further negative effects on the Ukrainian economy generally, which could have an adverse effect on the City's financial condition and its ability to perform its obligations under the Loan, which would in turn impair the Issuer's ability to perform its obligations under the Notes.

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

The negative impact of the global economic and financial downturn has been compounded by weaknesses in the Ukrainian economy, which is sensitive to external and internal events. In particular, although the Government has generally been committed to economic reform, the implementation of reform has been impeded by lack of political consensus, controversies over privatisation (including privatisation of land in the agricultural sector and privatisation of large industrial enterprises), restructuring of the energy sector, and removal of exemptions and privileges for certain State-owned enterprises or for certain industry sectors. The negative trends in the Ukrainian economy may continue if commodity prices on the external market are low and access to foreign credit is limited, unless Ukraine undertakes certain important economic and financial structural reforms. The most critical structural reforms that need to be implemented or continued include: (i) further reform of Ukrainian tax legislation (including the development and approval of subordinate legislation implementing the Tax Code as defined below) with a view to broadening the tax base by bringing a substantial portion of the shadow economy into the reporting economy; (ii) reform of the energy sector through the introduction of uniform market based energy prices and improvement in collection

rates (and, consequently, the elimination of the persistent deficits in that sector); and (iii) reform of social benefits and pensions.

Failure to achieve the political consensus necessary to support and implement such reforms could adversely affect the country's macro economic indices and economic growth. Furthermore, future political instability in the executive or legislative branches could hamper efforts to implement necessary reforms. There can be no assurance that the political initiatives necessary to achieve these or any other reforms described elsewhere in this Prospectus will continue, will not be reversed or will achieve their intended aims. Rejection or reversal of reform policies favouring privatisation, industrial restructuring and administrative reform may have negative effects on the economy and, as a result, a material adverse effect on the Ukrainian economy generally, which could have an adverse effect on the City's financial condition and its ability to perform its obligations under the Loan, which would in turn impair the Issuer's ability to perform its obligations under the Notes.

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

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

Despite progress with the restructuring and recapitalisation of Ukrainian banks, problems with asset quality and indebtedness persist. Asset quality was affected significantly by the devaluation in the hryvnia in 2008 (52.5 per cent. against the dollar and 46.3 per cent. against the euro) and further exacerbated by the 14.8 per cent. contraction of the economy in 2009. Despite government and NBU intervention and progress in stabilising the foreign exchange market by the end of 2009 and during the first half of 2010, the high dollarisation in the Ukrainian financial system (30.6 per cent. in 2008, 31.7 per cent. in 2009 and 29.1 per cent. in 2010, and 29.4 per cent. as at 1 April 2011) increased exchange rate risks and could contribute to a worsening of banks' asset quality. Doubtful and bad loans are another factor affecting the asset quality of Ukrainian banks. According to the NBU, the proportion of loans represented by doubtful and bad loans was 2.3 per cent. and 9.4 per cent. as at 31 December 2008 and 2009, respectively, and 11.2 per cent. as at 31 December 2010. As at 30 April 2011 the proportion of doubtful and bad loans had decreased to 11.1 per cent., according to the NBU. Although the rate of growth of the share of doubtful and bad loans in banks' loan portfolios has slowed, a future increase in this rate could place additional strain on the banking system. Furthermore, in addition to the loans that the NBU categorises as doubtful and bad, a significant proportion of Ukrainian banks' loan portfolios could be described as substandard. The IMF, in connection with approving a new stand-by agreement with Ukraine in July 2010, which is described in greater detail below, provided two estimates for loans which could be categorised as non performing. Under a broad definition of non performing loans that includes loans classified as substandard, doubtful and loss, the IMF estimated that 41.6 per cent. of loans held by Ukrainian banks were non performing as at 31 March 2010. Under a narrower definition that does not count as non performing those substandard loans that are serviced in a timely manner, the IMF estimated that 15 per cent. of loans were non performing as at 31 March 2010. In addition to decreasing asset quality, the capital bases of Ukraine's banks will have deteriorated further if the profitability of these banks suffered in 2010 or in the year 2011 to date.

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

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

In view of the high dollarisation of the Ukrainian economy and increased activity of Ukrainian borrowers in external markets between 2005 and 2007, Ukraine has become increasingly exposed to

the risk of hryvnia exchange rate fluctuations. Since September 2008, the interbank U.S. dollar/hryvnia exchange rate has fluctuated significantly.

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

The NBU sought to address the hryvnia instability by taking administrative measures (including certain foreign exchange market restrictions), and used approximately U.S.\$3.9 billion and U.S.\$10.4 billion of its foreign exchange reserves to support the Ukrainian currency in 2008 and 2009, respectively. In 2010, due to increased supply, and resulting surplus, of foreign currency in the market, the hryvnia appreciated against the U.S. dollar by 0.29 per cent. and against the euro by 7.65 per cent. As at 1 April 2011, the hryvnia had appreciated against the dollar by 0.02 per cent. and depreciated against the euro by 6.08 per cent. compared to 1 January 2011. The official exchange rate was UAH 7.97 to U.S.\$1.00 as at 29 June 2011.

The depreciation in the U.S. dollar/hryvnia exchange rate in 2008 and 2009 negatively affected the ability of Ukrainian borrowers to repay their indebtedness to Ukrainian banks (according to data provided by the NBU, as at 31 December 2010, approximately 47.0 per cent. of domestic loans are denominated in foreign currencies) as well as to external lenders. Gradual exchange rate liberalisation is one of the key elements in the IMF programme. The liberalisation process could result in a period of greater currency volatility. Any further currency fluctuations may negatively affect the Ukrainian economy generally, which could have an adverse effect on the City's financial condition.

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

Ukraine's internal debt market remains relatively illiquid and underdeveloped as compared with markets in most western countries. In the wake of the emerging market crisis in the autumn of 1998 and until the second half of 2002, loans from multinational organisations such as the EBRD, the World Bank, the European Union (the "EU") and the IMF comprised Ukraine's only significant sources of external financing. From 2003 until 2008, the international capital markets were Ukraine's main source of external financing but they ceased to be available from mid 2008 due to the global economic and financial crisis. As a result, Ukraine sought IMF financing. In November 2008, the IMF approved a two year Stand-By Arrangement ("SBA") with Ukraine for approximately U.S.\$16.4 billion to assist the Ukrainian Government in restoring financial and economic stability. In 2008 and 2009, total disbursements under the SBA amounted to approximately U.S.\$10.6 billion. The drawdowns of IMF financing were contingent upon Ukraine's satisfaction of requirements including:

- reducing the budget deficit by imposing additional taxes and taking other non tax measures,
- introducing a comprehensive approach to budget and fiscal sector management,
- strengthening the independence of the NBU as the principal regulator in the banking sector,
- developing and implementing a comprehensive bank refinancing and restructuring programme, and
- bringing domestic natural gas prices in line with international market prices.

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

Between March and July 2010, after the new President took office, IMF missions visited Ukraine to review the macroeconomic situation and budget, fiscal and monetary policy of the Government and the NBU and to consider possible resumption of IMF support. On 28 July 2010, the IMF Executive Board noted the cancellation of the SBA approved in November 2008. On the same date, the IMF Executive Board approved a new stand-by arrangement for Ukraine for approximately U.S.\$15.2 billion to be extended in ten tranches between 2010 and 2012, with two tranches extended in 2010 and four tranches expected to be extended in each of 2011 and 2012, subject, in each case, to Ukraine's compliance with the stand-by arrangement terms.

On 2 August 2010, Ukraine received the first tranche in the amount of approximately U.S.\$1.9 billion. On 22 December 2010, the IMF approved disbursement of the second tranche, equalling U.S.\$1.5 billion, approximately U.S.\$1.0 billion of which was earmarked for the financing of the State

Budget deficit. The goal of the Ukrainian economic programme supported by the new IMF financing arrangement is to entrench fiscal and financial stability, advance structural reforms, and put Ukraine on a path of sustainable and balanced growth. To achieve these aims, the stand-by arrangement focuses on three key areas: (i) fiscal policy; (ii) monetary and exchange rate policy, and (iii) financial sector policy. In particular, fiscal policy as envisaged by the arrangement contemplates restoration of confidence and fiscal sustainability by reducing the general government deficit to 5.5 per cent. of GDP in 2010, 3.5 per cent. of GDP in 2011, and 2.5 per cent. of GDP in 2012; reducing the deficit of Naftogas to 1.0 per cent. of GDP in 2010 and eliminating it thereafter; setting public and publicly guaranteed debt to GDP ratio firmly on a downward path with the objective of stabilising it below 35 per cent. by 2015; and relying proportionally more on expenditure saving measures to gradually reduce the tax burden on the economy. The monetary and exchange rate policy for 2010 and 2011 contemplated under the arrangement provided for maintaining core CPI inflation in single digits in 2010 and 2011, which was duly achieved in 2010, and bringing overall CPI to no more than 5 per cent. over the medium term; strengthening the independence and accountability of the NBU; and improving the functioning of the foreign exchange market. The third element of the arrangement, financial sector policy, centres on completing the resolution and recapitalisation of systemic banks, strengthening state owned banks, and enacting key legislation and regulations, including, among other things, through creating a framework that properly recognises and facilitates the resolution of impaired loans and implementing consolidated supervision. In addition, the stand-by arrangement provides for the quantitative and continuous performance criteria that are to be met by Ukraine as of each of 30 September and 31 December 2010. Such criteria include, among other things, a ceiling on the cash deficit of the general government, a floor on net international reserves of the NBU, a ceiling on the net domestic assets and a ceiling on the state guaranteed debt. The first review of Ukraine's compliance with the terms of the 2010 stand-by arrangement commenced in November 2010 and was completed in mid-December 2010. On 27 December 2010, following the first review, Ukraine received the second tranche in the amount of approximately U.S.\$1.5 billion, approximately U.S.\$1.0 billion of which was earmarked for the financing of the State Budget deficit. As at 1 May 2011, the second review had not yet been completed, therefore the third tranche has not yet been approved or disbursed.

The IMF's methodology for calculating the target consolidated general government deficit as a percentage of GDP differs from Ukraine's methodology for calculating the projected State Budget deficit as a percentage of GDP in the 2011 State Budget. Therefore, were Ukraine to calculate its consolidated general government deficit using the IMF methodology, that number would differ from the State Budget deficit figure contemplated in the 2011 State Budget. If, despite the new IMF financing arrangement and attendant economic reforms, the international capital markets or syndicated loan markets are unavailable to Ukraine, the Government would have to further rely to a significant extent on official or multilateral borrowings, such as borrowings from the IMF or the World Bank, to finance part of the budget deficit, fund its payment obligations under domestic and international borrowings and support foreign exchange reserves. Unavailability of external financing may place additional pressure on Ukraine's ability to meet its payment obligations.

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

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

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

to perform its obligations under the Loan, which would in turn impair the Issuer's ability to perform its obligations under the Notes.

***Ukraine has experienced liquidity difficulties in the past and continues to be subject to a significant liquidity risk.***

In 2007 and 2008, Ukraine's total debt as a percentage of GDP, including both State debt (direct debt) and State guaranteed debt (contingent liabilities), was at a relatively moderate level, amounting to 12.3 per cent. at the end of 2007 and 20.0 per cent. at the end of 2008. Total debt of Ukraine as a percentage of GDP increased to 34.8 per cent. at the end of 2009 and increased further to 39.6 per cent. by the end of 2010. The Government expects that the total debt of Ukraine, including both State debt (direct debt) and State guaranteed debt (contingent liabilities), as a percentage of GDP will increase to 44.2 per cent. by the end of 2011.

Ukraine's debt owed to private creditors has undergone a number of restructurings. For instance, in the last quarter of 1998 and in July 1999, Ukraine entered into voluntary agreements with the holders of various hedged domestic and foreign currency denominated obligations. These restructurings, conducted in consultation with the IMF, allowed Ukraine to postpone repayment of a substantial portion of the maturing principal of such obligations to 2000 and 2001, and also involved the conversion of some domestic debt into U.S. dollar denominated eurobonds. These measures were aimed at alleviating the liquidity problems then facing the Government.

The ratio of State external debt service (including principal, interest and fees but excluding debt owed to the IMF by the NBU) to GDP was approximately 0.9 per cent. in 2007, approximately 0.5 per cent. in 2008, approximately 1.9 per cent. at the end of 2009, approximately 2.7 per cent. at the end of 2010 and it is estimated that it will be approximately 1.4 per cent. by year end 2011. Total State external debt service (excluding payments to the IMF by the NBU) was approximately U.S.\$1,231.8 million in 2007, approximately U.S.\$897.0 million in 2008, approximately U.S.\$2,168.0 million in 2009 and approximately U.S.\$1,360.0 million in 2010. The increase in 2009 resulted from the repayment of U.S.\$500 million in floating rate notes in August 2009 and from the exercise of a bondholder put on CHF 768 million in 3.5 per cent. bonds initially due in 2018, which then became due in September 2009. As at 26 May 2011, the Government expects total State external debt service (excluding payments to the IMF by the NBU) to be approximately U.S.\$4,626.6 million in 2011.

Total IMF debt service and repayment was approximately U.S.\$465.8 million in 2007, approximately U.S.\$385.2 million in 2008, approximately U.S.\$285.0 million in 2009 and approximately U.S.\$234.6 million in 2010 and is estimated to total U.S.\$182.1 million in 2011. As at 26 May 2011, the amount of State external debt service payments (including principal and interest payments but excluding debt owed to the IMF by the NBU) is expected to increase significantly in 2013 to U.S.\$4,107.5 million, largely due to scheduled repayment in 2013 of debt owed to the IMF by the Government in the amount of U.S.\$2,599.0 million and redemption of U.S.\$1,000.0 million 7.65 per cent. notes due 2013. This expected increase does not include any additional debt issuance or guarantee of debt by Ukraine. Current authorisations permit guarantees of debt up to an aggregate of UAH 15 billion for 2011. The substantial payment obligations of Ukraine and many state owned companies falling due in 2009, 2010 and 2011 (including debt repayments, payments for natural gas supplied for domestic consumption to Ukraine) exerted additional pressure on Ukraine's liquidity. In particular, during 2009, National Joint Stock Company "Naftogas of Ukraine" ("**Naftogas**") began negotiations with its lenders to restructure its debts to foreign banks aiming to extend payment terms and to amend other substantial terms of its loan undertakings.

On 5 November 2009, Naftogas completed the restructuring of its term loan facilities from foreign banks of approximately U.S.\$1.6 billion. Further, the State Railway Administration of Ukraine ("**Ukrzaliznytsya**") completed rescheduling of certain of its debts to foreign banks amounting to approximately U.S.\$440 million having reached an agreement to extend payment terms of its loan undertakings.

This pressure on Ukraine's liquidity may intensify if the State does not meet its budget revenue targets in 2011. In 2009, revenues of the Consolidated Budget were UAH 273.0 billion or below the budgeted target by UAH 51.7 billion largely due to the effect of financial and economic downturn globally and in Ukraine. Of that amount, UAH 609.4 million, UAH 13,046.3 million and UAH 9,917.9 million reflect decreased collection of import duties, VAT and corporate income tax, respectively. In 2010, revenues of the Consolidated Budget were approximately UAH 330.8 billion or below the budgeted target by UAH 12.3 billion. Of that amount, UAH 4,376.6 million and UAH 2,315.7 million reflect decreased collection of VAT and excise duty on domestic goods. If the trends

recorded in 2009 and 2010 continue in 2011, actual revenues of the Consolidated Budget may fall short of the revenue budget for 2011 in the amount of UAH 360.0 billion. If these factors occur or persist, Ukraine may experience a lack of liquidity in 2011. Continued adverse changes in global or domestic political and economic conditions or in the international capital markets may place renewed pressure on Ukraine's foreign exchange reserves and increase its liquidity risk, which could in turn adversely affect its economy generally, which could have an adverse effect on the City's financial condition and its ability to perform its obligations under the Loan, which would in turn impair the Issuer's ability to perform its obligations under the Notes. See also "—Inability to obtain financing from external sources could affect Ukraine's ability to meet financing expectations in its budget".

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

***Ukraine's economy depends heavily on its trade flows with Russia and certain other of the CIS countries and any major change in relations with Russia could have adverse effects on the economy.***

Ukraine's economy depends heavily on its trade flows with Russia and the rest of the Commonwealth of Independent States (the "CIS"), largely because Ukraine imports a large proportion of its energy requirements, especially from Russia (or from countries that transport energy related exports through Russia). In addition, a large share of Ukraine's services receipts comprise transit charges for oil, gas and ammonia from Russia.

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

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

However, relations with Russia have strengthened since the election of President Yanukovich in 2010. In particular, on 21 April 2010, Ukraine and Russia signed a new agreement on issues of the stationing of Russia's Black Sea Fleet on Ukrainian territory, under which the term of the stationing of Russia's Black Sea Fleet in Sevastopol was extended for a further 25 year period with an additional 5 year extension option. If bilateral trade relations were to deteriorate or if Russia were to stop transiting a large portion of its oil and gas through Ukraine or if Russia halted supplies of natural gas to Ukraine, Ukraine's balance of payments and foreign currency reserves could be materially and adversely affected.

Russia has, recently and in the past, threatened to cut off the supply of oil and gas to Ukraine in order to apply pressure on Ukraine to settle outstanding gas debts and maintain the low transit fees for Russian oil and gas through Ukrainian pipelines to European consumers. In line with its threats, Gazprom substantially decreased natural gas supplies to Ukraine in early January 2009, due to the absence of agreed terms regarding the supply of natural gas. Following negotiations between the governments of Russia and Ukraine and the signing of agreements between Naftogas and Gazprom setting out the terms of further natural gas supplies and transit through the territory of Ukraine, Gazprom, on 20 January 2009 resumed natural gas supplies to Ukraine and Western Europe.

Prices for natural gas supplied by Gazprom for domestic consumption in Ukraine increased in each of 2006, 2007 and 2008 from U.S.\$50 per 1,000 cubic metres as at 1 January 2005 to U.S.\$179.5 per 1,000 cubic metres as of 1 January 2008. Pursuant to the agreements signed between Naftogas and Gazprom on 19 January 2009 for natural gas supplies and transit from 2009 to 2019, a price for natural gas supplied to Ukraine for domestic consumption and a tariff for transit of natural gas through the territory of Ukraine is to be determined pursuant to formulae set out in the agreements. In 2009, the average weighted price for natural gas was approximately U.S.\$233.0 per 1,000 cubic metres. On 21 April 2010, amendments to the Gas Supply Contract and the Gas Transit Contract

were signed, under which Gazprom agreed to give Naftogas certain discounts from the otherwise applicable price for natural gas supplied for domestic consumption to Ukraine.

As a result, the average weighted annual price for natural gas was U.S.\$256.69 per 1,000 cubic metres in 2010. In addition, Naftogas and its subsidiaries accounted for approximately 10.3 per cent. (or UAH 26.3 billion), 18.8 per cent. (or UAH 39.4 billion) and 10.2 per cent. (or UAH 24.5 billion) of revenues to Ukraine's State Budget 2010, 2009 and 2008, respectively. However, the State Budget revenues received from Naftogas and its subsidiaries have been in part offset by direct subsidies from the State Budget to cover differences between the purchase price of imported gas and the price charged to municipal heating enterprises. For instance, UAH 3.4 billion, UAH 4.1 billion and UAH 7.4 billion were extended from the State Budget to Naftogas to cover this difference in 2010, 2009 and 2008, respectively. In addition to these direct subsidies, the Government may use other measures to support Naftogas, including but not limited to deferral of taxes and increasing the statutory capital of Naftogas through the issuance of additional shares and their exchange for T-bills.

Further Russian increases in gas supply prices, decreases in the volumes of gas transportation (including due to the launch of Nord Stream, South Stream, Nabucco and other pipelines bypassing Ukraine) or other developments could adversely affect Naftogas' future results of operations, reducing the revenue the State Budget receives from Naftogas or increasing Naftogas's need for support. Reduced revenue from Naftogas, or an increased need for support, could put pressure on the State Budget and have a material adverse effect on Ukraine's economy generally, which could have an adverse effect on the City's financial condition and its ability to perform its obligations under the Loan, which would in turn impair the Issuer's ability to perform its obligations under the Notes.

As of 1 April 2011, 28.8 per cent. of Ukrainian exports of goods go to Russia, while much of Russia's exports of energy resources are delivered to the EU via Ukraine. Russia's increases in the price for natural gas have adversely affected the pace of economic growth of Ukraine due to the considerable dependence of the Ukrainian economy on Russian exports of energy resources. Furthermore, although the gas price increases have increased pressure for reforms in the energy sector and modernisation of major energy consuming industries of Ukraine through the implementation of energy efficient technologies and the modernisation of production facilities, there can be no assurance that these reforms will be implemented successfully.

Any further adverse changes in Ukraine's relations with Russia, in particular any such changes adversely affecting supplies of energy resources from Russia to Ukraine or Ukraine's revenues derived from transit charges for Russian oil and gas, may have negative effects on the Ukrainian economy generally, which could have an adverse effect on the City's financial condition and its ability to perform its obligations under the Loan, which would in turn impair the Issuer's ability to perform its obligations under the Notes.

Relations with Russia and other CIS states may also affect Ukraine's economy indirectly, through the actions of companies directly or indirectly owned or otherwise controlled by these states or their subdivisions and agencies. For example, in May 2008, the Russian company Tatneft filed a request for arbitration against Ukraine. According to its published financial reports, Tatneft is subject to significant influence by the government of Tatarstan, an autonomous republic within Russia. On 29 November 2010, the arbitration tribunal approved a schedule of submissions to be made in 2011 and 2012. This arbitration is still ongoing. See "—Judicial or arbitral proceedings may result in significant foreign currency awards against Ukraine". There can be no assurance that actions of companies owned or controlled by foreign states would not have negative effects on the Ukrainian economy; such actions could have political as well as economic motives.

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

The State Budget is dependent to a significant extent on receipts from privatisations. For 2008, privatisation receipts were UAH 482.7 million, or 79.4 per cent. of the revised annual target. For 2009, target privatisation receipts were set at approximately UAH 8.5 billion and actual privatisation receipts were only UAH 807.2 million, or 9.5 per cent. of the annual target. For 2010, target privatisation receipts were initially set at UAH 10.0 billion, but were subsequently decreased in July 2010 to UAH 6.35 billion. In 2010, actual privatisation receipts were only UAH 1,093.0 million, or 17.22 per cent. of the annual target. Meeting budgeted privatisation targets for 2010 depended on the successful sale of major assets, most of which were due for privatisation in 2008 and 2009. A significant shortfall in actual privatisation receipts in 2008, 2009 and 2010 as compared to the respective targets was principally due to the failure to privatise OJSC "Ukrtelecom" ("Ukrtelecom"),

JSC “Odessa Port Plant”, OJSC “Turboatom” and a number of regional energy distribution companies. Certain of such privatisations were either cancelled or significantly delayed in 2008, 2009 and 2010 due to decrees of the President of Ukraine prohibiting or suspending these privatisations.

For 2011, target privatisation receipts were set at UAH 10.0 billion. As at the date of this Prospectus this target has been achieved due to the privatisation of Ukrtelecom in May 2011.

A number of large-scale and economically attractive State-owned assets were listed for sale several times, however, all such attempts ended up in either controversial repeals of SPF or the Government privatisation resolutions by the Government or the President (for example, in the case of JSC “Odessa Port Plant”) or in litigation based on (i) the SPF’s failure to admit all the eligible potential bidders to an auction, (ii) the cancellation of the auction results, or (iii) the cancellation of the sale and purchase agreement and respective mutual settlements between the SPF and the investors (for example, in the case of JSC HC Luganskteplovoy). Future sales of State-owned assets could meet similar obstacles, and there can be no assurance that interested parties (including relevant regulators) in similar privatisations will not seek to challenge the results of these sales. This may block the privatisation path as key investors may be reluctant to participate in the privatisation process in the unstable legal and regulatory environment. This, in turn, may adversely affect the actual values of privatisation proceeds in 2011 and further decrease the ability or willingness of the State of Ukraine to perform under its financial obligations.

On 10 December 2010, previous presidential decrees of 15 February 2008 and 16 May 2008 restricting the privatisation of certain assets were repealed by a further presidential decree, thereby allowing those assets to be added to the list of assets subject to privatisation. Based on this the SPF is now considering the privatisation of state-owned shareholdings in a number of attractive State-owned companies previously prohibited for privatisation. Certain of these companies have already been included to 2011 privatisation list. However, in light of the low level of privatisation receipts experienced between 2007 and 2010, mainly at the choice of the regulators themselves, no assurance can be made that budgeted privatisation receipts will be met in the future. A significant shortfall in actual privatisation receipts compared to budgeted privatisation receipts may have negative effects on the performance of the State Budget and adversely affect the Ukrainian economy generally, which could have an adverse effect on the City’s financial condition and its ability to perform its obligations under the Loan, which would in turn impair the Issuer’s ability to perform its obligations under the Notes.

The success of future privatisations will depend on the implementation of structural and other reforms. Meeting future privatisation receipt targets may also require the Government (with approval from the Parliament) to release for privatisation additional state owned enterprises that are currently excluded from privatisation, as these enterprises may prove more attractive to investors than certain of the non excluded businesses. In 2008, the SPF prepared the draft privatisation programme for 2008-2012 which was approved by Parliament in a second reading in February 2009, but rejected in May 2009. In July 2010, the SPF prepared its draft 2010-2014 privatisation programme. In the absence of a clear privatisation programme, not all of the privatisation receipts budgeted as forecasted may be realised, which may create or contribute to future budget deficits. Litigation and related court orders may also delay specific privatisations, as has occurred in the past, or prevent them altogether. In addition, the failure to privatise key state owned assets may reduce the willingness of multilateral organisations to provide financial support to Ukraine.

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

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

- inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts;
- provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted;
- it is not unusual in Ukraine for laws to be enacted with retroactive effect or to be published some time after their enactment;

- authority or guidance for interpreting provisions of Ukrainian legislation remains rare;
- difficulty in predicting the outcome of judicial application of Ukrainian legislation due to, amongst other factors, a general inconsistency in the judicial interpretation of such legislation in the same or similar cases; and
- the fact that not all Ukrainian resolutions, orders, decrees, decisions and similar governmental, regulatory and judicial acts are readily available to the public or available in comprehensibly organised form.

These and other factors that have an impact on Ukraine's legal system make an investment in the Notes subject to greater risks and uncertainties than an investment in a country with a more mature legal system. See "City Budget and Financial Information—Borrowings and Guarantees of the City of Kyiv—General".

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

Although a range of government ministries, along with the NBU and the State Committee of Statistics, produce statistics on Ukraine and its economy, there can be no assurance that these statistics are as substantially complete or reliable as those compiled in many more developed countries. Prospective investors in the Notes should be aware that figures relating to Ukraine's GDP and many other aggregate figures cited in this Prospectus may be subject to some degree of uncertainty and may not be fully in accordance with international standards.

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

There can be no assurance, however, that this IMF standard has been fully implemented or correctly applied. The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information. In addition, Ukraine has experienced variable rates of inflation, including periods of hyperinflation. Unless otherwise indicated, the information and figures presented in this Prospectus have not been restated to reflect such inflation and, as a result, period to period comparisons may not be meaningful. Prospective investors should be aware that none of these statistics have been independently verified. Ukraine has also provided information on certain matters pertaining to documentation that belongs to independent third parties. In certain of these circumstances, Ukraine has relied on reported information in presenting such matters but is unable to independently verify such information.

***Changes in relationships with western governments and institutions may affect competitiveness of Ukrainian manufacturers in export markets.***

With effect from 16 May 2008, Ukraine became a member of the World Trade Organisation (the "WTO").

Ukraine continues to pursue the objective of achieving a closer relationship with the EU and developing practical cooperation with the North Atlantic Treaty Organisation ("NATO"). With effect from 30 December 2005, Ukraine was given market economy status by the EU, though without any immediate prospect of EU membership for Ukraine.

Any major changes in Ukraine's relations with Western governments and institutions, in particular any such changes adversely affecting the ability of Ukrainian manufacturers to access or to fully compete in world export markets, may have negative effects on the Ukrainian economy generally, which could have an adverse effect on the City's financial condition and its ability to perform its obligations under the Loan, which would in turn impair the Issuer's ability to perform its obligations under the Notes.

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

Independent analysts and media reports have identified corruption and money laundering as problems in Ukraine. Until February 2006, Ukraine was subject to monitoring by the Financial Action Task Force on Money Laundering (the "FATF") and, until February 2004, was in its list of Non-Cooperative Countries and Territories. In May 2010, a new law was passed to implement the recommendations of the FATF and the EU directive on money laundering and terrorist financing. In

April 2011, the Parliament adopted a law setting forth the general framework for the prevention and counteraction of corruption in Ukraine, which will come into effect on 1 July 2011. Although this new law is expected to facilitate anti-corruption efforts in Ukraine once it becomes effective, there can be no assurance that the law will be effectively applied and implemented by the relevant supervising authorities. Any future allegations of corruption against Ukraine or evidence of money laundering in Ukraine could have a negative effect on its ability to attract foreign investment and, more generally, on the Ukrainian economy as a whole, which could have an adverse effect on the City's financial condition and its ability to perform its obligations under the Loan, which would in turn impair the Issuer's ability to perform its obligations under the Notes.

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

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain questionable. Although the Constitutional Court of Ukraine is the only body authorised to exercise constitutional jurisdiction and is generally viewed as impartial, the system of constitutional jurisdiction itself remains complicated and, accordingly, it is difficult to ensure smooth and effective removal of discrepancies both between the Constitution and applicable Ukrainian legislation and among various laws of Ukraine.

The court system is understaffed and underfunded. Because Ukraine is a civil law jurisdiction, judicial decisions under Ukrainian law generally have no precedential effect. For the same reason, courts themselves are generally not bound by earlier decisions taken under the same or similar circumstances, which can result in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. Furthermore, to date only a relatively small number of judicial decisions have been publicly available and, therefore, the role of judicial decisions as guidelines in interpreting applicable Ukrainian legislation to the public at large is generally limited.

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

All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain and court orders are not always enforced or followed by law enforcement institutions. The uncertainties of the Ukrainian judicial system could have a negative effect on the Ukrainian economy generally, which could have an adverse effect on the City's financial condition and its ability to perform its obligations under the Loan, which would in turn impair the Issuer's ability to perform its obligations under the Notes.

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

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. In proceedings in which claims are asserted against Ukraine, an adverse decision could result in the award of substantial damages or other remedies.

In particular, Ukraine is currently involved in an arbitration proceeding with the Russian company OJSC "Tatneft" ("**Tatneft**"). The arbitration concerns disputes over the shareholder structure and management of CJSC "Ukratnafta", a Ukrainian company. Tatneft has named Ukraine as party to the arbitration on the basis of allegations that Ukraine violated an agreement between the Ukrainian and Russian governments on mutual protection of investments.

Tatneft is currently seeking awards in the amount of U.S.\$2.4 billion. On 28 September 2010, the arbitration tribunal rejected Ukraine's objections and accepted jurisdiction to decide this case. In November 2010, the arbitration tribunal approved a schedule of submissions and hearings on the matter, according to which a number of submissions will need to be made by the parties throughout 2011 and 2012. If the tribunal returns an award adverse to Ukraine, Ukraine may become liable to pay significant damages denominated in a foreign currency.

An adverse decision in the Tatneft arbitration, or in other proceedings resulting in awards of substantial damages or other monetary remedies denominated in currency other than the hryvnia, could strain Ukraine's foreign currency reserves, could have negative effect on Ukrainian economy generally, which could have an adverse effect on the City's financial condition and its ability to perform its obligations under the Loan, which would in turn impair the Issuer's ability to perform its obligations under the Notes.

## **Risks Associated with the City**

***Non-payment of financial obligations to the City may have an adverse effect on the City's ability to pay the principal of and interest and additional amounts, if any, on the Loan.***

The Ukrainian financial system suffers from chronic and endemic problems relating to the non-payment of financial obligations. At any one time, the City, like most other local governments in Ukraine, is owed considerable amounts of unpaid taxes and fees. As at 1 May 2011, there was an aggregate of UAH 386.6 million (or 2.3 per cent. of total revenues of the City Budget) of tax and fee revenues outstanding and unpaid to the City as compared to UAH 206 million (or 1.3 per cent. of total revenues of the City Budget) as at 1 January 2010, UAH 88.4 million (or 0.4 per cent. of total revenues of the City Budget) as at 1 January 2009 and UAH 43.3 million (or 0.3 per cent. of total revenues of the City Budget) as at 1 January 2008. The largest component of these amounts is land fees in arrears, which were payable in an amount of UAH 199.9 million as at 1 January 2011. Non-payment of taxes and fees owed to the City may have an adverse effect on the City's cash flow and, consequently, on the ability of the City to pay the principal of and interest and additional amounts, if any, on the Loan. See "City Budget and Financial Information—Budget Revenues".

***The division of tax revenues between the City and the State may not favour the City, thereby making it difficult for the City to pay the principal of and interest and additional amounts, if any, on the Loan.***

The division of tax revenues between the budget of Ukraine (the "State Budget") and the City Budget is governed by Ukrainian law. In recent years, the State Budget's share of tax revenues has increased and the City Budget's share has decreased. Under the Budget Code for 2011, for example, the City will retain 50 per cent. of the personal income tax revenues collected in the City, while under the Budget Code for 2010 the City was entitled to retain all such revenues. As a result of this change, the City expects that there will be a 33.8 per cent. drop in its revenues from personal income tax. See "City Budget and Financial Information—Budget Revenues—Tax Revenues—Income Taxes". This trend towards the State Budget taking an increasing share of tax revenues collected in the City may continue and, if so, may have an adverse effect on the City's financial condition, which in turn may impair the City's ability to meet its spending commitments and may adversely affect the ability of the City to comply with its obligations under the Loan Agreement. See "City Budget and Financial Information—City Budgetary System—Budgetary Relations between the State and Local Governments".

***The City may be unable to repay the Loan at maturity.***

At maturity, the City may lack the funds to satisfy its obligations under the Loan, and it may be unable to arrange for additional financing. If the Loan were to mature at a time when other financial arrangements restricted the City's ability to repay the Loan, the City would either seek waivers of such restrictions from the lenders under those other arrangements, or attempt to refinance the debt that imposed the restrictions. In 2011, the City intends to repay a U.S.\$200 million loan, which was funded from the proceeds of the offering of 8.625 per cent. loan participation notes issued in 2004, either from its own funds or borrowings, including the proceeds of the Loan. If the City were unable either to obtain the waivers or refinance the debt, it might be unable to repay the Loan.

***The City is exposed to foreign exchange rate risk which could increase its borrowing costs.***

The City has substantial US dollar denominated indebtedness whereas its revenues are generally generated in Ukrainian hryvnia. The City does not hedge against foreign exchange rate risk and is therefore exposed to foreign exchange rate movements. Historically, the US dollar—hryvnia exchange rate has been volatile. The hryvnia has experienced significant devaluation relative to the US dollar in the past and may devalue further. See "Risks associated with Ukraine-Ukraine's currency is subject to exchange risk volatility". Any significant devaluation in the value of the hryvnia, especially with respect to US dollars, could have a materially adverse effect on the ability of the City to comply with its financial obligations including its ability to pay the principal of and interest and additional amounts, if any, on the Loan.

***The City exerts significantly greater control over and has greater responsibility for Kyiv's economy as compared with municipal governments of most Western cities, which could expose the City to additional unbudgeted expenses.***

The City is responsible for a greater part of the local economy than is the case for municipal governments in most Western cities, particularly in relation to companies that are responsible for the provision of socially and politically significant services to Kyiv residents, such as underground metro,

bus transport, utilities and water services, among others. Although the City is not directly responsible for the obligations of these companies, it could be required to provide financial assistance to certain of these companies by increasing the subsidies it pays either directly to such companies or to certain categories of eligible residents as, generally, the raising of tariffs to meet actual costs of providing these services is politically unpopular and the setting of tariffs in relation to certain services is a responsibility of the City. Moreover, in recent years the City has raised tariffs for certain services (most notably, housing and utilities) significantly to bring such tariffs to the economically-justified level. See “The City of Kyiv—Main Activities of the City—Housing and Utilities”. Any unfavourable changes that negatively affect the financial condition of companies which provide these services could force the City to provide financial or other forms of support, which could cause strain on the City Budget and materially adversely affect the City’s ability to comply with its financial obligations and to pay the principal of and interest and additional amounts, if any, on the Loan.

***The City is due to play a significant role in hosting the UEFA Euro 2012 football championships, which will significantly increase the burdens on the City’s infrastructure, finances and administration.***

In April 2007, Ukraine and Poland were named joint hosts of the Union of European Football Associations (“UEFA”) Euro 2012 football championships (the “**Euro 2012**”). The City is due to host several matches, most notably the final match of the Euro 2012. To accommodate the event, a significant number of construction projects are planned throughout the City, including the construction of numerous hotels, restaurants, and sporting venues, the beautification of public squares and parks, and the expansion and modernisation of a transport system that is already operating beyond its design capacity. See “—The City’s infrastructure requires substantial investment without which the City’s economic development could be hampered”.

In October 2007, the Cabinet of Ministers of Ukraine initially adopted a state programme for the preparation and holding of the Euro 2012 and subsequently revised the state programme in February 2008 and April 2010 (the “**Euro 2012 Programme**”). The Euro 2012 Programme includes the municipal budgets’ share of the cost. The anticipated costs of both the State Budget and municipal budgets increased each time the programme was revised by the Cabinet of Ministers of Ukraine. The estimated aggregate costs related to this event have grown from UAH 125.7 billion as shown in the original Euro 2012 Programme adopted in October 2007 (of which UAH 4.7 billion was to be financed from the municipal budgets, including that of the City) to UAH 146 billion as shown in the programme as updated in April 2010 (of which UAH 7.2 billion is to be financed from the municipal budgets, including that of the City). On 15 July 2010 the City Council adopted the City programme for the preparation and holding of the final round of the Euro 2012, which provides for UAH 3.6 billion estimated aggregate costs related to this event to the City. The City cannot assure prospective investors that its share of the anticipated costs related to this event will not increase further.

The City Budget for the year 2011 provides for the expenditure of UAH 113.2 million in the area of construction under the above programme. The City Budget for 2011 in total allocates UAH 281.4 million to the costs of the Euro 2012 but actual expenditure may exceed this amount. See also “City Budget and Financial Information—City Budgetary System—Budgetary Relations between the State and Local Governments”.

On 19 April 2007, the Parliament of Ukraine adopted the Law of Ukraine “On Organisation and Holding of Final Part of UEFA Euro 2012 in Ukraine” which also envisaged that the Euro 2012 Programme would be financed by funds from the State Budget, local budgets and other sources. This law stipulates that the Euro 2012 Programme is funded from the State Budget, municipal budgets and other sources not prohibited by applicable legislation. Although this law does not provide for mandatory support of municipal budgets from the State Budget, the applicable legislation permits the State to provide subsidies to the development funds of municipal budgets for purposes of implementation of special purpose programmes. In particular, the 2011 State Budget Law provides for the subsidy from the State Budget to cover, *inter alia*, the City’s budget expenses in relation to payment of interest accrued on financing attracted by the City to fund the modernisation of the City’s public transport network for purposes of holding the Euro 2012. Although the City expects to receive the additional subsidies from the State Budget to cover its expenditures in connection with hosting the Euro 2012, the City cannot assure prospective investors that this will occur.

Although the City believes that the key infrastructure projects required for staging the Euro 2012 will be completed in time for the start of the tournament, some projects have experienced delays (notably, the construction of the main City stadium, which was initially planned to be completed by June 2011,

is currently expected to be completed by the end of October 2011), and UEFA has previously expressed concerns in relation to such delays.

If the City were unable to manage effectively the additional pressures associated with hosting a prestigious international sporting event, it could affect the City's reputation and ability to attract additional foreign private investment, all of which could hamper the City's economic development and force the reallocation of budgeted spending.

***The City's infrastructure requires substantial investment without which the City's economic development could be hampered.***

The City's infrastructure, including transportation, sewage, bridges and roads are inadequate and outdated and require substantial investment. Furthermore, the formal process by which construction contracts are awarded is not fully transparent, which could have an adverse effect on the City's reputation and consequentially its ability to attract investment. Should it not receive such investment, the City's economic development could be hampered, which could have a material adverse effect on the City's financial condition and thus its ability to pay the principal of and interest and additional amounts, if any, on the Loan.

***The City's financial information is not audited and may not accurately reveal the City's true financial condition.***

The implementation of the City Budget is subject to internal control and monitoring. In addition, the State Treasury of Ukraine, an independent Government body, also monitors and reviews the implementation of the City Budget. The financial accounts of the City related to the use of budget funds in a given budget year may also be reviewed by an independent firm at the request of the City Council. However, the financial information with regard to the City of Kyiv presented in this Prospectus has not been audited or reviewed by independent auditors in accordance with international auditing or other standards and as a result may not accurately reveal the City's true financial condition.

***Deficiencies in the legislation introduced on 7 September 2010 amending the Law on the Capital may create uncertainty as to the legitimacy of actions taken by the City Mayor, the Head of the Kyiv State Administration and City Council.***

The Law on the Capital was amended on 7 September 2010 in a manner which materially affects the authority and operation of the principal branches of the municipal administration in Kyiv. As a result of the amendments, the previously combined positions of the City Mayor and the Head of the Kyiv City State Administration were divided into two separate positions. However, the amendments did not provide for a clear division in the powers and functions of the City Mayor and the Head of the Kyiv City State Administration. This lack of clarity in the division of the powers and functions of the two offices may create uncertainty as to legitimacy of actions taken by the City Mayor or the Head of the Kyiv City State Administration in the purported exercise of these powers and functions. In addition, the amendments to the Law on the Capital made it optional for the City Council to maintain district councils in Kyiv. In reliance on this authority, the City Council dissolved the existing district councils and their executive bodies in all the 10 districts of Kyiv, thus eliminating the lower level of elected bodies of self-governance in Kyiv. Thereafter, the Kyiv City State Administration established new district state administrations in all the 10 districts of Kyiv, as the bodies of the state executive authority in such districts, with heads of the district state administrations being appointed by the President of Ukraine. However, because of poor drafting and conflicts with other applicable legislation, there is uncertainty as to the authority of the City Council to disband the district councils prior to the expiry of the term for which they were elected. (For a detailed discussion of the amendments and their effect, see "The City of Kyiv—September 2010 Legislative Changes Affecting Municipal Administration" below.)

***Amendments to the Constitution of Ukraine dated 1 February 2011 may create uncertainty as to the term of office of the City Mayor.***

Under the Constitution of Ukraine in effect at the time of the election of the current City Mayor, the City Mayor was elected for a 4 year term of office, expiring in May 2012. The Constitution of Ukraine was amended on 1 February 2010 to provide for a 5 year term of office for all city mayors, including the City Mayor. It is uncertain, however, whether such amendments would extend the current City Mayor's term of office to a 5 year term, which in turn creates uncertainty as to the timing of the next elections for the post of City Mayor. Further, if the current City Mayor remains

in office beyond the initial 4 year term for which he was originally elected, this may raise questions as to the legitimacy of his appointment and impair the functioning of the government of the City.

***The 2009 Domestic Loan deviates from the Budget Code requirements and its validity may be challenged.***

In April 2009, the City borrowed UAH 750.0 million from CJSC “Alfa-Bank” (the “**Alfa-Bank Loan**”) and UAH 150.0 million from Bank Khreschatyk, and in June 2009, the City borrowed a further UAH 300.0 million from Bank Khreschatyk (collectively, the “**2009 Domestic Loan**”) for the purpose of financing payments to Kyivenergo to discharge the City Council’s statutory obligation to cover discrepancies between the cost to Kyivenergo of providing central heating and the central heating tariffs approved by the City Council. See “The City of Kyiv—Main Activities of the City—Housing and Utilities—General”. The 2009 Domestic Loan bears interest, payable monthly, at a floating rate which is calculated as the discount rate of the NBU plus 7.5 per cent. and which constitutes 15.25 per cent. per annum as at the date of this Prospectus. The 2009 Domestic Loan was amended in March and April 2011 to extend its maturity and now matures on 25 July 2011 (in the amount of UAH 5.0 million), on 29 July 2011 (in the amount of UAH 145.0 million), on 5 April 2012 (in the amount of UAH 750.0 million), on 11 June 2012 (in the amount of UAH 5.0 million) and on 15 June 2012 (in the amount of UAH 295.0 million). In addition to extending its maturity, the April amendments to the Alfa-Bank Loan also included an undertaking on behalf of the City to ensure that by 5 September 2011 the Alfa-Bank Loan is secured by a mortgage over immovable assets of the City or any third party with an aggregate market value of not less than UAH 500,000,000.

The 2009 Domestic Loan was authorised for a maximum maturity term of three years pursuant to Order No. 308-p dated 25 March 2009 “On Certain Issues Related to Covering Temporary Cash Shortfalls of the Kyiv City Budget” of the Cabinet of Ministers of Ukraine as amended on 18 August 2010 (the “**Domestic Loan Resolution**”). However, article 73 of the former Budget Code of Ukraine dated 21 June 2001 (which was in effect at the time when the 2009 Domestic Loan was borrowed, hereafter the “**Former Budget Code**”) allowed local governments to take loans for the purposes of covering temporary shortfalls only for a maximum maturity term of three months, and the Cabinet of Ministers of Ukraine was not authorised to extend such term. The failure of the Cabinet of Ministers of Ukraine and the City to comply with the requirements of the Former Budget Code might serve as a ground for challenging the validity of the 2009 Domestic Loan. The legal position described above continues to apply under the provisions of the Budget Code which is in effect as of the date hereof (so that the extension of the term of maturity of the 2009 Domestic Loan in March 2011 may be challenged on the same grounds described above). Given that the borrowing under the 2009 Domestic Loan was not made in compliance with applicable Ukrainian budget legislation, there is an uncertainty as to the proper accounting of the 2009 Domestic Loan, including interest payments thereunder, in the City Budget. There can be no assurance that the 2009 Domestic Loan will not be challenged. If the 2009 Domestic Loan were to be found to be invalid by a court, the City may have to repay the principal amount of the 2009 Domestic Loan to CJSC “Alfa-Bank” and Bank Khreschatyk in accordance with the court decision prior to maturity. Also, if the requirements of the budget legislation are deemed to be violated in respect of the 2009 Domestic Loan, including in respect of its accounting in the City Budget, the officers of the Cabinet of Ministers of Ukraine and/or the City involved in this matter may be subject to administrative and criminal sanctions.

***The recent downturn in the global economy had a negative impact on the City’s financial condition.***

The City’s economy is influenced by international, national and regional economic conditions. The significant downturn in the global economy in 2008 and 2009 had, among other things, a pronounced negative impact on the revenues of the financial institutions as well as on the construction and real estate development industries in Ukraine in general and in Kyiv in particular. The construction industry contributes revenue to the City Budget’s Development Fund (as defined herein) and such revenue has decreased significantly in 2009 and 2010. Any further deterioration of macroeconomic conditions or a global recession or depression would have a material adverse effect on financial and construction sectors and, as a result, could have a materially adverse effect on the ability of the City to comply with its financial obligations, including its ability to pay the principal of and interest and additional amounts, if any, on the Loan, which would in turn impair the Issuer’s ability to perform its obligations under the Notes.

***The City's indebtedness to certain utility providers may be significant.***

As at the date of this Prospectus, the City is yet to settle its indebtedness to OJSC “Kyivvodokanal” (“Kyivvodokanal”) relating to water supply and sewage system services and to Kyivenergo relating to central heating services. This indebtedness arose between 2006 and 2010 and between 2008 and 2010, respectively, due to the difference between the tariffs the City charged its residents for the relevant utility service and the actual cost of the services provided by Kyivvodokanal and Kyivenergo. While the City and Kyivvodokanal have not yet calculated the exact amount of the City's indebtedness, the City does not expect such indebtedness to significantly exceed UAH 500 million. However, according to Kyivvodokanal claims, which the City believes are not properly substantiated, such indebtedness could amount to up to UAH 670 million. As at the date of this Prospectus, the indebtedness to Kyivenergo amounts to UAH 202.4 million. The City Budget currently does not provide for the sources of funding to cover the amounts of the City's indebtedness owed to Kyivvodokanal (once the exact amount of the indebtedness is confirmed) or to Kyivenergo.

In the past, the City has used debt financing, promissory notes and, to lesser extent, funds transferred from the State to settle its indebtedness to utility providers. Under current Ukrainian legislation, the City is no longer permitted to use debt financing to fund the repayment of such indebtedness. The City may only rely for these purposes on the subsidies and levelling grants from the State Budget and the revenues of the general fund of the City Budget. Accordingly, the City may not use the revenues of the Development Fund (as defined herein) which are designated to repay certain loans such as the Loan. There can be no assurance, however, that such funding from the State Budget will be available to repay the indebtedness owed to Kyivvodokanal and Kyivenergo.

***The City could be required to reimburse the amounts previously received in relation to certain recently reversed privatisations, which could have an adverse effect on the City's revenues from future privatisations.***

Between May 2009 and March 2010, the City sold through privatisation procedures its ownership interests in certain municipal companies. See “City Budget and Financial Information—Assets of the City—Share Ownership”. Such sales were challenged in the Commercial Court for the City of Kyiv at the initiative of the General Prosecutor's Office of Ukraine and the relevant cases were resolved in March 2011 by the High Commercial Court of Ukraine. Although the rulings of the High Commercial Court of Ukraine provide for the transfer of shares in such companies back into the City's ownership, they do not address the issue of reimbursement of the purchase price paid for the shares. Therefore, the City believes the purchasers of the relevant shares may file claims for the reimbursement of the purchase price in an aggregate amount of UAH 162.2 million and such claims may be approved by the court.

While, to the best of the City's knowledge, there have been no previous reversals of privatisation sales of municipal property, the reversal of privatisations as described above may discourage prospective investors from participation in future privatisation campaigns of the City which in turn could impair the City's revenues from privatisation sales.

**Risks Associated with the Offering, the Notes and the Trading Market**

***Civil liabilities of the City may not be enforceable and the Issuer may therefore not be able to successfully pursue claims under the Loan Agreement.***

Certain assets of the City are not available to satisfy the claims of creditors, including any claims by the Issuer under the Loan Agreement. In particular, the Land Code of Ukraine, as adopted on 25 October 2001, provides that certain types of land, such as public parks, cemeteries, land covered with forest, land under roads, land covered with water and certain other types of land may not be alienated by a municipality. In addition, there is uncertainty under Ukrainian law as to whether, in the event of any enforcement following a default by the City, other categories of the City's assets (other than the City's budget funds which have been allocated for the purpose of paying debt) would be available for purposes of such enforcement, and there is a related risk that a creditor might only be able to enforce against such allocated budget funds and not against the City's other assets. Moreover, if the reimbursement of the full amount of the purchase price is successfully claimed by the purchasers, this may have an adverse effect on the City's ability to perform its obligations under the Loan and in turn this may impair the Issuer's ability to perform its obligations under the Notes.

Enforcement against the City's budget funds is subject to the procedures provided by budget legislation, as interpreted by the courts and as applied by the State Treasury. In particular, Article 25 of the Budget Code may be interpreted as providing generally for the obligation of the State Treasury to transfer money from an account of the City to the Issuer as part of an enforcement procedure on

the basis of a decision of a Ukrainian court (including to enforce the decision of a foreign court or an arbitration). However, enforcement may be refused or impeded because the relevant payment is not envisaged or is not given the requisite priority in the City's budget for the relevant year. Furthermore, the extent to which budget laws in future years may limit enforcement is unknown at this time. Accordingly, in the event of any enforcement following a default by the City, there can be no assurance that the Issuer will be able to recover fully amounts due to it under the Loan Agreement.

There is also a risk that, notwithstanding the waiver of sovereign immunity by the City, a claimant will not be able to enforce a court judgment (including the imposition of any arrest order or attachment or seizure of such assets and their subsequent sale) against certain assets of the City. The list of such assets is established by law and the City is not allowed to consent to enforcement of a court judgment against such assets. In addition, Ukrainian legislation prohibits the commencement of bankruptcy proceedings against municipalities resulting in impossibility of sale of the City's assets to satisfy the creditors' claims in bankruptcy proceedings.

In the event that a Noteholder obtains a final judgment for a sum of money rendered by a court in any jurisdiction other than Ukraine, such judgment will be recognised and/or enforced by a court of Ukraine, *provided that* such recognition and/or enforcement is envisaged by an international treaty to which Ukraine is a party providing for the recognition and/or enforcement of such judgements, and then only in accordance with the terms of such treaty. There is no such treaty in effect between Ukraine and the United Kingdom or between the United States and Ukraine providing for the recognition and/or enforcement of judgements. In the absence of an international treaty providing for the recognition and/or enforcement of judgements, the courts of Ukraine may only recognise or enforce a foreign court judgement 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 judgement was 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 judgement 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 judgement on the basis of the principle of reciprocity on the grounds provided in the applicable Ukrainian legislation.

The City has agreed that, in relation to any claim by the Issuer (or, following the transfer of its rights under the Loan Agreement pursuant to the Trust Deed, by the Trustee) in respect of any claim, dispute or difference of whatever nature arising under, out of or in connection with the Loan Agreement, such claim or dispute or difference will be referred to and finally settled by arbitration in accordance with the Rules (the "**Rules**") of the London International Court of Arbitration. The seat of arbitration shall be London, England.

Ukraine is a party to the New York Convention. Consequently, an arbitral award obtained in a state which is a party to the New York Convention should be recognised and enforced by the courts of Ukraine without re-examination on the merits, subject to the terms of the New York Convention. See also "Enforceability of Judgements" and "Risks Associated with the Offering, the Notes and the Trading Market—Foreign judgements may not be enforceable against the City".

***Payments on the Notes are limited to payments received by the Issuer under the Loan Agreement.***

The Issuer is only obliged to make payments under the Notes to the Noteholders in an amount equivalent to sums of principal, interest and/or additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement (less any amount in respect of the Reserved Rights). Consequently, if the City fails fully to meet its obligations under the Loan Agreement, the Noteholders will receive less than the scheduled amount of principal and/or interest on the relevant due date.

***Noteholders have no direct recourse to the City.***

Except as otherwise expressly provided in "*Terms and Conditions of the Notes*" and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to the City except through action by the Trustee under the Security Interests. The Trustee pursuant to the assignment of the Transferred Rights (as defined in

“*Terms and Conditions of the Notes*”) shall not be required to take proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses that may be incurred by it in connection therewith.

In addition, under the Terms and Conditions of the Notes, Noteholders will be deemed to have accepted that:

- neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or (save as otherwise expressly provided in the Trust Deed) liability or obligation in respect of, the performance and observance by the City of its obligations under the Loan Agreement or the recoverability of any sum of principal, interest, Additional Amounts or Tax Indemnity Amounts (both as defined in the Loan Agreement) or other amounts, if any, due or to become due from the City under the Loan Agreement;
- neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the City;
- neither the Issuer nor the Trustee shall at any time be liable for any misrepresentation or breach of warranty or any act, default or omission of the City under or in respect of the Loan Agreement;
- neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Registrar, any Transfer Agent or any Paying Agent of their respective obligations under the Agency Agreement (each of the foregoing capitalised terms as defined in “*Terms and Conditions of the Notes*”);
- the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the City of its obligations under the Loan Agreement, its covenant to pay under the Loan Agreement and its credit and financial standing. The City has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes legal, valid and binding obligations of the City. The representations and warranties given by the City in Clause 11 (*Representations and Warranties of the City*) of the Loan Agreement are given by the City to the Issuer for the sole benefit of the Issuer and neither the Trustee nor any Noteholder shall have any remedies or rights against the City that the Issuer may have with respect to such representations or warranties, other than any right the Trustee may have pursuant to the assignment of the Transferred Rights;
- the Issuer (and, pursuant to the assignment of the Transferred Rights, the Trustee) will rely on self-certification by the City as a means of monitoring whether the City is complying with its obligations under the Loan Agreement and shall not otherwise be responsible for investigating any aspect of the City’s performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations that might be made by a security holder in relation to the property that is the subject of the Security Interests and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the secured property, whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests, whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security, and the Trustee will have no responsibility for the value of such security (each of the foregoing capitalised terms as defined in “*Terms and Conditions of the Notes*”); and
- if the City is required by law to make any withholding or deduction for or on account of tax from any payment under the Loan Agreement or if the Issuer is required by law to make any withholding or deduction for or on account of tax from any payment in respect of the Notes, the sole obligation of the Issuer will be to pay to the Noteholders sums equivalent to the sums actually received from the City pursuant to the Loan Agreement in respect of such payment, including, if applicable, Additional Amounts or Tax Indemnity Amounts in respect of the tax required to be so withheld or deducted; the Issuer shall not be obliged to take any actions or measures as regards such deductions or withholdings other than those set out in Clause 8 (*Taxes*) and Clause 10.3 (*Mitigation*) of the Loan Agreement.

***Ukrainian currency control regulations could impact the City's ability to make payments to the Issuer and the Trustee under the Loan Agreement.***

The NBU is empowered to define policy applicable to the regulation of currency operations in Ukraine and to regulate currency operations in Ukraine, as well as to establish restrictions on currency operations, cross-border payments and the repatriation of profits.

Ukrainian currency control regulations and practice are subject to constant change, with the NBU exercising considerable autonomy in their interpretation and application. While at present the Loan Agreement is only subject to registration with the NBU and no licence is required to be obtained from the NBU in order to make payments of principal and interest under the Loan Agreement, there can be no guarantee that such law and practice will remain unchanged during the term of the Loan.

The Loan Agreement will be registered with the NBU which will be evidenced by a registration certificate issued by the NBU to the City (the "**Registration Certificate**"). In addition, were any payments of principal, interest or other amounts under the Loan Agreement to be made to any entity other than the Issuer, the resulting change in the loan transaction would require the City to seek prior registration of an amendment to the Registration Certificate with the NBU or prior issuance of an individual licence of the NBU. The City believes that the NBU is likely to view the Trustee's enforcement of security over the Issuer's claims under the Loan Agreement as an assignment of such claims to the Trustee. However, the NBU would have a broad discretion in evaluating such a change in the loan transaction, and could refuse to register an amendment to the Registration Certificate as a result of, for example, insufficient documentation. If the NBU refuses to register an amendment to the Registration Certificate, the City would not be permitted to make payments under the Loan Agreement to any entity other than the Issuer unless it obtained an individual licence of the NBU permitting such payments. There can be no assurance that the City would receive such an individual licence if one were to be required or that the Trustee would be able to meet the requirements of the NBU in connection with any registration or licence. Although in the absence of such registration or licence, the City should be permitted or could be compelled (as the case may be) to make the relevant payment pursuant to a proper court order (adopted on the merits of the case on enforcing an arbitral award, as the case may be), if the necessary registration or licence were to be refused, there can be no assurance that the City would be able to make payments of principal and interest under the Loan Agreement in the event of an enforcement of security by the Trustee.

The Board of the NBU has passed a resolution prohibiting Ukrainian borrowers from making, in connection with loans granted by foreign lenders, any payments (other than principal) which, in aggregate per annum, exceed an amount determined by applying the applicable maximum interest rate established by the NBU (the "**MIR**") to the principal amount of the loan. As at the date of this Prospectus, the MIR applicable to fixed interest rate loans in major foreign convertible currencies (including U.S. dollars) the maturities of which are less than one year is 9.8 per cent. per annum; the MIR applicable to loans the maturities of which are from one year to three years is 10.0 per cent. per annum; and the MIR applicable to loans the maturities of which are in excess of three years is 11 per cent. per annum.

In the event of prepayment of the Loan, the NBU would not permit the aggregate amount of interest and other amounts (except the repayment of principal) payable in connection with the Loan to exceed an amount determined by applying the relevant MIR to the principal amount of the Loan. While the NBU's regulations have not been tested in this regard, the NBU may require the application of the MIR based on the period for which the Loan has been outstanding as of the date of prepayment rather than the contractual maturity, which would result in the application of a lower MIR to the amounts payable (e.g., the MIR applicable to fixed interest rate loans the maturities of which are less than one year instead of the MIR applicable to fixed interest rate loans the maturities of which are in excess of three years).

At the current MIR, the Issuer or, as the case may be, the Trustee, would generally receive payment of the full amount of accrued interest in respect of the Loan since the interest rate on the Loan, and the interest rate applicable to the Notes, are less than the currently effective MIR. However, any additional amounts, default interest or other amounts (except the repayment of principal), if any, payable in connection with the Loan could be limited by the MIR. Further, since the NBU has the authority to review and modify the MIR from time to time, a reduction in the MIR could further limit the ability of the Issuer or, as the case may be, the Trustee, to collect interest, additional amounts, default interest or other charges payable in connection with a prepayment of the Loan.

Although this position is untested in practice, Ukrainian currency control regulations may be seen to provide that any payments which may have to be made by the City from Ukraine to another country

pursuant to the Loan Agreement or any other agreements related to the Notes (other than the repayment of principal and payment of interest under the Loan Agreement and payment of fees) may be made by the City only on the basis of an individual license of the NBU. Such an individual license cannot be obtained by the City on a contingency basis or for a contingency payment (when the exact amount of the payment and its term cannot be specified), and can only be obtained when the respective amount has become due and payable. Such restriction may apply, in particular, to the Additional Amounts and Tax Indemnity Amounts (as defined in the Loan Agreement), currency indemnity and other indemnification payments, default interest, cost/expense/stamp tax reimbursement, coverage of and contribution to losses, additional remuneration payable to the Trustee and the Agents, and similar payments which may need to be made by the City from Ukraine to another country. The NBU has a significant discretion in determining whether to issue such an individual license in a particular situation and there can be no assurance that such an individual license will be issued when the City is required to make a payment under the Loan Agreement or the other agreements related to the Notes. The lack of an individual license of the NBU may not affect the validity of the Loan Agreement or the other agreements related to the Notes. However, if the City were to be prevented from making any such payment due to the NBU's refusal of an individual license, this would be an Event of Default under the Loan Agreement.

Ukrainian currency control regulations are uncertain as to whether certain payments by the Borrower in connection with the Notes, including the additional remuneration payable to the Trustee or the Agents, costs or expense reimbursement and other similar payments, may be regarded as "fees" for the services rendered by the respective payees, in which event, and subject to the aggregate amount of such payments payable to a particular payee being in excess of an equivalent EUR100,000, any such payment would require a prior permission of the State Information and Analytical Centre for Monitoring External Commodity Markets (the "SIAC"), evidencing that the payment is within the relevant fair market price range. If the SIAC refuses to make that determination, any such payment can be made only on the basis of a specific permission from the NBU. If the SIAC determines that the "fees" are excessive, or refuses to make that determination and the NBU does not grant the permission, the Borrower may be unable to make the relevant payment from Ukraine to another country. The lack of any such permission may not affect the validity of the Loan Agreement or the other agreements related to the Notes. However, if the City were to be prevented from making any such payment due to any such permission being unavailable, this would be an Event of Default under the Loan Agreement.

***The City may, in certain circumstances, be required to pay tax gross up and tax indemnity amounts under the Loan; however, tax gross-up and tax indemnity clauses may be invalid and unenforceable under Ukrainian law, which could lead to a default under the Loan Agreement.***

To the extent that any payments (including payments of interest) under the Loan Agreement are subject to any withholding tax, as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding tax, the City may, in certain circumstances specified in the Loan Agreement, become obliged to pay such Additional Amounts (as defined in the Loan Agreement) as may be necessary so that the net payments received by the Issuer will not be less than the amount the Issuer would have received in the absence of such withholding tax.

Ukrainian tax law contains restrictions that may affect the validity and enforceability of the tax gross-up and tax indemnity clauses contained in the Loan Agreement and other transaction documents. In November 2009, the State Tax Administration of Ukraine issued a letter indicating that tax gross-up, tax reimbursement and tax indemnity clauses of agreements between Ukrainian residents and their foreign counterparties contravene the requirements of Ukrainian legislation that prohibit the shifting of the foreign counterparty's tax payment obligation to the Ukrainian resident. Therefore, there is a risk that payments of interest and/or principal by the Issuer to investors could be reduced by any such amounts withheld by virtue of such applicable Ukrainian withholding tax.

A failure by the City to pay Additional Amounts, where applicable, would constitute an event of default under the Loan Agreement. Also, in the event that the City were obliged to pay Additional Amounts under the Loan Agreement, the City may prepay the Loan at its principal amount, together with accrued but unpaid interest and Additional Amounts, if any, and thereupon (subject to receipt of the relevant funds from the City) all outstanding Notes will be prepaid by the Issuer. See "—The Notes may be redeemed prior to maturity".

***Foreign judgments may not be enforceable against the City.***

Courts in Ukraine will recognise and/or enforce any judgment obtained in a court established in a country other than Ukraine if such recognition and/or enforcement is provided for in an international treaty to which Ukraine is a party, in accordance with the terms of such treaty. There is no such treaty between Ukraine and the United Kingdom or between Ukraine and United States providing for the enforcement of judgements.

In the absence of an international treaty providing for the recognition and/or enforcement of judgments, the courts of Ukraine may only recognise and/or enforce a foreign court judgment on the basis of the principle of reciprocity. Under Article 390 of the Civil Procedure Code, unless provided otherwise, reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was 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.

Ukraine is a party to the New York Convention. Consequently, an arbitral award obtained in a state that is party to the New York Convention should be recognised and enforced by a Ukrainian court (under the terms of the New York Convention). See “Enforceability of Judgments”.

In addition, by virtue of being wholly owned by the State and in common with other state-owned enterprises, the City’s fixed assets in Ukraine are immune from execution pursuant to a temporary moratorium imposed in 2001. By virtue of the moratorium, enforcement against the fixed assets of the City arising in connection with, *inter alia*, court judgments and arbitration awards or bankruptcy proceedings is currently prohibited. As a result, a creditor of the City may not be able to enforce a judgement against the City’s fixed assets. See “Enforceability of Judgments”.

***The Issuer is not required to pay any additional amounts on account of withholding pursuant to the EU Savings Directive.***

If the Issuer, the Principal Paying Agent, the U.S. Paying Agent or any other person by or through whom a payment on the Notes is made or received is required to withhold any amount from any such payment as a consequence of or pursuant to the EU Savings Directive (Directive 2003/48/EU) or any law implementing or complying with, or introduced in order to conform to, such Directive, there is no requirement for the Issuer to pay any additional amounts on account of that withholding. In this regard, prospective Noteholders should read the information about the EU Savings Directive in the section entitled “Taxation” and consult their advisors.

***The Loan Agreement could be challenged as a result of the Issuer not qualifying as a non-banking financial institution.***

While the Law on Local Government and the Budget Code establish the principal requirements for borrowings by municipalities in Ukraine, including the City, the exact procedure for carrying out such borrowings in accordance with article 74 of the Budget Code must be established by the Cabinet of the Ministers. This procedure was approved by the Cabinet of Ministers in February 2011 as the Regulations on Borrowings by Local Budgets, approved by Resolution of the Cabinet of Ministers of Ukraine No. 110 dated 16 February 2011 (“**Regulation 110**”).

Although the Law on Local Government and the Budget Code do not require a lender of funds to the City to be a bank or financial institution, implementing Regulation 110 refers to such lender as a “financial institution”. It is not clear whether the Issuer, as lender of the Loan, would qualify as a “financial institution” for the purposes of Regulation 110, as Ukrainian legislation does not provide any guidance in this respect. The Issuer is incorporated in England and English law does not define the term “financial institution”, although, as a matter of English law and under its Articles of Association, the Issuer is permitted to grant loans such as the Loan. If the Issuer under the laws of Ukraine is not deemed a “financial institution” and therefore not a permissible lender of the Loan, the validity of the Loan Agreement could be challenged and the Loan Agreement may be declared invalid.

***The Notes may be redeemed prior to maturity.***

In certain circumstances the City may require or be required to prepay the Loan prior to maturity (see Clause 7.1 and Clause 7.2 of the Loan Agreement), and in such circumstances the outstanding Notes would be redeemed early (see Condition 5(b) of the “*Terms and Conditions of the Notes*”). Such circumstances include the City being required to increase the amounts payable under the Loan Agreement (by way of Additional Amounts and/or Tax Indemnity Amounts (each as defined in the Loan Agreement)), including as a result of the application of or any amendment to or change in the Double Tax Treaty (as defined herein) or the laws or regulations of Ukraine or the United Kingdom. It may not be possible to reinvest the proceeds from the redemption of the Notes at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate. Any Notes acquired by the City or companies controlled by the City may be surrendered through the Issuer to the Principal Paying Agent for cancellation, and the Loan shall be deemed to have been prepaid in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation.

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

In addition to the risks associated with investing in emerging markets such as Ukraine, 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:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes may be considered complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor’s overall investment portfolio.

***There is no active trading market for the Notes.***

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the City. Although application has been made to list the Notes on the Irish Stock Exchange, there can be no assurance that such application will be accepted or that an active trading market for the Notes will develop or, if one does develop, that it will be maintained. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

***The market for securities of Ukrainian issuers is volatile.***

The market for securities issued, directly or otherwise, by Ukrainian issuers is influenced by economic and market conditions in Ukraine and, to varying degrees, market conditions in the Russian Federation and other Eastern European countries and elsewhere. For example, access by Ukrainian issuers to international financial markets was significantly limited after the emerging market financial crisis of August 1998. There can be no assurance that similar events will not recur and cause market volatility or significant illiquidity and/or adversely affect the price of the Notes.

***A negative change in Ukraine's or the City's credit rating could adversely affect the price of the Notes.***

Ukraine's sovereign rating is B+ (stable outlook) from S&P, B2 (stable outlook) from Moody's and B (stable outlook) from Fitch. The City is rated B- (stable outlook) by S&P, B2 (stable outlook) by Moody's and B- (negative outlook) by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Any negative change in Ukraine's or the City's own credit rating or the rating of the Notes or similar securities of Ukraine or the City could materially adversely affect the market price of the Notes.

***Official economic and statistical data in this Prospectus may not be reliable.***

The economic and statistical data in this Prospectus have been derived from information provided by a range of government ministries and City departments, as well as the NBU, the State Committee of Statistics, the Main Financial Office and the Main Office of Economics and Investments, and have not been independently verified. There can be no assurance that these data are as accurate or as reliable as data compiled in more developed countries. Prospective investors should be aware that figures relating to Ukraine's GDP and the City's Gross City Product ("GCP") and many other figures cited in this Prospectus may contain a significant margin of error, may be insufficient or incomplete and may not be fully in accordance with international standards. Furthermore, standards of accuracy of statistical data may vary from ministry to ministry, department to department and period to period due to the application of different methodologies. In this Prospectus, data are presented as provided by the relevant ministry or department to which the data are attributed, and no attempt has been made to reconcile such data to the data compiled by other ministries or departments or by other organisations. The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information.

***Exchange rate risks and exchange controls.***

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 change (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.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***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 Note Certificate will trade in book-entry form only, and notes in definitive registered form, or Individual 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 Note Certificates representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the Global Note Certificate representing the Notes will be made to the Principal Paying Agent, who will make payments to the clearing systems. Thereafter, these payments will be credited to accounts of participants who hold book-entry interests in the Global Note Certificates representing the Notes and credited by such participants to indirect participants. After payment to the common depository for the clearing systems, none of the City, the Issuer, the Lead Managers, the Trustee 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, if you own a book-entry interest, you must rely on the procedures of the clearing systems, and if you are not a participant in the clearing systems, on the procedures of the participant through which you hold your interest, to transfer your interest or to exercise any rights and obligations of a holder of Notes under Trust Deed.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from

holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have 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 you to vote on a timely basis.

Similarly, upon the occurrence of an Event of Default under Trust Deed, unless and until Individual Note Certificates are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream, Luxembourg. The procedures to be implemented through Euroclear and Clearstream, Luxembourg may not be adequate to ensure the timely exercise of rights under the Notes. See “Summary of Provisions Relating to the Notes in Global Form”.

***An Investment in the Notes is Subject to ERISA Restrictions.***

Notes issued under the offering may be regarded for purposes of the United States Employee Retirement Income Security Act of 1974, as amended (“ERISA”), as equity interests in a separate entity whose sole asset is a Loan corresponding with the Notes. Accordingly, the Notes (and interests in the Notes) may not be acquired by any “benefit plan investor” within the meaning of Section 3(42) of ERISA (“Benefit Plan Investor”). Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made representations that it is not a Benefit Plan Investor. Potential purchasers should read the sections entitled “Certain ERISA Considerations” and “Transfer Restrictions”.

***The claims of Noteholders may be limited in the event that the Issuer is declared bankrupt.***

The Issuer is organised under the laws of the United Kingdom. Although it is impossible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced or how these proceedings would be resolved, insolvency proceedings over the assets of the Issuer may be initiated in England and be governed by English law. The insolvency laws of England may not be as favourable to your interests as creditors as the bankruptcy laws of the United States, including in respect of priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceedings.

***The market price of the Notes may be volatile.***

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the City’s own and the City’s competitors’ operating results, adverse business developments, changes in the regulatory environment in which the City operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for securities issued by or on behalf of Ukraine as a sovereign borrower. In addition, in recent years 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 City’s results of operations, prospects or financial condition.

***Financial turmoil in emerging markets could cause the price of the Notes to suffer.***

The market price of the Notes will be influenced by economic and market conditions in Ukraine and to a varying degree, economic and market conditions in other CIS, Eastern European and emerging markets generally. Financial turmoil in Ukraine and other emerging markets in 1997-1998 as well as in 2008-2009 adversely affected market prices in the world’s securities markets for companies that operate in those developing economies. Even if the Ukrainian economy remains relatively stable, financial turmoil in these countries could materially adversely affect the market price of the Notes.

***Modification, waivers and substitution.***

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes, the Trust Deed or, pursuant to the Transferred Rights, the Loan Agreement or (ii) determine without the consent of the Noteholders that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement or constitute a Relevant

Event shall not be treated as such or (iii) the substitution of another company as principal debtor under the Notes in place of the Issuer, all as more fully described in Condition 1 (*Form, Denomination and Status*) of the “*Terms and Conditions of 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.

## USE OF PROCEEDS

The proceeds from the offering of the Notes, being U.S.\$300,000,000, will be used by the Issuer for the sole purpose of financing the Loan. The City will pay all commissions, fees and expenses incurred in connection with the offering separately in the amount of U.S.\$1,485,000. The City will apply the net proceeds of the Loan to refinance a U.S.\$200 million loan which was funded from the proceeds of the offering of 8.625 per cent. loan participation notes issued by Bayerische Hypo- und Vereinsbank on 15 July 2004 and due for repayment on 15 July 2011. See “City Budget and Financial Information—Borrowings and Guarantees of the City of Kyiv—Outstanding Indebtedness”. To the extent, if any, that the proceeds from the offering of the Notes exceed the amounts necessary for such refinancing, the City will use such excess proceeds towards the satisfaction of the City’s budgetary expenditure objectives, particularly through capital investments in the areas of transportation infrastructure and health care. See “City Budget and Financial Information—Budget Expenditures—Construction and Other Capital Investments”.

## DESCRIPTION OF THE TRANSACTION AND THE SECURITY

*The following summary description should be read in conjunction with, and is qualified in its entirety by “Terms and Conditions of the Notes”, “Clearing and Settlement” and the forms of the Loan Agreement.*

The transaction will be structured around a Loan to the Borrower by the Issuer. The Issuer will issue the Notes, which will be limited recourse secured loan participation notes issued for the sole purpose of funding the Loan to the Borrower. The Loan is structured to produce funds to service any payments due and payable on the Notes.

The Notes will be constituted by, be subject to, and have the benefit of, the Trust Deed. Under the Trust Deed, the obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves. The obligations of the Issuer to make payments under the Notes shall constitute an obligation only to account to the Noteholders for an amount equal to the sums of principal, interest and/or additional amounts (if any) due under the Loan and actually received by or for the account of the Issuer from the Borrower pursuant to the Loan Agreement less any amount in respect of the Reserved Rights (as defined in the Trust Deed).

As provided in the Trust Deed, the Issuer, with full title guarantee and as continuing security for the payment of all sums under the Trust Deed and the Notes, will charge by way of first fixed charge in favour of the Trustee (the “**Charge**”):

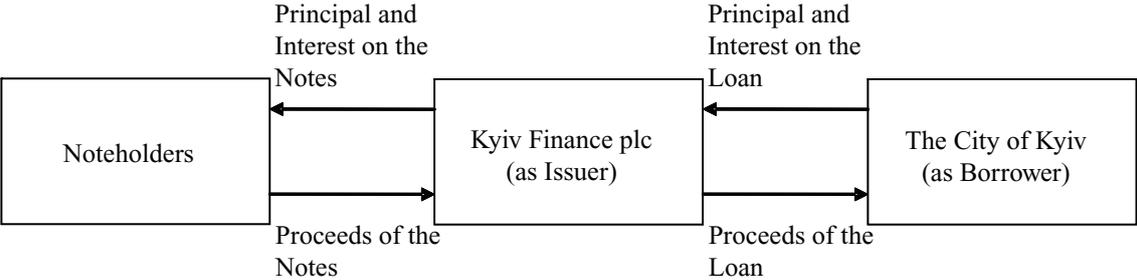
- (a) all its rights to principal, interest and other amounts payable to the Issuer by the Borrower under the Loan Agreement;
- (b) the right to receive all sums which may be or become payable by the Borrower under any claim, award or judgment relating to the Loan Agreement, as the case may be; and
- (c) all the rights, title and interest in and to all sums of money held from time to time in an account with the Principal Paying Agent in the name of the Issuer specified in the Loan Agreement (the “**Account**”) and the debts represented thereby (including interest from time to time earned on the Account, if any),

*provided that* for the avoidance of doubt, the Issuer shall remain the legal and beneficial owner of the property subject to the Charge following the granting of the Charge and that Reserved Rights and any amounts relating to Reserved Rights are excluded from the relevant Charge.

In addition, the Issuer with full title guarantee will assign absolutely to the Trustee for the benefit of the Trustee and the Noteholders all the rights, interest and benefits, both present and future, which have accrued or may accrue to the Issuer as lender under or pursuant to the Loan Agreement (as amended from time to time) (including, without limitation, all monies payable to the Issuer and any claims, awards and judgments in favour of the Issuer in connection with the Loan Agreement (as amended from time to time) and the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of the Borrower thereunder) other than any rights, title, interests and benefits which are subject to the Charge and other than the Reserved Rights and any amounts relating to the Reserved Rights. As a consequence of such assignment, the Trustee will assume the rights of the Issuer under the Loan Agreement as set out in the relevant provisions of the Trust Deed. Formal notice of the Charge and assignment will be given to the Borrower, who will be required to acknowledge the same.

The Issuer will covenant not to agree to any amendments to, or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement unless the Trustee has given its prior written consent or unless authorised to do so by an Extraordinary Resolution (as defined in the Trust Deed) or Written Resolution (as defined in the Trust Deed) of the Noteholders (except in relation to Reserved Rights). The Issuer will further agree to act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement (subject to being indemnified and/or secured to its satisfaction by the Borrower), save as otherwise provided in the Trust Deed or the Loan Agreement. Any amendments, modifications, waivers or authorisations made with the Trustee’s consent shall be notified to the Noteholders in accordance with “*Terms and Conditions of the Notes—14. Notices*”.

Set forth below is a diagram of the structure for the Notes and the corresponding Loan:



## THE CITY OF KYIV

### Introduction and History

The City of Kyiv, which was founded over 1,500 years ago, is among the oldest cities in the world. One time capital of Kyivan Rus, the ancient Slavic state, it is now the capital of the independent nation of Ukraine. Today's Kyiv, with a population of approximately 2.8 million as at 1 December 2010, is the financial, commercial, political, scientific and cultural centre of Ukraine. Kyiv covers an area of approximately 839 square kilometres and stands on both sides of the Dnipro River, which is the third longest river in Europe and runs from Russia through Belarus and Ukraine and into the Black Sea. The average temperature in 2010 in Kyiv ranged from approximately 19.3°C in July to approximately minus 5.6°C in January.

The City covers approximately 0.1 per cent. of the territory of Ukraine. As at 1 January 2011, the City's population accounted for approximately 6.1 per cent. of Ukraine's total population according to the State Committee of Statistics. According to the State Committee of Statistics, in 2010 Kyiv's GCP represented 18.0 per cent. of the GDP of Ukraine. In 2010, the City generated 38.0 per cent. of Ukraine's consolidated tax revenues, and received 17.1 per cent. of the aggregate capital investments and 49.0 per cent. of the aggregate direct foreign investments in Ukraine, according to the State Committee of Statistics.

### Selected Budgetary and Economic Data

The following tables set out certain budgetary and economic data for the City for the years specified:

	Year ended 31 December <sup>(1)</sup>				
	2007	2008	2009	2010	2011 <sup>(2)</sup>
	<i>(UAH millions)</i>				
<b>Revenues:</b>					
Tax revenues .....	8,743.8	12,231.0	11,771.5	12,760.3	10,305.9
Non-tax revenues .....	959.4	1,003.0	793.2	881.2	1,308.6
Revenues from operations with capital (fixed assets) .....	1,986.8	1,557.9	971.1	818.3	2,146.9
Purpose Funds .....	1,510.2	1,314.1	415.1	358.7	533.6
Grants and subsidies from the State Budget .....	3,055.8	4,426.3	1,586.8	2,374.9	3,405.8
Total City revenues .....	<u>16,256.0</u>	<u>20,532.3</u>	<u>15,537.7</u>	<u>17,193.4</u>	<u>17,700.8</u>
<b>Expenditures:</b>					
Budget expenditures .....	14,165.4	15,877.7	11,751.0	12,394.1	17,305.0
Funds transferred to the State Budget .....	2,774.4	5,500.9	6,302.2	5,721.3	1,472.0
Total City expenditures .....	<u>16,939.8</u>	<u>21,378.6</u>	<u>18,053.2</u>	<u>18,115.4</u>	<u>18,777.0</u>
<b>Repayment of City Budget Loans<sup>(3)</sup></b> .....	<u>(6.3)</u>	<u>(3.8)</u>	<u>(2.9)</u>	<u>(2.8)</u>	<u>(3.0)</u>
<b>Financing of the City Budget<sup>(4)</sup></b> .....	<u>(677.5)</u>	<u>(842.5)</u>	<u>(2,512.6)<sup>(5)</sup></u>	<u>(919.2)</u>	<u>(1,073.2)<sup>(6)</sup></u>

Source: Main Financial Office of the Kyiv City State Administration

Notes:

- (1) The figures presented in this table represent consolidated data from the City Budget and the budgets of the City's administrative districts for each respective year to 2010. As of 31 October 2010, following the dissolution of the district councils, the City's administrative districts no longer have distinct budgets. See "September 2010 Legislative Changes Affecting Municipal Administration".
- (2) Figures for year ended 31 December 2011 are budgeted figures sourced from the 2011 City Budget as approved by the City Council, not the results of implementation (as for the years 2007 to 2010). The results of implementation of the 2011 City Budget may differ materially from the information relating to the 2011 City Budget contained in this table, which may result in a budgeted surplus being revised down to a deficit. See "Forward Looking Statements". The amendments to the 2011 Budget Resolution of 24 February 2011 introduced a new budget classification system that was approved by the Ministry of Finance on 14 January 2011. As a result of such revision, the figures presented herein may differ from 2011 City Budget figures presented at earlier dates or derived from other sources.

- (3) Proceeds of the repayment of loans extended from the City Budget to young persons (up to the age of 35) for the purposes of construction/renovation and acquisition of residential property. The loans are a form of state support for the acquisition of residential property offered to young adults in accordance with the Law of Ukraine No. 2998-XII dated 5 February 1993 “On Assistance in Social Formation and Development of the Young People of Ukraine”. The loans can be extended to young families and young single adults who require improvement in their housing conditions, for a period of up to 30 years. The interest rate on these loans is calculated as the NBU interest rate (which is currently 7.75 per cent. per annum) plus 5.5 per cent. The details of the procedure for extending loans to young adults are approved by City Council Regulation No. 570/1980 dated 18 November 2004 “On Approval of the Regulation on the Procedure of Financial Support of Young Families and Single Young Citizens for Construction (Renovation) of Residential Property in the City of Kyiv”.
- (4) For the years 2007 to 2010, a negative figure represents the deficit of revenues as compared to expenditures. A positive figure represents the surplus of revenues as compared to expenditures. For 2011, a positive figure represents a planned surplus of revenues as compared to expenditures, while a negative figure would represent a planned shortfall of revenues as compared to expenditures. Financing shortfalls in the City Budget may be financed from the following sources: (i) retained funds from the current accounts of the budget institutions for the previous budget year, (ii) retained funds of the City Budget, (iii) funds from the unified treasury account through interest-free loans, and (iv) loans from commercial banks and other lenders.
- (5) This figure includes the amount of the 2009 Domestic Loan (as defined below). See “City Budget and Financial Information—Borrowings and Guarantees of the City of Kyiv—Outstanding Indebtedness” below for further information.
- (6) The City Budget anticipates utilising the balance of 2010 budget funds upon the completion of the 2010 budget year as well as loans from foreign banks and other bank institutions to cover the deficit.

#### Year ended 31 December

	2007	2008	2009	2010
	<i>(UAH billion unless otherwise indicated)</i>			
<b>City Economic Data:</b>				
GCP <sup>(1)</sup> at current prices:.....	129.3	161.2	169.5	197.5
– Industrial sector <sup>(2)</sup> .....	14.3	11.9	9.1	8.8
– Services sector .....	85.7	88.1	90.9	91.2
Population (thousands) <sup>(3)</sup> .....	2718.1	2740.2	2765.5	2785.1
GCP per capita at current prices (in thousands of UAH).	47.4	58.6	61.1	70.6
City Consumer Price Index ( per cent.).....	121	121.6	113.4	109.8
Producer Price Index ( per cent.).....	127.1	135.6	109.0	116.0
<b>Ukraine Economic Data:</b>				
GDP <sup>(4)</sup> at current prices .....	720.7	948.1	913.3	1,094.6
GDP per capita at current prices (in thousands of UAH).	15.5	20.5	19.8	23.9
Consumer Price Index ( per cent.).....	116.6	122.3	112.3	109.1
Producer Price Index ( per cent.).....	123.3	123.0	114.3	118.7

Source: State Committee of Statistics, Main Directorate for the City of Kyiv

Notes:

- (1) GCP is calculated as the value of newly manufactured goods and services provided in the City less the production costs of these goods and services.
- (2) Includes industry and construction.
- (3) As at 1 January of the relevant period.
- (4) GDP is calculated as the value of newly manufactured goods and services provided in Ukraine less the production costs of these goods and services, and less the subsidies related to such goods and services.

### Overview of Municipal Administration

The administrative-territorial structure of Ukraine is comprised of 24 oblasts (regions), the cities of Kyiv and Sevastopol, which have a special status as municipalities, and the Autonomous Republic of Crimea. The Law of Ukraine “On Local Self-Government”, as adopted on 21 May 1997 (the “**Law on Local Government**”), provides for the system of local self-government in Ukraine and the organisation, legal status and responsibilities of bodies and officials of local governments in Ukraine. The status of Kyiv as the capital of Ukraine is regulated by the Law of Ukraine “On the Hero City of Kyiv, the Capital of Ukraine”, as adopted on 15 January 1999 (the “**Law on the Capital**”). Under the Law on the Capital, the City has the legal status of a municipality, and under the Law on Local Government, the City Council is able to enter into contracts and legally act in its own name as a separate legal entity.

The City has two principal governing bodies: the City Council, which is a municipal legislative body elected by Ukrainian citizens residing in Kyiv, and the Kyiv City State Administration, which is a local body of the executive branch of the State and also acts as the executive body of the City Council. The municipal districts into which the City is divided are governed by district state administrations subordinated to the Kyiv City State Administration.

Unlike other cities in Ukraine where the city council's executive committee acts as the executive branch of the municipal government, in Kyiv the executive functions are performed by the Kyiv City State Administration, as provided for by Article 118 of the Constitution of Ukraine and Article 10-1 and Section 2 of the Final Provisions of the Law on the Capital. The Kyiv City State Administration is legally separate from the City Council. In its capacity as the executive branch of the municipal government, the Kyiv City State Administration is accountable to, and is controlled by, the City Council. Whereas, in its capacity as a local body of the executive branch of the State, it is accountable to the President of Ukraine and the Cabinet of Ministers of Ukraine and makes decisions on certain issues within the territory of Kyiv that relate to the State.

### **City Council**

The City Council is a self-governing body that represents the territorial community of the City of Kyiv and acts on its behalf and in its interests as provided for by the Constitution of Ukraine, the Law on Local Government, the Law on the Capital, the Law of Ukraine "On the Status of Deputies of Local Councils in Ukraine", the Charter of the Territorial Community of the City of Kyiv, the European Charter for Local Self-Government and other legislative acts.

The City Council consists of the Mayor, Leonid Chernovetskiy, and 120 City Council deputies. The following bodies and officials form part of the City Council:

- City Council deputies;
- standing commissions of the City Council;
- temporary commissions of the City Council;
- the Presidium;
- the Secretariat;
- the City Mayor;
- the Deputy City Mayor, who also holds the position of Secretary of the City Council;
- the Kyiv City State Administration, which is the executive body of the City Council; and
- the Head of the Kyiv City State Administration, who is appointed by the President of Ukraine.

The City Mayor is elected by a direct vote of the residents of the City. Until 2011, the Mayor was elected for a term of four years. However, amendments to the Constitution of Ukraine introduced by the 2011 Constitutional Amendment Law adopted on 1 February 2011 (the "**2011 Constitutional Amendments**") have changed the length of the Mayor's term of office to five years. The most recent mayoral elections were held as extraordinary elections on 25 May 2008. Prior to the 2011 Constitutional Amendments, the next mayoral elections were due to be held in May 2012. Because of drafting ambiguities in the 2011 Constitution Amendment Law, it is now uncertain when the term of office of the current Mayor will end or when the next mayoral elections will take place. See "Risk Factors—Risks Associated with the City—Amendments to the Constitution of Ukraine dated 1 February 2011 may create uncertainty as to the term of office of the City Mayor".

Under the Constitution of Ukraine and the Law of Ukraine "On the Election of Deputies of the Verkhovna Rada of the Autonomous Republic of Crimea and Local Councils, and Village, Town and City Mayors" the City Council deputies are elected by a direct vote of the residents of the City based on a mixed system of proportional and majority representation for a term of five years. The most recent City Council elections were held as extraordinary elections on 25 May 2008. The next City Council elections are due to be held in October 2013.

The current City Council deputies represent several different political parties and coalitions. The most influential are the Leonid Chernovetskiy Bloc and the Yulia Tymoshenko Bloc. The following table sets out the political composition of the City Council as at the date of this Prospectus:

<b>Deputies Factions/Coalition</b>	<b>Number of seats</b>	<b>Percentage of all seats</b>
1. Leonid Chernovetskiy Bloc <sup>(1)</sup> .....	24	20.0
2. Vitaliy Klichko Deputies Group.....	12	10.0
3. Narodna Partiya .....	11	9.2
4. Yulia Tymoshenko Bloc.....	10	8.3
5. Kyiv Social Activ .....	8	6.7
6. Initiative .....	8	6.7
7. Party of Regions .....	7	5.8
8. Reforms in Capital.....	6	5.0
9. Kyiv Residents .....	5	4.2
10. Republic of Kyiv.....	4	3.3
11. Kyiv Revival .....	4	3.3
12. Mykola Katerynychuk Bloc.....	2	1.7
13. Powerful Ukraine.....	2	1.7
14. Non – aligned.....	17	14.1
<b>Total.....</b>	<b>120</b>	<b>100</b>

Note:

(1) The political party of the current Mayor of Kyiv. There are no stable coalitions in the City Council. The Leonid Chernovetskiy Block and the Party of Regions usually work in an alliance and jointly control the City Council.

The City Council’s activities are carried out through the following 14 standing commissions:

- Commission on Budget and Social Economic Development;
- Commission on Ownership;
- Commission on Legal Policies, Procedure and Ethics Rules for Deputies;
- Commission on Health Protection and Social Services;
- Commission on Ecological Policies;
- Commission on Housing and Municipal Services, and Fuel and Energy;
- Commission on Trade, Entrepreneurship, Public Catering and Services;
- Commission on Self-Government, Regional and International Relations and Informational Policy;
- Commission on Transport and Communications;
- Commission on Industries, Innovation and Regulatory Policies;
- Commission on Family, Youth and Sport;
- Commission on Education and Science;
- Commission on Land Relations, Urban Development and Architecture; and
- Commission on Culture and Tourism.

The standing commissions identify, study and review on a preliminary basis issues that are within the responsibility of the City Council and monitor the implementation of the decisions of the City Council and the decisions of the Kyiv City State Administration. Members of the standing commissions are elected from among the City Council deputies during sessions of the City Council.

The standing commissions, at the instruction of the City Council or on their own initiative, review drafts of the City’s social, economic and cultural development programmes and the City Budget and the draft reports on the execution of the respective programmes and the City Budget, prepare items to be included on the agenda of the City Council meetings, draft City Council resolutions and report on various issues at City Council meetings.

In addition to the standing commissions, the City Council is also authorised to establish temporary commissions to address specific issues determined by the City Council. Members of the temporary commissions are elected from among the City Council deputies during sessions of the City Council.

The responsibilities of the City Council include, among others:

- adoption of City rules and regulations;
- appointment and dismissal of the Secretary of the City Council;
- approval of programmes for social, economic and cultural development, as well as special-purpose programmes relating to other issues of self-government;
- approval of the City Budget, making amendments to it and approval of its performance report;
- introduction of local taxes and duties in accordance with the Tax Code of Ukraine;
- approval of agreements made by the Mayor on behalf of the City Council with respect to matters reserved for the City Council's exclusive authority;
- adoption of decisions to attract financing for the City Budget;
- establishment of special purpose funds and adoption of regulations relating to such funds;
- adoption of decisions to transfer funds within the City Budget;
- adoption of decisions to grant tax allowances in respect of local taxes and duties as well as in respect of land use fees in accordance with applicable legislation;
- determination of the amount of income payable to the City Budget by the businesses, institutions and organisations that are owned by the City;
- adoption of decisions regarding the disposal of City property in accordance with applicable legislation;
- approval of City privatisation programmes, including determination of which businesses would be subject to privatisation;
- adoption of decisions relating to the establishment, liquidation, restructuring and reorientation of City-owned businesses, institutions and organisations;
- adoption of decisions to delegate to other bodies some responsibilities relating to the management of City-owned property and defining the scope of those responsibilities, as well as the terms of their exercise;
- establishment of ad hoc bodies and services to carry out joint projects with other City-owned facilities or to provide joint financing (maintenance) for City businesses, institutions and organisations, and defining the terms of reference of these bodies and services;
- adoption of decisions to establish joint ventures with City-owned businesses, including those involving foreign investments;
- adoption of decisions to regulate land relations;
- determination of land use fees in accordance with the Tax Code of Ukraine;
- adoption of decisions to issue or cancel permits for the special use of natural resources;
- adoption of the Charter of the Territorial Community of the City of Kyiv;
- adoption of decisions to establish special tax-free zones and other zones, to change the status of these zones and submission of relevant proposals on these matters to appropriate bodies; and
- granting of consent on the establishment of such zones at the initiative of the President of Ukraine or the Cabinet of Ministers of Ukraine.

In relation to Kyiv's functions as the capital of Ukraine, the City Council is additionally authorised, among other things to manage certain property owned by the State (in particular, its shareholdings in state-owned joint stock companies located in Kyiv), to guarantee certain financial obligations of City-owned or City-managed businesses, to approve lease agreements in respect of non-residential premises owned by state-owned entities managed by the City, to approve construction projects to be carried out in Kyiv with estimated budgets exceeding UAH 5.0 million and funded from the State Budget or local budgets, and to suspend the right to use land plots and other natural resources in cases envisaged by the laws of Ukraine.

The City Council is not authorised to determine rates of income tax, which is the most significant source of income for the City. Such rates are determined by the State.

Only the City Council is legally authorised to carry out external borrowing on behalf of the City.

The senior members of the City Council are the following:

*Leonid Chernovetskiy* is the Mayor of Kyiv. Mr. Chernovetskiy was born in 1951 and graduated from the Kharkiv Law Institute with a PhD in law. See “—The Mayor of the City of Kyiv” below.

*Galyna Gerega* is the Deputy Mayor of Kyiv and the Secretary of the City Council. Mrs. Gerega was born in 1959. She is a graduate of the Kyiv Trade and Economic Institute.

### **The Mayor of the City of Kyiv**

The Mayor is elected by Ukrainian citizens residing in Kyiv. Prior to the amendments to the Law on the Capital dated 7 September 2010 (the “**2010 Amendments**”), the Mayor was the most senior official within the City and, pursuant to the Constitution of Ukraine and the Law on the Capital, headed both the City Council and the Kyiv City State Administration. As a result of the 2010 Amendments, as from September 2010, the Kyiv City State Administration is no longer headed by the Mayor, but is now headed by the Head of the Kyiv City State Administration. The Head of the Kyiv City State Administration is now the second most senior official within the City. See also “—September 2010 Legislative Changes Affecting Municipal Administration” and “Risk Factors—Risks Associated with the City—Deficiencies in the legislation introduced on 7 September 2010 amending the Law on the Capital may create uncertainty as to the legitimacy of actions taken by the City Mayor, the Head of the Kyiv State Administration and City Council”.

The responsibilities of the Mayor include, among others:

- organisation and supervision of the performance of functions by City executive bodies and supervision of the observance of the Constitution and Ukrainian legislation in the City;
- management of City Council personnel;
- convening sessions of the City Council, preparation of the agenda for such sessions and chairing the plenary sessions of the City Council;
- preparation of programmes for the social, economic and cultural development of the City and other special purpose programmes, including preparation of budgets for such programmes and preparation of reports on their implementation;
- oversight of the preparation of the City Budget and of reports on the City Budget’s implementation, and their promulgation;
- appointment and dismissal of the chief officers of the Kyiv City State Administration (see discussion in “—September 2010 Legislative Changes Affecting Municipal Administration” below);
- disposition of the budget funds pursuant to the provisions of the City Budget;
- representation of the City in relations with State authorities, other administrative units and in international relations; and
- execution of agreements on behalf of the City.

In relation to Kyiv’s function as the capital of Ukraine, the Mayor is additionally authorised, among other things:

- to participate in the preparation of draft Ukrainian legislation related to the City;
- to participate in sessions of the Cabinet of Ministers of Ukraine, with the right of an advisory (non-counting) vote on issues related to the City;
- to submit drafts of regulatory documents and other proposals relating to Kyiv to the President and the Cabinet of Ministers of Ukraine for their consideration;
- to submit proposals to the relevant authorities regarding the transfer of businesses, institutions and other property into the City Council’s management;
- to approve the appointment and dismissal of chief executive officers of City-owned businesses and of dually subordinated heads of the offices of the Kyiv City State Administration; and
- to co-ordinate matters related to the restructuring or liquidation of businesses and organisations of national importance located within the City’s limits.

The Mayor can be removed from office prior to the expiration of his term by a decision of the City Council upon: (i) the Mayor’s application to the City Council requesting his removal from office; (ii)

termination of the Mayor's citizenship; (iii) a court verdict in a criminal case being entered against the Mayor; (iv) violation by the Mayor of the statutory restrictions with respect to the simultaneous holding by the Mayor of certain positions; (v) a court decision declaring the Mayor to be incapacitated, missing in action or dead; and (vi) the Mayor's death. In addition, the Mayor can be removed from office if he violates the laws or Constitution of Ukraine or the rights and freedoms of individuals or fails to exercise the powers granted to the Mayor by law; in such cases, the issue of the removal of the Mayor from office must be considered by the City Council following the submission of a petition by not less than half of the deputies of the City Council and may be determined by not less than two thirds of the deputies of the City Council or by a majority vote in a local referendum.

The current Mayor of Kyiv, Leonid Chernovetskiy, was re-elected in May 2008 at the extraordinary City Council elections with 37.7 per cent. of the popular vote.

### **Kyiv City State Administration**

The Kyiv City State Administration is a local body of the executive branch of the State and also acts as the executive body of the City Council. The activities of the Kyiv City State Administration are regulated by the Law of Ukraine "On Local State Administrations" of 9 April 1999.

According to the Law on the Capital, the main office of the Kyiv City State Administration is held by the Head of the Kyiv City State Administration. The Head of the Kyiv City State Administration is officially appointed to office and dismissed from office by the President of Ukraine on the basis of a recommendation of the Cabinet of Ministers of Ukraine. Under the Law on the Capital, the power to appoint and dismiss Deputy Heads of the Kyiv City State Administration whose powers relate to the Kyiv City State Administration in its capacity as a local branch of the State, including the First Deputy Head, vests with the Mayor subject to approval of the President of Ukraine and the Cabinet of Ministers of Ukraine. The power to appoint and dismiss Deputy Heads of the Kyiv City State Administration whose powers relate to the Kyiv City State Administration's capacity as the executive body of the City Council vests with the Mayor subject to approval of the City Council. However, following the 2010 Amendments, pursuant to which the separate roles of City Mayor and the Head of the Kyiv City State Administration were created, certain Deputy Heads of the Kyiv City State Administration have been appointed by the Head of the Kyiv City State Administration rather than the City Mayor. For a detailed description of the impact of the 2010 Amendments, see "—September 2010 Legislative Changes Affecting Municipal Administration" below.

As a local branch of the State, the Kyiv City State Administration functions within the structures of both the City Council and the State according to the principle of dual subordination, whereby it is accountable and reports to:

- the City Council, with regard to functions it performs in its capacity as the executive body of the City Council; and
- the President of Ukraine, the Cabinet of Ministers of Ukraine and other bodies of the executive branch of the State, in its capacity as a local branch of the State.

The Kyiv City State Administration is currently composed of various offices, services, departments, committees and branches and their respective subsidiary organisations responsible for the administration and operation of the City. The heads of the offices and other subdivisions of the Kyiv City State Administration are appointed by the Head of the Kyiv City State Administration subject to approval by the respective ministry or other central body of executive power in Ukraine. Other officers of the Kyiv City State Administration are appointed by the heads of the respective offices or other subdivisions.

The Kyiv City State Administration comprises two levels: offices subordinated to both the City and the State, as well as departments and committees at the first level; and territorial branches of the State's central executive bodies at the second level. Offices which report to both the Kyiv City State Administration and the relevant bodies of the State and their activities are governed by the Law on Local Government, the Law on the Capital and the Law of Ukraine on "Local State Administrations". Territorial branches of central executive bodies report directly to the State and co-ordinate their activities with the Kyiv City State Administration. Some of the Kyiv City State Administration's offices have recently undergone a re-organisation.

Offices of the Kyiv City State Administration include:

- Administration Office of the Kyiv City State Administration;
- Main Office of Ecology and Protection of Natural Resources;

- Main Office of Housing Economy;
- Main Office of Housing Supply;
- Main Office of Communal Property of the City of Kyiv;
- Main Office of Communal Economy;
- Main Office of Control over Kyiv City Planning;
- Main Office of Fuel, Energy and Energy Saving;
- Main Office of Internal Policy and Public Relations of the City of Kyiv;
- Main Office of Pricing Policy;
- Main Office on Regulatory Policy and Entrepreneurship;
- Main Office of Land Resources;
- Main Office of Industrial, Scientific and Technical and Innovation Policy;
- Main Office of Advertising;
- Main Office of Internal Financial Control and Audit;
- Main Office of Transport and Communication;
- Main Office of Consumer Rights and Protection Matters;
- Main Office on Trade and Housing Matters;
- Main Office of Capital Construction of the City of Kyiv;
- Main Office for the Preparation and Hosting of the UEFA Euro 2012 Championships in Ukraine;
- Main Financial Office;
- Main Office of Economics and Investments;
- Main Office of Youth, Family Matters and Sports;
- Main Office of Culture and Arts;
- Main Office of Cultural Heritage Protection;
- Main Office of Urban Development, Architecture and Urban Area Design;
- Main Office of Education and Science;
- Main Office of Health Protection;
- Main Office of Emergency Situations;
- Main Office of Labour and Social Security of the Population;
- Documentation Office;
- Office of Media and Information;
- Office of Funeral Services;
- Office on Nationalities and Religions; and
- Office of Women, Invalids, Veterans of War and Labour Matters.

Territorial branches of central executive bodies include, among others:

- Regional Branch of the State Property Fund of Ukraine;
- Kyiv Regional Customs House;
- Main Office of the NBU in the City of Kyiv and Kyiv Region;
- State Tax Administration in the City of Kyiv;
- Main Department of the State Treasury in the City of Kyiv;
- Main Office of Statistics in the City of Kyiv;
- Main Office of the Ministry of Justice;
- Department of the Securities Commission;

- State Inspection for Pricing Control;
- Control and Revision Department in the City of Kyiv;
- Territorial Department of the State Commission on Regulation of the Financial Services Markets of Ukraine in the City of Kyiv;
- Kyiv Regional Directorate on Bankruptcy Matters;
- Territorial Office of the Anti-Monopoly Committee of Ukraine; and
- Main Office of the Pension Fund of Ukraine in the City of Kyiv.

The Kyiv City State Administration's offices, including the Main Financial Office and others, are responsible for the management of the external debt of the City and the efficient use of the City's borrowed funds.

The senior members of the Kyiv City State Administration are the following:

*Olexander Popov* is the Head of the Kyiv City State Administration. In addition to his role as representative of the Kyiv City State Administration, he is responsible for health protection and transport and communications matters. Mr. Popov was born in 1960 and graduated from Tumenskyi Institute of Engineering and Building.

*Volodymyr Mazurchak* is the First Deputy Head of the Kyiv City State Administration and is responsible, among other things, for housing, energy and ecology matters. Mr. Mazurchak was born in 1959 and graduated from Khmelnytskyi Technological Institute, Khmelnytskyi Institute of Regional Governance and Law and the National Academy of State Governance under the auspice of the President of Ukraine.

*Anatoly Golubchenko* is the Deputy Head of the Kyiv City State Administration responsible for the coordination of preparations for the Euro 2012 in the City. Mr. Golubchenko was born in 1950 and graduated from Zhdaniv Metallurgical Institute.

*Ruslan Kramarenko* is the Deputy Head of the Kyiv City State Administration responsible for, among other things, financial matters, financial control and audit, municipal economy, investments and regulatory policy matters. Mr. Kramarenko was born in 1978 and graduated from Kremenchuk State Polytechnic University and Kharkiv National Academy of City Economy.

*Mykhaylo Kuchuk* is the Deputy Head of the Kyiv City State Administration responsible for, among other things, housing, land resources, urban development and architecture matters. Mr. Kuchuk was born in 1958 and graduated from Odessa Institute of National Economy and Odessa Institute of Engineering and Construction.

*Leonid Novokhatko* is the Deputy Head of the Kyiv City State Administration responsible for, among other things, culture, education and science, nationalities and religion matters. Mr. Novokhatko was born in 1954 and graduated from Poltava State Pedagogical Institute and Kyiv State University.

*Olexander Puzanov* is the Deputy Head of the Kyiv City State Administration responsible for, among other things, municipal property, internal policy and advertising matters. Mr. Puzanov was born in 1977 and graduated from Kyiv National University of Economics in 1999.

### **Administrative Districts of the City**

The main principles of the City's administrative structure are set out in the Law on the Capital. The main administrative structure of the City is comprised of 10 City districts. Prior to an administrative restructuring at the end of 2001, there were 14 districts as well as the settlement of Pushcha-Vodytsya.

The following table sets out the population and territorial size of each of the City's 10 districts as at 1 April 2011:

<b>No</b>	<b>District</b>	<b>Population</b>	<b>Territory</b>
		<i>(thousands)</i>	<i>(square kilometres)</i>
1.	Darnytsky .....	312.3	133.6
2.	Desnyansky .....	356.9	148.4
3.	Dniprovsky .....	345.9	66.7
4.	Holosiyivsky.....	232.7	156.4
5.	Obolonsky .....	314.9	110.2

No	District	Population (thousands)	Territory (square kilometres)
6.	Pechersky .....	139.9	19.6
7.	Podilsky.....	190.4	34.0
8.	Shevchenkivsky .....	231.0	26.6
9.	Solomyansky .....	341.5	40.5
10.	Svyatoshynsky.....	334.4	103.3

Prior to the 2010 Amendments being made, each district was administered by a district council and a district state administration. District councils were legal entities separate from the City Council. Pursuant to a resolution of the City Council of 9 September 2010 adopted following the 2010 Amendments, the City's district councils were dissolved and the powers of district council deputies were terminated. All movable and immovable property, assets, enterprises, institutions, organisations, and other property of the district councils and their bodies were transferred into the ownership of the City. In addition, the City Council dissolved, with effect from 31 October 2010, the district state administrations as the executive bodies of the district councils.

By its resolution, the City Council instructed the Kyiv City State Administration to re-establish the district state administrations solely as part of the executive branch of the State. In accordance with this instruction, the Kyiv City State Administration established 10 district state administrations subordinated to the Kyiv City State Administration. The district state administrations are legal entities separate from the Kyiv City State Administration. Their responsibilities include, among other things, oversight of the implementation of state development programmes in their respective districts, ensuring compliance with relevant legislative requirements within such districts and the performance of other functions that may from time to time be delegated by the State. For a detailed description of the impact of the 2010 Amendments, see “—September 2010 Legislative Changes Affecting Municipal Administration” below.

#### **September 2010 Legislative Changes Affecting Municipal Administration**

As a result of the 2010 Amendments, the previously combined position of the City Mayor and the Head of the Kyiv City State Administration was divided into the two separate positions of the City Mayor and the Head of the Kyiv City State Administration. On 16 November 2010, the President appointed Mr. Oleksandr Popov to the position of Head of the Kyiv City State Administration in place of Mr. Leonid Chernovetsky, while Mr. Chernovetsky continued to occupy the position of City Mayor. The Law on the Capital was originally drafted on the basis that the position of Head of the Kyiv City State Administration would be held by the individual elected as City Mayor, and did not provide for any precise division of authority or functions between the City Mayor and Head of the Kyiv City State Administration. The 2010 Amendments did not amend the law in this regard. See also “—The Mayor of the City of Kyiv” and “Risk Factors—Risks Associated with the City—Deficiencies in the legislation introduced on 7 September 2010 amending the Law on the Capital may create uncertainty as to the legitimacy of actions taken by the City Mayor, the Head of the Kyiv State Administration and City Council”.

Following his appointment as the Head of the Kyiv City State Administration by the President of Ukraine, Mr. Oleksandr Popov appointed his First Deputy and certain other deputies. Although the Head of the Kyiv City State Administration is authorised to make such appointments under the Constitution of Ukraine, under the Law on the Capital the authority to make such appointments remains within the competence of the City Mayor.

The 2010 Amendments further provide that the district councils in Kyiv's 10 administrative districts may be formed pursuant to a resolution of the City Council, although they are silent as to whether the City Council can dissolve the district councils formed before the effective date of the 2010 Amendments. Nonetheless, the majority in the City Council interpreted the new provisions to imply that the district councils are optional bodies of municipal government in Kyiv that may be dissolved pursuant to a resolution of the City Council. Accordingly, on 9 September 2010, the City Council passed a resolution to dissolve all of Kyiv's district councils, thus eliminating the lower level of elected governmental bodies in Kyiv. The purpose of such dissolution was to increase the efficiency of Kyiv's governmental structure. The dissolution of the district councils also entailed the dissolution of the district state administrations as the executive bodies of the district councils.

Following the City Council's dissolution of the district councils and the district state administrations in October 2010, the Kyiv City State Administration established new district state administrations in each of the 10 districts of Kyiv as the executive bodies of the state in each district. The heads of the district state administrations were appointed by the President of Ukraine.

See also "Risks associated with the City—Deficiencies in the legislation introduced on 7 September 2010 amending the Law on the Capital may create uncertainty as to the legitimacy of actions taken by the City Mayor, the Head of the Kyiv State Administration and City Council".

### **The Judicial System in Kyiv**

Ukraine operates a unified judicial system with national courts operating throughout Ukraine, including local common courts and specialised commercial and administrative courts. There are no municipal courts, as the entire judicial system is national.

Commercial courts hear disputes relating to the commercial interests of businesses and organisations. Commercial courts located in Kyiv include the High Commercial Court of Ukraine, the Kyiv Commercial Court of Appeal and the Kyiv City Commercial Court, which functions as the court of first instance for commercial disputes in the City.

Administrative courts hear disputes with the participation of state and local authorities relating to the execution of their powers. Administrative courts located in Kyiv are comprised of the High Administrative Court of Ukraine, the Kyiv Administrative Court of Appeal and the District Administrative Court for the City of Kyiv, which operates as the court of first instance for administrative disputes in the City.

Common courts are courts of general jurisdiction and adjudicate civil, criminal and administrative liability cases. Common courts located in Kyiv include the High Specialised Court in Civil and Criminal Matters, the Kyiv City Court of Appeal and 10 local common courts of first instance, corresponding to and located in the 10 administrative districts of the City.

All commercial, administrative, civil and criminal proceedings in the City, as in the rest of Ukraine, are governed by the relevant national legislation. This legislation is binding on the courts in the City.

### **Main Activities of the City**

#### ***Overview***

The main responsibilities of the City include the administration and management of its own property and financial funds, the provision of public services, the creation of conditions that foster economic and urban development and improve citizens' quality of life, the implementation of Ukrainian regulations and state policy in the City and the performance of various administrative functions.

The City Council adopts, from time to time, dedicated development programmes aimed at addressing the principal points of concern in the future development of the City and identifying the projects to be undertaken in relevant areas. The projects outlined in a development programme are implemented in any given year only to the extent they have been identified as being of priority by the City Council and included in the Programme of Social and Economic Development of the City for the year as adopted by the City Council concurrently with the resolution approving the City Budget for the year. Financing for each of the projects set out in the Programme of Social and Economic Development of the City for a year must be provided in the City Budget for that year.

In 2010, the expenditures of the City Budget were primarily for the following activities: construction, education, welfare (social services), health care, housing and utilities, transport and infrastructure, culture and art and environmental protection. See "City Budget and Financial Information—Budget Expenditures" for details of such expenditures. These services are provided directly by the City as well as by various businesses controlled by the City, the costs of which are subsidised by the City, or by independent businesses.

#### ***Construction***

The City's construction activities include construction and reconstruction projects in the areas of transport and infrastructure, public utilities, housing, health care facilities, educational facilities, cultural facilities and other areas.

Construction and other capital investments constituted 3.4 per cent. of the general expenditures in the 2010 City Budget, as compared to 5.8 per cent. in 2009, 14.9 per cent. in 2008 and 17.2 per cent. in 2007. The decrease in expenditure on construction and other capital investments as a percentage of

overall expenditures over these years is mainly attributable to a significant decrease in the proceeds of the special fund of the City Budget used for capital investment, as derived from revenue from the sale of land plots and other municipal property and from investment contributions made pursuant to contract by entrepreneurs and private companies to transport and civic infrastructure projects, which in turn declined primarily due to the effects of the global financial crisis on the Ukrainian economy. The main positive development in the area of construction in 2010 was the resumption of the financing of the City's main infrastructure projects (principally funded from the State Budget) which had been suspended during 2008 and 2009. See "City Budget and Financial Information—Budget Expenditures—Construction and Other Capital Investments".

Many of the City's construction projects in 2011 are directed at the Euro 2012, in which the City is to play a significant role. Such projects include the refurbishment of the facades of certain dwelling houses in the vicinity of the City's main football stadium, maintenance works on roads in the area around the City's main football stadium and the continuous construction of the Podilsky Bridge over the Dnipro River. The 2011 City Budget provides for approximately UAH 169.2 million to finance various construction works within the City in preparation for the Euro 2012.

In 2002, the City Council approved a master plan for the development of the City through the year 2020. The master plan sets out the main guidelines for the development of Kyiv in terms of new construction, infrastructure and architectural requirements, zoning and planning. The City intends to adopt an updated version of this master plan towards the end of 2011.

### ***Education***

The City's education activities include, among others, funding and operating of secondary schools, boarding schools, technical schools and colleges and certain municipal institutions of higher education.

As at 31 December 2010, there were 1,207 educational institutions operating in the City with approximately 970,323 students and pupils (some of whom were resident outside the City), including 474 pre-schools, 525 day secondary schools, 30 vocational schools, 38 after school institutions for children, 24 sport schools and 116 institutions of higher education (comprising 69 universities, institutes and academies and 47 colleges). The number of educational institutions within the City has increased by 13 institutions, as compared to 31 December 2007, due to re-organisations and changes in specialisation of some institutions. 1,019 of Kyiv's educational institutions are fully financed by the State or by the City and 188 are fully or partially self-financed, with the State providing the minimum funding required by law in the case of partially self-financed institutions. Institutions of higher education are funded by the State Budget and private sources, the only municipal institution of higher education in the City being the Kyiv University named after Borys Grinchenko. The City provides financial assistance to students in higher education institutions in the City, such as providing non-refundable grants to orphans and students from low-income families, providing one-time grants to graduate students at teacher training establishments and providing grants and scholarships to talented students.

From 2007 to 2010, the City created 5,680 new places for students at both existing and new educational institutions.

### ***Welfare (Social Services)***

The City provides a wide range of social services for its residents, including:

- social services for retired and disabled people;
- social services for young people, including the provision of school dinners to certain categories of schoolchildren;
- public assistance to families with more than one child and low-income families;
- social, medical and psychological rehabilitation of disabled children, as well as schemes to engage such children in crafts and other activities;
- social assistance to disabled persons without immediate family support; and
- provision of benefits to Chernobyl victims, including free health care, and tax and transportation benefits.

The 2011 City Budget provides for the funding of 47 social service centres in the City, including two boarding schools for disabled children able to accommodate 490 pupils; six homes for elderly and disabled people providing 2,157 beds; 12 district social service centres for disabled persons without

immediate family support, including departments for social and medical rehabilitation of children with organic injury of central nervous system, home assistance for disabled persons with mental disorders and transport servicing for disabled persons with walking difficulties; two orphanages; the Kyiv city centre for processing social payments and 24 facilities providing various social services established by the City. In 2010, approximately 178,500 people, amounting to approximately 6.4 per cent. of the population of Kyiv, received some form of social welfare service, as compared to 154,500 (approximately 5.5 per cent. of the City's population) in 2009.

All pensions in Ukraine are paid out of the Pension Fund of Ukraine, a State special purpose fund, although the City makes additional payments for unemployed pensioners and certain other categories of pensioners, including veterans of the Second World War. In addition, certain City residents are eligible for, and receive social support from, State funds such as child and maternity benefits.

### ***Health Care***

The City provides primary health and ambulatory care, hospitals and health education to residents of Kyiv. State-guaranteed medical care for Kyiv residents is financed from the City Budget.

The 2011 City Budget provides for the financing of 169 healthcare institutions, comprising 26 non-specialised hospitals, 25 specialised healthcare institutions, six maternity hospitals, one blood transfusion station, one health care emergency station, twelve health resorts, two children's homes, 62 ambulance stations, 14 specialised medical care institutions, nine dentistry institutions, three healthcare centres and eight other institutions.

The activities of medical institutions of the City are regulated by the Law of Ukraine "Fundamentals of the Health Care Legislation of Ukraine" of 19 November 1992 and the Inter-branch Complex Programme "The Health of Kyiv Residents", which was adopted in 2003 and is intended to run through to 2011. The purpose of the Programme "The Health of Kyiv Residents" is to develop the City's health care system, particularly the services made available for mothers and children, and to reduce sickness and death rates in the City. As part of this programme, the City is also implementing the transition from a residence-based to a "family doctor" system, whereby general practitioners would no longer be responsible for a set residential area, but rather for individual patients who have registered with them.

City residents may choose private health care to supplement, or as an alternative to, State-guaranteed medical services. Private health care and medical insurance for such private health care continue to develop in parallel with State-guaranteed medical services, due to a number of factors including a shortage of funding in the public healthcare sector and the personal choice of certain well-off residents to opt for private healthcare. Certain national medical institutions are also located in the City but are financed from the State Budget and other sources and not from the City Budget.

The City believes that the entire Ukrainian healthcare sector, including Kyiv's healthcare system, needs substantial financial investment. Due to lack of financial resources, Kyiv's healthcare system is unable to provide an adequate level of quality health care to all segments of the City's population. Medical clinics and centres have been required to narrow their range of medical research and have been unable to introduce new technologies due to lack of funds. There is a high rate of acute infectious disease among the City's population, with rates of occurrence of AIDS, tuberculosis and certain other diseases increasing in the City in recent years. The City has recently taken steps to improve its healthcare infrastructure. In 2010 the City built a new magnetic resonance tomography centre, and in 2011 the City intends to complete the construction of a cardiology unit and a centre for infectious diseases. The 2011 City Budget also provides financing of the refurbishment of 16 hospitals and medical institutions within the City. The City believes that additional financing of approximately UAH 247.7 million will be required to fund improvements in healthcare infrastructure between 2011 and 2012.

### ***Housing and Utilities***

#### ***General***

As at 1 January 2011 Kyiv had approximately 59.91 million square metres of residential property. As at the same date, approximately 39.6 million square metres (or 66.1 per cent.) of the total area of residential property in Kyiv was owned by the City. The remaining 20.3 million square metres (or 35.9 per cent.) was privately owned.

The City finances the construction of new housing, which is either sold or transferred free of charge to City residents. Building affordable housing is a policy objective for the Kyiv City State

Administration. In 2010, the City financed the construction of 91,058 square metres of housing out of a total of 1.0 million square metres that was built in the City, and plans to finance the construction of a further 91,508 square metres of housing out of a total of approximately 1.1 million square metres expected to be built in the City in 2011. New housing projects in the City are mainly taking place on the left bank of the Dnipro River. The City is currently implementing the Complex Programme of Reform and Development of the Housing Economy, which is intended to run through to 2014 and to improve the quality of communal and management services and reduce unreasonable expenses in the housing economy.

On 9 July 2010, the Law of Ukraine “On the National Commission on Regulation of Utilities Services Market of Ukraine” introduced amendments to the Law of Ukraine “On Utilities”. As a result of these amendments, the tariffs paid by the City residents for utilities services provided by natural monopoly utility providers (i.e. the sole providers of the relevant utility services) are currently established by the National Commission on Regulation of Utilities Services Market of Ukraine or the National Commission on Regulation of Electricity (collectively, the “**National Utilities Commissions**”). As of 9 July 2010, the City is only authorised to establish tariffs that do not fall within the remit of either of the National Utilities Commissions (for example, in certain cases the City continues to establish the maintenance services tariffs and sets tariffs for central heating service provided by small boiler houses, the number of which is constantly decreasing).

Prior to July 2010, the City regulated tariffs relating to central heating, water supply and sewage system services. If any such tariff regulated by the City at that time was lower than the economically justified expenses relating to the production of respective services, the City had to reimburse the shortfall between the actual tariff and such economically justified expenses. As at the date of this Prospectus, the City is yet to settle its indebtedness to Kyivvodokanal relating to water supply and sewage system services and to Kyivenergo relating to central heating services which arose between 2006 and 2010 and between 2008 and 2010 respectively, from the difference between the tariffs for the relevant utility service established by the City for the City residents and the actual cost to Kyivvodokanal and to Kyivenergo of providing such services to the City residents. While the City and Kyivvodokanal have not yet calculated the exact amount of indebtedness to Kyivvodokanal; the City does not expect such indebtedness to significantly exceed UAH 500 million. However, according to Kyivvodokanal’s claims, which the City believes are not properly substantiated, such indebtedness could be as high as UAH 670 million. As at the date of this Prospectus the remaining indebtedness to Kyivenergo amounts to UAH 202.4 million. See “City Budget and Financial Information—Borrowings and Guarantees of the City of Kyiv—Outstanding Indebtedness” and “Risk Factors—Risks Associated with the City—The City’s indebtedness to certain utility providers may be significant.”

In April 2011, the Parliament adopted amendments to the Law of Ukraine on the State Budget for 2011, which became effective on 21 April 2011. These amendments provide for the allocation of UAH 3.6 billion of additional subsidies from the State Budget to the local budgets (including the City Budget). These additional subsidies are intended to cover the indebtedness of the local budgets to the heating companies which arose between 1 October 2009 and 31 December 2010 from the difference between the tariffs for central heating services and their actual cost to the service providers. In May 2011, the Cabinet of Ministers approved the implementing resolution which sets out the procedure for determining the exact amount and method of approving these subsidies. The City is in the process of preparing an application for such subsidy from the State Budget to cover its indebtedness to Kyivenergo in the amount of UAH 202.4 million.

With effect from 22 July 2010, if any tariff established by the National Utilities Commissions causes the relevant service provider to incur a loss in its operations, such loss must be reimbursed to the services provider from the State Budget. If any tariff established by the City does not allow the service provider to operate profitably, the shortfall between the actual tariff and the economically justified expenses for production the respective services must be reimbursed from the City Budget.

#### *Maintenance Services*

The City is responsible for the maintenance of City-owned apartment buildings in Kyiv, including buildings in which the apartments have been transferred to City residents as part of the City’s Housing Privatisation Programme. In 2007, the rates residents were charged for maintenance services in relation to municipally-owned houses were increased by 90.6 per cent., as compared to the rates charged in 2006. In 2008, the rates charged remained unchanged, before being increased by 94 per cent. with effect from 1 June 2009. The purpose of these increases was to bring the rates charged to

residents closer to the true cost of the maintenance services provided to them. The rates charged remained unchanged during remainder of 2009 and throughout 2010. As a result, City residents are currently paying on average approximately 64.3 per cent. of the true cost of such services. However, the City currently makes payments to low-income residents to compensate them for increased prices for maintenance services. The City expects that the full cost of maintaining City-owned residential property will be transferred to property occupants within the next several years through further increases in prices for maintenance services by up to 100 per cent. The exact timing in which this will occur is subject to political decision-making and is therefore uncertain.

#### *Utilities*

In 2010, on average 76 per cent. of the total cost of utilities (including hot and cold water, electricity and gas supply, sewerage and central heating) has been borne by the residents of the City, the remainder being reimbursed to the utility providers from the City Budget. In 2010, the City Council's Main Office of Fuel, Energy and Energy Saving issued two sets of promissory notes to finance the shortfall to Kyivenergo and Ecostandart which arose between 2008 and 2010. In addition, in 2009, the City took out the 2009 Domestic Loan to finance certain shortfalls to Kyivenergo. See "City Budget and Financial Information—Borrowings and Guarantees of the City of Kyiv—Outstanding Indebtedness".

However, starting from 2011, certain utilities tariffs have been set by the National Utilities Commissions, and any shortfall resulting from the National Utilities Commissions setting such tariffs at rates that would cause the relevant utilities providers to incur a loss should now be reimbursed from the State Budget. See also "—Housing and Utilities—General" above. Subsidies and benefits for utilities from the City Budget are generally only provided to qualifying low-income families, war veterans, retired military personnel and Chernobyl victims. Pursuant to applicable law, the entire cost of providing such subsidies is compensated by the corresponding subsidies provided to the City from the State Budget.

The City's public utilities assets are in poor condition, and the public utilities system has been characterised by a relatively low quality and increasing cost of service. Investments are necessary to upgrade existing facilities, introduce resource-saving technologies and construct new facilities necessary for the functioning and development of the City. The City Budget is essentially the only source of funds for capital investments in the public utilities area, as municipal businesses do not have their own funds for improvements and expansion, and the shortage of funds in this area is exacerbated by an improper tariffs policy and a failure of corporate consumers to make payments for public services on a timely basis.

*Electricity.* Electric power for Kyiv is generated and supplied mainly by privately-owned Joint-Stock Energy Supply Company "Kyivenergo" ("**Kyivenergo**"). The power supply for the City is considered to be adequate with the exception of the central part of the City (including Pechersky, Shevchenkivsky and other central districts), where it is provided by old substations built in the mid-1960s, which are unable to sustain increasing loads and do not meet safety requirements. The City does not generally subsidise the cost of electricity to Kyiv residents, but does provide subsidies and benefits for utilities to qualifying low-income families and other categories of people. Industrial consumers pay substantially higher tariffs for electricity than individuals.

*Gas.* Gas supply and maintenance of the gas network is provided by State Public Utility Gas Supply Enterprise "Kyivgas" OJSC ("**Kyivgas**"), a company in which the City holds an interest of 28.5 per cent. See "City Budget and Financial Information—Share Ownership" below. Kyivgas's gas supply network extends for approximately 5,000 kilometres of high, medium and low pressure gas chains. In 2010 the gas supply network in Kyiv processed approximately 3.7 billion cubic metres of natural gas, 8.9 per cent. of which was supplied to residential customers.

*Central heating.* The principal service providers for the generation and transfer of central heating to City residents are Kyivenergo and privately-owned company PJSC "Ekostandard". In 2007, the tariffs charged for providing central heating were increased by the City by 84.6 per cent. as compared to 2006. In 2008 and 2009 the central heating tariffs were unchanged. In 2010, they were increased by 41.3 per cent. In 2011, the central heating tariffs were increased further and incentives were introduced to encourage timely payment. As a result, tariffs have increased by 28.0 per cent. for those residents who pay their central heating bills on time and by 37.0 per cent. for those who do not, as compared to 2010. The purpose of the increases in 2007, 2010 and 2011 was to bring the amounts charged to residents to a level closer to the cost of supply. City residents currently pay 100 per cent. of the actual cost of central heating.

*Water.* The principal owner of the water supply system and the provider of the relevant service in the City is Kyivvodokanal, a company in which the City holds an interest of 25.46 per cent. See “City Budget and Financial Information—Share Ownership” below. The total length of the City’s water supply system exceeds 4,108 kilometres. The City’s water is supplied from three independent sources: the Dnipro River, the Desna River (together accounting for approximately 80 per cent. of supply) and underground natural reservoirs. Over 20 per cent. of the City’s water supply system is beyond the usage life recommended by the manufacturer and requires replacement. Currently, the improvement of the water supply system is included into the Complex Programme of Reform and Development of the Housing Economy, which was adopted on 10 September 2010 and is intended to run through the end of 2014. The City is also currently implementing the “Drinking Water for the City for 2011 – 2020” Programme, which aims to improve the drinking water purification system in the City.

In 2007, the City increased the tariffs for water supply services by 80 per cent. as compared to 2006. In 2008, these tariffs remained unchanged. In 2009, the City increased the tariffs for water supply by 77 per cent. as compared to 2008. On 1 March 2011 the tariffs for water supply services were increased by approximately 10 per cent. The purpose of the increases in 2007, 2009 and 2011 was to bring the amounts charged to residents to a level closer to the cost of supply. Currently, Kyiv residents pay approximately 100 per cent. of the actual cost of water supply services.

*Sewerage.* The City’s sewerage system, owned by Kyivvodokanal, is 2,582 kilometres long. Kyivvodokanal operates facilities for the processing of waste water supplied by 35 pump stations. In 2010, City residents paid approximately 75.4 per cent. of the actual cost of waste water disposal services. Currently, the capacity of the City’s sewerage system fully meets the demand of the City, but it requires renovation. Moreover, the quality of Kyiv’s waste water treatment is considered to be below acceptable standards. For example, approximately 880 kilometres or 34 per cent. of the total length of Kyivvodokanal’s sewerage network is beyond the usage life recommended by the manufacturer. Water supply problems have arisen due to insufficient waste water processing capabilities. From 2007 to 2010, the City implemented a programme (the Programme on the Repair, Reconstruction and Development of the Sewerage System). As a result, two embankments and three silt fields were constructed and a new water supply chain of 2.6 kilometres in length was built in Shevchenkivsky district of the City. Currently, the improvement of the sewerage system is included into the Complex Programme of Reform and Development of Housing Economy, which is intended to run through the end of 2014.

*Waste Management.* In 2010 the City adopted the Programme for Waste Management in the City for 2010-2015. The programme provides for certain measures relating to the improvement of waste management, including (i) the separate collection of different types of waste, (ii) the utilisation of waste in housing economy, and (iii) an upgrade of waste collection equipment.

In 2010, the Programme for the Social and Economic Development of the City recommended that UAH 71.4 million should be allocated from the City Budget for the improvement of the water supply and sewerage infrastructures of the City. As at 1 January 2011 only UAH 52.0 million had been applied for this purpose due to a lack of funds in the City Budget. The programme also recommended that approximately UAH 38.4 million should be allocated from the City Budget for the development of the socially important infrastructure of the City, such as Water Supply Station No.1 in the Desnyansky district of the City, and embankments around the silt fields of the Bortnytska station. In addition, certain works at Bortnytska station were financed from the City Fund for Environmental Protection in the amount of UAH 18 million. The 2011 City Budget provides funding of UAH 53.2 million for works at this station.

### ***Transport and Infrastructure***

The City funds the maintenance and repairs, renovation and reconstruction of all roads and transport routes within Kyiv. Due to the lack of profitability of the public transport system, which operates with regulated tariffs, the City also partly subsidises the operating costs of such system, on which more than 1.19 billion passenger journeys were made in 2010. The City intends to increase the proportion of the cost of public transport borne by users and intends in the future to increase fares to a level that fully covers the current operating costs of the public transport system, in particular, of the municipally-owned public transport.

Kyiv has extensive transportation infrastructure that is operating at full capacity and is in need of much upgrading. Approximately 3.3 million people use public transport in Kyiv each day, and demand for public transport services is expected to increase each year for the foreseeable future. Significant financing, including borrowings and investment, is needed in order to upgrade and expand

the City's public transport system. The City seeks to develop the road and transport route network in Kyiv in order to bring it in line with European standards, particularly in terms of reducing commuting times. Specific proposed investment projects for the development of the City's road and transport route network include the extension of several metro lines, the building of additional metro tunnels, the expansion of the fleet of municipally-owned buses to alleviate the need for smaller privately-owned buses, investment in green transport technology, the construction of multi-level transport intersections, substantial road-building and the reconstruction of the rapid-transit tram line.

One of the most significant investment projects in the City's transportation sector in 2011 is the continuous construction of the Podilsky Bridge over the Dnipro River, which was started in October 2004 and is scheduled to be completed in December 2014. The implementation of this project requires the compulsory purchase by the City of privately-owned parcels of land located in the area covered by the construction project. In 2009, the Parliament adopted the Law of Ukraine "On the Alienation of Privately Owned Land Parcels and other Objects of Immovable Property, Located on Certain Land, in Case of Public Need", which regulates the compulsory purchase of privately-owned land and property in cases of public need such as the construction of important infrastructure. The City is currently endeavouring to complete the compulsory purchase of the remaining land parcels and expects to complete these purchases so that to allow the proposed schedule for the construction of the Podilsky Bridge to be maintained. The 2011 City Budget provides for UAH 13.3 million funding for the construction of the Podilsky Bridge.

### *Roads*

Kyiv's roads are maintained and renovated by Communal Enterprise "Kyivavtodor". Kyiv's roads include 11 radial highways, two meridional roads, two semi-ring roads with a total length of 1.6 thousand kilometres and 158 bridges and overpasses. The current extent of Kyiv's road network (in terms of length of roads compared to size of territory and number of residents) is one of the lowest among European capitals, and traffic capacity in many areas is insufficient. The City considers reducing traffic congestion to be a policy priority and is taking various steps to attempt to alleviate it, such as constructing underground pedestrian walkways in order to encourage people to walk rather than drive. Currently, the City funds the construction, renovation and maintenance of all major roads in Kyiv from funds provided by the City Budget and the State Budget.

### *Public Transport*

*Metro.* The Kyiv metro extends over 63.7 kilometres and as at 1 January 2011 included three lines, 49 stations and 753 metro cars. Approximately 504.3 million passenger journeys were made on the Kyiv metro in 2010, as compared to 502.5 million journeys in 2009. The State Budget subsidises the cost of travel of some special categories of passengers in the Kyiv metro. The Kyiv metro is owned by the City and is not subsidised by the State Budget. The City has prioritised the use and development of the metro due to its environmental soundness, as compared to private automobile use. From 2000 to 2010, the City implemented the Programme for the Development of the Kyiv Metro, adopted in 2000, and from 2002 to 2010, the City implemented the Programme for the Renovation of the Escalators and Power Cables of the Kyiv Metro, adopted in 2002. As a result of the implementation of these programmes, one new technical depot was built in 2007, one new station was built in 2008 and three new stations were built in 2010 in addition to certain maintenance works undertaken at the existing metro stations, which included replacing the power cables and escalators.

*Overground transport.* As at 1 January 2011, the City's overground public transport infrastructure consisted of 249.6 kilometres of tram lines and 497 kilometres of trolley lines. In 2010, approximately 712.3 million passenger journeys were made on Kyiv's overground public transport system operated by Communal Enterprise "Kyivpastrans" ("Kyivpastrans"), which is wholly-owned by the City, and an additional 376.9 million journeys were made on privately-owned overground public transport systems. As at 1 January 2011, there were 71 regular bus routes and 55 "shuttle" bus routes, 34 trolley routes, 20 tram routes and one funicular tram route, and Kyivpastrans's fleet was comprised of 1,353 buses, 494 trolleys, 446 tram cars and four funicular trams. Currently, Kyivpastrans's operating costs are subsidised by the City to cover operating and maintenance expenses not otherwise covered by passenger fares. The travel of special categories of passengers is subsidised by the State Budget.

From 2007 to 2010, the City implemented the Programme for the Development of the Kyiv City Transport and the Programme for Transport Ecology, which was aimed at developing high speed railways and improving the environmental impact of the City's transport network. As a result,

appropriate parking facilities were provided for transit transport at seven main transport entries into the City and warehouse facilities used by heavy goods vehicles were moved out of the City.

The City seeks to improve the quality of its public transport system, particularly in the areas of maximum passenger load on public transport during rush hours and accessibility of public transport to disabled customers.

#### *Airports*

There are two airports operating in the vicinity of the City: Boryspil Airport and Zhulyany Airport. Boryspil Airport is the main international airport in Ukraine, and is owned and operated by the State. Zhulyany Airport is principally used for domestic flights, and is owned by the City. Zhulyany airport is in need of reconstruction and expansion in order to be able to service more international flights.

The City intends to complete the reconstruction of Zhulyany airport in June 2012 in accordance with the requirements of the Euro 2012 Programme. The reconstruction of various sections of the airfield (including the runway) is financed from the State Budget and the reconstruction of the existing passenger terminal and the construction of the new international passenger terminal is financed jointly from the State Budget, the City Budgets and funds provided by LLC “Master-Avia” (“**Master-Avia**”). The 2011 City Budget allocates approximately UAH 27.1 million to fund the reconstruction of the existing passenger terminal and construction of the new international passenger terminal at Zhulyany Airport.

In February 2011, the City awarded the concession to operate Zhulyany Airport for a 49-year term to Master-Avia, following a competitive tender process. The terms of the concession require Master-Avia to finance the construction of the international passenger terminal. It is estimated that Master-Avia will incur costs of UAH 280.8 million to fund such construction. The City Budget allocates approximately UAH 23 million to fund the reconstruction of the external engineering network for purposes of construction of the international passenger terminal. The reconstruction of Zhulyany Airport is scheduled to be completed prior to the commencement of the Euro 2012 in June 2012.

#### *Telecommunications*

The public switched telecommunications network in Kyiv is owned and operated by Ukrtelecom, a joint stock company which was sold by the State through a process of privatisation in May 2011. The City is not a shareholder in the company and does not provide financing from the City Budget for operational costs or the construction of telephone switch facilities. The geographic area of the City is fully covered by telecommunications infrastructure.

#### *Culture and Art*

The City’s culture and art activities include establishing and operating museums, galleries, libraries, public archives, theatres, concert organisations, clubs, cinemas, recreation and entertainment parks, cultural and art projects, State and City holiday events, festivals, exhibitions and concerts. From 2007 to 2010, the City implemented a programme (Culture and Art of the Capital—Years 2006-2010), adopted in 2006, which provided for a number of projects to preserve the City’s historical and cultural heritage. As a result, the City opened six new museums, carried out the renovation of existing museums, parks and music schools for children and provided arts scholarships to schoolchildren, students and artists.

#### *Environmental Protection*

Environmental protection activities are largely performed by the State. The City nonetheless provides a variety of environmental protection services including the disposal of domestic and industrial waste and the disposal of nuclear waste from medical and scientific research institutions within the City. The City also provides sanitary and public hygiene monitoring services. The City’s environmental protection activities are funded from Purpose Funds in the City Budget. See “City Budget and Financial Information—Budget Expenditures—Purpose Fund Expenditures”.

Pollution from industrial businesses located within the City limits has decreased in recent years, due to a decline in industrial production. However, the growth in the number of cars has led to a significant increase in automobile-generated emissions. The City continues to take a number of measures relating to the control of pollution and the protection of the environment, including increasing control over the emission of pollutants (including by assessing fines), increasing the environmental soundness of the City’s public transport and establishing a municipal environmental enforcement authority. From 2007 to 2010, the City implemented a programme (the Programme for

the Development of the City's Green Space), adopted in 2005. As a result, the City completed reconstruction of two city parks in the Darnytsky district of the City, as well as carrying out general maintenance works. Currently, the improvement of the City's green space is included into the Complex Programme of Reform and Development of the Housing Economy, which was adopted on 10 September 2010 and is intended to run through the end of 2014.

### **Law Enforcement and Emergency Services**

The State Budget currently finances all law enforcement services for the City. The Ministry of Internal Affairs is responsible for the maintenance of order in the City, the safety of individuals and the protection of property. The Main Department of the Ministry of Internal Affairs is located in Kyiv, and there are also 10 district departments of the Ministry of Internal Affairs in the City. The State Fire Safety Department operates 22 fire stations within the City, the most recent new station was opened in 2008. The City is not responsible for the maintenance and operation of the penal system, which is within the jurisdiction of the State authorities. The City has a right under Ukrainian law to establish a municipal police force by way of a resolution of the City Council; however, as at the date of this Prospectus, no such force has yet been created.

### **City Economy**

In 2010, Kyiv's GCP accounted for approximately 18.0 per cent. of the gross domestic product of Ukraine. Industries such as machine building, metal working and food production have traditionally been, and continue to be, important industrial sectors of the municipal economy. The industrial sector, which includes construction and industry (i.e., machine building and metal working, chemicals and petrochemicals, electric power, food production, production of clothes and shoes, textiles, paper, wood and other processing, manufacturing and related industrial areas), is one of the largest sources of employment in the City, currently providing employment to approximately 250,000 people. Key services areas of the Kyiv economy include transport and communications, trade, real estate and financial services. The City is the largest educational centre in Ukraine and currently has 1,207 educational institutions and 970,323 students.

The City regularly hosts various international events. In 2012, Ukraine and Poland will jointly host the Euro 2012 and Kyiv will play a significant role in this event. The City is currently carrying out the reconstruction of its existing main football stadium and other facilities in preparation for this event. The Ukrainian State authorities approved a programme setting out the principal steps which Ukraine should undertake in preparation for the Euro 2012 and sources of their financing. The City developed its own City Special Purpose Programme for preparation and hosting of final part of the Euro 2012. For more information, see "Risk Factors—Risks Associated with the City—The City is due to play a significant role in hosting the UEFA Euro 2012 football championships, which will significantly increase the burdens on the City's infrastructure, finances and administration".

The importance of Kyiv in the Ukrainian economy is demonstrated by the following table, which shows the percentage of the overall Ukrainian economy represented by Kyiv in the categories listed and for the periods listed:

<b>Indicator</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Population (beginning of the year).....	6.0	5.9	6.1	6.1
Manpower resources (average annual labour force) .....	6.5	6.5	6.8	6.7 <sup>(3)</sup>
Gross City Product <sup>(1)</sup> .....	19.7	18.7	18.3	18.0
Industrial sector revenues <sup>(2)</sup> .....	6.7	4.6	5.3	4.5
Services sector revenues .....	30.6	33.7	34.8	33.9
Capital investments .....	20.3	20.0	18.6	22.2
Volume of foreign direct investment .....	27.2	32.8	37.8	39.4
Housing construction .....	13.7	13.6	14.8	10.4
Retail trade .....	20.2	19.4	18.7	18.2
Aggregate pre-tax profits of companies located in Kyiv.....	35.6	41.1	42.0	54.0

Source: State Committee of Statistics

Notes:

(1) Represents the City's GCP at current prices as a percentage of Ukraine's GDP at current prices. GCP is calculated as the value of newly manufactured goods and services provided in Kyiv less the production costs of these goods and services. GDP is calculated

- as the value of newly manufactured goods and services provided in Ukraine less the production costs of these goods and services, and less the subsidies related to such goods and services.
- (2) Industrial sector revenues are attributable to the output of large- and medium-sized businesses operating in the industrial sector and do not include revenues generated by small-sized businesses.
  - (3) Information for the first nine months of 2010.

### **Demographics**

Kyiv is the most populous city in Ukraine with a population as at 1 January 2011 of approximately 2.8 million, representing approximately 6.1 per cent. of the total population of Ukraine. From 1990 to 2007, the City's population has remained generally constant, notwithstanding deaths exceeding births, due primarily to migration to the City from other regions of Ukraine, which is in turn primarily due to more favourable economic and social residential conditions in the City compared to other regions of Ukraine. Starting from 2008, the City experienced a positive trend of an increasing birth rate and a decreasing of death rate at the same time, which led to a positive balance of natural population growth for the first time in the last twenty years. Nonetheless, population growth in the City during this period was still attributable mostly to migration to the City from other regions of Ukraine.

The City is highly urbanised. As at 1 January 2011, population density was approximately 3,348 inhabitants per square kilometre.

As at 1 January 2011, the number of births in the City exceeded deaths by approximately 3,457 people. The mortality rate for City residents of working age remains high. Although the birth rate per 1,000 residents increased to 11.5 in 2010 as compared to 10.4 in 2007, the relatively low birth rate has led to an increase in the average age of the population. In 2010, 13.8 per cent. of the total population of the City was under 15 years of age and 21.5 per cent. of the total population of the City was of or older than the retirement age (55 years for women and 60 years for men), as compared to 23 per cent. and 15 per cent., respectively, in 1990. As at 31 December 2010, the working age population of the City represented 64.7 per cent. of the City's total population and the population aged over 65 years represented 12.0 per cent. The average life expectancy of Kyiv residents has changed from 66.3 years for men and 76.1 years for women in 2007 to 68.04 years for men and 77.02 years for women in 2009. Infant mortality has decreased from 9.7 per 1,000 residents in 2007 to 7.2 per 1,000 residents in 2010.

The following table sets out information on the birth, death and migration rates in the City from 2007 to 2010:

	<b>Year ended 31 December</b>			
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Indicator</b>				
Population at beginning of the period (thousands)	2,718.1	2,740.2	2,765.5	2,785.1
Number of births.....	28,445	31,695	32,488	32,082
Birth rate per 1,000 .....	10.4	11.6	11.7	11.5
Number of deaths.....	31,111	30,067	28,292	28,625
Death rate per 1,000.....	10.4	10.6	10.7	10.3
Growth/(decline) in population, period-on-period	(2,666)	1,898	4,196	3,457
Growth/(decline) in population per 1,000 .....	(1.0)	0.7	1.5	1.2
Migration (net) .....	24,803	23,400	15,400	10,611
Migration rate per 1,000 (net).....	9.1	8.5	5.6	3.8

Source: State Committee of Statistics

As at 1 January 2011, the City's economically active population (those people capable of employment and likely to enter the labour market) was approximately 52.8 per cent. of the resident population, or 1,473,700 people. The City projects that the total population of the City will slowly increase and that the size of the labour force in the City will gradually increase in the coming years due primarily to the migration to the City of people seeking employment.

### **Employment and Wages**

On average during 2010, there were approximately 1,387,800 people working in the City, as compared with approximately 1,381,000 in 2009, 1,420,200 in 2008 and 1,405,300 in 2007. The decrease from 2008 to the first nine months of 2010 can be primarily attributed to the effects of the global financial

crisis, which has had a particularly significant impact on the industrial and construction sectors of the City. At the same time, an indication of recovery from the crisis has been observed, which led to the increase in employment in the first nine months of 2010 as compared with 2009. The City believes that the number of workers in the City during the last five years has been relatively stable and accounted for approximately 95 per cent. of the economically active population.

The City is currently implementing a programme for employment for the years 2009 to 2012, which, based on data provided by the State Employment Service and State Committee of Statistics, has already resulted in a significant decrease in unemployment levels in the City as compared to other regions in Ukraine. In 2010 a total of 61,300 new jobs were created in the City. As at 1 January 2011, 20,900 job vacancies were recorded in the City, which, based on data provided by the State Employment Service and State Committee of Statistics, amounts to 30 per cent. of all job vacancies within Ukraine. As of 1 January 2011, the employment level in the City among the working age population amounted to 70.4 per cent., which is 4.4 per cent. higher than the average across Ukraine. As of 1 January 2011, the level of unemployment in the City calculated in accordance with International Labour Organisation (“ILO”) methodology amounted to 5.5 per cent., as compared to 8.8 per cent. across Ukraine. In 2010 the average monthly salary in the City amounted to UAH 4,200 as compared to UAH 2,600 across Ukraine.

As at 31 December 2010, the City employed 38,402 persons or 2.7 per cent. of the employed labour force in Kyiv. The City anticipates that the number of City employees will remain stable for the foreseeable future.

#### *Composition of Employed Labour Force*

The following table sets out the average number of employees in Kyiv in certain principal economic sub-sectors for the years indicated calculated under ILO methodology. The figure showing the breakdown of the average number of employees by sector for 2010 are not reflected in the below table as such figures will not be available until July 2011.

	<u>2007</u>	<u>2008</u>	<u>2009</u>
	<i>(thousands of employees)</i>		
<b>Industrial Sector</b>			
Industry <sup>(1)</sup> .....	180.4	179.6	166.6
Construction .....	99.8	98.6	84.6
<b>Services Sector</b>			
Retail and wholesale trade .....	346.6	347.4	340.7
Transport, communications and post.....	96.2	92.3	82.6
Financial services.....	70.8	85.6	81.0
Real estate related services, including leasing, and services to legal entities.....	235.8	230.4	237.1
Other <sup>(2)</sup> .....	375.7	386.3	388.4
<b>Total</b> .....	<u>1,405.3</u>	<u>1,420.2</u>	<u>1,381.0</u>

Source: Main Department of Labour and Social Protection

Notes:

(1) Includes machine building and metal working, chemicals and petrochemicals, electric power, food production, production of clothes and shoes, textiles, paper, wood and other processing, manufacturing and related industrial areas.

(2) Other includes State and City administration and other non-principal sub-sectors.

During 2010, the average number of employees in Kyiv in all economic sub-sectors calculated under ILO methodology was 1,387,800. During this period, the average number of full-time employees in large and medium-size businesses in Kyiv, calculated under ILO methodology, was 1,237,600 persons or approximately 89.2 per cent. of the total labour force in employment.

#### *Wages*

Based on available data in 2010, the average monthly nominal wage in Kyiv was UAH 3,431, an increase of 8.5 per cent. as compared to 2009. The average monthly real wage, adjusted to take into account changes in the consumer price index, was 5.2 per cent. higher in 2010 than in 2009.

In 2009, the 10 per cent. of the population of the City in the highest income bracket had 8.3 times more income than the 10 per cent. of the population in the lowest income bracket.

The table below sets out the average monthly wages by sub-sector of the City economy for the periods indicated:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(UAH)			
<b>Sub-sector</b>				
Industry <sup>(1)</sup> .....	2,024	2,628	2,722	3,170
Construction .....	2,050	2,543	1,886	1,958
Trade, hotels and restaurants .....	2,076	2,764	2,900	3,207
Transport, communications and post.....	2,641	3,413	3,630	3,803
Financial services.....	4,531	5,979	6,480	7,055
Real estate related services, including leasing, and service to legal entities .....	2,470	3,231	3,328	3,488
<b>Total average monthly wage .....</b>	<u>2,300</u>	<u>3,074</u>	<u>3,161</u>	<u>3,431</u>

Source: Main Department of Labour and Social Protection

Notes:

(1) Includes machine building and metal working, chemicals and petrochemicals, electric power, food production, production of clothes and shoes, textiles, paper, wood and other processing, manufacturing and related industrial areas.

### *Unemployment*

Employment levels in the City have remained relatively stable over the past few years, except in 2009 when the demand for labour decreased in the City during the global economic crisis. In the period from 2007 to 2010, the approximate average employment level was between 94 per cent. and 97 per cent. of the City's labour force. As at 1 December 2010, the officially registered rate of unemployment in Kyiv was 0.3 per cent. of the City's labour force, while according to the ILO methodology, the number of unemployed persons for the first nine months of 2010 was 81,200 or 5.5 per cent. of the economically active population. The ILO methodology unemployment rate is the ratio of unemployed persons aged 15 to 70 to the economically active (i.e., employable) population, whereas the officially registered rate reflects only unemployed persons who have formally registered as such with the relevant City and City district employment centres. Under the ILO methodology, the unemployed are defined as persons aged 15 to 70 who (i) are without work, (ii) are seeking work or have tried to establish a business within the most recent four week period and (iii) are available to start working (i.e., to be employed) within the next two week period. The ILO methodology unemployment rate in the City increased from approximately 3.1 per cent. in 2007 to approximately 5.5 per cent. in 2010.

Notwithstanding the increase in the unemployment rate during the period from 2007 to 2010, the City believes that unemployment remains low in the City and that this is attributable to the high level of investment and development in the City and the high educational levels in the Kyiv labour force.

### *Gross City Product*

Based on preliminary estimates, the GCP of Kyiv was UAH 197.5 billion (U.S.\$24.8 billion) for 2010. The City's GCP at current prices was UAH 129.3 billion and UAH 161.2 billion in 2007 and 2008, respectively, and is expected to be UAH 165.7 billion in 2009. GCP is calculated as the value of newly manufactured goods and services provided in the City less the production costs of these goods and services. GDP is calculated as the value of newly manufactured goods and services provided in Ukraine less the production costs of these goods and services, and less the subsidies related to such goods and services.

Although large industrial businesses remain an important component of GCP, the services sector has grown significantly in recent years. As reflected in the following tables, the percentage of GCP attributable to services has in each year since 2007 exceeded by six or more times the percentage attributable to the industrial sector, demonstrating that services have played the dominant role in Kyiv's economy in recent years. The City expects that the services sector will grow at a faster rate than the industrial sector in the coming years due to the growth in demand for retail services, food services, transport and communications services, financial services and real estate related services in line with economic development of the City.

The following table sets out Kyiv's GCP at current prices by economic sectors, expressed as a percentage of total GCP:

	2007	2008	2009 <sup>(1)</sup>	2010 <sup>(4)</sup>
	<i>(per cent.)</i>			
<b>Industrial sector:</b>				
Industry <sup>(2)</sup> .....	8.6	7.5	6.7	6.9
Construction .....	5.7	4.4	2.7	2.5
<b>Total industrial</b> .....	<b>14.3</b>	<b>11.9</b>	<b>9.4</b>	<b>9.4</b>
<b>Services sector:</b>				
Transport and telecommunications .....	14.5	13.6	12.3	14.0
Retail, food service, material and technical supply and sales .....	27.2	26.3	22.7	23.0
Financial services .....	8.9	11.8	13.0	12.9
Real estate related services, including leasing, and services to legal entities .....	20.6	21.3	25.6	23.6
Other services <sup>(3)</sup> .....	14.5	15.1	15.5	15.3
<b>Total services</b> .....	<b>85.7</b>	<b>88.1</b>	<b>90.6</b>	<b>90.6</b>
<b>GCP at current prices</b> .....	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: State Committee of Statistics, Main Directorate for the City of Kyiv

Notes:

(1) Preliminary data.

(2) Includes machine building and metal working, chemicals and petrochemicals, electric power, food production, production of clothes and shoes, textiles, paper, wood and other processing, manufacturing and related industrial areas.

(3) Other includes public sector administration, education, health services, social security and social services.

(4) Forecasts.

### *Industrial Sector*

The industrial sector comprises industry and construction. According to the City's estimates, in 2010 this sector accounted for approximately 8.8 per cent. of Kyiv's GCP (as compared to 14.3 per cent. in 2007) and employed approximately 251,200 persons, or 18.2 per cent. of the employed labour force in Kyiv.

*Industry.* Kyiv is one of the largest industrial centres in Ukraine. A number of industrial companies, including the Antonov Aviation Plant and Institute of Electric Welding, are located in Kyiv. Industry, which comprises machine building and metal working, chemicals and petrochemicals, electric power, food production, production of clothes and shoes, textiles, paper, wood and other processing, manufacturing and related industrial areas, plays an important role in the economy of Kyiv. As at 1 January 2011, there were more than 22,333 industrial businesses operating in the City, with the most important industrial areas being production and distribution of electricity, gas and water (which collectively accounted for 26.2 per cent. of the City's industrial sector revenues in 2010), machine building and metal working (which collectively accounted for 15.8 per cent. of the City's industrial sector revenues in 2010), food production (which accounted for 21.7 per cent. of the City's industrial sector revenues in 2010), and chemicals and petrochemicals (which accounted for 16.9 per cent. of the City's industrial sector revenues in 2010). There is a recent and continuing trend in the City's industrial sector towards the manufacturing of a larger proportion of end-products aimed directly at consumers in the domestic market.

*Construction.* Kyiv has the most developed construction industry of any city in Ukraine. As at 1 January 2011, the construction industry in Kyiv comprised over 20,000 privately-owned, City-owned and State-owned companies providing a range of construction services. Aggregate public and private investments in construction for the first nine months of 2010 amounted to approximately UAH 1.8 billion and the construction of over one million square metres of residential property was completed. Approximately 2.7 per cent. of investments in construction in Kyiv in 2010 were financed from the City Budget. JSC "Kyivmiskbud" ("Kyivmiskbud"), a company in which the City is to regain an

interest of 80 per cent., is the largest construction company in the City based on the number of completed construction projects. See “—Privatisation” below.

Construction as a percentage of GCP has remained relatively stable over the past several years, comprising 85.7 per cent. in 2007, 88.1 per cent. in 2008, 90.9 per cent. in 2009 and 90.7 per cent. in 2010.

#### *Services Sector*

Principal areas of the City’s services sector include transport, telecommunications and post, retail trade, food services, financial services and real estate related services. Kyiv has an extensive transport and communications infrastructure and is a significant transport and communications centre. In addition, Kyiv is the scientific centre of Ukraine. In 2010, there were 342 organisations engaged in scientific and engineering activity in Kyiv. The City also has a developed network of financial institutions, banks, exchanges, investment funds and insurance companies. Demand for retail services and food services has grown in line with economic development in the City. The services sector as a percentage of GCP comprised 85.7 per cent. in 2007, 88.1 per cent. in 2008, 90.9 per cent. in 2009 and 90.7 per cent. in 2010.

Transport, telecommunications and post as a percentage of GCP comprised 14.5 per cent. in 2007, 13.6 per cent. in 2008, 18.2 per cent. in 2009 and 18.0 per cent. in 2010. At the beginning of 2010, transport, telecommunications and post employed 6.0 per cent. of the employed labour force in Kyiv (according to ILO methodology). See “—Employment and Wages—Composition of Employed Labour Force” above.

Retail, food service, material and technical supply and sales as a percentage of GCP were 27.2 per cent. in 2007, 26.3 per cent. in 2008, 25.6 per cent. in 2009 and 26.1 per cent. in 2010. Retail and wholesale trade employed 16.7 per cent. of the employed labour force in Kyiv in 2010 (according to ILO methodology).

Financial services include finance, lending, insurance and pensions. According to the City’s estimates, financial services as a percentage of GCP comprised 8.9 per cent. in 2007, 11.8 per cent. in 2008, 10.1 per cent. in 2009 and 10.2 per cent. in 2010. Financial services employed 6.9 per cent. of the employed labour force in Kyiv in 2010 (according to ILO methodology).

Real estate related services, including leasing, and services to legal entities as a percentage of GCP constituted 20.6 per cent. in 2007, 21.3 per cent. in 2008, 21.4 per cent. in 2009 and 21.1 per cent. in 2010. Real estate related services, including leasing, and services to legal entities employed 17.1 per cent. of the employed labour force in Kyiv in 2010 (according to ILO methodology).

#### **Privatisation**

The privatisation programme in Ukraine, including that in Kyiv, was launched in 1992. The privatisation programme in Ukraine is administered by the State Property Fund, which, in consultation with certain other State ministries, identifies the assets and entities to be privatised each year. Local authorities are responsible for the privatisation of assets owned by the relevant municipalities and residential property. Under applicable privatisation laws and policies, businesses in certain strategic sectors such as defence, power generation and certain mining areas are specifically excluded from the privatisation programme and may only be privatised with the approval of Parliament.

Under the Kyiv privatisation programme which was in effect until the end of 2010, the City privatised 560 items of property, of which 535 had been owned by the City. The sale of shares by the City in a privatisation is conducted exclusively by way of an independent valuation of the shares and a public competitive tender. The City’s receipts from privatisation are typically not material in the context of the City Budget. See “City Budget and Financial Information—Budget Revenues”. The City revenues from privatisation (including revenues from the sale of land) were UAH 1,986.8, UAH 1,557.9, UAH 971.1 and UAH 818.3 million in 2007, 2008, 2009 and 2010, respectively, and are budgeted to amount to UAH 2,146.9 million in 2011. The City’s programme for privatisation for 2011 and 2012 was adopted on 31 March 2011.

The City has decided to retain its shareholding in companies that are strategically important to the performance by the City of its functions or which render certain important services to the residents of Kyiv (this policy applies to companies such as Kyivspetstrans, OJSC “Khlib Kyiva” (a bread baking company) and CJSC “Company Kyivenergoholding”). The City intends to incorporate as joint stock companies the other non-strategic businesses that are wholly-owned by the City and sell off minority

stakes in such companies, so as to retain only a 50 per cent. plus one share shareholding in such companies.

The City receives dividends from companies in which it is a shareholder or participant. See “City Budget and Financial Information—Assets of the City—Share Ownership”.

The basic principles of privatisation in Kyiv are provided in the Laws of Ukraine “On the Privatisation of State Property” and “On the Privatisation of Small State Businesses (Small Privatisation)”. The Kyiv City State Administration, in its capacity as the executive body of the City Council, carries out the function of managing the assets owned by the City, such as acting as a shareholder in joint stock companies, and is also responsible for making decisions on the privatisation of particular property.

In March 2011, the High Commercial Court of Ukraine issued rulings ordering to reverse the privatisation of the shares in each of OJSC “Kyivkhimvolokno” (“**Kyivkhimvolokno**”), Kyivmiskbud, Kyivvodokanal and Kyivgas as a result of violations of the applicable legislation in the course of the privatisation proceedings. Such reversal may result in the City being required to reimburse the purchase price paid by investors for such shares as well as impair the future privatisation campaigns of the City. See “—Litigation”, “Risks Associated with the City—The City could be required to reimburse amounts previously received in relation to certain recently reversed privatisations, which could have an adverse effect on the City’s revenues from future privatisations” and “City Budget and Financial Information—Assets of the City—Share Ownership”.

In connection with the privatisations of Kyivvodokanal and Kyivgas, which were carried out by the City between May 2009 and March 2010, and which were reversed in March 2011, the General Prosecutor’s Office of Ukraine has commenced a criminal investigation against some of the members of Kyiv City Council and the officers of the Main Office of Communal Property of the Kyiv City State Administration. Furthermore, based on the reports in the Ukrainian media, the City is aware of the criminal investigations in respect of the former head of the Land Committee of the Kyiv City Council, Mr. Oleksiy Evlakh, which are related to his actions while holding that position. As at the date of this Prospectus, the City is not directly involved in any of such proceedings and, as a result, is unable to assess the significance or potential effect of any such investigation on such privatisations of these or any other entities or land parcels owned by the City’s or the City’s administration generally.

### **Litigation**

The City does not believe that there are any pending actions, suits or proceedings against or affecting it which, if determined adversely to the City, would individually or in the aggregate, have a material adverse effect on the City or its financial condition.

The City believes that certain court proceedings against it may be threatened in connection with the rulings of the High Commercial Court of Ukraine in relation to the invalidation of the share purchase agreements concluded in the course of the privatisation of Kyivhimvolokno, Kyivmiskbud, Kyivvodokanal and Kyivgas. See “City Budget and Financial Information—Assets of the City—Share Ownership”. Although such rulings provide for the transfer of shares in Kyivhimvolokno, Kyivmiskbud, Kyivvodokanal and Kyivgas back into the City’s ownership, they do not address the issue of reimbursement of the purchase price paid for the shares. Therefore, the City believes that the purchasers of the relevant shares may file claims for the reimbursement of the purchase price in an aggregate amount of UAH 162.2 million and such claims may be approved by the court. See “—Privatisation”, “Risks Associated with the City—The City could be required to reimburse amounts previously received in relation to certain recently reversed privatisations, which could have an adverse effect on the City’s revenues from future privatisations” and “City Budget and Financial Information—Assets of the City—Share Ownership”.

## CITY BUDGET AND FINANCIAL INFORMATION

### **City Budgetary System**

The budgetary system of Ukraine is comprised of the State Budget and local budgets. Local budgets include the budgets of the Autonomous Republic of Crimea, regions, districts, cities, including the City, districts within cities, villages and their associations and dwelling settlements. The City Budget is a relatively independent budgetary system within the budget system of Ukraine.

Revenue of the City Budget is derived from taxes, non-tax revenues, operations with capital (fixed assets) and other receipts. Expenditure is divided into 16 main items. In addition, there are two separate expenditure items for funds transferred to the State Budget and subsidies from the City Budget to other local budgets, as well as a number of other expenditure items including the servicing of the City's debt.

The foundation of the City's budgetary system is the Budget Code, which requires that each of the State Budget and local budgets be divided into two categories: the general fund and the special fund. The sources of formation of the general fund and the special fund in each of the State Budget and the local budgets for a particular budget year are determined by the Budget Code and the Law of Ukraine "On the State Budget of Ukraine" (the "**State Budget Law**") for that budget year. The special fund comprises budget assignments for revenues and expenditure for specifically designated purposes, while the general fund comprises all budget revenues and expenditure other than those assigned to the special fund. The special fund of the City Budget comprises, among others, revenues and expenditure attributable to the development fund (the "**Development Fund**") and special purpose funds ("**Purpose Funds**"). The Development Fund primarily comprises revenues and expenditure (mainly capital expenditure and the repayment of municipal debt) allocated for the implementation of local programmes on social and economic development. Purpose Funds are established from time to time by the City Council and comprise revenues and expenditures allocated for specific purposes (e.g. the development of residential construction). Expenditures from the special fund may only be made within the limits of the revenues allocated to the corresponding fund unless otherwise provided by the Budget Code and the State Budget Law or resolution on the local budget.

The Budget Code permits local budgets, including the City Budget, to be approved with a deficit in the general fund only up to an amount equal to retained revenues from the previous budget year. Such an approval can only be made by way of an amendment to the relevant local budget resolution after the approval of the results of the implementation of the previous year's budget.

### ***Budgetary Relations Between the State and Local Governments***

The Budget Code governs the balance between the State Budget and local budgets and regulates payments from and to donor and recipient regions. According to the Budget Code, the State is responsible for all expenditures that have a national scope, including defence, law enforcement and international relations, while local governments manage a significant portion of expenditure in the social sectors. Cities are responsible for providing local services, such as basic health and education. The Budget Code gives local governments the right to keep revenues from specified sources, including full entitlement to land use fees, licence fees and corporate income tax from communally owned businesses. Another important revenue source for local budgets is personal income tax. The Budget Code provides that revenues from certain Ukrainian national taxes collected within the jurisdiction of a local government are either divided between the State Budget and the local budget or are retained in full by the local budget.

In addition, the State provides additional revenues to local governments in the form of inter-budgetary transfers from the State Budget to local budgets. The Budget Code envisages inter-budgetary transfers in the form of "levelling grants" and various designated purpose subsidies. Levelling grants are a feature of the budget system of Ukraine whereby the State grants funds to the budgets of certain regions and cities of Ukraine whose expected revenues are insufficient to fund necessary expenditures in the relevant budget year. Subsidies from the State Budget are paid directly to a local budget for a specific designated purpose and with predetermined terms and conditions of use.

During 2007, Ukrainian taxes collected under the jurisdiction of the City accounted for around 36.4 per cent. of the total tax revenue of Ukraine, and they accounted for 37.2 per cent. in 2008 and 35.6 per cent. in 2009. It is expected that, based on budgeted figures, such taxes would account for 38.0 per cent. and 33.2 per cent. of the total tax revenue of Ukraine in 2010 and 2011, respectively.

Until 2011, the State financed specific social and economic programmes of the City within the framework of the State Programme of Social and Economic Development of the City of Kyiv for the period ending 2010, approved by the Cabinet of Ministers of Ukraine on 15 December 1997 (the “**Development Programme**”). Since 2010, the City has received State financing for certain measures taken in preparation for hosting the final tournament of the Euro 2012 within the framework of the Euro 2012 Programme. Under the Euro 2012 Programme, the State will finance, among other things, the reconstruction of Boryspil airport, the modernisation of the City’s public transport infrastructure, the reconstruction of transmission facilities and cultural monuments in the City. The State has already spent UAH 1,309.2 million during the years 2008 to 2010 on the implementation of the Euro 2012 Programme in the City. The City is due to receive UAH 3,748.5 million under the Euro 2012 Programme during 2011. On the basis of the Euro 2012 Programme the City Council adopted on 15 July 2010 the City Special Purpose Programme on Preparation for and Holding in Ukraine of the Final Part of 2012 European Football Championships. This programme lists the measures to be undertaken by the City in preparation for the Euro 2012 and the sources of their financing, including the State Budget and the City Budget.

The Law on the Capital provides that the State must finance all expenditures in connection with the City’s role as the capital of Ukraine in amounts specified in the State Budget for the relevant year. Pursuant to the Budget Code, the City is also entitled to receive subsidies from the State Budget, which must be allocated to the City Budget for the execution of specific projects. The City received UAH 1,561.6 million, UAH 1,696.0 million, UAH 570.0 million and UAH 495.8 million in such targeted state subsidies in 2007, 2008, 2009 and 2010, respectively. The 2011 State Budget also provides for a targeted subsidy of UAH 2,610.0 million to be transferred to the City.

The Law on the Capital provides that decisions of the State that impose additional expenditures on the City must be accompanied by a transfer of financial resources to the City to enable it to implement such decisions. The Budget Code provides that the granting by the State of any tax privileges that decrease the revenues of local budgets should be accompanied by amendments to the State Budget Law allocating funds to the relevant local budgets in order to compensate them for the loss of revenues. See “—Budget Revenues—Tax Revenues” below.

Any change in Ukrainian legislation affecting the division of tax revenues between the State and local governments, or the level of State funding for social and economic programmes in the City may have an adverse effect on the financial resources of the City. See “Risk Factors—Risks Associated with the City—The division of tax revenues between the City and the State may not favour the City, thereby making it more difficult for the City to pay the principal of and interest and additional amounts, if any, on the Loan”.

### ***Budget Principles***

The budget system in Ukraine is based on the following budgetary principles:

- Unity – Budgets exist within a uniform legal framework, a single monetary system and uniform budget regulation, with one system of budget classification and a uniform procedure for budget implementation and accounting and book-keeping.
- Balance – Expenditures from the budget must correspond to the volume of revenues to be received in the relevant budget period.
- Independence – Local budgets are independent and do not bear responsibility for the budgetary obligations of each other or of the State and vice versa. Local budgets have independent sources of revenues, and local governments approve their own local budgets and determine their own expenditures.
- Wholeness – All revenues and expenditures pursuant to legal acts of the state and local government bodies must be included in the budget.
- Reasonableness – The budget is formed on the basis of realistic macro-indices of economic and social development and calculations of revenues and expenditures based on approved methods and rules.
- Efficiency – All participants in the budget process must aim to achieve scheduled goals while using budget funds in the most efficient manner possible.
- Consumer-proximity – The allocation of expenditures between the State Budget and local budgets must be based on the maximum proximity of public services to the ultimate consumer.

- Designated Purpose – Budgetary funds must be used only for the purposes set out in the budget.
- Transparency – The public should be informed about the preparation, approval and implementation of the State Budget and local budgets, as well as about control over implementation of the State Budget and local budgets.
- Fairness – The budget system must be based on a fair allocation of social benefits between the citizens of Ukraine and local communities.

### ***Budget Process***

The City budget process is regulated by the Budget Code and by other relevant legislation, including resolutions of the City Council adopted pursuant to the Budget Code. The current Budget Code came into force on 1 January 2011 and substantially revised the system of budgetary regulation in Ukraine. The City budget process consists of the following four phases:

- preparation of a draft City Budget by the Kyiv City State Administration;
- consideration and approval of the draft City Budget by resolutions of the City Council, including approval of amendments to the City Budget;
- implementation of the City Budget; and
- preparation and consideration of the report on the implementation of the City Budget and making decisions regarding such report.

The City budget process commences with the provision by the Ministry of Finance of Ukraine (the “**Ministry of Finance**”) to the Kyiv City State Administration of guidelines for conducting the calculations for a draft budget for the following budget year. The Kyiv City State Administration submits to the Ministry of Finance information necessary for the determination of amounts of interbudgetary transfers and other relevant indices. The Main Financial Office instructs the main recipients of City Budget funds on the preparation of substantiated proposals on the budget funds needed for their activities for the following budget year. Based on an analysis of the submitted proposals, the Main Financial Office determines which proposals to include in the draft budget to be submitted for the consideration of the Kyiv City State Administration. The district state administrations also submit proposals for the draft budget to the Main Financial Office. Upon the approval by the Cabinet of Ministers of Ukraine of the draft State Budget Law, the Ministry of Finance informs the Kyiv City State Administration of the calculations of forecasted inter-budgetary transfers, methods of their determination and other indices relevant for the preparation of the draft City Budget. After the approval of the draft State Budget Law in the second reading, the Cabinet of Ministers of Ukraine provides the Kyiv City State Administration with information on the estimated amounts of inter-budgetary transfers to be voted on by the Parliament. Based on the foregoing information, the Kyiv City State Administration prepares a draft resolution on the City Budget.

The draft resolution on the City Budget must be approved by the Kyiv City State Administration before it is submitted to the City Council. The City Council by its resolution approves the City Budget for the following budget year not later than two weeks after the official publication of the State Budget Law. When approving the City Budget, the City Council must take into account the amounts of inter-budgetary transfers and other financial information relevant to the City Budget approved by the Parliament in the draft State Budget Law adopted in the second reading. In the event that the resolution on the City Budget is not approved by the City Council by 31 December of the year prior to the budget year, the Kyiv City State Administration is authorised to incur expenditures for purposes determined in the resolution on the City Budget for the previous budget year, subject to certain conditions and limitations. The last year in which this occurred was 2010, when the budget for the year 2010 was approved on 14 May 2010.

The resolution on the City Budget sets forth, among other things, the following:

- the total amount of revenues and expenditures in the City Budget, including the total amount of revenues and expenditures, related to changes in the amount of the City’s debt, deposits and securities, as well as changes in the balance of the fund to be used for City Budget deficiency payments and for the determination of the City Budget surplus (the “**City Budget Financing**”) (each of the above with allocation between the general and special funds);

- the maximum amount of budget deficit permissible in the City Budget for the relevant budget year, the maximum amount of indebtedness the City may incur during the relevant budget year, the authority of the City to grant guarantees and the maximum amount of guarantees that may be issued in the relevant budget year;
- the amounts of budget funds allocated to the main City Budget fund recipients with reference to the consumption and development expenditures;
- the classification of budget revenues;
- the classification of the City Budget Financing;
- amounts of inter-budgetary transfers;
- the balance of the general fund of the City Budget to be used to cover cash shortfalls in the City Budget; and
- additional provisions regulating the budget implementation process.

### ***Budget Implementation***

Pursuant to the Budget Code, funds are collected and distributed by the Main Department of the State Treasury of Ukraine in the City (the “**City Treasury**”). The State Treasury of Ukraine and its territorial divisions are also responsible for the fiscal administration of the State Budget and local budgets. Currently, the State Treasury of Ukraine is in the process of reorganisation into the State Treasury Service of Ukraine with respect to the fiscal administration of the state and local budgets in accordance with Decree of the President of Ukraine No. 1245/2010 dated 28 December 2010 “On the Optimisation of the System of Central Executive Bodies”.

The City Treasury implementation system provides for the consolidation of all of the City’s financial resources in accounts opened by the recipients of the City Budget funds with the City Treasury and envisages the opening of a separate budgetary account for each City Budget item.

The Main Financial Office continues to be responsible for the general management and coordination of the implementation of the City Budget.

Recipients of the City Budget funds submit their financial reports to the territorial departments of the State Treasury of Ukraine on terms and in the form prescribed by the State Treasury of Ukraine.

The City Treasury prepares and provides the Main Financial Office with monthly, quarterly and annual reports on the implementation of the City Budget on terms and in the form prescribed by the State Treasury of Ukraine and approved by the Ministry of Finance of Ukraine. Based on the submitted reports, the Main Financial Office provides the City Council with information on the status of implementation of the City Budget. In addition, the Main Financial Office prepares and submits quarterly and annual reports on the implementation of the City Budget for the review of the City Council within two months of the end of the relevant budget period. The annual reports on the implementation of the City Budget are subject to review by the Budget Commission of the City Council and approval by the City Council.

The City had the power to appoint, and has in the past appointed, independent auditors to carry out a review of the financial accounts of the City related to the use of budget funds in any given budget year. However, the City Council has not engaged independent auditors to review the implementation of the City Budget since 2004.

The implementation of the City Budget is monitored by the City Council, and the Main Financial Office is responsible for ensuring that the City Budget complies with applicable Ukrainian budget legislation. In addition, the Kyiv Control and Audit Department, the local body of the State Control and Audit Service of Ukraine, monitors the legality and efficiency in the use of the City Budget funds and the keeping of books and preparation of the reports on the implementation of the City Budget. The Kyiv Control and Audit Department is authorised to carry out inspections and audits of the City bodies as well as businesses, organisations and institutions funded from the City Budget. It is also authorised to request the Main Financial Office to suspend any transactions involving City Budget funds and budgetary appropriations or to undertake other measures provided for under the Budget Code.

## Overview of the City Budget

The principal sources of revenue for the City are taxes and fees (including City taxes and fees and the proportion of Ukrainian taxes and fees allocated to the City Budget) and revenues from the use or sale of municipal property and income from investments in various businesses.

The City Budget is an itemised summary of expected revenue and expenditure, which in recent years has become increasingly detailed. The revenue base of the City Budget is estimated by taking into account the expected tax, non-tax and other revenues for the current year and forecasts of economic development in the City, such as forecasts of the employment level, the development of the taxable base and wholesale price indices within the City. Expenditure is estimated according to expected revenues and the planned social and economic programmes of the City.

The following table sets out revenues and expenditures of the City Budget for 2007, 2008, 2009 and 2010 and budgeted revenues and expenditures for 2011:

	Year ended 31 December <sup>(1)</sup>				
	2007	2008	2009	2010	2011 <sup>(2)</sup>
	<i>(UAH millions)</i>				
<b>Revenues:</b>					
Tax revenues .....	8,743.8	12,231.0	11,771.5	12,760.3	10,305.9
Non-tax revenues .....	959.4	1,003.0	793.2	881.2	1,308.6
Revenues from operations with capital (fixed assets) .....	1,986.8	1,557.9	971.1	818.3	2,146.9
Purpose Funds .....	1,510.2	1,314.1	415.1	358.7	533.6
Grants and subsidies from the State Budget .....	3,055.8	4,426.3	1,586.8	2,374.9	3,405.8
<b>Total City revenues .....</b>	<b>16,256.0</b>	<b>20,532.3</b>	<b>15,537.7</b>	<b>17,193.4</b>	<b>17,700.8</b>
<b>Expenditures:</b>					
Budget expenditures .....	14,165.4	15,877.7	11,751.0	12,394.1	17,305.0
Funds transferred to the State Budget .....	2,774.4	5,500.9	6,302.2	5,721.3	1,472.0
<b>Total City expenditures .....</b>	<b>16,939.8</b>	<b>21,378.6</b>	<b>18,053.2</b>	<b>18,115.4</b>	<b>18,777.0</b>
<b>Repayment of City Budget Loans<sup>(3)</sup> .....</b>	<b>(6.3)</b>	<b>(3.8)</b>	<b>(2.9)</b>	<b>(2.8)</b>	<b>(3.0)</b>
<b>Financing of the City Budget<sup>(4)</sup> .....</b>	<b>(677.5)</b>	<b>(842.5)</b>	<b>(2,512.6)<sup>(5)</sup></b>	<b>(919.2)</b>	<b>(1,073.2)<sup>(6)</sup></b>

Source: Main Financial Office of the Kyiv City State Administration

Notes:

- (1) The figures presented in this table represent consolidated data from the City Budget and the budgets of the City's administrative districts for each respective year to 2010. As of 31 October 2010, following the dissolution of the district councils, the City's administrative districts no longer have distinct budgets. See "The City of Kyiv—September 2010 Legislative Changes Affecting Municipal Administration".
- (2) Figures for year ended 31 December 2011 are budgeted figures sourced from the 2011 City Budget as approved by the City Council, not the results of implementation (as for the years 2007 to 2010). The results of implementation of the 2011 City Budget may differ materially from the information relating to the 2011 City Budget contained in this table, which may result in a budgeted surplus being revised down to a deficit. See "Forward Looking Statements". The amendments to the 2011 Budget Resolution of 24 February 2011 introduced a new budget classification system that was approved by the Ministry of Finance on 14 January 2011. As a result of such revision, the figures presented herein may differ from 2011 City Budget figures presented at earlier dates or derived from other sources.
- (3) Proceeds of the repayment of loans extended from the City Budget to young persons (up to the age of 35) for the purposes of construction (renovation) and acquisition of residential property. The loans are a form of state support for the acquisition of residential property offered to young adults in accordance with the Law of Ukraine No. 2998-XII dated 5 February 1993 "On Assistance in Social Formation and Development of the Young People of Ukraine". The loans can be extended to young families and young single adults who require improvement in their housing conditions, for a period of up to 30 years. The interest rate on these loans is calculated as the NBU interest rate (which is currently 7.75 per cent. per annum) plus 5.5 per cent. The details of the procedure for extending loans to young adults are approved by City Council Regulation No. 570/1980 dated 18 November 2004 "On Approval of the Regulation on the Procedure of Financial Support of Young Families and Single Young Citizens for Construction (Renovation) of Residential Property in the City of Kyiv".

- (4) For the years 2007 to 2010, a negative figure represents the deficit of revenues as compared to expenditures. A positive figure represents the surplus of revenues as compared to expenditures. For 2011, a positive figure represents a planned surplus of revenues as compared to expenditures, while a negative figure would represent a planned shortfall of revenues as compared to expenditures. Financing shortfalls in the City Budget may be financed from the following sources: (i) retained funds from the current accounts of the budget institutions for the previous budget year, (ii) retained funds of the City Budget, (iii) funds from the unified treasury account through interest-free loans, and (iv) loans from commercial banks and other lenders.
- (5) This figure includes the amount of the 2009 Domestic Loan (as defined below). See “City Budget and Financial Information—Borrowings and Guarantees of the City of Kyiv—Outstanding Indebtedness” below for further information.
- (6) The City Budget anticipates utilising the balance of 2010 budget funds upon the completion of the 2010 budget year as well as loans from foreign banks and other bank institutions to cover the deficit.

See also “—Borrowings and Guarantees of the City of Kyiv”, which explains when the City may raise borrowings and/or incur a deficit to fund certain operations.

### Non-Budgetary Funds

Pursuant to the Budget Code the City is prohibited from establishing non-budgetary funds but is permitted to establish Purpose Funds. Once a Purpose Fund is established, it forms part of the special fund portion of the City Budget. See also “—City Budgetary System” above and “—Budget Revenues—Purpose Fund Revenues” and “—Budget Expenditures—Purpose Fund Expenditures” below.

### Budget Revenues

The City categorises its budget revenue into five main groups: (i) tax revenues; (ii) non-tax revenues; (iii) revenues from operations with capital (fixed assets); (iv) Purpose Fund revenues; and (v) grants and subsidies from the State Budget. The following table shows information regarding the revenues of the City Budget for 2007, 2008, 2009 and 2010 and budgeted revenues for 2011:

	Year ended 31 December <sup>(1)</sup>									
	2007		2008		2009		2010		2011 <sup>(2)</sup>	
	<i>(UAH millions)</i>	<i>(per cent.)</i>	<i>(UAH millions)</i>	<i>(per cent.)</i>	<i>(UAH millions)</i>	<i>(per cent.)</i>	<i>(UAH millions)</i>	<i>(per cent.)</i>	<i>(UAH millions)</i>	<i>(per cent.)</i>
<b>Tax revenues:</b>										
Income taxes, market value appreciation taxes .....	7,319.9	83.7	9,960.7	81.4	9,413.3	80.0	10,268.0	80.5	6,834.2	66.3
Vehicle tax <sup>(3)</sup> .....	108.9	1.2	157.3	1.3	132.8	1.1	153.5	1.2	22.1	0.2
Fees for use of natural resources .....	743.2	8.5	1,487.5	12.2	1,744.7	14.8	1,876.5	14.7	3,027.3	29.4
Internal taxes on commodities and services .....	239.6	2.7	255.6	2.1	143.1	1.2	103.1	0.8	0	0
Other taxes .....	332.2	3.8	369.9	3.0	337.6	2.9	359.2	2.8	422.3 <sup>4</sup>	4.1
<b>Total tax revenues .....</b>	<b>8,743.8</b>	<b>53.8</b>	<b>12,231.0</b>	<b>59.6</b>	<b>11,771.5</b>	<b>75.8</b>	<b>12,760.3</b>	<b>74.2</b>	<b>10,305.9</b>	<b>58.2</b>
<b>Non-tax revenues .....</b>	<b>959.4</b>	<b>5.9</b>	<b>1,003.0</b>	<b>4.9</b>	<b>793.2</b>	<b>5.1</b>	<b>881.2</b>	<b>5.1</b>	<b>1,308.6</b>	<b>7.4</b>
<b>Revenues from operations with capital (fixed assets) ..</b>	<b>1,986.8</b>	<b>12.2</b>	<b>1,557.9</b>	<b>7.6</b>	<b>971.1</b>	<b>6.2</b>	<b>818.3</b>	<b>4.8</b>	<b>2,146.9</b>	<b>12.1</b>
<b>Purpose Fund revenues .....</b>	<b>1,510.2</b>	<b>9.3</b>	<b>1,314.1</b>	<b>6.4</b>	<b>415.1</b>	<b>2.7</b>	<b>358.7</b>	<b>2.1</b>	<b>533.6</b>	<b>3.1</b>
<b>Grants and subsidies from the State Budget<sup>(4)</sup> .....</b>	<b>3,055.8</b>	<b>18.8</b>	<b>4,426.3</b>	<b>21.6</b>	<b>1,586.8</b>	<b>10.2</b>	<b>2,374.9</b>	<b>13.8</b>	<b>3,405.8</b>	<b>19.2</b>
<b>Total revenues .....</b>	<b>16,256.0</b>	<b>100.0</b>	<b>20,532.3</b>	<b>100.0</b>	<b>15,537.7</b>	<b>100.0</b>	<b>17,193.4</b>	<b>100.0</b>	<b>17,700.8</b>	<b>100.0</b>

Source: Kyiv City State Administration, Main Financial Office

Notes:

- (1) The figures presented in this table represent consolidated data from the City Budget and the budgets of the City’s administrative districts for each respective year to 2010. As of 31 October 2010, following the dissolution of the district councils, the City’s administrative districts no longer have distinct budgets. See “The City of Kyiv—September 2010 Legislative Changes Affecting Municipal Administration”.
- (2) Figures for year ended 31 December 2011 are budgeted figures reflecting the City Budget as approved by the City Council, not the results of implementation (as for the years 2007 to 2010). The results of implementation of the 2011 City Budget may differ materially from the information relating to the 2011 City Budget contained in this table. See “Forward Looking Statements”. The amendments to the 2011 Budget Resolution of 24 February 2011 introduced a new budget classification system that was approved by the Ministry of Finance on 14 January 2011. As a result of such revision, the figures presented herein may differ from 2011 City Budget figures presented at earlier dates or derived from other sources.
- (3) Data for years ended on or prior to 31 December 2010 relates to tax on vehicle ownership and data for the year ended 31 December 2011 relates to tax for the first registration of a vehicle.
- (4) Following amendments to the budget classification, approved by the Order No. 11 dated 14 January 2011 “On Budget Classification” of the Ministry of Finance (the “**New Budget Classification**”), revenues received as payments for licences for certain types of business activity and economic activity, which were previously classified as internal taxes on commodities and services are classified in the 2011 City Budget as non-tax revenues.

## *Tax Revenues*

Tax revenues are divided into five main items: (i) income taxes, (ii) tax for the first registration of a vehicle, (iii) fees for the use of natural resources, (iv) internal taxes on commodities and services and (v) other taxes.

### *Income Taxes*

Income taxes comprise personal income tax and corporate income tax. Prior to 1 January 2011, Ukrainian residents were taxed under the Personal Income Tax Law providing for a flat tax rate of 15 per cent. The Ukrainian-source income of non-residents was taxed at a flat rate of 30 per cent. Any individual who is physically present in Ukraine for more than 183 days in a calendar year is deemed a Ukrainian resident for personal income taxation purposes.

Under the Tax Code which entered into effect on 1 January 2011, the personal income tax rate was increased to a flat rate of 17 per cent. for income above 10 times the minimum salary (currently, UAH 9,600). The amount of the minimum salary is determined by the State Budget Law for the relevant budget year. Income below 10 times the minimum salary continues to be charged to tax at a flat rate of 15 per cent. However, tax is charged at a reduced rate of 5 per cent. on certain types of personal income such as interest and dividends. The Ukrainian-source income of non-residents is now taxed at the same rates as the income of Ukrainian tax residents.

Prior to 1 January 2011, all revenues from personal income tax were retained by the City Budget. Since 1 January 2011, as a result of the introduction of the revised Budget Code, the City Budget has been entitled to retain 50 per cent. of the revenues from personal income tax while the other 50 per cent. are paid directly to the State. In 2007, 2008, 2009 and 2010 the City collected UAH 7.23 billion, UAH 9.96 billion, UAH 9.38 billion and UAH 10.23 billion, respectively, in personal income taxes. Under the 2011 City Budget, the City has budgeted to collect UAH 6.77 billion in personal income taxes. The expected decrease in revenues from personal income tax in 2011 as compared to prior years results primarily from the Budget Code reducing the City's entitlement to revenues from personal income from 100 per cent. to 50 per cent. See "Risk Factors—Risks Associated with the City—Non-payment of financial obligations to the City may have an adverse effect on the City's ability to pay the principal of and interest and additional amounts, if any, on the Loan."

Corporate income tax in Ukraine is levied on (i) Ukrainian business entities and not-for-profit organisations (if they derive income from their non-principal activities), (ii) non-resident legal entities and permanent establishments of non-residents that derive profits from Ukrainian sources and (iii) separate units of Ukrainian business entities. The basic corporate income tax rate will remain 25 per cent. until 1 April 2011. Thereafter the rate will be stepped down as follows: to 23 per cent. for the period from 1 April 2011 to 31 December 2011, to 21 per cent. for the period from 1 January 2012 to 31 December 2012, to 19 per cent. for the period from 1 January 2013 to 31 December 2013 and to 16 per cent. from 1 January 2014 onwards. Under the Budget Code, the City Budget is permitted to retain corporate income tax revenues only from City-owned businesses, while all other corporate income tax revenues are allocated to the State Budget. The corporate income tax revenues retained by the City Budget are significantly lower than those allocated to the State Budget.

In 2007, 2008, 2009 and 2010 the City retained UAH 92.2 million, UAH 100.8 million, UAH 31.9 million and UAH 40.2 million, respectively, in corporate income tax. Under the 2011 City Budget, the City has budgeted to retain corporate income tax in the amount of UAH 64.3 million in 2011. The increase in corporate tax budgeted to be retained in 2011 is mainly attributable to the cancellation of a number of tax breaks for certain municipal companies, budgeted receipt of taxes due for the previous periods and general improvement of the economic situation in the City. See "—Budget Expenditures—Funds Transferred to the State Budget".

### *Tax for the First Registration of a Vehicle*

Prior to 1 January 2011, owners of vehicles were subject to a tax on vehicle ownership in accordance with the Law of Ukraine on Taxes on Vehicle Ownership dated 11 December 1991. Since 1 January 2011, due to the entry into force of the Tax Code, the tax on vehicle ownership was replaced with a tax for the first registration of a vehicle. Like the tax on vehicle ownership that preceded it, the tax for the first registration of a vehicle applies to vehicles that are registered in the City and is paid at different rates depending on the type of vehicle. However, the tax for the first registration of a vehicle is paid only once at the time of the first registration of the vehicle while the tax on vehicle ownership was paid at the time of the first registration of the vehicle and thereafter at regular two yearly intervals. The Budget Code provides that the City Budget may only retain 60 per cent. of revenues

from the tax for the first registration of a vehicle, with the remainder being transferred to the Kyiv region budget.

The City's revenues from the vehicle ownership tax amounted to UAH 108.9 million in 2007, UAH 157.3 million in 2008, UAH 132.8 million in 2009 and UAH 153.5 million in 2010. The variations in revenues from year to year from the vehicle ownership tax resulted from a combination of changes in the number of vehicles purchased (and registered in the City) and changes in the share of the revenues from the vehicle ownership tax retained within the City Budget in accordance with the laws of Ukraine, with the City Budget retaining 70 per cent. of revenues in 2007, 85 per cent. in 2008, 70 per cent. in 2009 and 70 per cent. in 2010.

Under the 2011 City Budget, the City has budgeted to collect tax for the first registration of a vehicle in the amount of UAH 22.1 million in 2011. The significant decrease in budgeted revenues from vehicle related tax in 2011 is mainly attributable to the replacement of the tax on vehicle ownership by the tax for the first registration of a vehicle.

#### *Fees for the Use of Natural Resources*

Fees for the use of natural resources are comprised largely of land use fees. Land use fees are paid by private owners and lessees of land plots at different rates depending on the size, category, location and value of the land plot and comprise charges on land ownership and rents on public land granted for permanent use to private individuals or entities. The City Budget is permitted to retain 100 per cent. of the collected land use fees. Revenues of the City Budget from land use fees amounted to UAH 740.6 million in 2007, UAH 1,484.2 million in 2008, UAH 1,743.1 million in 2009 and UAH 1,875.6 million in 2010. The increase in revenues over the period from 2007 to 2010 is principally attributable to the annual indexation of land use fee rates in the City in line with inflation. Also, in 2010 the City introduced a new system for the determination of the rates of land use fees depending on land type (which now range from 3 per cent. to 12 per cent.) and cancelled a number of exemptions from the payment of land use fees, resulting in an increase in revenues received from land use fees in 2010.

Under the 2011 City Budget, the City has budgeted to collect fees for the use of natural resources in the amount of UAH 3,027.3 million in 2011, including UAH 2,993.1 million in land use fees.

#### *Internal Taxes on Commodities and Services*

Internal taxes on commodities and services are comprised largely of trade patent fees and also include charges for licences on certain types of business and economic activity. Revenues from internal taxes on commodities and services amounted to UAH 239.6 million in 2007, UAH 255.6 million in 2008, UAH 143.1 million in 2009 and UAH 103.1 million in 2010. The decrease in revenues in 2009 and 2010 as compared to 2008 is mainly attributable to the introduction of a prohibition on gambling businesses in Ukraine in 2009, as licensing fees for gambling businesses were previously retained by the City Budget. As a result of approval of the New Budget Classification, revenues received as payments for licences for certain types of business activity and economic activity, which were previously classified as internal taxes on commodities and services are classified in the 2011 City Budget as non-tax revenues.

#### *Other Taxes*

Other taxes include, among others, local taxes and fixed agricultural taxes. Revenues from other taxes were UAH 332.2 million, UAH 369.9 million, UAH 337.6 million and UAH 359.2 million in 2007, 2008, 2009 and 2010, respectively. Under the 2011 City Budget, the City has budgeted to receive revenues from other taxes in the amount of UAH 422.3 million in 2011.

Local taxes are those taxes that the City has discretion to levy from a range of taxes determined by the Tax Code subject to the minimum and maximum tax rates established by the Tax Code and other applicable legislation. As of 1 January 2011, the Tax Code specifies the following to be local taxes: (i) tax on real estate (other than land plots) (which is to be levied starting in January 2012), (ii) fixed tax on small businesses (unified tax), (iii) charges paid for carrying out certain types of activities (in particular trade activities, payable consumer services, trade of currency values at currency exchange offices and entertainment business), (iv) duties for parking places and (v) tourism tax.

Duties for parking places and the tourism tax, as distinct from the tax on real estate (other than land plots), fixed tax on small businesses and charges on certain types of activities, are levied only if introduced by the City Council. The fixed tax on small businesses and charges on certain types of activities are levied at a rate determined by a resolution of the City Council. By contrast, the rate of

tax on real estate (other than land plots) is fixed by the Tax Code and cannot be changed by the City. Duties for parking places and tourism tax must be determined by the City for each budget year. In case the City fails to set tax rates for the above mentioned taxes, the taxes are charged at the minimum tax rate set by the Tax Code and other applicable laws.

The fixed tax on small businesses is a tax that small businesses may elect to pay in lieu of corporate or personal income tax if they meet certain criteria related to the amount of their cash receipts and number of employees. Revenues from the fixed tax on small businesses amounted to UAH 218.6 million in 2007, UAH 235.7 million in 2008, UAH 217.6 million in 2009 and UAH 232.8 million in 2010. Under the 2011 City Budget, the City has budgeted to collect UAH 166.3 million in fixed tax on small businesses in 2011. The changes in revenues from the fixed tax on small businesses from 2007 to 2010 are mainly attributable to fluctuations in the number of small businesses electing to pay this tax instead of corporate and personal income taxes.

The list of local taxes established by the Tax Code is exhaustive and the City is prohibited from imposing additional taxes.

Revenues from local taxes amounted to UAH 113.5 million in 2007, UAH 134.2 million in 2008, UAH 119.9 million in 2009 and UAH 126.8 million in 2010. Under the 2011 City Budget, the City has budgeted to collect UAH 397.1 million in local taxes in 2011. The sharp increase in revenues from local taxes budgeted for 2011 is attributable to the introduction of new local taxes, charges paid for carrying out certain types of activities (such as trade activities, payable consumer services, trade of currency values at currency exchange offices and entertainment business), duties for parking places and tourism tax.

#### *Value Added Tax*

The Tax Code provides for value added tax (“VAT”) to be charged on import and sales transactions in the territory of Ukraine at a rate of 20 per cent. This tax is charged on and over the contractual value of goods or services, with value being taken to include any excise tax, import duty and other taxes or payments required under applicable Ukrainian legislation. From 1 January 2014, the VAT rate will be reduced to 17 per cent. A zero rate of VAT is provided by the Tax Code for the export of goods and the provision of certain works or services that are consumed outside the customs territory of Ukraine. Since VAT is considered to serve an important macro-economic stabilisation function, all VAT revenues are allocated to the State Budget. The City Budget receives no revenues from VAT.

#### *Tax Collection*

The Kyiv City Tax Office is responsible for the collection of taxes and other levies to the City Budget. The Kyiv City Tax Office reports to the State Tax Administration of Ukraine and supervises 10 local Tax Offices within the City (“**Tax Offices**”), which are responsible for the collection of taxes and other levies in the respective districts of the City. In addition to the foregoing tax authorities, the Kyiv City Tax Police Department, through a network of branches in the districts of the City (collectively, the “**Tax Police**”), is responsible for the prevention and elimination of tax law violations.

All taxpayers, whether legal entities or individuals, are required to register with the relevant Tax Office, to submit their tax returns and to make payments of taxes and other levies as provided by applicable tax legislation of Ukraine. Upon the registration of a legal entity or an individual as a taxpayer, the relevant Tax Office creates and maintains records for that person in the State Register of Individual Taxpayers (in the case of individuals), or in the Unified Database of Taxpayers which are Legal Entities and the Register of VAT Payers (in the case of corporate and other legal entities).

Under the Tax Code, in the event of a late or inadequate discharge of its tax obligations, a taxpayer is required to pay taxes in an amount established by the relevant Tax Office as well as applicable fines and penalties. Tax Offices may enforce a tax pledge over the assets of taxpayers in arrears. The Tax Code also provides for a procedure for writing off taxes in arrears, which may be done only on the basis of a court decision to that effect.

As at 1 January 2011, the City had an aggregate of UAH 377.7 million of tax revenues outstanding and unpaid to the City as compared with UAH 206.0 million as at 1 January 2010, UAH 88.4 million as at 1 January 2009 and UAH 43.3 million as at 1 January 2008. As at 1 January 2011, the largest components of these amounts were land use fees in arrears in the amount of UAH 199.9 million and the personal income tax in the amount of UAH 136.4 million. The significant increase in the amount of outstanding and unpaid taxes during the period from 1 January 2009 to 1 January

2011 is mainly attributable to the effects of the global financial crisis and in particular its impact upon the construction industry resulting in delays in payment of land use fees.

The amount of outstanding and unpaid taxes owing to the City increased from UAH 377.7 million as at 1 January 2011 to UAH 386.6 million as at 1 May 2011, primarily due to an increase in undercollection of land use fees.

### ***Non-tax Revenues***

Non-tax revenues comprise the following main items: (i) revenues from City-owned properties and commercial activities; (ii) administrative fees and payments, revenues from non-profit making economic activity by the City; (iii) revenues of institutions funded by the City Budget; and (iv) other non-tax revenues (including administrative fines and amounts of financial penalties). Total non-tax revenues of the City amounted to UAH 959.4 million in 2007, UAH 1,003.0 million in 2008, UAH 793.2 million in 2009 and UAH 881.2 million in 2010 and are budgeted to amount to UAH 1,308.6 million in 2011.

Non-tax revenues in 2010 included UAH 85.7 million of revenues from City owned properties and commercial activities, which are budgeted to amount to UAH 320.1 million in 2011; UAH 150.3 million of revenues in the form of administrative fines and payments, and revenues from non-profit making economic activity by the City, which are budgeted to amount to UAH 178.9 million in 2011; UAH 614.6 million in revenues of institutions funded by the City Budget, which are budgeted to amount to UAH 430.5 million in 2011; and UAH 8.2 million from other non-tax revenues, which are budgeted to amount to UAH 179.1 million in 2011. The fluctuations in non-tax revenues from 2007 to 2010 are mainly attributable to the effects of the global financial crisis.

### ***Revenues from Operations with Capital (Fixed Assets)***

Revenues from operations with capital (fixed assets) conducted by the City principally comprise proceeds from the sale of City-owned land and other property, including revenues from privatisations. Revenues from operations with capital (fixed assets) amounted to UAH 1,986.8 million in 2007, UAH 1,557.9 million in 2008, UAH 971.1 million in 2009 and UAH 818.3 million in 2010 and are budgeted to amount to UAH 2,146.9 million in 2011. The expected increase in revenues from operations with capital (fixed assets) in 2011 as compared to 2010 is due primarily to the increase in revenues from privatisations and the sale of land plots through auctions. See also “The City of Kyiv—Privatisation”, “The City of Kyiv—Litigation” and “Risks Associated with the City—The City could be required to reimburse amounts previously received in relation to certain recently reversed privatisations, which could have an adverse effect on the City’s revenues from future privatisations”.

### ***Purpose Fund Revenues***

Sources of Purpose Fund revenues are established by the City Budget for the relevant year. The 2011 City Budget Resolution provides for the following sources of Purpose Fund revenues:

- contributions required to be made by developers for the development of the City’s engineering, transport and social infrastructure;
- proceeds from investment agreements;
- funds received from developers of residential housing;
- payments for the right to temporary placement of external advertisements on City-owned facilities;
- funds received from the sales of residential housing constructed by the City (such funds are used for development of further residential construction in the City);
- the estimated value of the trees and other plants that are due to be cut down within the territory of the City in 2011; and
- contributions required to be made by the owners of temporary constructions for maintaining the provision of amenities in the City.

Aggregate Purpose Fund revenues amounted to UAH 1,510.2 million in 2007, UAH 1,314.1 million in 2008, UAH 415.1 million in 2009 and UAH 358.7 million in 2010. The 2011 City Budget provides for Purpose Fund revenues of UAH 533.6 million. The decrease in revenues from 2007 to 2010 was principally attributable to a decrease in construction activity in the City, which was one of the effects of the global financial crisis on the economy of the City.

Purpose Fund revenues not spent in a given year are carried forward and are available for use within the same category of fund in the following year, but only if the draft City Budget for the next budget year provides for relevant budget allocations from the Purpose Fund. Otherwise, the balance of the Purpose Fund at the end of each budget year is transferred to the general fund of the City Budget.

### **Grants and Subsidies from the State Budget**

Under the Budget Code, the City Budget is eligible to receive levelling grants and various subsidies from the State Budget and/or subsidies from other local budgets. However, the City was not entitled to receive a levelling grant in any of budget years from 2002 to 2010 as, in each of these years, the City's revenues exceeded its expenditures.

The City Budget received revenues from various subsidies from the State Budget in aggregate amount of UAH 3,055.8 million in 2007, UAH 4,426.3 million in 2008, UAH 1,586.8 million in 2009 and UAH 1,447.2 million in 2010. In 2011, the City has budgeted to receive UAH 3,405.8 million in subsidies from the State Budget. The subsidies in the 2010 City Budget included utilities subsidies and benefits of UAH 274.2 million (which are budgeted to be UAH 453.8 million in 2011); veterans' benefits and transport subsidies for certain categories of citizens of UAH 178.1 million (which are budgeted to be UAH 178.1 million in 2011); aid to low-income households, households with children and disabled persons of UAH 916.2 million (which is budgeted to be UAH 1,320.0 million in 2011).

### **Budget Expenditures**

In 2011, the budgeted expenditures of the City Budget are divided into eight primary activities: construction, education, welfare (social services), health care, activities financed by Purpose Funds, housing and utilities, public administration, and transport and infrastructure.

The following table shows information regarding the expenditures of the City out of the City Budget for 2007, 2008, 2009 and 2010 and the budgeted expenditures for 2011. See also "—Budgetary Relations Between the State and Local Governments" for an outline of the costs expected to be incurred by the City in preparation for the Euro 2012 (such cost estimates for 2011 have been included in the relevant figures in the table below).

	Year ended 31 December <sup>(1)</sup>									
	2007		2008		2009		2010		2011 <sup>(2)</sup>	
	(UAH millions)	(%)	(UAH millions)	(%)	(UAH millions)	(%)	(UAH millions)	(%)	(UAH millions)	(%)
<b>Expenditures</b>										
Construction and other										
capital investments .....	2,913.9	17.2	3,193.9	14.9	1,038.8	5.8	618.4	3.4	1,252.6	6.7
Education .....	2,029.0	12.0	2,428.5	11.4	2,655.5	14.7	3,269.9	18.1	3,707.5	19.7
Welfare (social services) .....	1,372.5	8.1	1,643.6	7.7	1,237.9	6.9	1,536.6	8.5	2,234.1	11.9
Health care .....	1,682.8	9.9	1,779.5	8.3	2,046.3	11.3	2,446.5	13.5	2,875.3	15.3
Purpose Fund expenditures .....	1,253.8	7.4	1,129.3	5.3	518.9	2.9	312.2	1.7	616.9	3.3
Housing and utilities .....	1,287.6	7.6	1,235.4	5.8	1,962.9	10.9	461.9	2.6	2,120.1	11.3
Public administration .....	496.5	2.9	599.9	2.8	542.2	3.0	572.1	3.2	606.0	3.2
Transport and infrastructure.....	562.3	3.3	508.9	2.4	371.0	2.1	576.5	3.2	691.1	3.7
Debt service .....	274.1	1.6	398.7	1.9	632.8	3.5	707.0	3.9	870.9	4.6
Culture and art .....	265.2	1.6	332.6	1.6	376.0	2.1	432.4	2.4	470.9	2.5
Other economic services .....	149.7	0.9	297.9	1.4	142.4	0.8	281.5	1.6	1,435.1	7.6
Physical culture and sport .....	88.7	0.5	71.3	0.3	65.2	0.4	96.0	0.5	106.6	0.6
Media .....	43.6	0.3	36.6	0.2	28.9	0.2	32.0	0.2	30.7	0.2
Subsidies and leveling grants transferred from the										
City Budget .....	1,265.0	7.5	1,872.2	8.8	22.0	0.1	928.4	5.1	6.2	0.0
Reserve Fund .....	—	—	—	—	—	—	—	—	3.4	0.0
Forestry .....	—	—	18.3	0.1	16.8	0.0	3	0.0	2.4	0.0
Prevention of and response to emergencies and										
natural disasters .....	5.7	0.0	5.7	0.0	5.6	0.0	7.0	0.0	8.6	0.0
Subsidy for implementation of State programmes .....	308.1	1.8	179.9	0.8	25.7	0.1	24.6	0.1	33.0	0.2
Other expenditures .....	166.9	1.0	145.7	0.7	62.1	0.3	88.1	0.5	233.6	1.4
<b>Total City expenditures.....</b>	<b>14,165.4</b>	<b>83.6</b>	<b>15,877.9</b>	<b>74.3</b>	<b>11,751.0</b>	<b>65.1</b>	<b>12,389.1</b>	<b>68.4</b>	<b>17,305.0</b>	<b>92.2</b>
Funds transferred to the State Budget .....	2,774.4	16.4	5,500.9	25.7	6,302.2	34.9	5,721.3	31.6	1,472.0	7.8
<b>Total expenditures .....</b>	<b>16,939.8</b>	<b>100.0</b>	<b>21,378.8</b>	<b>100.0</b>	<b>18,053.2</b>	<b>100.0</b>	<b>18,115.4</b>	<b>100.0</b>	<b>18,777.0</b>	<b>100.0</b>

Source: Kyiv City State Administration, Main Financial Office

Notes:

- (1) The figures presented in this table represent consolidated data from the City Budget and the budgets of the City's administrative districts for each respective year to 2010 (as of 31 October 2010, the City districts no longer have distinct budgets).
- (2) Figures for the year ended 31 December 2011 are budgeted figures reflecting the City Budget as approved by the City Council, not the results of implementation. The results of implementation of the 2011 City Budget may differ materially from the budgeted figures relating to the 2011 City Budget contained in this table. See "Forward Looking Statements". The amendments to the 2011 Budget Resolution of 24 February 2011 introduced a new budget classification system that was approved by the Ministry of Finance on 14 January 2011. As a result of such revision, the figures presented herein may differ from 2011 City Budget figures presented at earlier dates or derived from other sources.
- (3) The implementation of State programmes is financed from the balance of the funds of the City Budget, the amount of which had not been determined by the time that the Resolution "On the Budget of the City of Kyiv for the Year 2011" was approved by the City Council.

Total expenditures from the City Budget were UAH 16,939.8 million in 2007, UAH 21,378.8 million in 2008, UAH 18,053.2 million in 2009 and UAH 18,115.4 million in 2010.

### ***Construction and Other Capital Investments***

Construction and other capital investments expenditures primarily consist of expenditures for construction and reconstruction projects in the areas of transport and infrastructure, public utilities, housing, health care facilities and educational and cultural facilities. Construction expenditures in a given year reflect actual amounts spent in that year. Expenditures on construction and other capital investments were UAH 2,913.9 million in 2007, UAH 3,193.9 million in 2008, UAH 1,038.8 million in 2009 and UAH 618.4 million in 2010. The significant decreases of construction and other capital investments expenditures in 2009 and 2010 as compared to the prior year are primarily attributable to decreases in the revenues of the City Budget's Development Fund allocated for funding such expenditures as a result of the effects of the global financial crisis on the construction industry, which is one of the sources of revenues allocated for funding such expenditures within the Development Fund.

Under the 2011 City Budget, the City has budgeted to spend UAH 1,252.6 million on construction and other capital investments in 2011, which is budgeted to be funded from the revenues of the City Budget. Construction activities in 2011 include primarily transport and infrastructure projects (including the continuous construction of the Podilsky Bridge, the building of new metro stations and the reconstruction of the high-speed tram line), the construction of sewage collectors and related infrastructure, the reconstruction of an aeration plant and certain construction projects aimed at improving the quality of the City's water supply and other utilities facilities.

### ***Education***

Education expenditures include the funding of schools, boarding schools, extracurricular events, technical schools and colleges and certain municipal graduate institutions (academies and institutes). Expenditures on education were UAH 2,029.0 million in 2007, UAH 2,428.5 million in 2008, UAH 2,655.5 million in 2009 and UAH 3,636.3 million in 2010. Under the 2011 City Budget, the City has budgeted to spend UAH 3,707.5 million on education in 2011. The City expects the trend of increasing levels of expenditures on education to continue. The successive yearly increases in education expenditures from 2007 to 2011 are mainly attributable to increases in expenditures on salaries (primarily due to the 135 per cent. increase in the minimal wage in Ukraine during this period), which represent approximately 70 per cent. of all education expenditures. New salary scales and fringe benefits for education employees, which were introduced during this period, resulted in an additional UAH 971.9 million of salary expenditure. Such salary scales and fringe benefits are set by the State, and the City does not have any control over them. Education expenditure has also been affected by increases in expenditure on catering in schools and universities, utilities and energy tariffs, student maintenance allowances and grants to certain categories of student.

### ***Health Care***

Primary health and ambulatory care, hospitals and health education are funded from the City Budget. Expenditures on health care were UAH 1,682.8 million in 2007, UAH 1,779.5 million in 2008, UAH 2,046.3 million in 2009 and UAH 2,446.5 million in 2010. Under the 2011 City Budget, the City has budgeted to spend UAH 2,875.3 million on health care in 2011. The successive yearly increases in health care expenditures from 2007 to 2011 are primarily attributable to year-on-year increases in expenditures on salaries, and utilities and energy tariffs. See also "The City of Kyiv—Main Activities of the City—Health Care".

### ***Welfare (Social Services)***

Welfare (social services) expenditures include welfare payments and housing and utilities subsidies to certain categories of residents including senior citizens, veterans, disabled people, low income families, families with more than one child, young people, abandoned children and victims of the Chernobyl disaster, as well as funding of children's homes and social centres for young people. Expenditures on welfare (social services) were UAH 1,372.5 million in 2007, UAH 1,643.6 million in 2008, UAH 1,237.9 million in 2009 and UAH 1,536.6 million in 2010. Under the 2011 City Budget, the City has budgeted to spend UAH 2,234.1 million on welfare (social services) in 2011. The reason that budgeted expenditure for 2011 is significantly higher than expenditure in 2010 is principally due to an expected increase in housing and utilities subsidies arising from the recent rise in the cost to residents of both maintenance services and utilities.

### ***Purpose Fund Expenditures***

Annually, upon the approval of the City Budget for a particular year in accordance with the City's Social and Economic Development Programme for that particular year, the City Council determines the end purpose for which each Purpose Fund will be spent. Expenditures from Purpose Funds amounted to UAH 1,253.8 million in 2007, UAH 1,129.3 million in 2008, UAH 518.9 million in 2009 and UAH 312.2 million in 2010. The 2011 City Budget provides for expenditures of UAH 616.9 million from Purpose Funds in 2011. Most of these expenditures are for the financing of various capital investment projects, including preparatory work in connection with such projects. Purpose funds are also used to finance environmental protection activities. The significant decreases in expenditures from Purpose Funds in 2009 and 2010 as compared to the prior years are primarily attributable to the successive decreases in the revenues of Purpose Funds in 2009 and 2010 as a result of the effects of the global financial crisis on the construction industry, which is one of the sources of revenues for Purpose Funds. The increase in expenditures of the Purpose Funds in 2011 compared to 2010 is attributable to the budgeted increase in revenues of the Purpose Funds (which can only be used for the expenditures of the Purpose Funds) as a result of expected economic recovery of the construction business in the City in 2011.

### ***Housing and Utilities***

Housing and utilities expenditures include expenditures for maintenance and reconstruction of the City's residential housing and for urban planning. Expenditures on housing and utilities were UAH 1,287.6 million in 2007, UAH 1,235.4 million in 2008, UAH 1,962.9 million in 2009 and UAH 461.9 million in 2010. Under the 2011 City Budget, the City has budgeted to spend UAH 2,120.1 million on housing and utilities in 2011. The increase in expenditure on housing and utilities in 2009 compared to 2007 and 2008 is attributable to the need to cover the shortfall between the costs of providing such services and the tariffs for such services approved by the City Council. The apparent decrease in expenditures in 2010 is primarily attributable to the City's use of promissory notes to fund payments to utilities service providers to cover the shortfall between the cost of providing such services and the tariffs for such services set by the City Council. See also “—Borrowings and Guarantees of the City of Kyiv—Outstanding Indebtedness” and “The City of Kyiv—Main Activities of the City—Housing and Utilities”.

### ***Transport and Infrastructure***

Transport and infrastructure is principally comprised of transport expenditures, which primarily consist of subsidies for reduced fares and maintenance of the City's public transport fleet, as well as maintenance of the City roads and implementation of the National Programme on Informatisation. Expenditures on transport and infrastructure were UAH 562.3 million in 2007, UAH 508.9 million in 2008, UAH 371.0 million in 2009 and UAH 576.5 million in 2010. Under the 2011 City Budget, the City has budgeted to spend UAH 691.1 million on transport and infrastructure in 2011. The decrease in expenditures on transport and infrastructure in 2009 as compared to 2007 and 2008 is primarily attributable to the fact that in 2009 the City Budget received only 70 per cent. of the revenues collected in the City from the tax on vehicle ownership, which are applied for the maintenance of the City's roads. The decrease in expenditures on transport and infrastructure in 2011 is primarily attributable to the effects of a tax reform that replaced the tax on vehicle ownership with the tax for the first registration of a vehicle. See “—Budget Revenues—Tax for the First Registration of a Vehicle”.

### ***Public Administration***

Public administration expenditures include expenditures for the Kyiv state executive authorities and for local self-government. Expenditures on public administration were UAH 496.5 million in 2007, UAH 599.9 million in 2008, UAH 542.2 million in 2009 and UAH 572.1 million in 2010. Under the 2011 City Budget, the City has budgeted to spend UAH 606.0 million on public administration in 2011.

### ***Debt Service***

Expenditures on debt service were UAH 274.1 million in 2007, UAH 398.7 million in 2008, UAH 632.8 million in 2009 and UAH 707.0 million in 2010. Under the 2011 City Budget, the City has budgeted to spend UAH 870.9 million on debt service in 2011, including estimated costs of servicing the Loan. The increases in expenditures on debt service from 2007 to 2011 were attributable to increases in interest payments on, and other expenses in connection with, the City's borrowings as a result of increases in its external and domestic borrowings during this period. See “—Indebtedness of the City of Kyiv”.

### ***Other Economic Services***

Expenditures on other economic services principally include expenses for the promotion and encouragement of entrepreneurs and small- and medium-size businesses and expenses for rating support which were UAH 149.7 million in 2007, UAH 297.9 million in 2008, UAH 142.4 million in 2009 and UAH 281.5 million in 2010 and are budgeted to be UAH 1,435.1 million in 2011 under the 2011 City Budget. The increase in expenditures on other economic services budgeted for 2011 as compared to previous years is primarily attributable to increases in the City's contributions to the share capital of municipal and other businesses and the inclusion of a fee payable to the Managers for co-ordinating the issue of the Notes to fund the Loan.

### ***Reserve Fund***

The City is authorised to establish a reserve fund in the City Budget of not more than 1 per cent. of the total expenditures of the general fund of the City Budget. The funds allocated to the reserve fund cover unforeseen expenditures of a temporary nature. The reserve fund is budgeted to amount to UAH 3.4 million in 2011.

### ***Funds Transferred to the State Budget***

Funds transferred to the State Budget were UAH 2,774.4 million in 2007, UAH 5,500.9 million in 2008, UAH 6,302.2 million in 2009 and UAH 5,721.3 million in 2010. Under the 2011 City Budget, the City has budgeted to transfer UAH 1,472.0 million, or 7.8 per cent. of the total expenditures of the City, to the State Budget in 2011. The amount of the City's funds transferred to the State Budget is calculated by reference to the amount of tax revenues estimated to be collected by the City in the relevant budget year. The reason that budgeted amounts of funds transferred to the State Budget in 2011 are significantly lower than funds transferred to the State Budget in 2010 is mainly as a result of changes in legislation pursuant to which the State will receive a 50 per cent. share of personal income tax revenues from Kyiv residents, whereas in 2010 (as also in previous years) all personal income tax revenues were retained by the City. As a result of this change in the allocation of tax revenues, there will be a reduction in the general fund revenues of the City Budget. A corresponding reduction will be made in the funds to be transferred to the State in 2011. See “—Budget Revenues—Tax Revenues” and “—City Budgetary System—Budgetary Relations between the State and Local Governments”.

### ***Results of Implementation of the Budget***

The budget deficits for 2007, 2008, 2009 and 2010 were financed by borrowings made in the relevant budget year and/or from retained revenues carried over from the previous budget years.

Under the 2011 City Budget, the City has budgeted for a deficit of UAH 1,073.2 million. The results of implementation of the 2011 City Budget will be approved by the City following the 2011 budget year. Historically, the City's planned revenues and expenditures have differed materially from the results of implementation of the City Budget for the relevant year. Accordingly, the results of implementation of the 2011 City Budget may differ materially from the information relating to the 2011 City Budget contained herein, which may result in a budgeted surplus being revised down to a deficit.

## **Borrowings and Guarantees of the City of Kyiv**

### ***Borrowings***

According to the Budget Code, the City may attract borrowings only for the financing of a deficit in the Development Fund (which forms part of the special fund of the City Budget) and must use the proceeds of such borrowings for construction and renovation of “strategic facilities of long-term use” or “objects used for satisfaction of the needs of the City’s population” (“**Borrowings**”). While the principal amount of a Borrowing is paid from the Development Fund, expenditure serving the debt of a Borrowing (primarily interest payments) must be made from the general fund of the City Budget.

The Budget Code gives the City Council the authority to make domestic and external Borrowings. Domestic Borrowings are denominated in hryvnia and external Borrowings are denominated in a foreign currency. The amount and composition of Borrowings to be made by the City Council during a budget year are specified in the City Budget for that budget year. Decisions on the amount of a Borrowing, including bond issue, whether in hryvnia or foreign currency, within the limits stipulated by the City Budget, are made by the City Council. However, the amount and terms of a Borrowing are subject to the prior approval of the Ministry of Finance. In addition to the prior approval of the terms of the Borrowing, agreements documenting such Borrowing and any material changes to such agreements are subject to registration with the Ministry of Finance.

In addition to Borrowings, the City Council may raise: (i) short-term loans (up to three months) from financial institutions to cover cash shortfalls in the general fund and the Development Fund upon a decision of the Cabinet of Ministers of Ukraine; (ii) interest-free loans from the State Treasury of Ukraine to cover cash shortfalls in the general fund for protected expenditure of the City Budget only; and (iii) interest-free medium-term loans to cover the amount of any undercollection of the expected revenues of the general fund of the City Budget, which are provided from the funds of the unified treasury account. Such loans are not considered as Borrowings under the Budget Code.

In accordance with the Budget Code, the debt of the City comprises of the total amount of disbursed and outstanding Borrowings of the City (the “**Debt**”). Any other types of indebtedness of the City, except for Borrowings, are not considered a part of the Debt under the Budget Code and, therefore, are not taken into account in determining the maximum amount of the Debt permitted to be incurred by the City in the relevant budget year (including the indebtedness under short-term loans, promissory notes, interest-free loans from the State Treasury of Ukraine and the unified treasury account, debt guaranteed by the City, overdue payments under purchase and services agreements).

The amount of the Debt and the debt guaranteed by the City at the end of a budget year may not exceed 400 per cent of the average yearly indicative amount of the Development Budget revenues (excluding the City’s domestic and external Borrowings) as set out in the City Budget forecast for the subsequent two years.

The Budget Code provides that the City is obliged to make payments for servicing and repayment of the Debt in full, regardless of whether sufficient funds have been budgeted for this purpose for the year in which the relevant payments are made.

The Ministry of Finance is the state body supervising the borrowing activities of local governments in Ukraine. One of the functions of the Ministry of Finance is to ensure that Borrowings to fund local budgets are carried out in compliance with the requirements of applicable budget legislation, including complying with any limits on levels of domestic and external Debt of the City and funds spent on the Debt service and Debt repayment.

Pursuant to the Budget Code, in the course of the preparation of the City Budget for a particular budget year, the Kyiv City State Administration is required to submit to the City Council, together with its draft budget resolution, information on the servicing of the City’s Debt, including the amounts and terms and conditions of the City’s Borrowings.

Expenditure on the servicing of the Debt must be allocated in the City Budget for the relevant budget year and cannot exceed 10 per cent of the aggregate expenditure of the general fund of the City Budget within that budget year. The City currently expects that its expenditure for servicing of the Debt (including expenditure in connection with the repayment of the Loan) will not exceed 6.5 per cent and 4.4 per cent of the expenditure of the general fund in 2011 and 2012, respectively, and will continue to decrease in each successive budget year to 1.5 per cent in 2016.

### ***Outstanding Indebtedness***

The total foreign currency Debt of the City at 31 December 2007, 2008, 2009 and 2010 was USD 860.59 million, USD 708.56 million, USD 706.35 million and USD 703.95 million, respectively. None of these amounts comprise the Debt denominated in hryvnia.

In 1998, the World Bank provided a loan of U.S.\$18.3 million to the State through the Ministry of Finance to be further on-loaned by the State in order to finance the purchase and installation of energy-saving equipment in 1,300 social and cultural buildings in Kyiv. In May 2006, the relevant loan agreement was amended to reduce the aggregate amount of the loan to U.S.\$15.2 million. The funds had been loaned by the Ministry of Finance to the City in several tranches, and, as of 1 July 2007, such loans had been received by the City in full. The loans to the City have 12-year terms with a 1 per cent. interest rate and repayment of principal to begin five years after the granting of the relevant loan. Pursuant to the approved repayment schedule, the City began to repay the principal under these loans in 2005 and has repaid U.S.\$12.47 million as of 1 February 2011.

In July 2004, the City borrowed U.S.\$200.0 million, funded from the proceeds of the offering of 8.625 per cent. loan participation notes due 2011 issued by Bayerische Hypo- und Vereinsbank (the “**2004 Loan**”), for purposes of capital investment in transportation infrastructure, including the construction of the Podilsky Bridge, in public utilities, including the construction of a new waste recycling plant and in health care, including the construction of a specialist cardiology unit.

In October 2005, the City borrowed U.S.\$250.0 million, funded from the proceeds of the offering of 8.0 per cent. loan participation notes due 2015 issued by Credit Suisse First Boston International (the “**2005 Loan**”), for purposes of capital investment in transportation infrastructure, including the continuous construction of the Podilsky Bridge and health care, including the construction of a specialist cardiology unit.

In November 2007, the City borrowed U.S.\$250.0 million, funded from the proceeds of the offering of 8.25 per cent. loan participation notes due 2012 issued by Credit Suisse First Boston International (the “**2007 Loan**”), for purposes of funding the implementation of investment projects within the City, including the continuous construction of the Podilsky Bridge, continuing the construction of a specialist cardiology unit, building new metro lines and upgrading certain high-speed tram lines.

In April 2009, the City borrowed UAH 750.0 million from CJSC “Alfa-Bank” (the “**Alfa-Bank Loan**”) and UAH 150.0 million from Bank Khreschatyk, and in June 2009, the City borrowed a further UAH 300.0 million from Bank Khreschatyk (jointly, the “**2009 Domestic Loan**”) for the purpose of financing payments to Kyivenergo to discharge the City Council’s statutory obligation to cover discrepancies between the cost of providing central heating and the central heating tariffs approved by the City Council. See “The City of Kyiv—Main Activities of the City—Housing and Utilities—General”. The 2009 Domestic Loan bears interest, payable monthly, at a floating rate which is calculated as the discount rate of the NBU plus 7.5 per cent. and which constitutes 15.25 per cent. per annum as at the date of this Prospectus. The 2009 Domestic Loan matures on 25 July 2011 (in the amount of UAH 5.0 million), on 29 July 2011 (in the amount of UAH 145.0 million), on 5 April 2012 (in the amount of UAH 750.0 million), on 11 June 2012 (in the amount of UAH 5.0 million) and on 15 June 2012 (in the amount of UAH 295.0 million). In addition to extending its maturity, the April amendments to the Alfa-Bank Loan also included an undertaking on behalf of the City to ensure that by 5 September 2011 the Alfa-Bank Loan is secured by a mortgage over immovable assets of the City or any third party with an aggregate market value of not less than UAH 500,000,000.

The 2009 Domestic Loan for the maximum maturity term of three years was authorised pursuant to Order No. 308-p dated 25 March 2009 “On Certain Issues Related to Covering Temporary Cash Shortfalls of the Kyiv City Budget” of the Cabinet of Ministers of Ukraine as amended on 18 August 2010 (the “**Domestic Loan Resolution**”). Notwithstanding such authorisation by the Cabinet of Ministers, article 73 of the former Budget Code of Ukraine dated 21 June 2001 (which was in effect at the time of borrowing the 2009 Domestic Loan, hereafter the “**Former Budget Code**”) allowed the local governments to take loans for the purpose of covering temporary shortfalls only for the maximum term of three months, and the Cabinet of Ministers of Ukraine did not have authority to extend such term. See “Risk Factors—Risks Associated with the City—2009 Domestic Loan deviates from Budget Code requirements and its validity may be challenged”.

The City Council’s Main Office of Fuel, Energy and Energy Saving issued (i) promissory notes in a principal amount of UAH 1,444.8 million to Kyivenergo and in a principal amount of UAH 55.2 million to CJSC “Ecostandart” (“**Ecostandart**”) in September 2010, and (ii) promissory notes in a

principal amount of UAH 457.8 million to Kyivenergo in December 2010 (jointly, the “**2010 Promissory Notes**”) to discharge the City Council’s legal obligation to cover discrepancies between the cost to such companies of providing central heating and the central heating tariffs approved by the City Council. The 2010 Promissory Notes bear interest, payable monthly, at a floating rate which is calculated as the discount rate of the NBU plus 5 per cent. and which constitutes 12.75 per cent. per annum as at the date of this Prospectus. The 2010 Promissory Notes are repayable in equal monthly instalments starting on 1 October 2011 and ending on 1 May 2013. The 2010 Promissory Notes were issued pursuant to Resolution No. 721 dated 18 August 2010 “On Settlement of Promissory Notes Payments in Relation to Reimbursement of Difference in Heat Energy Tariffs” of the Cabinet of Ministers of Ukraine. See also “The City of Kyiv—Main Activities of the City—Housing and Utilities”.

The City borrowed the 2009 Domestic Loan as a “short-term loan” which, under the Budget Code, is not treated as a part of the City’s Debt. See “Risk Factors—Risks Associated with the City—2009 Domestic Loan deviates from the Budget Code requirements and its validity may be challenged”. The 2010 Promissory Notes are treated as accounts payable for the purposes of the City Budget.

During September and December 2010 Kyivenergo and Ecostandart together transferred by means of endorsement UAH 1,207.8 million in principal amount of the 2010 Promissory Notes to OJSC “Oschadbank” (“**Oschadbank**”) and the remaining UAH 750.0 million in principal amount of the 2010 Promissory Notes to OJSC “Ukreximbank” (“**Ukreximbank**”). In addition to the endorsement, the transfer of 2010 Promissory Notes was documented, in accordance with Resolution No. 721, by agreements dated 3 September 2010 between Oschadbank and Kyivenergo, and Oschadbank and Ecostandart, respectively, in relation to UAH 1,000.0 million in principal amount of the 2010 Promissory Notes; by an agreement dated 3 September 2010 between Ukreximbank and Kyivenergo in relation to 500.0 million in principal amount of the 2010 Promissory Notes; by an agreement dated 6 December 2010 between Kyivenergo and Oschadbank in relation to UAH 207.8 million in principal amount of the 2010 Promissory Notes; and by an agreement dated 6 December 2010 between Kyivenergo and Ukreximbank in relation to UAH 250.0 million in principal amount of the 2010 Promissory Notes. Under these agreements, Oschadbank and Ukreximbank have undertaken to make a payment to Kyivenergo and Ecostandart in an amount equal to the face value of the 2010 Promissory Notes as consideration for the transfer of the 2010 Promissory Notes into the banks’ ownership. Furthermore, on 3 September 2010 the Main Office of Fuel, Energy and Energy Saving entered into agreements, as amended on 6 December 2010 and 29 April 2011 (in relation to Oschadbank only), with Oschadbank and Ukreximbank which specified in detail the terms of repayment of the 2010 Promissory Notes and payment of interest thereunder to such banks (together, the “**Promissory Notes Agreements**”).

The 2011 City Budget Resolution and Resolution No. 234/2621 of the Kyiv City Council dated 25 May 2011 as amended on 23 June 2011 by Resolution No. 243/5630, authorised the City Council to borrow up to U.S.\$300.0 million in an external borrowing in 2011. By Letters No. 31-12110-19-21/13139, dated 23 May 2011 and No. 31-12-110-19-21/15724 dated 21 June 2011, the Ministry of Finance approved such budgeted external borrowing by the City Council.

### ***Guarantees***

Under the Budget Code, the City may only guarantee the obligations of the businesses which are more than 50 per cent. owned by the City, located within the territory of the City and which implement investment programmes for the development of the City’s infrastructure or energy saving technologies. Guarantees can be granted only up to the maximum amount set by the City Council in the resolution approving the City Budget for the relevant budget year. The City may not issue guarantees of payment obligations that are to be discharged at the expense of the state or local budget (including the City Budget). The City’s guarantees, agreements secured by the City’s guarantees, and any amendments to such agreements, are subject to registration with the Ministry of Finance.

The Budget Code provides that, should the City become obliged to make payments under municipal guarantees (including guarantees issued by the City), such payments must be made in full, regardless of whether sufficient funds have been budgeted for this purpose for the year in which the relevant demand is made.

The City provided support to the European Bank of Reconstruction and Development (“**EBRD**”) in the form of a “soft” guarantee, in that it committed to provide for financial assistance in the City Budget to the following companies and for the following loans:

- a loan of EUR 60 million to municipal enterprise “Kyivpastrans” entered into in 2007 and maturing in 2021;
- a loan of EUR 40 million to municipal enterprise “Kyivsky Metropolitan” entered into in 2007 and maturing in 2020; and
- a loan of EUR 15 million to municipal enterprise “Kyivdorservice” entered into in 2008 and maturing in 2018.

In 2010 the City issued guarantees of these loans in favour of EBRD.

### **2009 Domestic Loan**

The following table sets out the indebtedness of the City under 2009 Domestic Loan as at 30 June 2011:

	<b>As at 30 June 2011</b>
	<hr/> <i>(UAH millions)</i>
<b>Liability</b>	
2009 Domestic Loan .....	1,200
<b>Total indebtedness under 2009 Domestic Loan .....</b>	<b>1,200</b>

Source: Kyiv City State Administration, Main Financial Office

Note:

- (1) The City borrowed and accounted for the 2009 Domestic Loan as a “short-term loan” which, under the Budget Code, is not treated as a part of the City’s Debt. See “Outstanding Indebtedness” above. “Risk Factors—Risks Associated with the City—2009 Loan deviates from the Budget Code requirements and its validity may be challenged”.

### **Indebtedness under 2010 Promissory Notes**

The following table sets out the indebtedness under 2010 Promissory Notes as at 30 June 2011:

	<b>As at 30 June 2011</b>
	<hr/> <i>(UAH millions)</i>
<b>Liability</b>	
2010 Promissory Notes .....	1,958
<b>Total indebtedness under 2010 Promissory Notes .....</b>	<b>1,958</b>

Source: Kyiv City State Administration, Main Financial Office

Note:

- (1) For purposes of 2011 Budget and in accordance with the Budget Code, 2010 Promissory Notes are treated as accounts payable and not as domestic Debt of the City. However, Order of the Ministry of Finance No. 11 dated 14 January 2011 “On Budget Classification” is inconsistent with the Budget Code and classifies the City’s liability under promissory notes as a part of the domestic Debt of the City. Under Ukrainian law the provisions of the Budget Code should prevail over the conflicting provisions of the Order of the Ministry of Finance referred to above. See “—Outstanding Indebtedness” above.

### External Debt of the City of Kyiv

The following table sets out the external Debt of the City as at 30 June 2011:

	<b>As at 30 June 2011 Amount</b>
	<i>(USD millions)</i>
<b>Liability</b>	
Loans directly obtained from external sources .....	700.0
World Bank loan obtained via sub-loan from the Ministry of Finance .....	2.71
<b>Total loans</b> .....	702.71
Guarantees in favour of EBRD.....	158.0 <sup>(1)</sup>
<b>Total guarantees</b> .....	158.0

Source: Kyiv City State Administration, Main Financial Office

Notes:

(1) This amount corresponds to the principal amounts of the loans guaranteed by the City. The guarantees also cover the payment of interest and any other amounts payable under the loan agreements.

### Maturity of Indebtedness of the City of Kyiv

The following table sets out information on the maturity profile of the indebtedness of the City as at 30 June 2011:

	<b>Principal payments due by period</b>					
	<b>Currency</b>	<b>Total</b>	<b>Less than one year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
			<i>(millions)</i>			
<b>Indebtedness under 2009</b>						
<b>Domestic Loan:</b>						
2009 Domestic Loan .....	UAH	1,200	—	1,200	—	—
<b>Total indebtedness under     2009 Domestic Loan.....</b>	<b>UAH</b>	<b>1,200</b>	<b>—</b>	<b>1,200</b>	<b>—</b>	<b>—</b>
<b>Indebtedness under 2010</b>						
<b>Promissory Notes</b>						
2010 Promissory Notes ....	UAH	1,958	—	1,958	—	—
<b>Total indebtedness under     2010 Promissory Notes</b>	<b>UAH</b>	<b>1,958</b>	<b>—</b>	<b>1,958</b>	<b>—</b>	<b>—</b>
<b>External Debt:</b>						
2004 Loan	USD	200.0	200.0	—	—	—
2005 Loan .....	USD	250.0	—	—	250.0	—
2007 Loan .....	USD	250.0	—	250.0	—	—
<b>Loans directly obtained     from external sources ...</b>	<b>USD</b>	<b>700.0</b>	<b>200.0</b>	<b>250.0</b>	<b>250.0</b>	<b>0.0</b>
World Bank loan obtained via sub-loan from the Ministry of Finance .....	USD	2.71	1.35	1.36	0.0	0.0
<b>Total external Debt</b> .....	<b>USD</b>	<b>702.71</b>	<b>201.35</b>	<b>251.36</b>	<b>250.0</b>	<b>250.0</b>

Source: Kyiv City State Administration, Main Financial Office

### City Debt Management

The Kyiv City State Administration's offices, including the Main Financial Office and others, are responsible for external Debt management and the efficient use of the City's borrowed funds. The principal functions of the Main Financial Office are as follows:

- to facilitate the obtaining of financing for the City Budget;

- to estimate the necessity of increasing the City's budget resources by means of various financial instruments;
- to maintain the co-operation of the Kyiv City State Administration with various banks and other financial institutions in the implementation of the City's programmes on social and economic development of the City;
- to maintain a central record of the City's debt obligations;
- to monitor the servicing and discharge of the City's indebtedness;
- to control strictly the use of borrowings for their specified purposes; and
- to approve loan documentation and confirm its compliance with the requirements of applicable legislation.

### ***Debt Payment Record***

Ukrainian legislation imposes strict requirements on the borrowing activity of the City Council. In the event of any failure by the City Council to comply with an agreed schedule for the repayment of principal and/or interest under its Borrowings, the current Budget Code would prohibit the making of new Borrowings under the City Budget during the following five years. As at 1 February 2011, the City had no overdue indebtedness with respect to the repayment of principal or interest under its Borrowings. The City has never defaulted on its Debt or guarantee obligations.

### ***Assets of the City***

The City's assets are principally comprised of real property holdings, shareholdings in newly established companies and shareholdings in privatised companies. These assets are held for and on behalf of the City by the City Council, which in turn may delegate certain management authority to the Kyiv City State Administration. For the year ended 31 December 2010, the City's assets generated revenues of UAH 818.3 million for the City, compared with UAH 971.1 million in 2009.

### ***Properties***

The legal basis of the City's ownership of real estate is established by the Constitution of Ukraine, the Civil Code of Ukraine, the Law on Local Self-Government and the Law on the Capital. The City Council is the holder, manager and landlord of the City-owned properties on behalf of the City residents. The City Council usually delegates the authority to sell the City's property holdings to the Main Office of Communal Property of the Kyiv City State Administration.

As at 1 October 2010, the City owned approximately 10.95 million square metres of non-residential real estate and, as at 1 January 2011, the City owned 47.99 million square metres of residential real estate.

### ***Share Ownership***

Of the 27 joint ventures and privatised companies in which the City is a shareholder or participant, the City currently holds shares in ten joint-stock companies whose shares are capable of being traded on the Ukrainian stock exchanges. Only a small portion of these shares trade with any degree of liquidity, however. The City participates in the management of these companies, including through representation on the companies' boards of directors. In addition, there are 366 municipal companies owned by the City. Based on decisions made by the City Council, the profits derived by municipal companies either accrue to the City Budget or are used by such businesses for their own development.

The City received estimated dividends of UAH 19.1 million in 2010 from companies in which it is a shareholder or participant, as compared with dividends of UAH 11.9 million in 2009, UAH 10.8 million in 2008 and UAH 25.7 million in 2007. Under the 2011 City Budget, the City has budgeted to receive dividends in an amount of UAH 4.1 million in 2011.

The City promotes and supports some municipal companies by transferring some of the City's property holdings to such companies for use in their business activities, providing tax remissions in respect of local taxes and fees and in some cases providing financial support for specific purposes, including as compensation for lost revenues resulting from City regulation of prices of the goods or services supplied by such companies.

As at 29 June 2011, the City's interests in privatised and commercial businesses included, among others, its ownership interests of 28.46 per cent. in Kyivgas, 25.46 per cent. in Kyivvodokanal, 51.0

per cent. in Khib Kyiva (a bakery company), 51.0 per cent. in Kyivspetstrans (a transport company providing waste removal services), 61.0 per cent. in Kyivenergoholding and 29.94 per cent. in OJSC “Borschahivsky Chemical and Pharmaceutical Factory”.

Between May 2009 and March 2010, the City sold through privatisation procedures its ownership interests of 80.0 per cent. in Kyivmiskbud (a construction company), 25.46 per cent. in Kyivvodokanal (a water supply and waste water processing company), 28.46 per cent. in Kyivgas and 51 per cent. in Kyivkhimvolokno (a chemical producer) (collectively, the “**Shares**”). Such sales were challenged in the Commercial Court for the City of Kyiv at the initiative of the General Prosecutor’s Office of Ukraine. Between October and November 2010, the Commercial Court for the City of Kyiv found the sale and purchase agreements in respect of the Shares invalid and ordered the relevant parties to transfer the Shares back into the City’s ownership. The decisions of the Commercial Court for the City of Kyiv in relation to the Shares were further upheld in all material respects by the Kyiv City Commercial Court of Appeal between December 2010 and January 2011 and by the High Commercial Court of Ukraine in March 2011. The rulings of the High Commercial Court of Ukraine may, in theory, and only within a year of the date thereof, be overturned by the Supreme Court of Ukraine on certain narrowly defined grounds. In particular, if such rulings contradict the earlier or subsequent decisions of the High Commercial Court in similar cases and therefore show inconsistency in the application of the relevant legislation, the Supreme Court of Ukraine may request the High Commercial Court to carry out a new review of the respective disputes.

As of the date of this Prospectus, the procedural steps in relation to the transfer of the Shares in Kyivmiskbud and Kyivkhimvolokno back into the City’s ownership is yet to be completed. Upon completion of such proceedings, the City will regain its ownership rights over such Shares. See also “The City of Kyiv—Privatisation”, “The City of Kyiv—Litigation” and “Risks Associated with the City—The City could be required to reimburse amounts previously received in relation to certain recently reversed privatisations, which could have an adverse effect on the City’s revenues from future privatisations”.

## THE ISSUER

The Issuer, Kyiv Finance plc, was incorporated in England and Wales on 25 February 2011 (registered number 7543612) as a public company with limited liability under the Companies Act 2006. The registered office of the Issuer is at Fifth Floor, 100 Wood Street, London EC2V 7EX. The telephone number for the Issuer is 020 7606 5451. The Issuer has been established as a special purpose vehicle for the purpose of issuing the Notes, and has no subsidiaries.

### Principal Activities

The Issuer has not commenced operations and has not engaged, since its incorporation, in any activities other than those incidental to its incorporation and registration as a public limited company under the Companies Act 2006, the authorisation of the issue of the Notes and of the other documents and matters referred to or contemplated in this Prospectus and matters which are incidental or ancillary to the foregoing. As at the date of this Prospectus no accounts have yet been drawn up in respect of the Issuer.

The Issuer will covenant to observe certain restrictions on its activities, which are detailed in Condition 4 (*Issuer's Covenant*) of the Terms and Conditions of the Notes and the Trust Deed.

### Directors and Secretary

The directors of the Issuer and their principal business addresses and other principal activities are:

Name	Business Address	Principal Activities
L.D.C. Corporate Director No.3 Limited	Fifth Floor, 100 Wood Street, London EC2V 7EX	Corporate Director
L.D.C. Corporate Director No.4 Limited	Fifth Floor, 100 Wood Street, London EC2V 7EX	Corporate Director
Ian Kenneth Bowden	Fifth Floor, 100 Wood Street, London EC2V 7EX	Director

The company secretary of the Issuer is Law Debenture Corporate Services Limited, whose business address is Fifth Floor, 100 Wood Street, London EC2V 7EX. The directors of Law Debenture Corporate Services Limited and their principal activities are as follows:

Name	Business Address	Principal Activities
Ian Kenneth Bowden	Fifth Floor, 100 Wood Street, London EC2V 7EX	Director
Caroline Janet Banzky	Fifth Floor, 100 Wood Street, London EC2V 7EX	Director
Anne Louise Hills	Fifth Floor, 100 Wood Street, London EC2V 7EX	Director
L.D.C. Trust Management Limited	Fifth Floor, 100 Wood Street, London EC2V 7EX	Corporate Director

The company secretaries of Law Debenture Corporate Services Limited are Sharon Elizabeth Martin and Marc Allan Cormack Bissett.

**Capitalisation and Indebtedness**

The capitalisation and indebtedness of the Issuer as at the date of this Prospectus, adjusted to take account of the issue of the Notes, is as follows:

*Share Capital*

The Issuer's share capital is £50,000, represented by 50,000 ordinary shares with a nominal value of £1 each. The Issuer's share capital is fully paid up. The Issuer's shares are held by The Law Debenture Intermediary Corporation plc under a declaration of trust for the benefit of charitable purposes. English company law combined with covenants made by the Issuer in the transaction documents and the role of the Trustee prevent any abuse of control of the Issuer.

*Loan Capital*

The Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities and the Issuer has not created any mortgages or charges nor has it given any guarantees as at the date hereof.

**Auditors**

PKF (UK) LLP are chartered accountants and registered auditors and have been appointed as the auditor for the Issuer. PKF (UK) LLP are members of the Institute of Chartered Accountants in England and Wales.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the Terms and Conditions of the Notes, which will be endorsed on each Note in definitive form. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global form" below.*

The US\$300,000,000 9.375 per cent. Loan Participation Notes due 2016 (the "Notes", which expression includes any further notes issued pursuant to Condition 13 (Further Issues) and forming a single series therewith) of Kyiv Finance plc (the "Issuer") are constituted by, are subject to, and have the benefit of, a trust deed dated 11 July 2011 (as amended or supplemented from time to time, the "Trust Deed") between the Issuer and Deutsche Trustee Company Limited as trustee (the "Trustee", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated 11 July 2011 (as amended or supplemented from time to time, the "Agency Agreement") between the Issuer, Deutsche Bank Trust Company Americas, the U.S. registrar (the "U.S. Registrar") and Deutsche Bank Luxembourg S.A., as the Luxembourg registrar (the "Luxembourg Registrar" and together with the U.S. Registrar, the "Registrars", which expression includes any successor registrar appointed from time to time in connection with the Notes), Deutsche Bank AG, London Branch as principal paying agent (the "Principal Paying Agent", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes) and as London transfer agent (the "London Transfer Agent" and, together with the other transfer agents named therein (the "Transfer Agents", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), Deutsche Bank Trust Company Americas as the U.S. paying agent (the "U.S. Paying Agent" and together with the other paying agents named therein and the Principal Paying Agent, the "Paying Agents", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "Agents" are to the Registrars, the Transfer Agents and the Paying Agents and any reference to an "Agent" is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Noteholders (as defined below) are entitled to the benefit of, bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof Winchester House, 1 Great Winchester Street, London EC2M 2DB and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing the US\$300,000,000 loan (the "Loan") to Kyiv City Council (the "Borrower"). The Issuer and the Borrower have recorded the terms of the Loan in an agreement dated 4 July 2011 between the Issuer, as lender, and the Borrower (as amended and supplemented from time to time, the "Loan Agreement").

**In each case where amounts of principal, interest and additional amounts, if any, due pursuant to Condition 6 (Payments) and Condition 7 (Taxation) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to pay to the Noteholders (as defined in Condition 2(a)), on each date upon which such amounts of principal, interest and additional amounts, if any, are due in respect of the Notes, to the extent of the sums of principal, interest, Additional Amounts and Tax Indemnity Amounts (each as defined in the Loan Agreement), if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.**

As security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes, the Issuer has:

- (A) charged by way of security to the Trustee all of the Issuer's rights, interests and benefits in and to (i) principal, interest and other amounts now or hereafter paid and payable by the Borrower to the Issuer as lender under the Loan Agreement and (ii) all amounts now or hereafter paid or payable by the Borrower to the Issuer under or in respect of any claim, award or judgment

relating to the Loan Agreement (in each case other than its right to amounts in respect of any rights, interests and benefits of the Issuer under the following clauses of the Loan Agreement: Clause 7.3 second sentence thereof (*Costs of Prepayment*); Clause 8.3 (*Tax Indemnity*); Clause 10 (*Changes in Circumstances*); Clause 11 (*Representations and Warranties of the Borrower*); Clause 16 (Default Interest and Indemnity); (to the extent that the Issuer's claim is in respect of one of the aforementioned clauses of the Loan Agreement) Clause 18 (*Payments*), Clause 17.2 (*Currency Indemnity*) and Clause 18.3 (*No Set-off*); Clause 19 (*Fees, Costs and Expenses*); (such rights are referred to herein as the “**Reserved Rights**”));

- (B) charged by way of security to the Trustee all of the Issuer's rights, interests and benefits in and to all sums held on deposit from time to time, in the Collection Account (as defined in the Loan Agreement) with the Principal Paying Agent, together with the debt represented thereby (except to the extent such debt relates to Reserved Rights) pursuant to the Trust Deed (this sub-Clause (B), together with sub-Clause (A) other than the Reserved Rights, the “**Charged Property**”); and
- (C) assigned absolutely by way of security to the Trustee all of the Issuer's rights, interests and benefits whatsoever, both present and future, whether proprietary, contractual or otherwise under or arising out of or evidenced by the Loan Agreement (including, without limitation, the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of the Borrower thereunder) other than the Charged Property and the Reserved Rights and amounts payable by the Borrower in relation to the Charged Property and the Reserved Rights (the “**Transferred Rights**”),

together, the “**Security Interests**”.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) be required by Noteholders holding at least one-quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising in connection with the Security Interests).

## 1. Form, Denomination and Status

- (a) *Form and denomination*: The Notes are in registered form, without interest coupons attached, in the denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof (each, an “**Authorised Holding**”).
- (b) *Status*: The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply an amount equal to the principal amount of the Notes solely for financing the Loan and to account to the Noteholders for principal and interest and additional amounts (if any) in respect of the Notes in an amount equivalent to sums of principal, interest, Additional Amounts and Tax Indemnity Amounts (each as defined in the Loan Agreement), if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement (less any amounts in respect of Reserved Rights), the right to receive which is, *inter alia*, being charged by way of security to the Trustee by virtue of the Security Interests as security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes.

Payments in respect of the Notes to the extent of the sums actually received by or for the account of the Issuer by way of principal, interest, Additional Amounts or Tax Indemnity Amounts (each as defined in the Loan Agreement), if any, pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights) will be made *pro rata* among all Noteholders (subject to Condition 7 (*Taxation*)), on the dates on which such payments are due in respect of the Notes subject to the conditions attaching to, and in the currency of, such payments under the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. The Issuer shall be under no obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders are deemed to have accepted that:

- (i) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or (save as otherwise expressly provided in the Trust Deed and paragraph (vi) below) liability, or obligation in respect of the performance

and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal, interest, Additional Amounts or Tax Indemnity Amounts (each as defined in the Loan Agreement) or other amounts, if any, due or to become due from the Borrower under the Loan Agreement;

- (ii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;
- (iii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, any misrepresentation or breach of warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;
- (iv) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by any Registrar, the Principal Paying Agent, any Transfer Agent or any Paying Agent of their respective obligations under the Agency Agreement;
- (v) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Borrower of its obligations under the Loan Agreement, its covenant to pay under the Loan Agreement and its credit and financial standing. The Borrower has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes legal, valid and binding obligations of the Borrower. The representations and warranties given by the Borrower in Clause 11 (*Representations and Warranties of the Borrower*) of the Loan Agreement are given by the Borrower to the Issuer for the sole benefit of the Issuer and neither the Trustee nor any Noteholder shall have any remedies or rights against the Borrower that the Issuer may have with respect to such representations or warranties, other than any right the Trustee may have pursuant to the assignment of the Transferred Rights;
- (vi) the Issuer (and, pursuant to the assignment of the Transferred Rights, the Trustee) will rely on self-certification by the Borrower and certification by third parties as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement (other than, in the case of the Issuer only, with respect to the obligation of the Borrower to make payments of principal, interest, additional amounts and other amounts due under the Loan Agreement) and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Security Interests and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the secured property represented by the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee will have no responsibility for the value of such security; and
- (vii) if the Borrower is required by law to make any withholding or deduction for or on account of tax from any payment under the Loan Agreement or if the Issuer is required by law to make any withholding or deduction for or on account of tax from any payment in respect of the Notes, the sole obligation of the Issuer will be to pay the Noteholders sums equivalent to the sums actually received from the Borrower pursuant to the Loan Agreement in respect of such payment, including, if applicable, Additional Amounts or Tax Indemnity Amounts in respect of the tax required to be so withheld or deducted; the Issuer shall not be obliged to take any actions or measures as regards such deductions or withholdings other than those set in Clause 8 (*Taxes*) and Clause 10.3 (*Mitigation*) of the Loan Agreement.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct

recourse to the Borrower except through action by the Trustee under the Security Interests. The Trustee shall not be required to take proceedings to enforce payment under the Trust Deed or, pursuant to the Transferred Rights, the Loan Agreement unless it has been indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

As provided in the Trust Deed, the obligations of the Issuer are solely to make payments of amounts in aggregate equal to principal, interest, Additional Amounts, Tax Indemnity Amounts (each as defined in the Loan Agreement) or other amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement (less any amounts in respect of Reserved Rights), the right to which is being charged by way of security to the Trustee as aforesaid. Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.

The obligations of the Issuer to make payments as stated in the previous paragraph constitute direct and general obligations of the Issuer which will at all times rank *pari passu* and rateably without any preference among themselves and at least *pari passu* with all other previous and future unsecured obligations of the Issuer, save for such obligations, as may be preferred by provisions of law that are mandatory and of general application.

Payments made by the Borrower under the Loan Agreement to, or to the order of, the Trustee or (before such time that the Issuer has been required by the Trustee, pursuant to the terms of the Trust Deed, to pay to or to the order of the Trustee) the Principal Paying Agent will satisfy *pro tanto* the obligations of the Issuer in respect of the Notes.

## 2. Register, Title and Transfers

- (a) *Register*: The Registrars will maintain outside the United Kingdom a register (the “**Register**”) in respect of the Notes 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. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

*The Rule 144A Global Note Certificate will be deposited with a custodian for, and title to the Notes issued in respect of the Rule 144A Global Note Certificate will be registered in the name of, a nominee of DTC. The Regulations S Global Note Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and title to the Notes issued in respect of the Regulation S Global Note Certificate will be registered in the name of a nominee of such common depositary.*

- (b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.
- (c) *Transfers*: Subject to Condition 2(f) (*Closed periods*) and Condition 2(g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed (including any certificates as to compliance with restrictions on transfer included therein), at the Specified Office of the relevant Registrar or relevant Transfer Agent, together with such evidence as such 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 individuals who have executed the form of transfer; 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 Holdings. 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:* Within five business days of the surrender of a Note Certificate in accordance with Condition 2(c) (*Transfers*) above, the relevant Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any 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 general business (including dealings in foreign currencies) in the city where the relevant Registrar and (if applicable) the relevant Transfer Agent has its Specified Office.
- (e) *No charge:* The transfer of a Note will be effected without charge by or on behalf of the Issuer, any Registrar or any Transfer Agent but against such indemnity as such Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (f) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the 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 in accordance with applicable law and with the prior written approval of the Trustee, the Registrars and the Borrower. A copy of the current regulations will be mailed (free of charge) by any Registrar and/or any Transfer Agent to any Noteholder who requests in writing a copy of such regulations.

### 3. Issuer’s Covenant

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (as defined in the Trust Deed), agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed and the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

### 4. Interest

- (a) Interest on the Notes is equal to 9.375 per cent. per annum (the “**Rate of Interest**” and the corresponding amount the “**Due Interest**”), provided that, subject to and in accordance with Condition 6 (*Payments*), on each Interest Payment Date the Issuer shall pay to the Noteholders only an amount of interest (and any Additional Amounts (as defined in the Loan Agreement) in respect of such interest) equal to and in the same currency as the amount of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement (the “**Current Paid Interest**”). The amount equal to the difference between the Due Interest and the Current Paid Interest (if any) shall remain due by the Issuer, but shall be deferred (the “**Deferred Interest**”). Interest shall accrue on the Loan from day to day from (and including) the Drawdown Date to (but excluding) the due date for repayment thereof unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the outstanding principal amount of the Loan is made.

- (b) The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Interest payable on the Loan for the first and final Interest Periods, and (if required to be calculated) interest payable on the Loan in respect of any period other than an Interest Period, will be 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.

As used in this Condition 4 (*Interest*), “**Interest Payment Date**” and “**Interest Period**” shall have the meanings given to them in the Loan Agreement. In the Loan Agreement, “**Interest Payment Date**” is defined as 11 July and 11 January in each year in which the Loan remains outstanding commencing on 11 January 2012. The final Interest Payment Date shall fall on 11 July 2016. Under the Loan Agreement, the Borrower is required, two Business Days prior to each Interest Payment Date, to pay to the Issuer an amount equal to and in the same currency as the full amount of interest accruing during the Interest Period ending on such Interest Payment Date.

- (c) *Default Interest under the Loan Agreement*: In the event that, and to the extent that, the Issuer actually receives any amounts in respect of interest on unpaid sums from the Borrower pursuant to Clause 16 (*Default Interest and Indemnity*) of the Loan Agreement (other than amounts so received forming part of the Reserved Rights), the Issuer shall account to the Noteholders for an amount equivalent to the amounts in respect of interest on unpaid sums actually so received. Any payments made by the Issuer under this Condition 4(d) will be made on the next following business day (as defined in Condition 6(d)) after the day on which the Issuer receives such amounts from the Borrower and, save as provided in this Condition 4(d), subject as provided in Condition 6 (*Payments*).

## 5. Redemption and Purchase

- (a) *Scheduled redemption*: Unless previously prepaid pursuant to Clause 7 (*Prepayment*) of the Loan Agreement, the Borrower will be required to repay the Loan on its due date as provided in the Loan Agreement and, subject to such repayment, all the Notes will be redeemed at their principal amount on 11 July 2016, subject as provided in Condition 6 (*Payments*).
- (b) *Redemption by the Issuer*: The Notes shall be redeemed by the Issuer in whole, but not in part, at any time, on giving not less than 30 days’ nor more than 60 days’ notice to the Noteholders (which notice shall be irrevocable and shall specify a date for redemption, being the same date as that set forth in the notice of prepayment referred to in Condition 5(b)(i) or (ii) below) in accordance with Condition 14 (*Notices*) at the principal amount thereof, together with interest accrued and unpaid to the date fixed for redemption and any additional amounts in respect thereof pursuant to Condition 7 (*Taxation*), if, immediately before giving such notice:
- (i) the Issuer has received a notice of prepayment from the Borrower pursuant to Clause 7.1 (*Prepayment for Tax Reasons*) of the Loan Agreement, which includes, *inter alia*, the Borrower’s right to give notice that it has decided to prepay the Loan in the event that the Issuer is, subject to receipt of corresponding amounts from the Borrower, required to pay additional amounts in respect of Taxes as provided in Condition 7 (*Taxation*); or
  - (ii) the Issuer has delivered a notice to the Borrower, the contents of which require the Borrower to repay the Loan, in accordance with the provisions of Clause 7.2 (*Prepayment for Illegality*) of the Loan Agreement,

and the Trustee is satisfied that the relevant notice has been so delivered or, as the case may be, received.

The Issuer shall deliver to the Trustee a certificate signed by two officers of the Issuer stating that the Issuer is entitled to effect such redemption in accordance with this Condition 5(b). A copy of the Borrower’s notice of prepayment or details of the circumstances contemplated by Clause 7.2 (*Prepayment for Illegality*) of the Loan Agreement and the date fixed for redemption shall be set forth in the notice.

The Trustee shall be entitled to accept any notice or certificate delivered by the Issuer in accordance with this Condition 5(b) as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice given by the Issuer to the Noteholders as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5, subject as provided in Condition 6 (*Payments*).

- (c) *No other redemption*: Except where the Loan is accelerated pursuant to Clause 15.9 (*Rights of Lender upon Occurrence of an Event of Default*) of the Loan Agreement, the Issuer shall not be entitled to redeem the Notes prior to that due date otherwise than as provided in Condition 5(b) (*Redemption by the Issuer*) above and Condition 12 (*Enforcement*).
- (d) *Purchase*: The Issuer or the Borrower may at any time purchase Notes in the open market or otherwise and at any price. Such Notes may be held or resold (provided that any such resale is outside the United States as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”)) or surrendered by the purchaser through the Issuer to the relevant Registrar for cancellation.

*Notes held by the Issuer or its subsidiaries, or the Borrower or companies controlled by the Borrower, will not carry the right to attend and vote at meetings of Noteholders and will not be taken into account, inter alia, for the purposes of Conditions 11 (Meetings of Noteholders; Modification and Waiver; Substitution) and 12 (Enforcement).*

- (e) *Cancellation*: All Notes so redeemed or purchased and surrendered for cancellation by the Issuer shall be cancelled and all Notes purchased by the Borrower and surrendered to the Issuer pursuant to Clause 7.5 (*Purchase of Instruments Issued to the Agreed Funding Source*) of the Loan Agreement, together with an authorisation addressed to the relevant Registrar by the Borrower, shall be cancelled.
- (f) *Right to Compel Sale*: The Issuer may compel any beneficial owner of Notes initially sold pursuant to Rule 144A under the Securities Act to certify that it is a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51)(A) of the U.S. Investment Company Act of 1940, as amended (the “**Investment Company Act**”)) and may compel any such beneficial owner to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51)(A) of the Investment Company Act).

## 6. **Payments**

- (a) *Principal*: Payments of principal shall be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth 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 or London, as the case may be, and shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (b) *Interest*: Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth 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 or London, as the case may be, and (in the case of interest payable on redemption), and shall only be made upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (c) *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 in the place of payment, 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.

- (d) *Payments on business days*: Where payment is to be made by transfer to a U.S. dollar account, 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 U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note 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 this paragraph, “**business day**” means any day on which banks are open for general business (including dealings in foreign currencies) in New York City, London, Kyiv and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).
- (e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (f) *Record date*: Each 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 relevant Registrar’s Specified Office on the fifteenth day before the due date for such payment (the “**Record Date**”). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.
- (g) *Payment to the Collection Account*: Save as the Trustee may otherwise direct at any time after the security created pursuant to the Trust Deed becomes enforceable, the Issuer will pursuant to the provisions of Clause 7.1 (*Issuer to pay Principal Paying Agent*) of the Agency Agreement require the Borrower to make all payments of principal, interest, Additional Amounts (each as defined in the Loan Agreement), Tax Indemnity Amounts (each as defined in the Loan Agreement) or other amounts, if any, to be made pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights, to the Collection Account.
- (h) *Payment obligations limited*: Notwithstanding any other provisions to the contrary, the obligations of the Issuer to make payments under Condition 5 (*Redemption and Purchase*) and Condition 6 (*Payments*) shall constitute an obligation only to pay to the Noteholders on such date upon which a payment is due in respect of the Notes, to the extent of sums of principal, interest, Additional Amounts (each as defined in the Loan Agreement), Tax Indemnity Amounts (each as defined in the Loan Agreement) or other amounts, if any, actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights. The Issuer will have no other financial obligation under the Notes.

## 7. Taxation

All payments by or on behalf of the Issuer in respect of the Notes shall be made free and clear of and without deduction or withholding for or on account of any present or future taxes, duties, assessments, fees or other governmental charges (“**Taxes**”) imposed or levied by or on behalf of the United Kingdom, Ukraine, any jurisdiction from or through which a payment is made, or any political subdivision or taxing authority thereof or therein in each of the preceding jurisdictions (each, a “**Taxing Jurisdiction**”), unless such withholding or deduction is required by law. In that event, the Issuer shall, subject as provided below, pay such additional amounts (“**additional amounts**”) as will result in the receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made. The foregoing obligation to pay additional amounts, however, will not apply to any:

- (a) Taxes that would not have been imposed but for the existence of any present or former connection between such Noteholder and the relevant Taxing Jurisdiction other than the mere receipt of such payment or the ownership or holding of such Note;
- (b) (in the case of payments of principal or interest on redemption) Taxes that would not have been imposed but for the surrender by the Noteholder of the relevant Note Certificate for payment on a date more than 30 days after a Relevant Date (as defined below);
- (c) Taxes required to be deducted or withheld by any Paying Agent from a payment on a Note, if the Noteholder would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through any other Paying Agent in a Member State of the European Union;
- (d) Taxes imposed on a payment to an individual and required to be made pursuant to European Union Directive on the Taxation of Savings Income in the form of Interest Payments (Directive 2003/48/EC) on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

**Notwithstanding the foregoing provisions, the Issuer shall only make payments of additional amounts to the Noteholders pursuant to this Condition 7 (*Taxation*) to the extent and at such time as it shall have actually received an equivalent amount for such purposes from the Borrower under the Loan Agreement by way of Additional Amounts or Tax Indemnity Amounts (each as defined in the Loan Agreement) or otherwise.**

To the extent that the Issuer receives a lesser sum from the Borrower under the Loan Agreement, the Issuer shall account to each Noteholder entitled to receive such additional amount pursuant to this Condition 7 (*Taxation*) for an additional amount equivalent to a *pro rata* portion of such sum (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to such payment to the Issuer.

In these Conditions, “**Relevant Date**” means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders by the Issuer in accordance with Condition 14 (*Notices*).

Any reference in these Conditions to principal or interest shall be deemed to include, without duplication, any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed or the Loan Agreement.

If the Issuer or the Borrower becomes subject at any time to any taxing jurisdiction other than the United Kingdom or Ukraine, as the case may be, references in these Conditions to the United Kingdom and/or Ukraine shall be construed as references to the United Kingdom and/or Ukraine and/or such other jurisdiction.

## **8. Prescription**

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years, and claims for interest due other than on redemption shall become void unless made within five years, of the appropriate Relevant Date.

## **9. 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 relevant Registrar or the Paying Agent (having its Specified Office in New York, London or Luxembourg, as the case may be), 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.

## 10. Trustee and Agents

Under separate agreement between the Borrower and the Trustee, the Trustee is entitled to be indemnified and/or secured and/or prefunded to its satisfaction and relieved from responsibility in certain circumstances and, under the Trust Deed, to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Borrower and any entity relating to the Issuer or the Borrower without accounting for any profit.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 7 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 7 (*Taxation*) pursuant to the Trust Deed.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders. Under separate agreement between the Borrower and the Agents, the Agents are entitled to be indemnified and/or secured and/or prefunded to their satisfaction and relieved from certain responsibilities in certain circumstances.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time upon notice to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar and additional or successor paying agents or transfer agents; provided, however, that the Issuer shall at all times maintain (a) a registrar, and (b) a paying agent with a specified office in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to European Union Directive on the Taxation of Savings Income in the form of Interest payments (Directive 2003/48/EC) on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 14 (*Notices*).

## 11. Meetings of Noteholders; Modification and Waiver; Substitution

- (a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of the Loan Agreement or any provision of these Conditions or the Trust Deed. Such a meeting may be convened on no less than 14 days' notice by the Trustee or the Issuer or shall be convened by the Trustee subject to its being indemnified and/or secured and/or prefunded to its satisfaction upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons holding or representing whatever the principal amount of the outstanding Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to change any date fixed for payment of principal or interest in respect of the Notes, (ii) to reduce the amount of principal or interest payable on any date in respect of the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, (iv) to change the currency of payments under the Notes, (v) to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution, (vi) to alter the governing law of the Conditions, the Trust Deed or the Loan Agreement, (vii) to change any date fixed for

payment of principal or interest under the Loan Agreement, (viii) to alter the method of calculating the amount of any payment under the Loan Agreement or (ix) to change the currency of payment or, without prejudice to the rights under Condition 11(b) (*Modification and Waiver*) below, change the definition of “**Event of Default**” under the Loan Agreement (each, a “**Reserved Matter**”), in which case the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

An “**Extraordinary Resolution**” means a resolution passed at a Meeting duly convened and held in accordance with Schedule 4 to the Trust Deed by a majority of no less than three quarters of the votes cast.

In addition, a resolution in writing signed by or on behalf of all Noteholders of at least 90 per cent. in principal amount of the Notes outstanding who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed a (“**Written Resolution**”) will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification and waiver*: The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions or the Trust Deed or, pursuant to the Transferred Rights, the Loan Agreement (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes, these Conditions or the Trust Deed by the Issuer or, pursuant to the Transferred Rights, the Loan Agreement by the Borrower, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement or constitute a Relevant Event (as defined in Condition 12 (*Enforcement*)) shall not be treated as such (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

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

- (c) *Substitution*: The Trust Deed and the Loan Agreement contain provisions under which the Issuer may, without the consent of the Noteholders, transfer the obligations of the Issuer as principal debtor under the Trust Deed and the Notes and its rights as Lender under the Loan Agreement to a third party provided that certain conditions specified in the Trust Deed are fulfilled. So long as any of the Notes are listed on the Irish Stock Exchange, in the event of such substitution, the Irish Stock Exchange will be informed of such substitution, a supplemental prospectus will be produced and will be made publicly available during normal office hours at the Specified Offices of the Transfer Agent and the Paying Agent in London and such substitution shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 14 (*Notices*).

## 12. Enforcement

At any time after an Event of Default (as defined in the Loan Agreement) or Relevant Event (as defined below) shall have occurred and be continuing, the Trustee may, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

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

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

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

The Trust Deed also provides that, at any time after an Event of Default or a Relevant Event shall have occurred and be continuing, the Trustee may, and shall if requested to do so by Noteholders of at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified and/or prefunded to its satisfaction, (1) require the Issuer to declare all amounts payable under the Loan Agreement by the Borrower to be due and payable (where an Event of Default has occurred and is continuing), or (2) enforce the security created in the Trust Deed in favour of the Noteholders (where a Relevant Event has occurred and is continuing). Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof together with interest accrued to the date fixed for redemption together with any additional amounts due in respect thereof pursuant to Condition 7 (*Taxation*) and thereupon shall cease to be outstanding.

For the purposes of these Conditions, “**Relevant Event**” means the earlier of (i) the failure by the Issuer to make any payment of principal or interest on the Notes when due, to the extent it is obligated to do so pursuant to these Conditions; (ii) the filing of an application for the institution for bankruptcy, insolvency or composition proceedings over the assets of the Issuer in the United Kingdom; or (iii) the taking of any action in furtherance of the dissolution of the Issuer.

### **13. Further Issues**

The Issuer may from time to time, with the consent of the Borrower but without the consent of the Noteholders, in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. Such further Notes shall be issued under a deed supplemental to the Trust Deed. In relation to such further issue, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with the Borrower on the same terms as the original Loan Agreement (or on the same terms except for the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, would not materially prejudice the interests of the Noteholders. The Issuer will provide a further fixed charge and absolute assignment by way of security in favour of the Trustee of its rights under such supplemental loan agreement equivalent to the rights charged and assigned as Security Interests in relation to the Issuer’s rights under the original Loan Agreement which will, together with the Security Interests referred to in these Conditions, secure both the Notes and such further Notes and the Trustee is entitled to assume without enquiry that this arrangement as regards security for the Notes will not be materially prejudicial to the interests of the Noteholders.

### **14. Notices**

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

### **15. Limited Recourse**

If at any time following:

- (a) the occurrence of the scheduled redemption date set out in Condition 5(a) (Scheduled Redemption) or any earlier date upon which all of the Notes are due and payable; and
- (b) Realisation of the Loan Agreement and application in full of any amounts available to pay amounts due and payable under the Notes in accordance with the Trust Deed and the Conditions,

the proceeds of such Realisation are insufficient, after payment of all other claims ranking in priority in accordance with the applicable priority (or priorities) of payments, to pay in full any Deferred Interest and any other amounts then due and payable under the Notes then the amount remaining to be paid, including but not limited to Deferred Interest, (after such

application in full of the amounts first referred to in (b) above) under the Notes shall, on the day following such application in full of the amounts referred to in (b) above, cease to be due and payable by the Issuer.

For the purposes of this Condition 15:

“**Realisation**” means, in relation to the Loan Agreement, the deriving, to the fullest extent practicable, (in accordance with the provisions of the Trust Deed and other transaction documentation) of proceeds from or in respect of the Loan Agreement including (without limitation) through sale or through performance by the Borrower.

Notwithstanding any other clause or provision in the Conditions or any transaction document, no provision other than this Condition 15 shall limit or in any way reduce the amount of interest that would otherwise be payable by the Issuer under any Note.

For the avoidance of doubt, the Notes are therefore limited recourse obligations of the Issuer only. In each case where amounts are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts are due in respect of the Notes, for all amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement (disregarding any amounts in respect of Reserved Rights). The Issuer will have no other financial obligation under the Notes. Accordingly, Noteholders are deemed to have agreed that they will rely solely and exclusively on the Borrower’s covenants to pay and perform its obligations under the Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.

None of the Noteholders (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes.

## 16. Governing Law and Jurisdiction

- (a) *Governing law*: The Notes, the Loan Agreement, the Agency Agreement and the Trust Deed and all matters arising from or connected with the Notes, the Loan Agreement and the Trust Deed are governed by, and shall be construed in accordance with, English law.
- (b) *Jurisdiction*: The Issuer has in the Trust Deed (i) irrevocably agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising from or connected with the Notes; (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; (iii) designated a person in England to accept service of any process on its behalf; (iv) consented to the enforcement of any judgment; and (v) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

*There will appear at the foot of the Conditions endorsed on or (as the case may be) attached to each Individual Note Certificate the names and Specified Offices of the Registrar, the Paying Agents and the Transfer Agents as set out at the end of this Prospectus.*

## THE LOAN AGREEMENT

The following is the text of the Loan Agreement, save for the signature page and Schedules.

**THIS AGREEMENT** is made on 4 July June 2011

### **BETWEEN:**

- (1) **THE KYIV CITY COUNCIL**, a legal entity under the laws of Ukraine, whose principal office is at 36 Khreshchatyk Street, 01044 Kyiv, Ukraine (the “**Borrower**”), represented by its authorised representative, acting pursuant to the authority granted under applicable Ukrainian legislation; and
- (2) **KYIV FINANCE PLC**, a legal entity incorporated under the laws of England and Wales and whose registered office is at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom (the “**Lender**”) represented by its authorised representative, acting pursuant to a resolution of the board of directors of the Lender.

### **WHEREAS:**

- (A) The Borrower is seeking funds to finance the expenditures of the development fund of the Kyiv City Budget. The expenditure to which these funds will be applied by the Borrower is the refinancing of the Existing Loan (as defined below). To the extent, if any, that the funding raised from the proceeds from the offering of the Notes (as defined below) exceeds the amounts necessary for such refinancing, the Borrower will use such excess proceeds towards the satisfaction of other expenditure objectives of the development fund of the Kyiv City Budget, particularly through capital investments in the areas of transportation infrastructure and health care.
- (B) The Lender is willing to provide financing to the Borrower pursuant to the terms and conditions set forth in this Agreement.

**IT IS AGREED** as follows:

### **1. DEFINITIONS AND INTERPRETATION**

#### **1.1 Definitions**

In this Agreement the following terms have the meanings given to them in this Clause 1.1:

“**Acceleration Notice**” has the meaning set forth in Clause 15.9 (*Rights of Lender upon Occurrence of an Event of Default*).

“**Additional Amounts**” has the meaning set forth in Clause 8.1 (*Additional Amounts*).

“**Agency**” means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory Person (whether autonomous or not) of, or the government of, any state and, for the avoidance of doubt, includes the legislature and administration of the City of Kyiv.

“**Agreed Funding Source**” shall mean any Person to whom the Lender owes any Indebtedness (including securities), which Indebtedness was incurred solely and expressly to fund the Loan (including a designated representative of such Person).

“**Agreed Funding Source Agreements**” means the Trust Deed; the Notes; the subscription agreement dated 4 July 2011 in respect of the Notes between the Lender, the Borrower, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, LLC VEB Capital and VTB Capital PLC as Joint Lead Managers and Public Joint Stock Company “Commercial Bank “KHRESCHATYK” as Co-Manager; the agency agreement to be dated 11 July 2011 between the Lender, Deutsche Bank AG, London Branch as principal paying agent and transfer agent, Deutsche Bank Trust Company Americas as U.S. registrar, U.S. paying agent and U.S. transfer agent, Deutsche Bank Luxembourg S.A. as Luxembourg registrar and Deutsche Trustee Company Limited, as trustee, in each case as amended from time to time, and any other agreements entered into in connection with the Agreed Funding Source.

“**Budget Accounts**” means the 2010 Budget of the Borrower, as approved by Resolution No. 793/4231 of the Kyiv City Council dated 14 May 2010 “On the Budget of the City of Kyiv for the Year 2010” as amended on 15 July 2010, 25 August 2010, 16 September 2010, 14 October 2010, 2 December 2010, 16 December 2010, 28 December 2010 and 30 December 2010, the report on the execution of the 2010 Budget of the Borrower, as approved by Resolution No.

232/2619 of the Kyiv City Council dated 25 May 2011, and the 2011 Budget of the Borrower as approved by Resolution No. 573/5385 of the Kyiv City Council dated 30 December 2010 “On the Budget of the City of Kyiv for the Year 2011” as amended on 24 February 2011, 28 April 2011, 25 May 2011 and 23 June 2011, together with any further amendments thereto.

“**Business Day**” means any day (other than a Saturday or Sunday) on which banks generally are open for general business (including dealings in foreign currencies) in New York City, London and Kyiv.

“**Change of Law**” means any of the enactment or introduction of any new law; the variation, amendment or repeal of an existing or new law; any ruling on or interpretation or application by a competent authority of any existing or new law; and the decision or ruling on, the interpretation or application of, or a change in the interpretation or application of, any law by any court of law, tribunal, central bank, monetary authority or agency or any Taxing Authority or fiscal or other competent authority or agency; which, in each case, occurs after the date hereof. For this purpose the word “**law**” means all or any of the following whether in existence at the date hereof or introduced hereafter and with which it is obligatory or customary for banks or other financial institutions or, as the case may be, companies in the relevant jurisdiction to comply:

- (a) any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, ordinance or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities); and
- (b) any letter, regulation, decree, instruction, request, notice, guideline, directive, statement of policy or practice statement given by, or required of, any central bank or other monetary authority, or by or of any Taxing Authority or fiscal or other authority or agency (whether or not having the force of law).

“**City Assets**” means all of the assets which constitute the communal (municipal) property of the territorial community of the City of Kyiv and in respect of which the Borrower and/or any Relevant Entity exercise(s) ownership rights, management rights or any similar rights, and all of the undertakings, receivables, budget revenues and monetary funds of the Borrower and/or any Relevant Entity, to the extent that such assets, property, undertakings, receivables, revenues and/or funds can be subject to a Security Interest, present or future, to secure the Indebtedness of the Borrower or any Relevant Entity.

“**Co-Manager**” means Public Joint Stock Company “Commercial Bank “KHRESCHATYK”.

“**Collection Account**” means the following bank account:

Pay to:	Deutsche Bank Trust Company Americas
SWIFT:	BKTRUS33
Account:	Deutsche Bank AG, London
SWIFT:	DEUTGB2LXXX
Beneficiary:	Kyiv Collection Account
IBAN:	GB42DEUT40508125499300

“**Conditions**” means the terms and conditions of the Notes as scheduled to the Trust Deed as the same may be modified prior to the Drawdown Date.

“**Disbursement Account**” means the following bank account or such other bank account of the Borrower in Ukraine, the details of which the Borrower shall have advised the Lender of in writing prior to the Drawdown Date:

Intermediary bank:	Deutsche Bank Trust Company Americas, New York, USA
SWIFT:	BKTRUS33, 021001033
Beneficiary’s Bank:	ACCT 04416222 “Khreschatyk Bank” Kyiv, Ukraine
SWIFT:	KHRCUAUK

Beneficiary: ACCT 2545700110925 (USD)  
The Main Financial Department of the Executive Body of the  
Kyiv City Council (Kyiv City State Administration)  
36 Khreschatyk St., Kyiv, 01044, Ukraine

“**Dispute**” has the meaning set forth in Clause 24.2 (*Arbitration*).

“**Double Tax Treaty**” means the Convention of 10 February 1993 between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine for the avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains.

“**Drawdown Date**” has the meaning set forth in Clause 3 (*Availability of the Loan*).

“**Event of Default**” has the meaning set forth in Clause 15.1 (*Circumstances which Constitute Events of Default*).

“**Existing Loan**” means a U.S.\$200 million loan which was funded from the proceeds of the offering of 8.625 per cent. loan participation notes issued by Bayerische Hypo und Vereinsbank on 15 July 2004 and is due for repayment on 15 July 2011.

“**Indebtedness**” means any legal obligation for the payment or repayment of borrowed money.

“**Interest Payment Date**” means 11 July and 11 January of each year in which the Loan remains outstanding, being the last day of the corresponding Interest Period, or if such day is not a Business Day, the next succeeding Business Day, the first such date being 11 January 2012, and the last such date being the Repayment Date.

“**Interest Period**” means, except as otherwise provided herein, any of those periods mentioned in Clause 4 (*Interest Periods*).

“**Interest Rate**” means, except as otherwise provided herein, the interest rate specified in Clause 5.2 (*Calculation of Interest*).

“**Joint Lead Managers**” means Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, LLC VEB Capital and VTB Capital PLC.

“**law**” means any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, ordinance or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities), whether in existence at the date hereof or introduced hereafter.

“**Loan**” has the meaning set forth in Clause 2 (*The Loan*).

“**Notes**” means the U.S.\$300,000,000 9.375 per cent. Loan Participation Notes due 2016 of the Lender to be issued 11 July 2011 for the sole purpose of financing the Loan.

“**Managers**” means the Joint Lead Managers and the Co-Manager together.

“**Officers’ Certificate**” means a certificate signed by two duly authorised officers of the Borrower.

“**Paying Agent**” means Deutsche Bank Trust Company Americas, as the U.S. paying agent together with Deutsche Bank AG, London Branch, as a London paying agent.

“**Permitted Security Interest**” means:

- (a) any Security Interest arising by operation of law which has not been foreclosed or otherwise enforced against the assets to which it applies; or
- (b) any Security Interest existing on any property at the time of its acquisition; or
- (c) any Security Interest upon any property to secure indebtedness incurred for the purpose of financing the acquisition of such property (or property which forms part of a class of assets of a similar nature where the Security Interest is by reference to the constituents or such class from time to time); or
- (d) 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

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

“**Person**” means any individual, corporation, partnership, association, joint venture, joint-stock company, limited liability company, trust, unincorporated organisation or government or any Agency or political subdivision thereof.

“**Potential Event of Default**” means any event which would (with the passage of time, the giving of notice and/or the making of any determination under this Agreement) be an Event of Default.

“**Principal Paying Agent**” means Deutsche Bank AG, London Branch.

“**Proceedings**” has the meaning set forth in Clause 24.3 (*English Courts*).

“**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.

“**Prospectus**” means the prospectus dated 4 July 2011, relating to the issuance of the Notes by the Lender to the Agreed Funding Source.

“**Qualifying Jurisdiction**” means any jurisdiction which has a double taxation treaty with Ukraine under which the payment of interest by Ukrainian borrowers to lenders established in such jurisdiction is generally able to be made (upon completion of any necessary formalities required in relation thereto) without deduction or withholding of Ukrainian income tax.

“**Relevant Entity**” means, with the exception of the Borrower itself, any executive, governing, administrative or other body, department, committee, commission, division, unit or entity of any kind of, operating under the authority of, or representing the Borrower or the territorial community of the City of Kyiv (including, without limitation, the Kyiv City State Administration, its Main Financial Department, and any of its other departments and units), but not including (i) any municipal (communal) or other enterprise in which the Borrower has any direct or indirect ownership interest and (ii) any enterprise or entity for whose obligations the Borrower is not liable under applicable Ukrainian legislation.

“**Relevant Event**” has the meaning set forth in Condition 12 (*Enforcement*) of the Notes.

“**Repayment Date**” means 11 July 2016 or, if such day is not a Business Day, the next succeeding Business Day.

“**Rules**” has the meaning set forth in Clause 24.2 (*Arbitration*).

“**Same-Day Funds**” means the U.S. dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in U.S. dollars as the Lender may at any time determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby.

“**Security Interest**” means any mortgage, charge, pledge, lien or other security interest (but excluding any lien arising by operation of law).

“**Tax Indemnity Amounts**” has the meaning set out in Clause 8.3 (*Tax Indemnity*).

“**Taxes**” has the meaning set out in Clause 8.1 (*Additional Amounts*).

“**Taxing Authority**” has the meaning set out in Clause 8.1 (*Additional Amounts*).

“**Trust Deed**” means the trust deed to be dated 11 July 2011 between the Lender and the Trustee.

“**Trustee**” means Deutsche Trustee Company Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder.

“**Ukraine**” means Ukraine and any province or political sub-division or Agency thereof or therein.

“**United Kingdom**” means the United Kingdom of Great Britain and Northern Ireland.

“**unpaid sum**” has the meaning set forth in Clause 16.1 (*Default Interest Periods*).

## **Other Definitions**

- (a) the “**Lender**” shall be construed so as to include its and any subsequent successors, assignees and chargees in accordance with their respective interests;
- (b) the “**equivalent**” on any given date in one currency (the “**first currency**”) of an amount denominated in another currency (the “**second currency**”) is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is (i) hryvnia and the second currency is (ii) U.S. dollars or as the case may be euros (or vice versa), as quoted by the National Bank of Ukraine at or about noon (London time or Brussels time (as applicable) or, as the case may be, Kyiv time) on such date for the purchase of the first currency with the second currency;
- (c) “**repay**” (or any derivative form thereof) shall, subject to any contrary indication, be construed to include “**prepay**” (or, as the case may be, the corresponding derivative form thereof); and
- (d) “**VAT**” shall be construed as a reference to (a) any tax imposed in compliance with the Sixth Directive of the Council of the European Economic Communities (77/388/EEC) (including in relation to the United Kingdom, value added tax imposed by the Value Added Tax Act 1994 and any legislation supplemental thereto); and (b) any other tax of a similar fiscal nature whether imposed in a member state of the European Union in substitution for or in addition to such tax, or imposed elsewhere.

## **1.2 Interpretation**

Unless the context otherwise requires,

- 1.2.1 a term has the meaning assigned to it;
- 1.2.2 “or” is not exclusive;
- 1.2.3 words in the singular include the plural, and in the plural include the singular;
- 1.2.4 provisions apply to successive events and transactions;
- 1.2.5 references to “U.S.\$” or “U.S. dollars” are to United States dollars and references to “hryvnia” are to Ukrainian hryvnia.

Any references to the rights of the Lender in this Agreement shall be read as references to rights of the Trustee pursuant to the charge and assignment referred to in Clause 20.3 (*Assignments by the Lender*) except as in relation to the Reserved Rights as specified in Clause 4 (*Security Interests*) of the Trust Deed.

## **1.3 Statutes**

Any reference in this Agreement to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted.

## **1.4 Headings**

Clause and Schedule headings are for ease of reference only.

## **1.5 Amended Documents**

Except where the contrary is indicated, any reference in this Agreement to this Agreement or any other agreement or document shall be construed as a reference to this Agreement or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.

## **1.6 Agreed Form**

Any reference herein to a document being in “**agreed form**” means that the document in question has been agreed between the proposed parties thereto, subject to any amendments that the parties may agree upon prior to the Drawdown Date.

## **1.7 The Kyiv City Council**

The Kyiv City Council is a body of local self-governance representing the territorial community of the City of Kyiv and acting in the interests thereof under applicable Ukrainian legislation.

## 2. THE LOAN

The Lender grants to the Borrower, upon the terms and subject to the conditions hereof, a single disbursement term loan facility in the amount of U.S.\$300,000,000 (the “**Loan**”), funded by the Agreed Funding Source.

## 3. AVAILABILITY OF THE LOAN

Subject to the terms and conditions set out herein, the Loan will be available by way of a single advance that will be made by the Lender to the Disbursement Account, and the Borrower will draw down the Loan, on 11 July 2011, or such later date as may otherwise be agreed by the parties to this Agreement (the “**Drawdown Date**”), if:

- 3.1.1 the Lender has received the condition precedent documents as listed in Schedule 1 (*Conditions Precedent Documents*) hereto in form and substance satisfactory to it;
- 3.1.2 the Lender has received full funding of the Loan from the Agreed Funding Source;
- 3.1.3 the Joint Lead Managers have received the commission payable to them under the Agreed Funding Source Agreements; and
- 3.1.4 as of the Drawdown Date, no event has occurred or circumstance arisen which would, whether or not with the giving of notice and/or the passage of time and/or the fulfilment of any other requirement, constitute an event described under Clause 15 (*Events of Default*), the representations set out in Clause 11 (*Representations and Warranties of the Borrower*) are true and accurate in all material respects on and as of the proposed date for the making of such Loan and the Borrower shall be in full compliance with all of its obligations under this Agreement and there shall have been no breach of any such obligations.

## 4. INTEREST PERIODS

Except as otherwise specified herein, the period for which the Loan is outstanding shall be divided into successive semi-annual periods, ending on and excluding 11 July and 11 January, each of which shall start on, and shall include, the last day of the preceding such period (each, an “**Interest Period**”).

## 5. PAYMENT AND CALCULATION OF INTEREST

### 5.1 Payment of Interest

On each Interest Payment Date the Borrower shall pay to the Collection Account all accrued and unpaid interest calculated to the last day of the relevant Interest Period on the outstanding principal amount of the Loan.

The Borrower shall make such payments from the following bank account or such other bank account of the Borrower in the Ukraine as may be specified by the Borrower:

ORDERING CUSTOMER: ACCT 2542000770925 (USD)

The Main Financial Department of the Executive Body of the Kyiv City Council (Kyiv City State Administration)  
36 Khreschatyk St., Kyiv, 01044, Ukraine

ORDERING INSTITUTION: “KHRESCHATYK BANK” KYIV, UKRAINE

SWIFT: KHRCUAUK

### 5.2 Calculation of Interest

The Loan shall bear interest at the rate of 9.375 per cent. per annum (the “**Interest Rate**”). The amount of interest payable on each Interest Payment Date (except that for the final Interest Period) shall be calculated by applying the Interest Rate to the amount of the Loan, dividing the product by two, and rounding the resulting figure to the nearest cent, half a cent being rounded upwards. When interest is required to be calculated for the final Interest Period or any period other than an Interest Period, it shall be 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.

### 5.3 **Assumption when Calculating Interest**

Whenever under this Agreement interest is to be calculated to the last day of an Interest Period and the calculation is required to be made before such last day, the parties shall assume that the outstanding principal amount of the Loan on the day of the calculation is also the outstanding principal amount of the Loan on the last day of the relevant Interest Period.

## 6. **REPAYMENT**

Subject to earlier prepayment in accordance with the terms of this Agreement and to Clause 15.9 (*Rights of Lender upon Occurrence of an Event of Default*), on the Repayment Date the Borrower shall repay in full the Loan and, to the extent not already paid in accordance with Clause 5.1 (*Payment of Interest*), shall pay all accrued and unpaid interest, any Additional Amounts and any Tax Indemnity Amounts calculated to the last day of the last Interest Period.

## 7. **PREPAYMENT**

### 7.1 **Prepayment for Tax Reasons**

If,

- 7.1.1 as a result of the application of or any amendment to or change (including a change in interpretation or application) in the Double Tax Treaty (or in the double taxation treaty between Ukraine and any Qualifying Jurisdiction in which the Lender or any successor thereto is a resident and acting through for tax purposes) or the laws or regulations of Ukraine or the United Kingdom (or any Qualifying Jurisdiction in which the Lender or any successor thereto is a resident and acting through for tax purposes) or of any political sub-division thereof or any Agency therein, the Borrower is or would be required to pay any Additional Amounts in respect of Tax pursuant to Clause 8.1 (*Additional Amounts*); or
- 7.1.2 (for whatever reason) the Borrower is or would be required to pay any Tax Indemnity Amounts pursuant to Clause 8.3 (*Tax Indemnity*); or
- 7.1.3 (for whatever reason) the Borrower is or would be required to pay additional amounts pursuant to Clause 10 (*Changes in Circumstances*); or
- 7.1.4 after a Relevant Event, as a result of payments by the Borrower in respect of the Loan being made to any Person other than the Lender to whom the benefit of the Double Tax Treaty is unavailable, the Borrower is or would be required to pay Additional Amounts in respect of Tax pursuant to Clause 8.1 (*Additional Amounts*); or
- 7.1.5 as a result of the Lender ceasing to be resident for tax purposes in a Qualifying Jurisdiction, or establishing a permanent establishment in Ukraine for purposes of the Double Tax Treaty, the Borrower is or would be required to pay Additional Amounts in respect of Tax pursuant to Clause 8.1 (*Additional Amounts*),

and, in any such case, such obligation cannot be avoided by the Borrower taking reasonable measures available to it, the Borrower may (without premium or penalty), upon not less than 30 calendar days' written notice to the Lender (and to the Trustee), including or attaching an Officers' Certificate to the effect that the Borrower would be required to pay such Additional Amounts, Tax Indemnity Amounts or such other additional amounts, supported by an opinion of an independent tax advisor of recognised standing in the relevant tax jurisdiction, prepay the Loan in whole (but not in part) at any time together with all accrued and unpaid interest, any Additional Amounts and any Tax Indemnity Amounts. No such notice shall be given earlier than 90 calendar days prior to the earliest date on which the Borrower would be obligated to pay such Additional Amounts, Tax Indemnity Amounts or such other additional amounts, as the case may be. Without prejudice to any other requirement in this Agreement, any notice of prepayment given by the Borrower pursuant to this Clause 7.1 (*Prepayment for Tax Reasons*) shall be irrevocable, shall specify the date upon which such prepayment is to be made and shall oblige the Borrower to make such prepayment on such date.

### 7.2 **Prepayment for Illegality**

If, at any time after the date of this Agreement, it is or would be unlawful or contrary to any applicable law or regulation or regulatory requirement or directive of any agency of any state or otherwise for the Lender to make, fund or allow to remain outstanding the Loan or to

maintain the Agreed Funding Source or for the Lender to maintain or give effect to any of its obligations or rights in connection with this Agreement and/or to charge or receive or to be paid interest at the rate applicable in relation to the Loan (an “**Illegality**”), then the Lender shall, promptly upon it becoming aware of the same, deliver to the Borrower (and the Trustee) a notice (setting out in reasonable detail the nature and extent of the relevant circumstances) to that effect and:

7.2.1 if the Loan has not been made, the Lender shall not thereafter be obliged to make the Loan; and

7.2.2 if the Loan is then outstanding and the Lender so requires, the Borrower shall, on the latest date permitted by the relevant law, regulation, regulatory requirement or directive or on such earlier day as the Borrower elects (as notified to the Lender (and the Trustee) not less than 30 days prior to the date of prepayment), repay the whole (but not part only) of the outstanding principal amount of the Loan together with accrued interest (up to but excluding the date of such payment) thereon and all other amounts owing to the Lender hereunder.

### 7.3 **Costs of Prepayment**

The Borrower shall, not later than 11:00am (London time) on the date of prepayment made in accordance with this Clause 7 (*Prepayment*), pay all accrued and unpaid interest, any Additional Amounts and any Tax Indemnity Amounts (each only with respect to the amount subject to such prepayment), as of such date of prepayment and all other amounts payable to the Lender hereunder in connection with such prepayment. The Borrower shall indemnify the Lender on demand against any costs and expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 7 (*Prepayment*).

### 7.4 **No Other Prepayments and No Reborrowing**

The Borrower shall not prepay the whole or any part of the amount of the outstanding principal amount of the Loan except at the times and in the manner expressly provided for in this Agreement. No amount prepaid or repaid under this agreement may subsequently be reborrowed.

### 7.5 **Purchase of Instruments Issued to the Agreed Funding Source**

The Borrower may purchase instruments issued to the Agreed Funding Source at any time in the open market or otherwise. If such instruments are surrendered by the Borrower to the Lender, as issuer of such instruments, for cancellation (together with an authorisation addressed to the relevant registrar under the Agreed Funding Source Agreements to cancel such instruments), the principal amount of the Loan corresponding to the principal amount of such cancelled instruments shall be deemed repaid (by surrender of such instruments) and extinguished for all purposes as of the date of such cancellation, together with accrued interest and other amounts (if any) payable thereon and no further payment shall be made or required to be made by the Borrower in respect of such amount.

## 8. **TAXES**

### 8.1 **Additional Amounts**

8.1.1 All payments made by the Borrower in respect of the Loan shall be made free and clear of and without deduction or withholding for or on account of any present or future taxes, duties, assessments, fees or other governmental charges (collectively, “**Taxes**”) imposed or levied by or on behalf of Ukraine or the United Kingdom (or any Qualifying Jurisdiction in which the Lender or any successor thereto is a resident and acting through for tax purposes) or any political subdivision or taxing authority thereof or therein in each of the preceding jurisdictions (each, a “**Taxing Authority**”), unless the Borrower is required to deduct or withhold Taxes by law or by the interpretation or administration thereof. For the avoidance of doubt, this Clause 8.1 (*Additional Amounts*) shall not apply to any Taxes on income payable by the Lender in the United Kingdom (or any Qualifying Jurisdiction in which the Lender or any successor thereto is a resident and acting through for tax purposes).

- 8.1.2 If at any time the Borrower is required to deduct or withhold any amount for or on account of Taxes imposed or levied by or on behalf of any Taxing Authority within Ukraine or the United Kingdom (or any Qualifying Jurisdiction in which the Lender or any successor thereto is a resident and acting through for tax purposes) from any payment made under or with respect to the Loan, the Borrower shall, on the due date for such payment and to the extent permissible under applicable law, pay such additional amounts (“**Additional Amounts**”) as may be necessary so that the net amount received by the Lender (including Additional Amounts) in U.S. dollars after such deduction or withholding will not be less than the amount the Lender would have received if such Taxes had not been deducted or withheld; *provided, however, that* for the avoidance of doubt, such Additional Amounts shall not be payable with respect to any Taxes on overall net profit payable by the Lender in the United Kingdom (or any Qualifying Jurisdiction in which the Lender or any successor thereto is a resident and acting through for tax purposes).
- 8.1.3 The Borrower will also:
- (a) make such deduction or withholding; and
  - (b) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law.
- 8.1.4 At least 30 calendar days prior to each date on which any payment under or with respect to the Loan is due and payable, if the Borrower will be obliged to pay Additional Amounts with respect to such payment, the Borrower will deliver to the Lender (and to the Trustee) an Officers’ Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable.
- 8.1.5 If the Lender pays any amount in respect of such Taxes, the Borrower shall to the extent permissible under applicable law reimburse the Lender in U.S. dollars for such payment on demand.
- 8.1.6 Whenever this Agreement mentions, in any context, the payment of amounts of principal, interest or of any other amount payable under or with respect to the Loan, this includes, without duplication, payment of any Additional Amounts and Tax Indemnity Amounts that may be applicable.

The foregoing provisions shall apply, modified as necessary, to any Taxes imposed or levied by any taxing authority in any taxing jurisdiction: (i) to which the Borrower is or becomes subject at any time; or (ii) in which any successor obligor to the Borrower is organised or to which such successor obligor is or becomes subject at any time.

## 8.2 **Double Tax Treaty Relief**

- 8.2.1 If requested by the Borrower, the Lender will use its reasonable endeavours to furnish the Borrower to the extent that it is able to do so under applicable law, as soon as practicable after the start of each calendar year (or as frequently as may be required to enable the Borrower to claim relief as provided below), with a certificate issued by the competent taxing authority in the United Kingdom in respect of that calendar year, it being intended that such certificate shall be available by no later than the tenth Business Day preceding the first Interest Payment Date in each calendar year in which interest is payable hereunder. Subject to receipt by the Borrower of such certificate which is valid in respect of the relevant payment, the Borrower shall claim relief from deducting the generally applicable withholding tax or a reduction in the generally applicable withholding tax rate to the maximum extent possible in accordance with the Double Tax Treaty in respect of payments of interest by the Borrower to the Lender under this Agreement.
- 8.2.2 Each of the Lender and the Borrower shall make reasonable and timely efforts to cooperate and assist each other in obtaining relief from withholding of the generally applicable Ukrainian income tax pursuant to the Double Tax Treaty. In particular, the Borrower and the Lender will inform each other, in a reasonable and timely manner, on the status of the procedures and the steps necessary to be taken in this regard. The Lender makes no representation as to the application or interpretation of the Double Tax Treaty.

8.2.3 If the Lender becomes resident for tax purposes in another Qualifying Jurisdiction, references in paragraphs 8.2.1 and 8.2.2 to a certificate issued by the competent taxing authority in the United Kingdom and to the Double Tax Treaty shall be read, respectively, as including references to a certificate issued by the competent taxing authority in such other Qualifying Jurisdiction and the double tax treaty between Ukraine and such Qualifying Jurisdiction.

### 8.3 Tax Indemnity

Without prejudice to, and without duplication of, the provisions of Clause 8.1 (*Additional Amounts*), (a) if at any time the Lender (as issuer of the Notes) makes or is required to make any payment to a Person (other than to or for the account of the Agreed Funding Source) on account of Tax (other than Taxes assessed on the Lender by reference to its net income) in respect of the Loan or in respect of any of the Agreed Funding Source Agreements imposed by any Taxing Authority, or any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable following and in any event within 30 calendar days of written demand made by the Lender, indemnify the Lender against such payment or liability, together with any interest, penalties, costs and expenses payable or incurred in connection therewith; and (b) if at any time the Lender is required to make a deduction or withholding of Tax from any payment made or to be made by the Lender to or for the account of any Agreed Funding Source and the Lender is required by any Agreed Funding Source Agreements to pay additional amounts to such Agreed Funding Source in connection therewith, the Borrower shall, as soon as reasonably practicable following and in any event within 30 calendar days of written demand made by the Lender, pay to the Lender such additional amounts as may be necessary so that the net amount received by the Agreed Funding Source (including such additional amounts as are required to be paid by the Lender) in U.S. dollars after any deduction or withholding so required will not be less than the amount such Agreed Funding Source would have received if such Taxes had not been required to be deducted or withheld. Any payments required to be made by the Borrower under this Clause 8.3 (*Tax Indemnity*) are collectively referred to as “**Tax Indemnity Amounts**”. For the avoidance of doubt, the provisions of this Clause 8.3 (*Tax Indemnity*) shall not apply to any deductions or withholding of Taxes with respect to the Loan which are subject to payment of Additional Amounts under Clause 8.1 (*Additional Amounts*).

### 8.4 Tax Claims

If the Lender intends to make a claim for any Tax Indemnity Amounts pursuant to Clause 8.3 (*Tax Indemnity*), it shall notify the Borrower thereof; *provided that* nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its affairs.

### 8.5 Tax Credits and Tax Refunds

8.5.1 If any Additional Amounts are paid under Clause 8.1 (*Additional Amounts*) or Tax Indemnity Amounts are paid under Clause 8.3 (*Tax Indemnity*) by the Borrower for the benefit of the Lender and the Lender, in its absolute discretion (acting in good faith), determines that it has received or been granted a credit against, a relief or remission for, or a repayment of, any Tax, then, if and to the extent that the Lender, in its absolute discretion (acting in good faith), determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such Additional Amounts or, in the case of Tax Indemnity Amounts, with reference to the liability, expense or loss to which the payment giving rise to such Tax Indemnity Amounts relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as the Lender shall, in its absolute discretion (acting in good faith), have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense or loss; *provided that* the Lender shall not be obliged to make any payment under this Clause 8.5 (*Tax Credits and Tax Refunds*) in respect of such credit, relief, remission or repayment until the Lender is, in its absolute discretion (acting in good faith), satisfied that its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled and further *provided that* the Lender shall not be obliged to make any such payment if and to the extent that the Lender, in its absolute discretion (acting in good faith), determines that to do so would leave it (after the payment) in a worse after-tax position than it would

have been in had the increased or additional amount not been required under Clause 8.1 (*Additional Amounts*) or Clause 8.3 (*Tax Indemnity*). Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or repayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to the Borrower hereunder and shall be accepted by the Borrower in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding. Nothing contained in this Clause 8.5 (*Tax Credits and Tax Refunds*) shall interfere with the right of the Lender to arrange its tax affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose any information relating to its tax affairs generally or any computations in respect thereof.

8.5.2 If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed any Taxing Authority (i) Tax is deducted or withheld by the Borrower and pursuant to Clause 8.1 (*Additional Amounts*) an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (ii) following the deduction or withholding of Tax as referred to above, (A) the Borrower applies on behalf of the Lender to the relevant Ukrainian Taxing Authorities for a tax refund and such tax refund is credited by the Ukrainian Taxing Authorities to the Lender or (B) if such tax refund is otherwise credited by a relevant Taxing Authority to the Lender, pursuant to a final decision of such Taxing Authority, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such tax refund and, to the extent that the Lender determines in its absolute discretion (acting in good faith) that to do so will leave it (after the transfer) in no worse an after-tax position than it would have been in had no such withholding or deduction been made, and promptly transfer the entire amount of the tax refund to a bank account of the Borrower specified for that purpose by the Borrower.

#### 8.6 **Tax Position of the Lender**

The Lender represents that (i) it is a resident of the United Kingdom for purposes of Article 4 of the Double Tax Treaty as it is subject to taxation in the United Kingdom on the basis of its registration as a legal entity, location of its management body or another similar criterion and that it is not subject to taxation in the United Kingdom merely on income from sources in the United Kingdom or connected with property located in the United Kingdom, and that it will use its reasonable endeavours to receive certification to this effect from the United Kingdom tax authorities (to the extent permitted by applicable law), (ii) it does not have a permanent establishment in Ukraine, (iii) it does not have any current intentions to effect, during the term of the Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of the United Kingdom in the sense of Article 4 of the Double Tax Treaty, and (iv) interest received from the Borrower under this Agreement will be taken into account in computing the Lender's profits, subject to tax in the United Kingdom.

The Lender agrees, promptly upon becoming aware of the same, to notify the Borrower if it ceases to be resident in the United Kingdom or other Qualifying Jurisdiction.

#### 8.7 **Delivery of Forms**

The Lender shall as provided in Clause 8.2.1 (*Double Tax Treaty Relief*) (to the extent it is able to do so under applicable law) deliver to the Borrower such duly completed certificate issued by the competent taxing authority in the United Kingdom or other Qualifying Jurisdiction confirming that the Lender is a tax resident in the United Kingdom or other Qualifying Jurisdiction to enable the Borrower to apply to obtain relief from deduction or withholding of tax in Ukraine, the United Kingdom or any other Qualifying Jurisdiction or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of tax in Ukraine, the United Kingdom or any other Qualifying Jurisdiction has not been obtained. The certificate shall be stamped or otherwise approved by the competent taxing authority in the United Kingdom or other Qualifying Jurisdiction, and apostilled or otherwise legalised if requested by the Borrower. If a relief from deduction or withholding of tax or a tax refund under this Clause 8.7 (*Delivery of Forms*) has not been obtained and further to an application of the Borrower to the relevant Ukrainian tax authorities the latter requests the Lender's hryvnia bank account details, the Lender shall (subject to it being satisfied in its

absolute discretion that that action is not adverse to its interests) at the request of the Borrower (i) use reasonable efforts to procure that such hryvnia bank account of the Lender is duly opened and maintained, and (ii) thereafter furnish the Borrower with the details of such hryvnia bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such hryvnia bank account.

## **9. TAX RECEIPTS**

### **9.1 Notification of Requirement to Deduct Tax**

If, at any time, the Borrower is required by law to make any deduction or withholding on account of Tax from any sum payable by it hereunder, or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated, the Borrower shall promptly notify the Lender.

### **9.2 Evidence of Payment of Tax**

The Borrower will furnish to the Lender (and to the Trustee), within 60 calendar days after the date that payment of any Taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment by the Borrower or, if such receipts are not obtainable, other evidence of such payments by the Borrower.

## **10. CHANGES IN CIRCUMSTANCES**

### **10.1 Increased Costs**

If, by reason of any Change of Law other than a Change of Law which relates to the basis of computation, or rate of, Tax on the net income of the Lender:

10.1.1 the Lender incurs an additional cost as a result of the Lender's entering into or performing its obligations, including its obligation to make the Loan, under this Agreement (excluding Taxes payable by the Lender on its overall net income); or

10.1.2 the Lender becomes liable to make any additional payment on account of Tax or otherwise, not being a Tax imposed on its net income, on or calculated by reference to the amount of the Loan and/or to any sum received or receivable by it hereunder except where compensated under Clause 8.1 (*Additional Amounts*) or under Clause 8.3 (*Tax Indemnity*);

then the Borrower shall, from time to time, within thirty (30) days of written demand of the Lender, pay to the Lender amounts sufficient to hold harmless and indemnify it from and against, as the case may be, such properly documented cost or liability; *provided that* the Lender will not be entitled to indemnification where such additional cost or liability arises as a result of the gross negligence or fraud of the Lender or the wilful breach by the Lender of any law or regulation, and *provided further that* the amount of such increased cost or liability shall be deemed not to exceed an amount equal to the proportion of any cost or liability which is directly attributable to this Agreement.

### **10.2 Increased Costs Claims**

If the Lender intends to make a claim pursuant to Clause 10.1 (*Increased Costs*), it shall notify the Borrower thereof and provide a written description in reasonable detail of the relevant Change of Law, including a description of the relevant affected jurisdiction or country and the date on which the relevant Change of Law took effect. This written description shall demonstrate the connection between the relevant Change of Law and the additional costs and shall be accompanied by relevant supporting documents evidencing the matters described therein; *provided that* nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs.

### **10.3 Mitigation**

If circumstances arise which would result in:

10.3.1 any payment falling due to be made by or to the Lender or for its account pursuant to Clause 7.2 (*Prepayment for Illegality*); or

10.3.2 any payment falling due to be made by the Borrower pursuant to Clause 8.1 (*Additional Amounts*); or

- 10.3.3 a claim for indemnification pursuant to Clause 8.3 (*Tax Indemnity*) or Clause 10.1 (*Increased Costs*),
- (a) then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall, as soon as reasonably practicable upon becoming aware of the same, notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps to remove such circumstances or mitigate the effects of such circumstances; and
  - (b) the Borrower may require the substitution of the Lender as lender under this Agreement and as issuer of the Notes, except that nothing in this paragraph (b) shall obligate the Lender to incur any costs or expenses of whatsoever nature in taking any action hereunder unless the Borrower agrees to reimburse the Lender such costs or expenses.

## **11. REPRESENTATIONS AND WARRANTIES OF THE BORROWER**

The Borrower makes the following representations and warranties and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

### **11.1 Status**

The Borrower is a body of local self-governance representing the territorial community of the City of Kyiv and acting in the interests thereof under applicable Ukrainian legislation.

### **11.2 Due Authorisation**

The Borrower has duly authorised, executed and delivered this Agreement.

### **11.3 Governmental Approvals**

All actions or things required to be taken, fulfilled or done by the laws or regulations of Ukraine (including, without limitation, the obtaining of any consent, approval (including exchange control approval), authorisation, order, licence or qualification of or with any court or Agency), and all registrations, filings or notarisations required by the laws or regulations of Ukraine (except for those referred to in Clause 14.1 (*Maintenance of Legal Validity*) below), in order to ensure (i) the due execution, delivery and performance by the Borrower of this Agreement, (ii) the compliance by the Borrower with all the provisions of this Agreement and (iii) the consummation of the transactions contemplated by this Agreement have been (or will, prior to the Drawdown Date, have been) obtained, fulfilled or done and are (or will, prior to the Drawdown Date, be) in full force and effect, except to the extent that an individual currency control licence may be required to make a payment of a contingent nature and under the laws of Ukraine, cannot be obtained prior to the Drawdown Date, but may be obtained upon proper application to the relevant governmental authority after the relevant obligation arises.

### **11.4 Purpose of Agreement**

The Borrower has entered into this Agreement to obtain funds to finance the expenditures of the development fund of the Kyiv City Budget. The expenditure to which these funds will be applied by the Borrower is the refinancing of the Existing Loan. To the extent, if any, that the funding raised from the proceeds from the offering of the Notes exceeds the amounts necessary for such refinancing, the Borrower will use such excess proceeds towards the satisfaction of other expenditure objectives of the development fund of the Kyiv City Budget, particularly through capital investments in the areas of transportation infrastructure and health care.

### **11.5 *Pari Passu* Obligations**

The obligations of the Borrower under this Agreement will rank at least *pari passu* in right of payment with all other unsecured and unsubordinated obligations of the Borrower, except as otherwise provided by mandatory provisions of applicable law.

### **11.6 Validity and Admissibility in Evidence**

All acts, conditions and things required to be done, fulfilled and performed (other than by the Lender) to make this Agreement admissible in evidence in Ukraine (whether in arbitration proceedings or otherwise) have been done, fulfilled and performed.

#### **11.7 Valid and Binding Obligations**

The obligations expressed to be assumed by the Borrower in this Agreement are legal, valid and binding, and enforceable in accordance with their terms, subject to:

11.7.1 all applicable laws relating to bankruptcy, insolvency, liquidation, reorganisation, moratorium and other laws of general application affecting creditors' rights generally; and

11.7.2 as to enforceability, general principles of equity.

#### **11.8 No Deduction**

Under the laws of Ukraine in force at the date of this Agreement, payments of interest by the Borrower to the Lender under this Agreement may be made without deduction on account of the generally applicable Ukrainian withholding tax.

#### **11.9 No Stamp Taxes**

Under the laws of Ukraine in force at the date of this Agreement, it is not necessary that any stamp, registration (other than a fee payable with respect to the registration of this Agreement with the National Bank of Ukraine) or similar Tax be paid on or in relation to this Agreement.

#### **11.10 No Event of Default or Potential Event of Default**

No event has occurred or circumstance arisen which would constitute an Event of Default or a Potential Event of Default.

#### **11.11 No Material Proceedings**

There are no lawsuits, litigation or other legal or administrative or arbitration proceedings current or pending or, to the best of the knowledge and belief of the Borrower, threatened before any court, tribunal, arbitration panel or Agency which might (a) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations hereunder or (b) adversely affect the right and power of the Borrower to enter into this Agreement or (c) have a material adverse effect on the sources and amounts of revenue of the Borrower or in the proposed expenditure of the Borrower, each as set out in the Budget Accounts, which might affect the investment decision of the Agreed Funding Source.

#### **11.12 Budget Accounts**

The Budget Accounts of the Borrower have been prepared:

11.12.1 in relation to the 2010 Budget, in accordance with the Budget Code of Ukraine, dated 21 June 2001 as amended; and

11.12.2 in relation to the report on the execution of the 2010 Budget and the 2011 Budget of the Borrower, in accordance with the Budget Code of Ukraine, dated 8 July 2010 as amended,

and in accordance with other applicable Ukrainian legislation.

#### **11.13 No Material Adverse Change**

Since 31 December 2010, except as disclosed in the Prospectus, there has been no material adverse change or any development involving a prospective material adverse change of which the Borrower is or might reasonably be expected to be aware in the sources and amounts of revenue of the Borrower or in the proposed expenditure of the Borrower, each as set out in the Budget Accounts, which might affect the investment decision of the Agreed Funding Source.

#### **11.14 Execution of Agreement**

Its execution and delivery of this Agreement and its exercise of its rights and performance of its obligations hereunder do not and will not:

11.14.1 conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, any material indenture, trust deed, mortgage or other material contract, agreement or instrument or treaty to which the Borrower is a party or by which it, or any of its properties or assets, is bound;

11.14.2 violate or conflict with any existing applicable law, rule, regulation, judgment, order, directive or decree of any government, governmental body or court in Ukraine binding upon the Borrower; or

11.14.3 give rise to any event of default or moratorium in respect of any of the obligations of the Borrower or the creation of any lien, encumbrance or other security interest (howsoever described) in respect of any of the assets of the Borrower.

**11.15 Compliance with Laws**

The Borrower is in compliance in all respects with all applicable provisions of the law and regulations of Ukraine.

**11.16 Availability of Municipal (Communal) Property for Enforcement or Execution**

To the extent permitted by applicable Ukrainian law, all and any property in the municipal (communal) ownership of the territorial community of the City of Kyiv is and will be available for enforcement or execution of any order or judgment made or given as a result of any Proceedings against the Borrower.

**11.17 Repetition**

Each of the representations and warranties contained in Clause 11 (*Representations and Warranties of the Borrower*) shall be deemed to be repeated by the Borrower on the Drawdown Date.

**12. REPRESENTATIONS AND WARRANTIES AND AGREEMENT OF THE LENDER**

The Lender makes the representations and warranties set out in Clause 8.6 (*Tax Position of the Lender*) and this Clause 12 (*Representations and Warranties and Agreement of the Lender*) and acknowledges that the Borrower has entered into this Agreement in reliance on those representations and warranties.

**12.1 Status and Due Authorisation**

The Lender is duly incorporated and is validly existing under the laws of, and is resident for United Kingdom taxation purposes in, the United Kingdom and has full power and capacity to execute this Agreement and the Agreed Funding Source Agreements to which it is a party and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same.

**12.2 No Conflicts**

The execution of this Agreement and each of the Agreed Funding Source Agreements to which the Lender is a party and the undertaking and performance by the Lender of the obligations expressed to be assumed by the Lender herein and therein will not conflict with, or result in a breach of or default under, (i) the laws of England or (ii) any agreement or instrument to which the Lender is a party or by which the Lender is bound or in respect of indebtedness in relation to which the Lender is a surety, except (in the case of (ii) only) where such conflict, breach or default would not have a material adverse effect on the Lender's ability to perform its obligations under this Agreement.

**12.3 Valid and Binding Obligations**

This Agreement and each of the Agreed Funding Source Agreements to which it is a party constitute legal, valid and binding obligations of the Lender enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, liquidation, administration, moratorium, re-organisation and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity.

**12.4 Consents and Approvals**

All authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement and the Agreed Funding Source Agreements to which it is a party and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

**13. FINANCIAL INFORMATION**

**13.1 Delivery**

The Borrower shall supply or procure to be supplied to the Lender, in sufficient copies as may reasonably be required by the Lender, all such information as the Irish Stock Exchange (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities, market and/or quotation system on which the debt securities or other instruments

issued to the Agreed Funding Source may, from time to time, be admitted to listing, trading and/or quotation) may require in connection with the admission to listing, trading and/or quotation on such stock exchange, relevant authority, market and/or quotation system of the debt securities or other instruments issued to the Agreed Funding Source.

#### 13.2 **Budget Accounts**

The Borrower shall ensure that:

13.2.1 each set of budget accounts delivered by it pursuant to Clause 13.1 (*Delivery*) is prepared in accordance with the Budget Code of Ukraine dated 8 July 2010, as amended, and other applicable Ukrainian legislation; and

13.2.2 it provides to the Lender (with a copy to the Trustee) within fifteen (15) days of any written request by the Lender and at the time of the despatch to the Lender of each set of budget accounts delivered by it pursuant to Clause 13.1 (*Delivery*), and in any event not later than 30 days after the dates on which the budget accounts relating to the next financial year and the resolution of the Kyiv City Council on the approval of reports and execution of the budget of the City of Kyiv for the relevant financial year are published, an Officers' Certificate certifying that up to a specific date not earlier than seven (7) days prior to the date of such Officers' Certificate (the "**Certified Date**") the Borrower has complied with its obligations under this Agreement (or, if such is not the case, giving details of the circumstances under such non-compliance) and that as at such date there did not exist nor had there existed at any time prior thereto since the Certified Date in respect of the previous such certificate (or, in the case of the first such certificate, since the date of this Agreement) any Event of Default or Potential Event of Default or (if such is not the case) specifying the same.

### 14. **COVENANTS**

The covenants in this Clause 14 (*Covenants*) remain in force from the date of this Agreement for so long as the Loan or any part of it or any other amount under the Agreed Funding Source Agreements is or may be outstanding.

#### 14.1 **Maintenance of Legal Validity**

The Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents required in or by the laws and regulations of Ukraine to enable it lawfully to enter into and perform its obligations under this Agreement and to ensure the legality, validity, enforceability or admissibility in evidence in Ukraine of this Agreement, including, but not limited to, the registration of this Agreement with the National Bank of Ukraine.

#### 14.2 **Untrue Representations**

Before the making of the Loan, the Borrower shall notify the Lender of the occurrence of any event which results in or may reasonably be expected to result in any of the representations contained in Clause 11 (*Representations and Warranties of the Borrower*) being untrue at or before the time of the making of such Loan.

#### 14.3 **Notification of Events of Default**

The Borrower shall promptly on becoming aware thereof inform the Lender and the Trustee of the occurrence of any Event of Default or Potential Event of Default and, within fifteen (15) days of receipt of a written request to that effect from the Lender, confirm to the Lender and the Trustee that, save as previously notified to the Lender and the Trustee or as notified in such confirmation, no Event of Default or Potential Event of Default has occurred.

#### 14.4 **Claims *Pari Passu***

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all the other unsecured and unsubordinated creditors of the Borrower, except as otherwise provided by mandatory provisions of applicable law.

#### 14.5 **Negative Pledge**

So long as the Loan or any part of it has not been repaid in full, the Borrower will not create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of the City Assets to secure:

14.5.1 any Indebtedness of the Borrower or any Relevant Entity; or

14.5.2 any guarantee or indemnity by the Borrower or any Relevant Entity of any Indebtedness,

unless, at the same time or prior thereto, the Indebtedness of the Borrower under this Agreement (i) is secured equally and rateably therewith or (ii) has the benefit of such other security or other arrangement which is equivalent in all material respects to such Security Interest and which shall be approved by the Lender.

#### 14.6 Stay, Extension and Usury Laws

The Borrower (to the extent it may lawfully do so) shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Agreement; and the Borrower (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it shall not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Lender (or granted to the Trustee by such Agreed Funding Source Agreements), but shall suffer and permit the execution of every such power as though no such law had been enacted.

#### 14.7 Use of Proceeds of the Loan

The Borrower shall use the proceeds of the Loan in the manner described in the “Use of Proceeds” section of the Prospectus.

### 15. EVENTS OF DEFAULT

#### 15.1 Circumstances which Constitute Events of Default

Each of Clause 15.2 (*Failure to Pay*) to Clause 15.7 (*Authorisations*), inclusive, constitutes an “**Event of Default**” with respect to the Loan.

#### 15.2 Failure to Pay

The Borrower fails to pay any amount of principal, interest, Additional Amounts or Tax Indemnity Amounts under the Loan, in the currency and in the manner specified herein, when the same becomes due and payable, and such failure is not remedied within seven (7) Business Days of the due date for payment.

#### 15.3 Obligations

The Borrower defaults in the performance or observance of any of its obligations other than those set out in Clause 15.2 (*Failure to Pay*) under or in respect of this Agreement and such default (if capable of being remedied) is not remedied within 35 days after the Lender has given written notice thereof to the Borrower requiring the same to be remedied (it being understood that a default in respect of the undertaking set forth in Clause 14.5 (*Negative Pledge*) shall be deemed capable of being remedied for the purposes hereof).

#### 15.4 Cross Default

Any Indebtedness of the Borrower or any Relevant Entity shall become due and payable prior to the stated maturity thereof other than at the option of the debtor following a default of the Borrower or any Relevant Entity, or the Borrower or any Relevant Entity shall fail to make the final payment of principal in respect of any Indebtedness of the Borrower or any Relevant Entity on the date on which such final payment is due and payable or at the expiration of any grace period originally applicable thereto or any guarantee or indemnity given by the Borrower or any Relevant Entity in respect of Indebtedness (the underlying obligation in respect of which such guarantee or indemnity has been given having become due and payable prior to the stated maturity thereof otherwise than at the option of the debtor following a default or the debtor having failed to make the final payment of principal in respect of such underlying obligation on the date on which such final payment is due and payable or at the expiration of any grace period originally applicable thereto) shall not be honoured when due and called upon; *provided that* the aggregate amount of the relevant Indebtedness in respect of which one or more of the events mentioned in this Clause 15.4 (*Cross Default*) shall have occurred equals or exceeds U.S.\$10,000,000 (or its equivalent in any other currency or currencies); and

*provided, further, that* any secured Indebtedness that by its terms is fully non-recourse to the Borrower or any Relevant Entity shall not be counted as Indebtedness for purposes of this Clause 15.4 (*Cross Default*).

#### 15.5 **Moratorium**

A moratorium is placed on the payment of principal of, or interest on, all or any part of any Indebtedness of the Borrower or any Relevant Entity.

#### 15.6 **Validity and Illegality**

15.6.1 The validity of this Agreement is contested by the Borrower or any Agency of the City of Kyiv or the Borrower or any Agency of the City of Kyiv shall deny any of the Borrower's obligations under this Agreement; or

15.6.2 it is, or will become, unlawful for the Borrower to perform or comply with any of its obligations under this Agreement; or

15.6.3 any of the Borrower's obligations under this Agreement shall become unenforceable or cease to be legal, valid and binding in a manner which has a material adverse effect on the rights or claims of the Lender under this Agreement.

#### 15.7 **Authorisations**

Any regulation, decree, consent, approval, licence or other authority necessary to enable the Borrower to enter into or perform its obligations under this Agreement or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise cease to remain in full force and effect or shall be modified in a manner which has a material adverse effect upon the rights or claims of the Lender under this Agreement.

#### 15.8 **Judgments**

The aggregate amount of unsatisfied final judgments, decrees or orders (being not capable of further appeal) of courts or other appropriate law enforcement bodies for the payment of money against the Borrower exceeds U.S.\$10,000,000 or the equivalent thereof in any other currency or currencies and there is a period of 60 days (or, if longer, the period therein specified for payment or on which such final judgment, decree or order otherwise becomes enforceable) following the entry thereof during which all such final judgments, decrees or orders are not discharged, waived or the execution thereof stayed and such default continues for five days.

#### 15.9 **Rights of Lender upon Occurrence of an Event of Default**

If an Event of Default occurs under this Agreement and is continuing, the Lender (if it receives instructions from the Trustee in accordance with the provisions of the Agreed Funding Source Agreements) and/or the Trustee in accordance with the terms of the Agreed Funding Source Agreements may, by written notice (an "**Acceleration Notice**") to the Borrower, (a) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate, and (b) declare the principal amount of, accrued and unpaid interest, Additional Amounts and Tax Indemnity Amounts, if any, on the Loan to be immediately due and payable and the same shall become immediately due and payable, pursuant to and in accordance with the terms of the Agreed Funding Source Agreements.

#### 15.10 **Other Remedies**

If an Event of Default occurs and is continuing, the Lender and/or the Trustee may pursue any available remedy to collect the payment of principal or interest on the Loan or to enforce the performance of any provision of this Agreement. A delay or omission by the Lender (or the Trustee, as the case may be) in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default.

### 16. **DEFAULT INTEREST AND INDEMNITY**

#### 16.1 **Default Interest Periods**

If any sum due and payable by the Borrower hereunder is not paid on the due date therefor in accordance with the provisions of Clause 18 (*Payments*) or if any sum due and payable by the Borrower under any judgment of any court in connection herewith is not paid on the date of such judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of the Borrower to pay such sum

(the balance thereof for the time being unpaid being herein referred to as an “**unpaid sum**”) is discharged shall be divided into successive periods, each of which, other than the first, shall start on the last day of the preceding such period and the duration of each of which shall, except as otherwise provided in this Clause 16 (*Default Interest and Indemnity*), be selected by the Lender, but shall in any event not be longer than one month.

#### 16.2 **Default Interest**

During each such period relating thereto as is mentioned in Clause 16.1 (*Default Interest Periods*) an unpaid sum shall bear interest at a rate per annum equal to the Interest Rate.

#### 16.3 **Payment of Default Interest**

Any interest which shall have accrued under Clause 16.2 (*Default Interest*) in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by written notice to the Borrower.

The Borrower shall make such payments from the following bank account or such other bank account of the Borrower in the Ukraine as may be specified by the Borrower:

ORDERING CUSTOMER: ACCT 2542000770925 (USD)

The Main Financial Department of the Executive Body of the Kyiv City Council (Kyiv City State Administration)

36 Khreschatyk St., Kyiv, 01044, Ukraine

ORDERING INSTITUTION: “KHRESCHATYK BANK” KYIV, UKRAINE

SWIFT: KHRCUAUK

#### 16.4 **Unpaid Sums as Advances**

Any unpaid sum shall, for the purposes of this Clause 16 (*Default Interest and Indemnity*) and Clause 10.1 (*Increased Costs*), be treated as an advance and accordingly in this Clause 16 (*Default Interest and Indemnity*) and Clause 10.1 (*Increased Costs*) the term “**Loan**” includes any unpaid sum and the term “**Interest Period**”, in relation to an unpaid sum, includes each such period relating thereto as is mentioned in Clause 16.1 (*Default Interest Periods*).

#### 16.5 **Borrower’s Indemnity**

The Borrower undertakes to indemnify the Lender, any of its affiliates or any director, officer, employee or agent of the Lender or any such affiliate or any person controlling the Lender within the meaning of the United States securities laws (each an “**indemnified party**”) against any reasonably incurred and properly documented cost, charge, claim, loss, expense (including but not limited to legal fees) or liability, together with any VAT thereon, (a “**Loss**”) which it may sustain or incur as a consequence of the occurrence of any Event of Default or any default by the Borrower in the performance of any of the obligations to be assumed by it in this Agreement unless such Loss was caused by such indemnified party’s gross negligence or wilful default or misconduct. Except as expressly provided in the Trust Deed, the Lender shall not have any duty or obligation, whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause 16.5 (*Borrower’s Indemnity*).

#### 16.6 **Independent Obligation**

Clause 16.5 (*Borrower’s Indemnity*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provisions of this Agreement or any such other obligations.

#### 16.7 **Evidence of Loss**

A certificate of the Lender setting forth the amount of the Loss described in Clause 16.5 (*Borrower’s Indemnity*) and specifying in full detail the basis therefor and calculations thereof shall be conclusive evidence of the amount of such Loss.

## 16.8 **Survival**

The obligations of the Borrower pursuant to Clauses 8.1 (*Additional Amounts*), 8.2 (*Double Tax Treaty Relief*), 16.5 (*Borrower's Indemnity*), 18.3 (*No Set-off*) and 19.3 (*Costs Relating to Amendments and Waivers*) shall survive the execution and delivery of this Agreement, the drawdown and repayment of the Loan, in each case by the Borrower, and termination of this Agreement.

## 17. **CURRENCY OF ACCOUNT AND CURRENCY INDEMNITY**

### 17.1 **Currency of Account**

The U.S. dollar is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

### 17.2 **Currency Indemnity**

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the “**first currency**”) in which the same is payable hereunder or under such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Borrower, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender from and against any loss suffered or reasonably incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Lender may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

## 18. **PAYMENTS**

### 18.1 **Payments to the Lender**

Not later than 10:00 a.m. (New York City time) one Business Day prior to each date on which this Agreement requires an amount denominated in U.S. dollars to be paid by the Borrower, the Borrower shall make the same available to the Lender by payment in U.S. dollars and in Same Day Funds (or in such other funds as may for the time being be customary in London for the settlement in London of international banking transactions in U.S. dollars) to the Collection Account. The Borrower shall procure that the bank effecting payment on its behalf confirms to the Lender, or to such Person as the Lender may direct, by tested telex or authenticated SWIFT message one Banking Day prior to the date that such payment is required to be made under this Clause 18.1 (*Payments to the Lender*), the payment instructions relating to such payment. For these purposes, “**Banking Day**” means a day on which banks are open for general business in New York City.

### 18.2 **Alternative Payment Arrangements**

If, at any time, it shall become impracticable, by reason of any action of any governmental authority or any Change of Law, exchange control regulations or any similar event, for the Borrower to make any payments hereunder in the manner specified in Clause 18.1 (*Payments to the Lender*), then the Borrower may agree with the Lender alternative arrangements for such payments to be made; *provided that*, in the absence of any such agreement, the Borrower shall be obliged to make all payments due to the Lender in the manner specified herein.

### 18.3 **No Set-Off**

All payments required to be made by the Borrower hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

### 18.4 **Statutory Limitation**

18.4.1 The amount of all payments payable by the Borrower pursuant to the terms of this Agreement (at the interest rate set out in this Agreement, taking into account commissions, penalties and other payments set forth in this Agreement, including penalties for improper performance of the terms and conditions of this Agreement) during the term of this Agreement shall not exceed the amount of payments were such

payments calculated by reference to the maximum interest rate established by the National Bank of Ukraine and effective at the date of registration of this Agreement with the National Bank of Ukraine.

18.4.2 The parties hereto agree that paragraph 18.4.1 above shall apply only if and to the extent required by the mandatory provisions of the regulations of the National Bank of Ukraine governing the registration of loan agreements between Ukrainian borrowers and foreign lenders and only for so long as such requirement is in effect.

## **19. FEES, COSTS AND EXPENSES**

### **19.1 Costs relating to Preservation of Rights**

The Borrower shall, from time to time on demand of the Lender, reimburse the Lender for all costs and expenses (including legal fees) together with any VAT incurred in or in connection with the preservation or the enforcement of any of the rights of the Lender under this Agreement.

### **19.2 Taxes**

The Borrower shall pay all stamp, registration and other taxes to which this Agreement or any judgment given in connection with this Agreement is or at any time may be subject and shall, from time to time on demand of the Lender, indemnify the Lender against any liabilities, costs, claims and expenses (including, without limitation, legal fees and any applicable VAT thereon) resulting from any failure to pay or any delay in paying any such tax.

### **19.3 Costs relating to Amendments and Waivers**

The Borrower shall, from time to time on demand by the Lender (and without prejudice to the provisions of Clause 19.1 (*Costs relating to Preservation of Rights*)) (and the Trustee) compensate the Lender (and, as the case may be, the Trustee) for all costs and expenses (including telephone, fax, copying, travel and personnel costs) incurred by the Lender (or, as the case may be, the Trustee), their respective directors, officers and employees, in connection with the Lender (and, as the case may be, the Trustee) taking such action as it may consider appropriate or in complying with any request by the Borrower in connection with:

- 19.3.1 any amendment or proposed amendment to this Agreement requested by the Borrower; or
- 19.3.2 the granting or proposed granting of any waiver or consent requested under this Agreement by the Borrower; or
- 19.3.3 any actual or potential breach by the Borrower of any of its obligations under this Agreement; or
- 19.3.4 the occurrence of any event which is an Event of Default or a Potential Event of Default.

## **20. ASSIGNMENTS AND TRANSFERS**

### **20.1 Binding Agreement**

This Agreement shall be binding upon and inure to the benefit of each party hereto and its or any subsequent successors and assigns.

### **20.2 No Assignments and Transfers by the Borrower**

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

### **20.3 Assignments by the Lender**

The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee of the Lender's rights and benefits under this Agreement and (ii) the absolute assignment by way of security by the Lender to the Trustee of certain rights, interest and benefits under this Agreement, in each case, pursuant to Clause 4 (*Security Interests*) of the Trust Deed.

## **21. CALCULATIONS AND EVIDENCE OF DEBT**

### **21.1 Basis of Accrual of Interest**

Subject as provided in Clause 5.2 (*Calculation of Interest*), interest shall accrue from day to day and shall be 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.

### **21.2 Evidence of Debt**

The Lender shall maintain, in accordance with its usual practice, accounts evidencing the amounts from time to time lent by and owing to it hereunder; in any legal action or proceeding arising out of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the Lender to the Borrower of written information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

### **21.3 Change of Circumstance Certificates**

A certificate signed by two authorised signatories of the Lender describing in reasonable detail (a) the amount by which a sum payable to it hereunder is to be increased under Clause 8.1 (*Additional Amounts*) or (b) the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clause 8.3 (*Tax Indemnity*), Clause 10.1 (*Increased Costs*) or Clause 16.5 (*Borrower's Indemnity*) shall, in the absence of manifest error, be *prima facie* evidence of the existence and amounts of the specified obligations of the Borrower.

## **22. REMEDIES AND WAIVERS, PARTIAL INVALIDITY**

### **22.1 Remedies and Waivers**

No failure by the Lender or the Trustee to exercise, nor any delay by the Lender or the Trustee in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

### **22.2 Partial Invalidity**

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

## **23. NOTICES**

### **23.1 Communications in Writing**

Each communication and document to be made or delivered hereunder shall be made in writing and, unless otherwise stated, shall be made by fax, hand, or courier addressed as follows:

*if to the Borrower:*

The Kyiv City Council  
36 Khreshchatyk Street  
01044 Kyiv  
Ukraine

Fax number: +380 44 278 6632, with a copy by e-mail to [gfu@kmv.gov.ua](mailto:gfu@kmv.gov.ua)

Attention: Volodymyr Mykhailovych Repik

*if to the Lender:*

Kyiv Finance PLC  
Fifth Floor  
100 Wood Street  
London  
EC2V 7EX  
United Kingdom

Fax: +44 (0) 20 7606 0643

Attention: IB/SM

## 23.2 **Delivery**

Each communication and document to be made or delivered by one party to another pursuant to this Agreement shall, unless that other party has by 15 calendar days' written notice to the same specified another address, be made or delivered to that other party at the address or fax number specified in Clause 23.1 (*Communications in Writing*) and shall be effective upon receipt by the addressee on a business day in the city of the recipient; *provided, however that* (i) any such communication or document which would otherwise take effect after 4:00 p.m. on any particular day shall not take effect until 10:00 a.m. on the immediately succeeding business day in the city of the addressee and (ii) any communication or document to be made or delivered by one party to the other party shall be effective only when received by such other party and then only if the same is expressly marked for the attention of the department or officer identified with the such other party's signature below, or such other department or officer as such other party shall from time to time specify for this purpose.

## 24. **LAW, JURISDICTION AND ARBITRATION**

### 24.1 **English Law**

This Agreement, including any non-contractual obligations arising out of or in connection with this Agreement, are governed by, and shall be construed in accordance with, English law.

### 24.2 **Arbitration**

Subject to Clause 24.3 (*English Courts*), the parties to this Agreement agree that any claim, dispute or difference of whatever nature arising under, out of or in connection with this Agreement (including a claim, dispute or difference regarding its existence, termination or validity) (a "**Dispute**"), shall be referred to and finally settled by arbitration in accordance with the Rules of the London Court of International Arbitration ("**LCIA**") (the "**Rules**") as at present in force and as modified by this Clause 24.2 (*Arbitration*), which Rules shall be deemed incorporated into this Clause 24.2 (*Arbitration*). The number of arbitrators shall be three, one of whom shall be nominated by the claimant(s), one by the respondent(s) and the third of whom, who shall act as chairman, shall be nominated by the two party-nominated arbitrators. The parties may nominate and the LCIA Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

### 24.3 **English Courts**

At any time before the Lender has nominated an arbitrator to resolve any Dispute or Disputes pursuant to Clause 24.2 (*Arbitration*), the Lender may elect by notice in writing to the Borrower that such Dispute(s) shall instead be heard by the courts of England or by any other court of competent jurisdiction. Following any such election, no arbitral tribunal shall have jurisdiction in respect of such Dispute(s).

### 24.4 **Appropriate Forum**

The Borrower irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.

#### **24.5 Service of Process**

The Borrower agrees that the service of process relating to any Dispute in England or Wales may be by delivery to Law Debenture Corporate Services Limited at its registered office (being, at the date hereof) Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom. If such person is not or ceases to be effectively appointed to accept service of process, the Borrower shall immediately appoint a further person in England or Wales to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to the Borrower. Nothing in this Clause 24.5 (*Service of Process*) shall affect the right of the Lender to serve process in any other manner permitted by law.

#### **24.6 Non-exclusivity**

The submission by the Borrower to the jurisdiction of the English courts shall not (and shall not be construed so as to) limit the right of the Lender and the Trustee to bring proceedings in any other court of competent jurisdiction.

#### **24.7 Waiver of Immunity**

To the extent that the Borrower may in any jurisdiction claim for itself, its assets or revenue, immunity from suit, execution, attachment (whether in aid of execution, before making a judgment, aware or otherwise) or other legal proceedings, including in relation to an enforcement of an arbitral award, and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Borrower, its assets or revenue, the Borrower agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by applicable law.

### **25. RIGHTS OF THIRD PARTIES**

A Person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement other than each indemnified party in relation to Clause 16.5 (*Borrower's Indemnity*) and, for the avoidance of doubt, this Clause 25 shall not affect the rights of the Trustee under this Loan Agreement.

### **26. ENGLISH LANGUAGE**

26.1 Each communication and document to be made or delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation into English certified (by an officer of the person delivering the same) as being a true and accurate translation. In the event of any discrepancies between the English and any Ukrainian versions of such communication or document, or any dispute regarding the interpretation of any provision in the English or any Ukrainian versions of such communication or document, the English version of such communication or document shall prevail, unless the document is a statutory or other official document.

26.2 This Agreement has been set forth and signed in both English and Ukrainian, provided, however, that in the event of any conflict or inconsistency or in case of doubt as to the proper interpretation or construction of this Agreement, the English text shall be controlling.

### **27. COUNTERPARTS**

This Agreement may be executed in any number of counterparts, including in any event a counterpart which is to be submitted to the territorial department of the National Bank of Ukraine for registration purposes, and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

### **28. REGISTRATION**

This Agreement shall become effective on the date of its registration with the National Bank of Ukraine.

**AS WITNESS** the hands of the duly authorised representatives of the parties hereto the day and year first before written.

## SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

### The Global Note Certificates

The Regulation S Notes will be evidenced on issue by the Regulation S Global Note Certificate registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg. Beneficial interests in the Regulation S Global Note Certificates may be held only through Euroclear or Clearstream, Luxembourg at any time. See “*Clearing and Settlement—Book-Entry Procedures for the Global Note Certificates*”. By acquisition of a beneficial interest in a Regulation S Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. Person, that it is located outside the United States and that, if it determines to transfer such beneficial interest prior to the expiration of the “**distribution compliance period**” (as such term is defined in Rule 902 of Regulation S), it will transfer such interest only (a) to a non-U.S. Person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or the account of a QIB that is also a QP, in each case in accordance with any applicable securities laws of any state of the United States. See “*Transfer Restrictions*”.

The Rule 144A Notes will be evidenced on issue by the Rule 144A Global Note Certificate deposited with a custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in a Rule 144A Global Note Certificate may only be held through DTC at any time. See “*Clearing and Settlement—Book-Entry Procedures for the Global Note Certificates*”. By acquisition of a beneficial interest in a Rule 144A Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Trust Deed and Agency Agreement. See “*Transfer Restrictions*”.

Beneficial interests in Global Note Certificates will be subject to certain restrictions on transfer set forth therein and in the Trust Deed and the Global Note Certificates will bear the applicable legends regarding the restrictions set forth under “*Transfer Restrictions*”. A beneficial interest in such Regulation S Global Note Certificate may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note Certificate only in denominations greater than or equal to the minimum denominations applicable to interests in such Rule 144A Global Note Certificate and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement relating to the Notes) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in such Rule 144A Global Note Certificate may be transferred to a person who takes delivery in the form of an interest in such Regulation S Global Note Certificate only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made to a non-U.S. Person, in an offshore transaction in accordance with Regulation S.

Any beneficial interest in a Regulation S Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note Certificate will, upon transfer, cease to be an interest in such Regulation S Global Note Certificate and become an interest in a Rule 144A Global Note Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such Rule 144A Global Note Certificate for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note Certificate will, upon transfer, cease to be an interest in such Rule 144A Global Note Certificate and become an interest in a Regulation S Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such Regulation S Global Note Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in Global Note Certificates will not be entitled to receive physical delivery of Individual Note Certificates. The Notes are not issuable in bearer form.

## **Exchange for Individual Note Certificates**

### ***Exchange***

Subject to receipt by the Issuer of the funds necessary to cover the cost realised from the Company, each Global Note Certificate will be exchangeable, free of charge to the holder, on or after its Exchange Date (as defined below), in whole but not in part, for Notes in definitive form if: (i) a Global Note Certificate is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Global Note Certificate or ceases to be a “clearing agency” registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, as the case may be, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent and the Issuer or (ii) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 of each, the Terms and Conditions of the Notes which would not be suffered were the Notes in definitive form and a note to such effect signed by the requisite number of signatories of the Issuer is delivered to the Trustee by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders of its intention to exchange the Global Note Certificate for Individual Note Certificates on or after the Exchange Date (as defined below) specified in the notice or (iii) the Trustee has instituted or has been directed to institute any judicial proceeding in a court to enforce the rights of the Noteholders under the Notes and the Trustee has been advised by counsel that in connection with such proceeding it is necessary or appropriate for the Trustee to obtain possession of the Notes, by the Trustee giving notice to the Registrar or any Transfer Agent and the Noteholders.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note Certificate for Individual Note Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

If only one of the Global Note Certificates (the “**Exchanged Global Note Certificate**”) becomes exchangeable for Individual Note Certificates in accordance with the above paragraphs, transfers of Notes may not take place between, on the one hand, persons holding Individual Note Certificates issued in exchange for beneficial interests in the Exchanged Global Note Certificate and, on the other hand, persons wishing to purchase beneficial interests in the other Global Note Certificate.

“**Exchange Date**” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar and any Transfer Agent is located.

### ***Delivery***

In such circumstances, the Global Note Certificate shall be exchanged in full for Individual Note Certificates and the Issuer will, at the cost of the Issuer (and against such indemnity as the Registrar or any 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 Individual 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 Certificate 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 Notes and (b) in the case of a Rule 144A Global Note Certificate 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, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Individual Note Certificates issued in exchange for a beneficial interest in a Rule 144A Global Note Certificate shall bear the legend applicable to transfer pursuant to Rule 144A, as set forth under “*Transfer Restrictions*”.

### ***Legends***

The holder of a Individual Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the

transfer, exchange or replacement of a Rule 144A Individual Note Certificate bearing the legend referred to under “*Transfer Restrictions*”, or upon specific request for removal of the legend on a Rule 144A Individual Note Certificate, the Issuer will deliver only Rule 144A Individual 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 and the Investment Company Act.

In addition, each Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of these provisions:

#### ***Notices***

Notwithstanding Condition 14 (*Notices*) of each, the Terms and Conditions Notes, so long as the Global Note Certificate is held by or on behalf of DTC, Euroclear, Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”), notices to Noteholders represented by a Global Note Certificate may be given by delivery of the relevant notice to DTC, Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System and such notices shall be deemed to have been given on the day of delivery to the relevant clearing systems, provided that whilst the Notes are listed on the Irish Stock Exchange, notices will also be given in accordance with the guidelines of the Irish Stock Exchange.

#### ***Record Date***

Notwithstanding Condition 6(e) of each, the Terms and Conditions of the Notes, “**Record Date**” shall mean the Clearing System Business Day before the due date for payment where “**Clearing System Business Day**” means (i) in respect of a Global Certificate held on behalf of Euroclear or Clearstream, Luxembourg, a day when Euroclear or Clearstream, Luxembourg is open for business, and (ii) in respect of a Global Certificate held on behalf of DTC, a day when DTC is open for business.

#### ***Payment***

Payments of principal and interest in respect of the Global Certificates shall be made to the person who appears at the relevant time on the register of Noteholders as holder of Global Certificates against presentation (in the case of payment of principal) and (if no further payment falls to be made on it) surrender thereof to or to the order of the Principal Paying Agent (or to or to the order of such other Paying Agent as shall have been notified to the Noteholders for this purpose) which shall endorse such payment or cause such payment to be endorsed in the relevant schedule thereto (such endorsement being *prima facie* evidence that the payment in question has been made). No person shall however be entitled to receive any payment on the Global Certificates falling due after the Exchange Date, unless the exchange of the Global Certificate for the Individual Note Certificates is improperly withheld or refused by or on behalf of the Issuer.

#### ***Meetings***

The holder of a Global Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each Note for which the Global Certificate may be exchangeable.

#### ***Trustee’s Powers***

In considering the interests of Noteholders whilst a Global Certificate is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Certificate and may consider such interests as if such accountholders were the holders of such Global Certificate.

#### ***Cancellation***

Cancellation of any Note required by the Terms and Conditions of such Notes to be cancelled will be effected by reduction in the principal amount of the relevant Global Certificate by a record made in the Register.

## TAXATION

*The following is a general description of certain Ukrainian, United Kingdom and United States tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes, and the consequences of such actions under the tax laws of those countries. This summary is based upon the law in effect on the date of this document and is subject to any change in law that may take effect after such date.*

### **Ukrainian Tax Considerations**

#### ***Tax on Interest Payments under the Loan***

With effect from 1 April 2011, the Tax Code will exempt from taxation in Ukraine the income of a foreign legal entity derived in the form of interest on a loan to a municipality. In order to benefit from this exemption under the Tax Code, the municipality must ensure that the loan or the interest thereon is "reflected" in the municipal budget. The Tax Code does not specify how this requirement should be addressed. However, pursuant to other applicable legislation, a municipality is only required to establish a ceiling on the aggregate amount of all municipal borrowings in its municipal budget, and to specify the amount allocated for the servicing of all municipal borrowings in that year. There is no requirement for details of individual loans to be included in the municipal budget. Accordingly, the City believes that for purposes of the Tax Code, a loan should be deemed "reflected" in the City Budget if it is within the municipal borrowings ceiling and the interest thereon is within the borrowings servicing amount established in the City Budget for the relevant year. Furthermore, the City Budget for 2011 provides the main terms and conditions for the municipal borrowings in 2011 and the City believes that the Loan satisfies these requirements. As the Loan meets these criteria, interest payments to the Lender under the Loan Agreement should be exempt from taxation in Ukraine.

#### ***Tax on Issue of and Interest Payments under the Notes***

No Ukrainian withholding tax should be applicable to the issue of the Notes or interest payments under the Notes because the Notes will not be issued and interest payments on the Notes will not be made by the City or from Ukraine.

#### ***Tax on Payment of Instalments of Principal and on Redemption of the Notes***

Based on the professional advice it has received, the City is unaware of any situation in which the Ukrainian tax authorities have ever attempted to levy Ukrainian withholding tax on repayments of principal under a loan or credit transaction. The Tax Code does not provide any basis to believe that such position of the Ukrainian tax authorities may change in the near future.

The amount received by a non-resident on redemption of the Notes will not be subject to Ukrainian taxation because such payments will be made by the Issuer outside of Ukraine.

#### ***Gross-Up Obligations***

If payments under the Loan Agreement are subject to any withholding (as a result of which the Issuer would, pursuant to Condition 7 (*Taxes*) reduce payments under the Notes in the amount of such withholding), then the City would, in the circumstances described in the Loan Agreement, be obliged to pay such additional amounts as may be necessary so that the net payments received by the Issuer will not be less than the amount it would have received in the absence of such withholding. In such circumstances, the City would have the right to prepay the Loan as fully set out in the Loan Agreement. Notwithstanding the foregoing, the Tax Code generally prohibits contractual provisions requiring one party to pay tax for another party. As a result, such provisions in a contract (including the Loan) may be construed as unenforceable under Ukrainian law.

#### ***Transfer of Notes to Ukrainian Investors***

Under the Tax Code, Ukrainian-source income in the form of capital gains of foreign legal entities, which are not tax residents of Ukraine, derived from trading in securities is subject to 15 per cent. Ukrainian withholding tax (while Ukrainian-source income of non-resident individuals is, subject to certain exceptions, subject to 17 per cent. personal income tax), unless there is an exemption under an applicable double taxation treaty. Ukrainian investors may therefore be obliged to withhold from

payments to Noteholders who are not tax residents of Ukraine amounts in respect of withholding tax or personal income tax, as applicable, in relation to income derived from the transfer of the Notes to Ukrainian investors unless an exemption is available under an applicable double taxation treaty and certain conditions set forth in such double taxation treaty and under the applicable Ukrainian legislation are duly satisfied.

However, there is uncertainty as to whether the Notes would be considered “securities” under applicable Ukrainian law. Even if an interpretation that the Notes are not securities under such law prevails, such Notes may, nevertheless, still be viewed to be subject to Ukrainian withholding tax under the “catch-all” provision of the Tax Code.

### ***Tax Implications for Residents of Ukraine***

A Noteholder who is an individual or legal entity resident in Ukraine for tax purposes (including a permanent establishment of a non-Ukrainian legal entity) is subject to applicable Ukrainian taxes. Interest from holding debt securities is included into the taxable income of a resident taxpayer, while the principal amount generally is not treated as a taxable income of such persons.

### **United Kingdom Tax Considerations**

*The following is a general summary of certain aspects of United Kingdom withholding taxation at the date hereof. It is based on United Kingdom law and published practice of United Kingdom HM Revenue and Customs (“HMRC”) as at today’s date, which may change at any time, possibly with retrospective effect. The comments relate only to the position of persons who are absolute beneficial owners of the Notes and may not apply to certain classes of persons, including dealers, or certain professional investors, insurance companies, collective investment schemes and persons holding their Notes through individual savings accounts, to whom special rules may apply. The following is a general guide and should be treated with appropriate caution. It is not and does not purport to constitute tax or legal advice, or to be a comprehensive analysis of all potential United Kingdom tax consequences which may arise in connection with the Notes. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.*

This summary has been prepared on the basis that the Notes will be issued at 100 per cent. of their principal amount.

### ***UK Withholding Tax***

For so long as the Notes are and continue to be “listed on a recognised stock exchange” within the meaning of section 1005 of the Income Tax Act 2007 interest payments on the Notes will be treated as a “payment of interest on a quoted Eurobond” within the meaning of section 882 of the Income Tax Act 2007. The Issuer’s understanding of current HMRC practice is that securities listed on the regulated market of the Irish Stock Exchange may be regarded as “listed on a recognised stock exchange” for this purpose. In these circumstances, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid to a person who is resident in the United Kingdom for United Kingdom tax purposes and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the owner is within the charge to United Kingdom corporation tax as regards the payment of interest or that the payment is made to one of the persons listed in sections 933-937 of the Income Tax Act 2007 in the circumstances specified in section 930 of the Income Tax Act 2007, provided that HMRC have not given a direction (in circumstances where it is reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In all other cases, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty or any other exemption which may apply.

### ***Provision of Information***

Noteholders may wish to note that HMRC has the power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual (or a partnership including an individual). Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes. Information may also be required to be reported to HMRC in accordance with the EU Savings Directive (see below).

**Any person who is in any doubt as to his tax position or requires more detailed information than the general outlines above or who is subject to tax in a jurisdiction other than the United Kingdom should consult his professional advisers immediately.**

### **United States Federal Income Taxation Considerations**

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

*The following is a general summary of certain material US federal income tax consequences of the acquisition, ownership and retirement or other disposition of Notes by a holder thereof. This summary is not a complete analysis or description of all potential US federal income tax consequences to holders, and does not address state, local, foreign, or other tax laws. This summary does not address aspects of US federal income taxation that may be applicable to holders that are subject to special tax rules, such as US expatriates, “dual resident” companies, banks, thrifts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations or investors, dealers or traders in securities, commodities or currencies, or holders who own (directly, indirectly or by attribution) 10 per cent. or more of the Issuer’s voting stock, or to holders that will hold a Note as part of a position in a “straddle” or as part of a “synthetic security” or as part of a “hedging”, “conversion”, “integrated” or constructive sale transaction for US federal income tax purposes or that have a “functional currency” other than the US dollar, or holders otherwise subject to special tax rules. Moreover, this summary does not address the US federal estate and gift or alternative minimum tax consequences of the acquisition, ownership, retirement or other disposition of Notes and does not address the US federal income tax treatment of holders that do not acquire Notes as part of the initial distribution at the initial issue price (defined below). Each prospective purchaser should consult its tax advisor with respect to the US federal, state, local and foreign tax consequences of acquiring, holding, retiring or other disposition of Notes.*

*This summary is based on the US Internal Revenue Code of 1986, as amended (the “Code”), administrative pronouncements, judicial decisions and existing and proposed US Treasury Regulations, in each case, as available and in effect on the date hereof. All of the foregoing are subject to change or differing interpretation, which could apply retroactively and affect the tax consequences described herein.*

For purposes of this summary, a “**US Holder**” is a beneficial owner of Notes that (a) purchases Notes in the offering at the initial issue price; (b) holds Notes as capital assets; and (c) is, for US federal income tax purposes:

- (i) a citizen or individual resident of the United States;
- (ii) a corporation organised in or under the laws of the United States or any State thereof (including the District of Columbia);
- (iii) an estate the income of which is subject to US federal income taxation regardless of its source;  
or

- (iv) a trust (1) that validly elects to be treated as a United States person within the meaning of section 7701(a) (30) of the Code for US federal income tax purposes or (2) (a) over the administration of which a US court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

A “**Non-US Holder**” is a beneficial owner of Notes other than a US Holder.

If a partnership (or any other entity treated as a partnership for US federal income tax purposes) holds Notes, the US federal income tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its own tax advisor as to the US federal income tax consequences of acquiring, holding, retiring or other disposition of Notes.

The “**initial issue price**” of a Note will equal the initial offering price to the public (not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the notes is sold for money.

**THE SUMMARY OF US FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCE 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.**

### *Characterisation of the Notes*

Although the proper characterisation of the Notes for US federal income tax purposes is not entirely certain, the Issuer intends to treat the Notes as debt for US federal income tax purposes. This characterisation is binding on all US holders unless the holder discloses on its US federal income tax return that it is treating the Notes in a manner inconsistent with the Issuer’s characterisation. However, the Issuer’s characterisation is not binding on the Internal Revenue Service (the “**IRS**”) or the courts, and no ruling is being requested from the IRS with respect to the proper characterisation of the Notes for US federal income tax purposes.

The classification of an instrument as debt or equity is highly factual, and there can be no assurance that the IRS will not contend, and that a court will not ultimately hold, that the Notes are equity of the Issuer. If the IRS or a court were to treat the Notes as equity for US federal income tax purposes, then US Holders of Notes would likely be treated as owning an equity interest in a passive foreign investment company (“**PFIC**”) and, accordingly, gains realised on the sale of, and interest paid on, the Notes could be subject to deferred tax charges and other adverse consequences including additional reporting requirements. Prospective purchasers of Notes are urged to consult their own tax advisors about the consequences of any recharacterisation of the Notes in their particular circumstances.

### *Payments of Interest*

It is expected and this discussion assumes that either the issue price of the Notes will equal the stated principal amount of the Notes or the Notes will be issued with no more than a de minimus amount of original issue discount (“**OID**”). Therefore, interest paid on a Note will be included in a US Holder’s gross income as ordinary interest income at the time it is received or accrued in accordance with the US Holder’s usual method of tax accounting. In addition, interest on the Notes will be treated as foreign source income for US federal income tax purposes.

Interest on the notes will be treated as foreign source income for US federal income tax purposes, including US foreign tax credit limitation purposes. The limitation on foreign taxes eligible for the US foreign tax credit is calculated separately with respect to specific “**baskets**” of income. Interest on the notes should generally constitute “**passive category income**”, or in the case of certain US holders, “**general category income.**” As an alternative to the tax credit, a US holder may elect to deduct any foreign taxes (the election would then apply to all foreign income taxes such US holder paid in that taxable year). The rules relating to foreign tax credits and the timing thereof are complex and US Holders should consult their own tax advisers regarding the availability of a foreign tax credit and the application of the foreign tax credit limitations to their particular situation.

Under certain circumstances, as set forth above, Ukraine might impose a withholding tax in respect of payments on the Loan by the City to the Issuer, and the City might be prevented by law or otherwise from grossing up such payments as required by the terms of the Loan. In such a case, the

Holders of the Notes could bear the cost of such withholding taxes in reduced payments from the Issuer.

Subject to the discussion below under “— US Backup Withholding Tax and Information Reporting”, payments of interest on a Note to a Non-US Holder generally will not be subject to US federal income tax unless such income is effectively connected with the conduct by such Non-US Holder of a trade or business in the United States.

### ***Fungible Issue***

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

### ***Sale, Exchange or Retirement***

Upon the sale, exchange, retirement or other disposition of a Note, a US Holder will recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange or retirement (other than amounts attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the US Holder’s adjusted tax basis in such Note. A US Holder’s adjusted tax basis in a Note generally will equal the US dollar cost of such Note to the US Holder less any principal payments received on the Note. Any such gain or loss will be capital gain or loss and will be long-term capital gain or loss if such US Holder’s holding period for such Notes exceeds one year. Certain US Holders (including individuals) are eligible for preferential rates of US federal income tax in respect of long-term capital gain. Any gain or loss realised on the sale, exchange, retirement or other disposition by a US Holder of a Note generally will be treated as US source gain or loss, as the case may be. The deductibility of capital losses is subject to substantial limitations.

Subject to the discussion below under “—US Backup Withholding Tax and Information Reporting,” any gain realised by a Non-US Holder upon the sale, exchange, retirement or other disposition of a Note generally will not be subject to US federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-US Holder of a trade or business in the United States or (ii) in the case of any gain realised by an individual Non-US Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, retirement or other disposition, and certain other conditions are met.

### ***Substitution of the Issuer***

The Issuer may, subject to certain conditions and without the consent of the Noteholders, transfer its obligations as principal debtor with respect to Notes to a third party, which may result in certain adverse tax consequences to holders (see “Terms and Conditions of the Notes- Substitution”) depending on the circumstances surrounding such substitution. In particular, holders may be required to recognise gain or loss and/or accrue OID as a result of substitution. Holders are urged to consult their own tax advisors regarding any potential adverse tax consequences to them that may result from a substitution of the Issuer.

### ***US Backup Withholding Tax and Information Reporting***

A backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain holders of the notes that are US Persons. The payor will be required to withhold backup withholding tax on payments made within the United States, or by a US payor or US middleman, on a Note to a holder of a Note that is a US Person, other than an exempt recipient, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States, or by a US payor or US middleman, of principal, interest and proceeds of sale to a holder of a Note that is not a US Person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect.

Backup withholding tax is not an additional tax. A holder generally will be entitled to credit any amounts withheld under the backup withholding rules against such holder's US federal income tax liability and may be entitled to a refund, provided the required information is furnished to the IRS in a timely manner. The backup withholding tax rate is 28 per cent. through 2012.

Beginning in 2011, recently enacted legislation may require individual US Holders to report to the IRS certain information with respect to their beneficial ownership of the Notes not held through an account with a US financial institution. Investors who fail to report required information could be subject to substantial penalties.

### **EU Savings Directive**

Under the EU Savings Tax Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period, Austria and Luxembourg are instead required (unless during that period they elect otherwise) to apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non EU countries to the exchange of information relating to such payments.

A number of non EU countries have adopted similar measures (either provision of information or transitional withholding).

The European Commission has published a proposal for amendments to this Directive (COM (2008) 727). The European Parliament approved an amended version of this proposal on 24 April 2009 and the European Economic and Social Committee gave its opinion on 13 May 2009; discussions on legislative implementation proposals for this political agreement are still ongoing at European Council level. If these proposed amendments are made to this Directive, they would broaden the scope of the requirements described above, so as to bring within the scope of this Directive a wider range of income (as similar to interest) and payments made through a wider range of collective investment undertakings wherever established (including partnerships) each within the scope of this Directive. The timing of the implementation of these proposed amendments to this Directive is not yet known, but it is not currently intended that they take effect less than three years after the date on which this Directive is formally amended.

For the avoidance of doubt, should the Issuer, the Principal Paying Agent or any institution where the Notes are deposited be required to withhold any amount as a direct or indirect consequence of the EU Savings Tax Directive, then, there is no requirement for the Issuer to pay any additional amounts relating to such withholding.

## SUBSCRIPTION AND SALE

Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, LLC VEB Capital, VTB Capital plc and Public Joint-Stock Company “Commercial Bank “KHRESCHATYK” (together, the “**Managers**”) have, in a subscription agreement dated 4 July 2011 (the “**Subscription Agreement**”) and made between the Issuer, the City and the Managers upon the terms and subject to the conditions contained therein, severally and not jointly agreed to subscribe and pay for the Notes at their issue price of 100 per cent. of their principal amount. The City has agreed to pay certain fees and commissions in connection with the Loan and the offering of the Notes. The 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.

### **United States of America**

The Notes and Loan have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from or not subject to the registration requirements of the Securities Act. Terms used in this paragraph have the respective meanings given to them by Regulation S. See “*Transfer Restrictions*”.

Each Manager has represented, warranted and agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and 11 July 2011 (the “**Closing Date**”), within the United States or to, or for the account or benefit of, U.S. Persons (other than Notes sold pursuant to Rule 144A) and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. Terms used in this and the preceding paragraph have the meanings given to them by Regulation S.

Notes offered and sold outside the United States to non-U.S. Persons may be sold in reliance on Regulation S. The Subscription Agreement provides that the Managers may directly or through their respective US broker-dealer affiliates arrange for the offer and resale of Notes in the United States only to persons whom they reasonably believe are QIBs and QPs who can represent that (a) they are QPs who are QIBs within the meaning of Rule 144A; (b) they are not broker-dealers who own and invest on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers; (c) they are not participant-directed employee plans, such as a 401(k) plan; (d) they are acting for their own account, or the account of one or more QIBs, each of which is a QP; (e) they are not formed for the purpose of investing in the Issuer of the Notes; (f) each account for which they are purchasing will hold and transfer at least U.S.\$200,000 in principal amount of Notes at any time; (g) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories; and (h) they will provide notice of the transfer restrictions set forth in this Prospectus to any subsequent transferees.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made other than in accordance with Rule 144A under the Securities Act.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States, the resale of the Notes in the United States and for the admission of Notes to the Irish Stock Exchange. The Issuer and the Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States or to any U.S. Person other than any QIB that is also a QP and to whom an offer has been made directly by one of the Managers or its respective U.S. broker-affiliate. Distribution of this Prospectus by any non-U.S. Person outside the United States or by any QIB that is QP within the United States to any U.S. Person or to any other person within the United States, other than any QIB that is a QP and those persons, if any, retained to advise such non-U.S. Person or QIB that is QP in respect thereof, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. Person or other person within the United States, other than any QIB that is a QP and those persons, if any, retained to advise such non-U.S. Person or QIB that is QP, is prohibited.

## **United Kingdom**

Each Manager has represented, warranted and undertaken to the Issuer and the City and each other Manager that:

- (a) Financial Promotion: 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 FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) General compliance: 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**

No action has been taken to authorise any offer of the Notes to the public in Ukraine.

Each Manager has agreed that the Notes shall not be offered by any of them for circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine. Accordingly, nothing in this Prospectus or any other documents, information or communications related to the Notes shall be interpreted as containing any offer or invitation to, or solicitation of, any such circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine or to the public in Ukraine.

## **Hong Kong**

This Prospectus has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong.

No person may offer or sell in Hong Kong, by means of any document, any Notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance.

No person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

## **Singapore**

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore (the “MAS”) under the Securities and Futures Act, Chapter 289 of Singapore (the “**Securities and Futures Act**”). Accordingly, the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of such Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following relevant persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased Notes, namely a person who is:

- (i) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes under Section 275 of the Securities and Futures Act except:

- (A) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act;
- (B) where no consideration is given for the transfer; or
- (C) by operation of law.

### **Republic of Ireland**

Each Manager has severally and not jointly nor jointly and severally represented, warranted and agreed that:

- (a) it will not underwrite the issue of, or place the Notes, otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3), including, without limitation, Regulations 7 and 152 thereof and any codes of conduct used in connection therewith and the provisions of the Investor Compensation Act 1998;
- (b) it will not underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Central Bank Acts 1942-2010 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;
- (c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Central Bank; and
- (d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005 and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank.

### **Republic of Italy**

Each Manager has represented and agreed that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public in the Republic of Italy (“**Italy**”) other than:

- a) to professional investors (*investitori qualificati*) as defined pursuant to Article 100, paragraph 1 (a), of Legislative Decree No 58, 24 February 1998 (the “**Financial Services Act**”) and Article 34-ter, paragraph 1 (b), of CONSOB Regulation 11971, 14 May 1999 (the “**Issuers Regulation**”), all as amended and restated from time to time; or
- b) in any other circumstances provided under Article 100, paragraph 1, of the Financial Services Act and under Article 34-ter, paragraph 1, of the Issuers Regulation, where exemptions from the requirement to publish a prospectus are provided.

For the purposes of this provision, the expression “offer of Notes to the public” in Italy means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, including the placement through authorised intermediaries.

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 Italian laws and regulations. The Notes and the information contained in this Prospectus are intended only for the use of its recipient. No person resident or located in Italy other than the original recipients of this Prospectus may rely on it or its content.

Moreover, and subject to the foregoing, each Manager has acknowledged that any offer, sale or delivery of the Notes or distribution of copies of this document or any other document relating to the Notes in Italy under (a) or (b) above must be:

- i. made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the “**Banking Act**”) and CONSOB regulation No. 11522, 1 July 1998, all as amended; and
- ii. in compliance with any other applicable laws and regulations including any relevant limitations which may be imposed by CONSOB.

### **General**

Other than the approval of this Prospectus by the Central Bank, no action has been or will be taken in any jurisdiction by the Issuer, the Borrower or the Managers that would, or is intended to, permit a public offer of the Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required.

Each Manager has severally undertaken to the Issuer and the Borrower that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief upon due enquiry, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

No Manager is authorised to make any representation or use any information in connection with the issue, offering and sale of the Notes other than as contained in this Prospectus or any amendment or supplement to it.

## TRANSFER RESTRICTIONS

### Rule 144A Notes

Each purchaser of a beneficial interest in a Rule 144A Global Note Certificate, by accepting delivery of this Prospectus and the interest in such Rule 144A Global Note Certificate, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a QIB that is also a QP, (b) not a broker-dealer that owns and invests on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acquiring such Notes for its own account, or for the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Notes or the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the seller of such Notes to it may be relying on Rule 144A.
2. It will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the relevant Rule 144A Notes in a principal amount that is not less than U.S.\$200,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories.
3. It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs that are also QPs each of which is purchasing not less than U.S.\$200,000 principal amount of Notes or (b) in an offshore transactions to a person, that is not a U.S. Person in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, and in each case in accordance with any applicable securities laws of any State or another jurisdiction of the United States.
4. It understands that the Issuer has the power to compel any beneficial owner of an interest in the Rule 144A Global Note Certificate that is a U.S. Person and is not a QIB and a QP to sell its interest in the Rule 144A Global Note Certificate, or may sell such interest on behalf of, or purchase such interest from, such owner at a price equal to the least of (x) the purchase price therefor paid by the beneficial owner, (y) 100 per cent. of the principal amount thereof or (z) the fair market value thereof. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Global Note Certificate to a U.S. Person who is not a QIB and a QP.
5. It understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (A "QIB") THAT IS A QUALIFIED PURCHASER (A "QP") WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"), PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS EACH OF WHICH IS ALSO A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.\$200,000 PRINCIPAL AMOUNT OF NOTES OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"), AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE

RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE *VOID AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.

EACH BENEFICIAL OWNER HEREOF REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QIB THAT IS ALSO A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS NOTES, WILL HOLD AND TRANSFER AT LEAST U.S.\$200,000 IN PRINCIPAL AMOUNT OF NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES. THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT, IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A PERSON WHICH IS NOT A QIB THAT IS ALSO A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON THAT IS (I) A U.S. PERSON THAT IS A QIB AND A QP THAT IS OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) IN AN OFFSHORE TRANSACTION TO A PERSON THAT IS NOT A U.S. PERSON IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LEAST OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT. OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A PERSON WHICH IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

BY ACCEPTING ANY INTEREST IN THIS NOTE EACH BENEFICIAL OWNER OF SUCH INTEREST, AND EACH FIDUCIARY ACTING ON BEHALF OF THE BENEFICIAL OWNER (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT, DURING THE PERIOD IT HOLDS ANY INTEREST IN THIS NOTE (1) EITHER (A) IT IS NOT, AND IT IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS ANY INTEREST IN THIS NOTE) WILL NOT BE (OR BE ACTING ON BEHALF OF)) AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“**ERISA**”)) SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A PLAN TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (“**CODE**”), APPLIES, OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” BY REASON OF ANY SUCH PLAN’S INVESTMENT IN THE ENTITY (A “**BENEFIT PLAN INVESTOR**”) OR A GOVERNMENTAL, CHURCH OR NON U.S. PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON U.S. LAWS OR REGULATIONS THAT ARE SUBSTANTIALLY SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (“**SIMILAR LAWS**”) OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE “PLAN ASSETS” OF SUCH PLAN, AND NO PART OF THE ASSETS USED BY IT TO PURCHASE OR HOLD ANY INTEREST IN THIS NOTE CONSTITUTES THE ASSETS OF SUCH BENEFIT PLAN INVESTOR OR SUCH PLAN OR (B) IT IS, OR IS ACTING

ON BEHALF OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, AND SUCH PURCHASE AND HOLDING OF ANY INTEREST IN THIS NOTE DOES NOT AND WILL NOT RESULT IN A NON-EXEMPT VIOLATION OF ANY SIMILAR LAWS, AND WILL NOT SUBJECT THE ISSUER TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH PLAN SOLELY AS A RESULT OF THE INVESTMENT IN THE ISSUER BY SUCH PLAN; AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY INTEREST IN THIS NOTE OTHERWISE THAN TO A PERSON THAT IS DEEMED TO MAKE THESE SAME REPRESENTATIONS, WARRANTIES AND AGREEMENTS WITH RESPECT TO ITS ACQUISITION, HOLDING AND DISPOSITION OF ANY INTEREST IN THIS NOTE. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF ANY INTEREST IN THIS NOTE WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE TRUSTEE WILL RECOGNISE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE ISSUER DETERMINES THAT ANY INTEREST IN THIS NOTE IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED IN THIS PROSPECTUS.

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER HEREOF TO CERTIFY PERIODICALLY THAT SUCH OWNER IS A QIB AND A QP.

6. It understands and acknowledges that its purchase and holding of such Rule 144A Notes (or any interest therein) constitutes a representation and agreement by it that (1) either (i) it is not, and is not acting on behalf of (and for so long as it holds such Notes (or any interest therein) will not be (or be acting on behalf of)) an employee benefit plan (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”)) subject to the provisions of part 4 of subtitle B of Title I of ERISA, a plan to which Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), applies, or any entity whose underlying assets include “plan assets” by reason of any such plan’s investment in the entity (a “Benefit Plan Investor”) or a governmental, church or non-U.S. plan which is subject to any U.S. federal, state, local or non-U.S. laws or regulations that are substantially similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code (“Similar Laws”) or laws or regulations that provide that the assets of the Issuer could be deemed to include “plan assets” of such plan, and no part of the assets used by it to purchase or hold such Notes (or any interest therein) constitutes the assets of such Benefit Plan Investor or such plan, or (ii) it is, or is acting on behalf of, a governmental, church or non-U.S. plan, and such purchase and holding of such Notes (or any interest therein) does not and will not result in a non-exempt violation of any Similar Laws, and will not subject the Issuer to any laws, rules or regulations applicable to such plan solely as a result of the investment in the Issuer by such plan; and (2) it will not sell or otherwise transfer such Notes (or any interest therein) otherwise than to person that is deemed to make these same representations, warranties and agreements with respect to its acquisition, holding and disposition of such Notes (or any interest therein).
7. It acknowledges that the Issuer, the City, the Registrars, the Trustee, the Transfer Agents, the Managers and their respective affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, the City and the Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts who are QIBs that are also QPs, it represents that it has sole investment discretion with respect to each such account, and that it has full power to make the above acknowledgements, representations and agreements on behalf of each such account.
8. It understands that the Rule 144A Notes will be evidenced by the Rule 144A Global Note Certificate. Before any interest in a Rule 144A Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in such Regulation S Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws. In addition, it understands that the Issuer may receive a list of participants holding positions in its Securities from one or more book-entry depositaries.

**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.**

## Regulation S Notes

Each purchaser of Regulation S Notes outside the United States and each subsequent purchaser of Regulation S Notes in resales (A) in the case of (1), (2) and (3) below, prior to the expiration of the distribution compliance period (as such term is defined in Regulation S), and (B) in the case of (4) and (5) below, throughout the period that it holds such Notes, by accepting delivery of this Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S 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, the City or a person acting on behalf of such an affiliate.
2. It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the “distribution compliance period” (as such term is defined in Rule 902 of Regulation S), it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP or (b) in an offshore transaction to a person that is not a U.S. Person in accordance with Rule 903 or Rule 904 of Regulation S, in the case of (a) and (b), in accordance with any applicable securities laws of any state of the United States.
3. It understands that the Regulation S Notes will be evidenced by the Regulation S Global Note Certificate. Before any interest in the Regulation S Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in such Rule 144A Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
4. It understands and acknowledges that its purchase and holding of such Regulation S Notes (or any interest therein) constitutes a representation and agreement by it that (1) either (i) it is not, and is not acting on behalf of (and for so long as it holds such Notes (or any interest therein) will not be (or be acting on behalf of)) an employee benefit plan (as defined in Section 3(3) of ERISA) subject to the provisions of part 4 of subtitle B of Title I of ERISA, a plan to which Section 4975 of the Code, applies, or any entity whose underlying assets include “plan assets” by reason of any such plan’s investment in the entity (a “**Benefit Plan Investor**”) or a governmental, church or non-U.S. plan which is subject to any U.S. federal, state, local or non-U.S. laws or regulations that are substantially similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code (“**Similar Laws**”) or laws or regulations that provide that the assets of the Issuer could be deemed to include “plan assets” of such plan, and no part of the assets used by it to purchase or hold such Notes (or any interest therein) constitutes the assets of such Benefit Plan Investor or such plan, or (ii) it is, or is acting on behalf of, a governmental, church or non-U.S. plan, and such purchase and holding of such Notes (or any interest therein) does not and will not result in a non-exempt violation of any Similar Laws, and will not subject the Issuer to any laws, rules or regulations applicable to such plan solely as a result of the investment in the Issuer by such plan; and (2) it will not sell or otherwise transfer such Notes (or any interest therein) otherwise than to person that is deemed to make these same representations, warranties and agreements with respect to its acquisition, holding and disposition of such Notes (or any interest therein).
5. It acknowledges that the Issuer, the City, the Registrars, the Trustee, the Transfer Agents, the Managers and their affiliates, and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Regulation S Notes is no longer accurate, it shall promptly notify the Issuer, the City and the Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each such account.

## CLEARING AND SETTLEMENT

### **Book-Entry Procedures for the Global Note Certificates**

Custodial and depository links are to be established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See “—*Book-Entry Ownership*” and “—*Settlement and Transfer of Notes*”.

### **Euroclear and Clearstream, Luxembourg**

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in a Regulation S Global Note Certificate directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**”) and together with Direct Participants, “**Participants**”) through organisations which are accountholders therein.

### **DTC**

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 “*banking organisation*” under the laws of the State of New York, a member of the U.S. 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 (“**DTC Participants**”) and facilitate the clearance and settlement of securities transactions between DTC Participants through electronic computerised book-entry changes in accounts of its DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

Investors may hold their interests in a Rule 144A Global Note Certificate directly through DTC if they are DTC Participants in the DTC system, or indirectly through organisations which are DTC Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more DTC Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Note Certificate as to which such DTC Participant or DTC Participants has or have given such direction.

### **Book-Entry Ownership**

#### ***Euroclear and Clearstream, Luxembourg***

Each Regulation S Global Note Certificate will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.E Kennedy, L-1855, Luxembourg.

### **DTC**

Each Rule 144A Global Note Certificate will have a CUSIP number, an ISIN and a Common Code and will be deposited with a custodian (the “**Custodian**”) for, and registered in the name of a nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the

Notes held within the DTC, system. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

### **Relationship of Participants with Clearing Systems**

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note Certificate must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note Certificate and in relation to all other rights arising under that Global Note Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note Certificate, the common depository or custodian by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants or DTC Participants (as the case may be) in any clearing system to owners of beneficial interests in such Global Note Certificate held through such Direct Participants or DTC Participants (as the case may be) in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

### **Settlement and Transfer of Notes**

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants or DTC Participants (as the case may be), which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct Participants', Indirect Participants' or DTC Participants' records (as the case may be).

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant, Indirect Participant or DTC Participant (as the case may be) through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Direct Participants, Indirect Participants or DTC Participants (as the case may be) acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note Certificate held within a clearing system are exchanged for Individual Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants or DTC Participants (as the case may be) to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct Participants or the DTC Participants (as the case may be) will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants or DTC Participants (as the case may be), by Direct Participants to Indirect Participants, and by Direct Participants, Indirect Participants or DTC Participants (as the case may be) to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in the Global Note Certificates to such persons may be limited. In particular, because DTC can only act on behalf of DTC Participants, the ability of a person having an interest in a Rule 144A Global Note Certificate to pledge such

interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

#### **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 held 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 the 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 in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between DTC Participants.

#### **Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser**

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in a Rule 144A Global Note Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Note Certificate (subject to the certification procedures provided in the Agency Agreement), the DTC Participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12:00 p.m., New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the custodian of relevant the Rule 144A Global Note Certificate will instruct the Registrar to (1) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by such Rule 144A Global Note Certificate of the relevant class and (2) increase the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Regulation S Global Note Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

#### **Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser**

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in a Rule 144A Global Note Certificate (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the relevant Rule 144A Global Note Certificate who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant and (b) instruct the Registrar to (1) decrease the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Regulation S Global Note Certificate; and (2) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the relevant Rule 144A Global Note Certificate.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Note Certificates among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any

time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance, by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct Participants, Indirect Participants or DTC Participants, as the case may be, of their respective obligations under the rules and procedures governing their operations.

**Pre-issue Trades Settlement**

It is expected that delivery of Notes will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Settlement procedures in different countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the Closing Date should consult their own advisors.

## CERTAIN ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes fiduciary standards and certain other requirements on employee benefit plans subject thereto (collectively, “ERISA Plans”), including collective investment funds, insurance company separate accounts, and other entities or accounts whose underlying assets include “plan assets” under the U.S. Department of Labor “plan assets” regulation, 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA (the “Plan Assets Regulation”), and on those persons who are fiduciaries with respect to ERISA Plans.

### Plan Assets Regulation

Under the Plan Assets Regulation, if an ERISA Plan or a plan that is not subject to ERISA but that is subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the “Code”) (collectively, “Plans”), acquires an “equity interest” in an entity, and the equity interest is neither a “publicly-offered security” nor a security issued by an investment company registered under the Investment Company Act of 1940, the Plan’s assets will include both the equity interest and an undivided interest in each of the entity’s underlying assets, unless an exception applies. Under one such exception to this “look-through rule”, the underlying assets of an entity in which a Plan makes an equity investment will not be considered “plan assets” if benefit plan investors own less than 25 per cent. of the value of each class of equity interest in the entity. For purposes of this 25 per cent. determination, the value of equity interests held by persons (other than benefit plan investors) that have discretionary authority or control with respect to the assets of the entity or that provide investment advice for a fee (direct or indirect) with respect to such assets (or any affiliate of such a person) is disregarded. An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features. The term “benefit plan investor” is defined as (a) an employee benefit plan (as defined in Section 3(3) of ERISA) that is subject to Part 4 of Subtitle B of Title I of ERISA, (b) a plan to which Section 4975 of the Code applies, or (c) any entity whose underlying assets include “plan assets” by reason of any such plan’s investment in the entity. Where the value of an equity interest in an entity relates solely to identified property of the entity, that property is treated as the sole property of a separate entity.

Because the Notes do not represent an interest in any property of the Issuer other than the Loan, they may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is the Loan. Further, neither the Issuer nor Deutsche Trustee Company Limited as trustee will be able to monitor the Noteholders’ possible status as benefit plan investors.

As a result of the considerations discussed above, the Notes (and interests in the Notes) are not permitted to be acquired or held at any time by (or using the assets of) any benefit plan investor.

Governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and certain non U.S. employee benefit plans, while not subject to the prohibited transaction provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to federal, state, local, non U.S. or other laws or regulations that are substantially similar to the foregoing provisions of ERISA or the Code (“Similar Laws”). Fiduciaries of such plans should consult with their counsel before purchasing any of the Notes or any interest therein.

BY ITS PURCHASE AND HOLDING OF THE NOTES, THE PURCHASER THEREOF WILL BE DEEMED TO MAKE THE REPRESENTATIONS AND AGREEMENTS CONCERNING ITS STATUS AS A BENEFIT PLAN INVESTOR OR OTHER EMPLOYEE BENEFIT PLAN AS SET FORTH HEREIN UNDER “TRANSFER RESTRICTIONS”.

The foregoing discussion should not be construed as legal advice. Any potential purchaser of Notes should consult its legal counsel with respect to issues arising under ERISA, Section 4975 of the Code and any Similar Laws and make its own independent decisions.

## GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and the ISIN numbers for the Regulation S Notes are 064475002 and XS0644750027, respectively. The Common Code, CUSIP and ISIN numbers for the Rule 144A Notes are 064518020, 50154TAA3, and US50154TAA34, respectively. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg and the address for DTC is 55 Water Street, New York, NY 10041, United States of America.
2. It is expected that listing of the Notes on the Official List of the Irish Stock Exchange and admission of the Notes to trading on the regulated market of the Irish Stock Exchange will be granted on or before 11 July 2011, subject only to the issue of the Notes.
3. Copies of the following documents may be inspected in hard copy at the registered office of the Issuer and at the offices of the Principal Paying Agent in London during usual business hours on any weekday (Saturdays and public holidays excepted) for so long as the Notes are listed on the Irish Stock Exchange:
  - (a) a copy of this Prospectus, together with any supplement to this Prospectus;
  - (b) the memorandum and articles of association of the Issuer;
  - (c) the following resolutions and report relating to the financial position of the City:
    - (i) Resolution No. 1261/4699 of the Kyiv City Council dated 15 July 2010 “On Approval of the Report on the Performance of the Budget of the City of Kyiv for the Year 2009”;
    - (ii) Report on the Financial Performance (Balance) of the City of Kyiv as at 1 January 2011, approved by the Order No. 41 of the State Treasury of Ukraine dated 11 February 2011;
    - (iii) Resolution No. 573/5385 of the Kyiv City Council dated 30 December 2010 “On the Budget of the City of Kyiv for the Year 2011” as amended on 24 February 2011 by Resolution No. 55/5442, on 28 April 2011 by Resolution No. 158/5545, on 25 May 2011 by Resolution No. 236/2623 and on 23 June 2011 by Resolution No. 240/5627;
  - (d) the Loan Agreement;
  - (e) the Agency Agreement; and
  - (f) the Trust Deed, which includes the forms of the Global Certificates and the Individual Note Certificates.
4. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Notes.
5. The Loan has been authorised and approved by the Resolution No. 573/5385 of the Kyiv City Council dated 30 December 2010 “On the Budget of the City of Kyiv for the Year 2011” as amended on 24 February 2011 by Resolution No. 55/5442, on 28 April 2011 by Resolution No. 158/5545, on 25 May 2011 by Resolution No. 236/2623 and on 23 June 2011 by Resolution No. 240/5627 and by the Resolution No. 234/2621 of the Kyiv City Council dated 25 May 2011 “On Making of External Borrowing to the Budget of the City of Kyiv in the year 2011”, as amended on 23 June 2011 by the Resolution No. 243/5630. By Letters No. 31-12110-19-21/13139 dated 23 May 2011 and No. 31-12110-19-21/15724 dated 21 June 2011, the Ministry of Finance approved the amount and the terms of such budgeted external borrowing by the City Council. The City Council will adopt further resolutions ratifying the execution of the Loan Agreement by the City, and the Loan Agreement will be registered with the NBU prior to the closing of the issue of the Notes.
6. No consents, approvals, authorisations or orders of any regulatory authorities other than as disclosed in the Prospectus are required by the Issuer under the laws of England and Wales for maintaining the Loan or for issuing the Notes.
7. Since the date of its incorporation, there has been no material adverse change in the financial position or prospects of the Issuer. The Issuer has no subsidiaries.

8. Save as disclosed in this Prospectus, since 31 December 2010 there has been no material adverse change or any development involving a prospective material adverse change in the sources and amounts of revenue of the City or in the proposed expenditure of the City, each as set out in the 2010 and 2011 City Budgets, that is material in the context of the issue of the Notes. The 2011 City Budget consists of revenues and expenditures planned for 2011 as reflected in the 2011 City Budget Resolution.
9. Save for the fees payable to the Managers, the Trustee and the Agents, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.
10. There have been no governmental, legal, administrative or arbitration proceedings (including any such proceedings which are pending or threatened before any court, tribunal, arbitrational panel or agency of which any of the Issuer or the City is aware), during the previous 12 months in relation to the Issuer or the City, which may have, or have had in the recent past, significant effects on the Issuer's or the City financial position or profitability.
11. Save for the adoption of the further resolutions of the City Council and the registration of the Loan Agreement with the NBU prior to the closing of the issue of the Notes as described in 4. above, the City has obtained all necessary consents, approvals and authorisations in Ukraine in connection with the Loan.
12. Since the date of incorporation, the Issuer has not commenced operations other than with respect to the issue and sale of the Notes.
13. Deutsche Bank Luxembourg S.A. will act as Luxembourg Registrar and Deutsche Bank Trust Company Americas will act as U.S. Registrar in relation to the Notes.
14. The loan to value ratio of the Notes is 100 per cent.
15. Deutsche Trustee Company Limited is a professional trustee company, which is providing its services in relation to the Notes on an arm's length basis in consideration of a fee. Under the terms of the Trust Deed, the power of appointing new trustees is vested in the Issuer (with the prior written consent of the City) but a trustee so appointed must in the first place be approved by an Extraordinary Resolution of Noteholders. The Noteholders have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees. The removal of any trustee is only effective if following the removal there remains a trustee (being a trust corporation) in office after such removal. In addition, Deutsche Trustee Company Limited or any other trustee duly appointed, may retire at any time upon giving not less than three months notice in writing to the Issuer (copied to the City). The retirement of any trustee is only effective if, following the retirement, there remains a trustee (being a trust corporation) in office after such retirement. If the trustee has given notice of its desire to retire and the Issuer is unable to procure a new trustee to be appointed and the Issuer has not by the expiry of such notice (with the prior written consent of the City) appointed a new trustee, the trustee shall have the power of appointing new trustee(s).
16. Deutsche Bank Luxembourg S.A. is acting solely in its capacity as listing agent for the City in connection with the Notes and is not itself seeking admission of the Notes to trading on the regulated market of the Irish Stock Exchange.
17. The fees associated with the admission to trading on the regulated market of the Irish Stock Exchange of the Notes are €13,032.40.
18. The Issuer does not intend to provide any post-issuance transaction information regarding the Notes or the Loan.
19. The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.
20. The Borrower may be contacted through Nina Solomenko on telephone number +38 044 254 17 53.

## ANNEX A: DESCRIPTION OF UKRAINE

*The following information relating to Ukraine is for background purposes only. The information has been extracted, without updating, from the Prospectus dated 16 June 2011 relating to the issue of U.S.\$1,250,000,000 6.25 per cent. Notes due 2016 issued by Ukraine and speaks as of that date. The following information was not prepared in connection with the preparation of this Prospectus. The City has not independently verified the following information, and none of the City, the Issuer or the Managers accepts any responsibility for the accuracy of this information or assumes any obligation to update this information.*

### **Area and Population**

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

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

Based on figures from the State Statistics Service, the population of Ukraine totalled approximately 45.8 million as at 1 January 2011. According to the Ukrainian census of 2001, about 78 per cent. of the country's population were ethnic Ukrainians and 17 per cent. ethnic Russians. Other groups, including Belarusians, Moldavians, Bulgarians, Crimean Tatars, Hungarians, Romanians, Greeks and Poles, accounted for about 5 per cent. of the population. The official language is Ukrainian, although approximately 80 per cent. of the population is bilingual, speaking both Ukrainian and Russian fluently. The literacy rate is approximately 98 per cent.

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

### **Political Developments Since 2004**

Ukraine experienced significant political instability during the 2004 Presidential election. The results of the first run off of the election, between Mr. Yushchenko and Mr. Yanukovich on 21 November 2004, in which Mr. Yanukovich was declared the winner, were disputed on the basis of allegations of corruption, voter intimidation and direct electoral fraud, as reported by numerous domestic and foreign observers. The Supreme Court of Ukraine invalidated the results of the election and ordered a second run off, which was held on 26 December 2004. Mr. Yushchenko was declared the official winner of the second run off and was inaugurated as President on 23 January 2005.

On 25 May 2006, when the Parliament elected in March 2006 gathered for its first session, the constitutional reform limiting the powers of the President and transferring certain powers from the President to Parliament and the Prime Minister became effective (with certain provisions already in effect since 1 January 2006). As a result of this constitutional reform, Ukraine became a parliamentary presidential republic, as the President was no longer empowered to exercise direct executive powers over decisions and actions of the Government.

On 2 April 2007, President Yushchenko signed a decree dissolving Parliament. Notwithstanding the President's decree, Parliament continued to function, claiming that the President did not have sufficient grounds under the Constitution of Ukraine for the early termination of the powers of Parliament. Following negotiations held by the working group comprising representatives of the President, the Parliament and the opposition, President Yushchenko, Speaker of Parliament Moroz and Prime Minister Yanukovich reached agreement on 27 May 2007 to hold early parliamentary elections on 30 September 2007. More than 160 deputies from the Our Ukraine Bloc and Yuliya Tymoshenko's Bloc applied to withdraw from their parliamentary factions in order to implement the compromise reached to hold early parliamentary elections on 30 September 2007. In June 2007, the governing bodies of Our Ukraine Bloc and Yuliya Tymoshenko's Bloc approved the decision on the termination of powers of their respective deputies and excluded from their electoral lists all candidates

who had not obtained seats in Parliament; without this cancellation, these candidates would have automatically replaced the deputies whose powers were terminated. The termination of powers of the deputies from these two blocs led to Parliament lacking a sufficient number of deputies to form the constitutional quorum required for further action. On 5 June 2007, the President signed a decree (further amended on 31 July 2007) scheduling the parliamentary elections for 30 September 2007 on the grounds of absence of a constitutional quorum in Parliament as a result of the termination of powers of Our Ukraine Bloc's and Yuliya Tymoshenko's Bloc's deputies. In 2007, the decree was subject to unsuccessful challenges in the Constitutional Court.

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

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

<b>Parliamentary Faction</b>	<b>Total seats as a result of elections<sup>(1)</sup></b>	<b>Current number of seats<sup>(2)</sup></b>	<b>Percentage of seats in Parliament<sup>(2)</sup></b>
Party of Regions.....	175	191	42.4
Yuliya Tymoshenko's Batkivschyna Bloc <sup>(3)</sup> (former Yuliya Tymoshenko's Bloc).....	156	105	23.3
Our Ukraine – People's Self Defense Bloc .....	72	68	15.1
Communist Party of Ukraine .....	27	25	5.5
People's Party <sup>(4)</sup> (former Lytvyn's Bloc).....	20	20	4.4
Reforms for Future Group <sup>(5)</sup> .....	—	20	4.4
Out of Faction Deputies .....		21	4.8
<b>Total .....</b>	<b>450</b>	<b>450</b>	<b>100.0</b>

Notes:

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

(2) As at 31 May 2011.

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

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

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

Source: Central Election Commission, Parliament of Ukraine

On 4 December 2007, Parliament elected Arseniy Yatsenyuk as the new Speaker of Parliament. On 18 December 2007, Parliament appointed Yuliya Tymoshenko as Prime Minister of Ukraine.

On 8 October 2008 the President dissolved Parliament and set a date for new parliamentary elections. However, the dissolution of Parliament was challenged successfully in court by Yuliya Tymoshenko's Bloc and cancelled on 20 October 2008. On 9 December 2008, Parliament elected Volodymyr Lytvyn as its new Speaker. Yuliya Tymoshenko retained the position of the Prime Minister of Ukraine.

### **2010 Presidential Election**

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

received 48.95 per cent. of the votes, compared to 45.47 per cent. received by Yuliya Tymoshenko. The inauguration of new President was scheduled for 25 February 2010.

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

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

### ***Recent Political Developments***

In September 2010, following the request of a number of members of Parliament, the Constitutional Court ruled in the CCU Ruling that the constitutional reform implemented in 2006 was unconstitutional, and the previous constitutional regime has been reinstated. Ukraine as a result has reverted to a presidential parliamentary republic.

It has been reported that in December 2010, criminal charges were filed by the Prosecutor General's Office of Ukraine against Yuliya Tymoshenko for allegedly misusing €380 million of State funds while in office by illegally diverting revenues received in 2009 from Ukraine's carbon emission rights under the Kyoto Protocol. In addition, it has been reported that in April 2011 criminal charges were filed by the Prosecutor General's Office of Ukraine against Yuliya Tymoshenko for allegedly causing losses to the State by exceeding her authority during the execution of gas contracts in 2009.

### **The Constitution and the President**

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

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

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

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

However, in July 2010, 252 members of Parliament requested the Constitutional Court to opine on the constitutionality of the 2004 law that was the basis of a constitutional reform implemented in

2006. On 30 September 2010, the Constitutional Court issued the CCU Ruling against the constitutionality of the 2004 law. As a result of the CCU Ruling, Ukraine has become a presidential-parliamentary republic, as the President is now empowered to exercise direct executive powers over decisions and actions of the Government and certain powers transferred from the President to Parliament and the Prime Minister as a result of the constitutional reform implemented in 2006 have been transferred back to the President.

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

The President is also the head of the National Security and Defence Council (the “NSDC”) and is authorised to appoint its members. The NSDC was created in 1992 to develop national security policy on domestic and international matters and to advise the President. Ex officio members of the NSDC include the Prime Minister, the Minister of Defence, the Head of the Security Service, the Minister of the Interior and the Minister for Foreign Affairs.

### **The Executive**

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

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

On 9 December 2010, an administrative reform was passed by presidential decree pursuant to which the number of ministries and other central governmental agencies was reduced through the merger of a number of those ministries and agencies. As at 13 May 2011, Ukraine has 16 ministries and 58 other central executive authorities. As a result of the CCU Ruling, the power to establish, reorganise and disband ministries and other central governmental agencies is vested in the President of Ukraine upon the nomination of the Prime Minister.

### **The Legislature**

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

Following the CCU Ruling, the term of office of the current Parliament became unclear. To address this uncertainty, on 19 October 2010, the draft of the 2011 Constitution Amendment Law was

submitted to Parliament aimed at amending the Constitution to unify the terms of office of the President, Parliament, and local councils. On 1 February 2011 the 2011 Constitution Amendment Law was adopted by Parliament and became effective on 4 February 2011. The 2011 Constitution Amendment Law provides, *inter alia*, for reinstating the five-year term of office of Parliament which was reduced to four years as a result of the CCU Ruling. According to the 2011 Constitution Amendment Law, the next parliamentary elections will take place in October 2012 (as opposed to March 2011, as provided in the previously effective Constitution). However, on 9 February 2011, 53 members of Parliament requested the Constitutional Court to opine on the constitutionality of the 2011 Constitution Amendment Law. On 23 May 2011, a panel of judges of the Constitutional Court indicated that the Constitutional Court would not hear proceedings on this matter, however, a final decision will be taken by the Constitutional Court as a whole as to whether to hear proceedings at a later date. Should the Constitutional Court opine that the 2011 Constitution Amendment Law is unconstitutional and thus ineffective, the previously effective provisions of the Constitution governing the terms of office of the President, Parliament and local councils will resume effect. This may result in uncertainty in the term of office of the current Parliament and timing for the next parliamentary elections may become unclear. Such uncertainty may lead to continued or heightened political instability in Ukraine.

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

In addition to its legislative function, Parliament nominates the Governor of the NBU and confirms the President's appointment of the Prime Minister, the Chairman of the Antimonopoly Committee, the Prosecutor General, the Chairman of the SPF and the Chairman of the State Committee on Television and Radio Broadcasting. Parliament also has the power to appoint judges for life to all courts other than the Constitutional Court. Parliament can only appoint one third of the judges of the Constitutional Court.

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

The President may dissolve Parliament if it fails to convene for 30 days during a non recess period.

### **The Judicial System**

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

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

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

Ukraine, the Higher Council of Justice and the Higher Qualification Commission of Judges of Ukraine.

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

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

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

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

### **Legal Framework**

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

In 2001, Parliament enacted a new Land Code and a new Criminal Code. The Land Code, which became effective as of 1 January 2002, applies to all types of land in Ukraine and governs the ownership, use and disposition of land in Ukraine. Under the Land Code, agricultural land may not be sold or otherwise disposed of (subject to certain exceptions) until the enactment of laws on the State land register and the land market (dates for hearings on which are not yet scheduled), but in any event not before 1 January 2012. In addition, the Land Code generally prohibits natural persons and legal entities from owning more than 100 hectares of agricultural land per person until 1 January 2015. The Land Code does not contain any similar restrictions with respect to non agricultural land. Foreign individuals, legal entities and foreign states are permitted to own, use and dispose of certain non agricultural land in Ukraine but are explicitly prohibited from owning agricultural land.

On 1 January 2004, new versions of the Civil Code, the Commercial Code, the Customs Code, the Family Code and the Criminal Enforcement Code came into force.

The new Civil Code replaced the former Civil Code adopted in 1963. The new Civil Code provides new regulations in the areas of company law, property law and inheritance law as well as intellectual property laws that take into account Ukraine’s transition to a market economy and bring Ukrainian laws and regulations closer to those that exist in more developed civil law countries.

The new Commercial Code codifies existing legislation and provides the legal framework for economic activities and relationships by regulating the use of natural resources, intellectual property rights and the financial markets and setting out corporate rights, procedures for the making of commercial contracts, the status of free zones, insurance procedures, banking procedures and auditing procedures. Application of the inconsistent and often conflicting rules of the new Commercial Code and the new

Civil Code has resulted in conflicting judicial and administrative decisions, in particular in the context of the regulation of securities and legal entities. A law aimed at reducing inconsistencies between the Civil Code of Ukraine and the outdated Law of Ukraine “On Commercial Entities”, as well as certain statutes came into effect on 20 June 2007. The law is intended to create a consistent and comprehensive legal framework for the regulation of civil relations in compliance with the Civil Code of Ukraine.

On 20 May 2008, Parliament approved the Labour Code of Ukraine at the first reading. The new code is intended to replace the existing Labour Code of Ukraine approved in 1971, which, although revised several times, is generally perceived as failing to adequately regulate labour relations in the market economy. The Code is also intended to replace certain other laws of Ukraine governing labour relations. The Code is intended to bring the labour legislation of Ukraine in line with provisions of the European Social Charter and other international standards in the sphere of labour. To become effective, the draft Labour Code must be passed by Parliament in the second and, if necessary, third reading, signed by the President and officially promulgated. As at 31 May 2011, the draft Labour Code is being prepared for its second reading.

On 2 December 2010, a new Tax Code of Ukraine (the “**Tax Code**”) was passed by Parliament and became effective on 1 January 2011, subject to certain specific exceptions which will become effective at a later date.

An anti-money laundering law came into force in 2003, establishing two levels of financial monitoring. At the primary level, financial institutions involved in transferring money and certain other entities or individuals are required to monitor financial transactions, while State financial monitoring is conducted by the NBU, the State Financial Monitoring Committee, which is a specially authorised executive agency for financial monitoring, and other central agencies. In February 2004, Ukraine was removed from the list of Non Cooperative Countries and Territories of the FATF, the international organisation combating money laundering, and in January 2006, the FATF ended formal monitoring of Ukraine. In May 2010, Parliament enacted a law, which came into force on 21 August 2010, significantly amending the Ukrainian anti money laundering legislation in order to implement 40 revised recommendations and nine special recommendations of the FATF, as well as the directive of the European Parliament on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. The law adds to the list of entities required to monitor financial transactions at the primary level a number of professions, including antique and arts dealers, realtors, precious metal and stone dealers, notaries, attorneys, auditors and accountants. The law also extends the list of State agencies authorised to conduct monitoring of financial transactions involving these entities. In addition, the law provides that a financial transaction is subject to monitoring if its aggregate value equals or exceeds UAH 150,000 (or its equivalent in foreign currency) (previously UAH 80,000), subject to exceptions that reduce or increase the general threshold amount for certain specific transactions including, for instance, transactions related to real estate or gambling. Additionally, the law broadens the list of grounds based on which a financial transaction may be viewed as a suspicious operation and requires the entities that monitor financial transactions to take certain additional precautionary measures in respect of clients whose activities present a higher level of potential money laundering concern, including, among others, certain foreign officials and financial institutions.

On 1 January 2004, the Laws of Ukraine “On Mortgage” and “On Mortgage Lending, Transactions with Consolidated Mortgage Debt and Mortgage Backed Certificates” came into force. These laws were amended in December 2005 in order to remove certain inconsistencies and gaps and were further supplemented by the Law of Ukraine “On Mortgage Bonds” with effect from 24 January 2006. These laws have permitted, among other things, mortgage backed financial instruments and their trading on the securities market. The laws have also introduced a procedure for State registration of mortgages and established new rules for the determination of priority of claims over collateral. The Law of Ukraine “On Securing Claims of Creditors and Registration of Encumbrances”, adopted in November 2003, further regulates the granting of security over movable property by providing a broad definition of an encumbrance, setting up a comprehensive regime of registration and introducing a requirement for advance notice of enforcement.

In June 2009, Parliament adopted several laws setting forth a general framework for the prevention and counteraction of corruption in Ukraine, which were to become effective from 1 January 2011. However, in December 2010 Parliament abolished the package of previously adopted anti-corruption laws with effect from 5 January 2011, while at the same time adopting in the first reading a new draft anti-corruption law. On 15 March 2011, the draft law was adopted by Parliament in the second

reading, except for certain provisions which were adopted in a repeat second reading on 7 April 2011. To become effective, the new anti-corruption law needs to be signed by the President and officially promulgated.

In July 2004, the Law of Ukraine “On State Registration of Property Rights to Immovable Property and Their Restrictions” was passed and, in March 2010, a revised version of this law came into force. The revised version of this law establishes legal, economic and organisational measures to create a unified system of registration of property rights to land plots and other real property by submitting a single notification to a respective registration authority. According to the revised law, the Ministry of Justice of Ukraine and its regional divisions will perform the registration of any rights and encumbrances on immovable property and the Register of Property Rights to Immovable Property will be in effect starting 1 January 2012. However, as at the date of this Prospectus, a unified system has not yet been created and property rights over land are registered in a separate register to property rights over buildings.

On 1 July 2004, the Law of Ukraine “On State Registration of Legal Entities and Individual Entrepreneurs” came into force. This law simplifies the procedure for State registration of natural persons and legal entities undertaking business activities, providing for registration with State statistical bodies, tax authorities and social security funds by submitting a single notification to a State registrar. In June 2005, the Cabinet of Ministers further simplified the procedure for State registration of persons and entities undertaking business activities. The system of State registration of legal entities and individual entrepreneurs through submission of a single notification is now operational in all regions of Ukraine.

In June 2005, Ukraine adopted the Law of Ukraine “On Organisation of Formation and Circulation of Credit Histories” permitting the establishment of credit bureaus which collect information on and compile credit histories of borrowers (both individuals and legal entities). The information gathered by credit bureaus is intended to assist Ukrainian banks in evaluating and managing the credit risk of prospective borrowers. Several credit bureaus established in Ukraine are operating in the field of collection, processing, storage and use of credit information.

On 1 September 2005, the Law of Ukraine “On International Private Law” came into force. This law supplements the Civil Code of Ukraine and governs private legal relationships involving foreign elements (parties, subject matter or legal facts). This law covers such issues as the determination of governing law, the legal capacity of foreigners, submission to the jurisdiction of Ukrainian courts, service of process, and recognition and enforcement in Ukraine of foreign judgments. In January 2006, Ukraine also acceded to the UNIDROIT Convention on International Financial Leasing and the UNIDROIT Convention on International Factoring.

For a number of years, Ukraine has been working on harmonisation of its legislation with EU legislation. The “All Nation Programme of Harmonisation of the Legislation of Ukraine to EU Legislation” was adopted by Parliament in 2004. As a result, certain draft laws and regulations are subject to obligatory examination by the Ministry of Justice as to compliance with EU law. In addition, new draft laws are developed by applying a comparative analysis of comparable regulations in the EU. In February 2006, Ukraine enacted the Law of Ukraine “On the Enforcement of Judgments of the European Court of Human Rights (“ECHR”) and the Application of its Case Law”. The law is Ukraine’s first on the enforcement of ECHR judgments, introducing the mechanisms for enforcing ECHR judgments in Ukraine and the legal framework for the application of ECHR case law. One of the provisions of the law is the requirement that monetary remedies awarded in a judgment be paid by Ukraine within three months of the judgment becoming final. The law also provides for the enforcement of non monetary remedies ordered by the ECHR, such as *restitutio in integrum* (restoration to the original position). It also identifies the responsible State bodies, expands on the mechanism for their collaboration and sets deadlines for compliance.

Between 2005 and 2007, in preparation for Ukraine’s 2008 accession to the WTO, numerous laws were enacted governing such areas as customs, standards and compliance assessments, foreign currency settlements, insurance, banking, licensing, intellectual property protection and taxation of agricultural producers. One of these was the law pursuant to the requirements of the WTO Agreement on Trade Aspects of Intellectual Property. Certain laws enacted to comply with WTO requirements were further amended and additional work is underway on further amendments to Ukrainian legislation in line with the WTO agreements and Ukraine’s commitments within the accession process.

A new edition of the Law of Ukraine “On Securities and the Stock Market” was enacted by Parliament on 23 February 2006 and, subject to certain exceptions, came into force on 12 May 2006. The revised law has updated the Ukrainian legal and regulatory framework governing the issuance and circulation of securities and codified in one document various stock market rules. In March 2006, Ukraine also enacted a new law “On Holding Companies in Ukraine” governing the creation, operation (including decision making processes, mandatory information disclosure and liability) and liquidation of holding companies in Ukraine. In September 2006, Parliament enacted a new law “On the Management of State Owned Assets” setting out the legal framework for the management of various State-owned assets, including State property transferred to State enterprises and State-owned shares in joint stock and limited liability companies.

On 17 September 2008, Parliament passed a new law “On Joint Stock Companies”, which is aimed at eliminating gaps in corporate law, outlining procedures for the creation, activities and termination of joint stock companies and strengthening protection of shareholders’ interests. The law also clarifies the legal status of joint stock companies, which may be incorporated in the form of public or private joint stock companies, and the rights and obligations of their shareholders. The law became effective on 30 April 2009 and existing joint stock companies had until 30 April 2011 to change their form into a public or private joint stock company and otherwise bring their charters and internal governance into compliance with the new law.

In addition, in 2008 and 2009, the legislative and regulatory framework governing recapitalisation of Ukrainian banks by the State was enacted. In particular, pursuant to a law passed on 31 October 2008, the State may purchase shares in Ukrainian banks either for cash or T-bills and the share capital increases in such instances are carried out pursuant to simplified procedures.

On 13 January 2011, Parliament passed a new law “On Access to Public Information”, which came into effect on 10 May 2011. The law is aimed at ensuring the constitutional right of access to information and increasing the transparency of public authorities. Public information must now be made available within five business days of a request. Information on the allocation of budgetary funds and State or municipal property, including persons or entities holding such funds and property, may not be withheld. Adoption of this law, as well as the Law of Ukraine “On Protection of Personal Data”, which came into effect on 1 January 2011, is in line with the requirements of certain international organisations and institutions including the Council of Europe and the Organisation for Security and Cooperation in Europe (the “OSCE”).

In March 2011, Parliament passed legislation which aims to simplify the conduct of business activity in Ukraine. This legislation is yet to be promulgated by the President.

As at the date of this Prospectus, Parliament is also considering a draft Electoral Code that aims to create a unified legal basis for preparing and holding elections for the office of President, parliamentary deputies, council members in the Autonomous Republic of Crimea, villages, cities, districts (or rayons) and oblasts, as well as village and city mayors. The Electoral Code, once enacted, is expected to set forth clear rules governing the election process, including the creation of election commissions, maintenance of the State Register of Voters, and other elements of national and local elections.

Despite the developments in post independence legislation, many Ukrainian laws continue to be unclear, internally inconsistent and in conflict with other legislation, and may be subject to varying interpretations and unpredictable implementation by Ukrainian courts, State agencies and authorities. Finally, enforcement of such laws is relatively untested.

### **Regional Administration**

Executive power in each of Ukraine’s 24 oblasts, special status cities (Kyiv and Sevastopol) and districts (or rayons) (or subdivisions thereof) is vested in the respective region’s state administration. Each state administration is headed by a governor who is appointed by the President upon nomination of the Cabinet of Ministers. Each municipal government is administered by a local Council, a body made up of representatives elected by the population of the region; such councils are elected in villages, cities, districts (or rayons) and oblasts. In certain regions, local councils may, in addition to local state administrations, establish executive bodies; otherwise, either a local state administration or a mayor who is subject to direct election by the population acts as such executive body. Crimea is an autonomous republic within Ukraine, with its own parliament, government and constitution (passed by the parliament of the Autonomous Republic of Crimea and approved by the Parliament of Ukraine), but remains subject to the Constitution, laws and regulations of Ukraine.

On 30 July 2010, the law governing elections of local Councils' members came into effect. Among the provisions of the new law are a modification of the system for electing members of oblast, city, and district (or rayon) Councils as well as the parliament of the Autonomous Republic of Crimea. The law replaces the pure proportional system previously used for the election of members of such bodies with a mixed system, under which half of the seats will be elected by majority voting and the other half under a proportional representation system. In addition, all members of village councils will be elected on the basis of majority vote. Pursuant to the 2011 Constitution Amendment Law, the term of office of the parliament of the Autonomous Republic of Crimea and local councils is to be extended to five years. However, on 9 February 2011, 53 members of Parliament requested the Constitutional Court to opine on the constitutionality of the 2011 Constitution Amendment Law. On 23 May 2011, a panel of judges of the Constitutional Court indicated that the Constitutional Court would not hear proceedings on this matter, however, a final decision will be taken by the Constitutional Court as a whole will be taken as to whether to hear proceedings at a later date.

### **International Relations**

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

As at 1 March 2011, Ukraine was party to over 900 multilateral treaties and approximately 4,000 bilateral treaties, including treaties on promotion and mutual protection of investments entered into with 79 foreign states. International treaties ratified by Parliament are an integral part of Ukraine's domestic legislation and will prevail over any domestic laws and regulations whose provisions are inconsistent with international treaties.

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

In June 2010, the Committee for Economic Reform chaired by the President of Ukraine presented the Programme of Economic Reforms in 2010-2014 "Prosperous Society, Competitive Economy, Efficient State" (the "**Economic Reform Programme**"), which provides the following targets for Ukrainian foreign policy in the period 2010-2014:

- by the end of 2010, Ukraine was to implement comprehensive reforms required for the introduction of a free trade area (the "FTA") with the EU and development of relations between Ukraine and the EU in line with the Ukraine EU association agenda (the "**Association Agenda**"). In addition, Ukraine planned, among other things, to execute a road map outlining steps to liberalise the EU's visa regime for Ukraine, and create a regulatory framework for its implementation as well as develop national programmes of cooperation with the OECD and other international financial organisations. Ukraine took all of the foregoing steps in 2010;
- by the end of 2012, Ukraine should, among other things, complete negotiations on the introduction of the Ukraine EU FTA, such FTA to become a part of the Association Agreement between Ukraine and the EU. Ukraine should also enter into and implement a FTA agreement with other CIS Member States in line with the WTO requirements, and develop and perform the Programme for Long Term Trade and Economic Cooperation with the Russian Federation; and
- by the end of 2014, Ukraine should, among other things, continue the development of the regulatory framework and customs procedures required for the operation of the FTA with the EU, work towards the creation of FTAs with other key trade partners of Ukraine and implement measures aimed at Ukraine's accession to the OECD.

## **Economic Background**

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

The Ukrainian economy grew at an annual average of approximately 7 per cent. in real GDP terms from 2000 to 2008, driven mainly by a rapid increase in foreign demand, rising commodity prices on external markets and the availability of foreign financing. Although these factors have contributed to the pace of Ukrainian economic growth in recent years, they have also increased the economy's vulnerability to external shocks. As a result, when the global economic and financial situation began to deteriorate, Ukraine's economy was one of the most severely affected. In 2009, Ukraine's real GDP decreased by 14.8 per cent. Growth in real GDP started to recover in 2010 reaching 4.2 per cent. The negative influence of external factors has been compounded by weaknesses in the Ukrainian economy. In particular, although various Governments have generally been committed to economic reform, lack of political consensus and controversies surrounding such issues as privatisation, subsidies to State owned enterprises and cooperation with international financial institutions have impeded reform. Delays in implementing reforms, together with deteriorating conditions in the social sphere associated with substantial decreases in income and high unemployment, have exerted considerable pressure on limited State resources. The structural weaknesses in the economy that have not yet been corrected are likely to restrain economic growth and continue to impose substantial fiscal pressures on the Government over the coming years.

## **Economic Programmes**

In May 2010, Parliament approved the Law of Ukraine "On the State Programme for Economic and Social Development of Ukraine for 2010" (the "**2010 Programme**"). The 2010 Programme's main goals were to restore economic growth and build the foundations for stable growth and the improvement of the standard of living of the population in general.

The draft State Programme for Economic and Social Development of Ukraine for 2011 was elaborated, based on the Economic Reform Programme. According to the 2011 draft Programme the main social and economic policy aims for 2011 are to create conditions for restoring economic growth and continue the modernisation of the Ukrainian economy in order to meet the targets of Economic Reform Programme determined by the President of Ukraine. The Economic Reform Programme provides for a wide range of reforms across all of the sectors of the national economy, focusing on the following five main priorities:

- creation of a favourable climate for economic growth through maintaining low levels of inflation, and the stabilisation of the public and non public financial system;
- establishment of a favourable regime for business through reducing the role of the State in the economy, lowering administrative barriers for business development, modernising the tax system and strengthening Ukraine's international economic integration;
- modernisation of existing infrastructure and the main sectors of the economy through the elimination of structural problems in power generation, coal, oil and gas, housing and communal services, transport and the land market;
- preservation and development of social and human capital through increased efficiency and stability in social protection, an improvement of the quality and availability of education and medical services; and
- increased efficiency of public management by means of reforms in the civil service and executive authorities system.

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

## **Gross Domestic Product**

According to official statistics, Ukraine's real GDP fell by an aggregate of 50.4 per cent. from 1992 to 1999. The main reasons for this decline were the breakdown of intra CIS trade coupled with slow progress in finding new markets, the impact of energy prices that more closely reflected world levels (compared to the previous level of approximately one third of world prices), the slow emergence of

market structures, failure to impose tight budgetary constraints, a significant fall in domestic demand and, since 1995, high real interest rates. Economic growth began in 2000 and from 2000 to 2008, real GDP grew by an aggregate of 81.8 per cent.

In 2008, Ukraine's real GDP increased by 2.3 per cent., industrial production decreased by 5.2 per cent. and agricultural output increased by 17.1 per cent. The decline in industrial production in 2008 and the more modest rate of real GDP growth for the full year 2008 as compared to the 6.3 per cent. growth recorded in the first half of 2008 are largely attributable to a 26.3 per cent. decline in industrial production in the fourth quarter of 2008 resulting from external shocks. In particular, starting from the end of the third quarter of 2008, a decrease in production was recorded in export oriented industries and industries that are dependent on borrowings due to the global economic downturn and reduced external demand. At the same time, positive growth dynamics were recorded in industries oriented on the domestic market. In particular, in 2008, in the service industries, which include wholesale and retail trade and the transport and communications sector, gross added value increased by 2.4 per cent. and 9.6 per cent., respectively, as compared to 2007. In 2008, compared to 2007, gross added value in agriculture, hunting and forestry increased by 16.6 per cent., while gross added value in construction, education, and health and social assistance decreased by 29.1 per cent., 0.5 per cent., and 1.0 per cent., respectively.

In 2009, Ukraine's real GDP decreased by 14.8 per cent., industrial production decreased by 21.9 per cent. and agricultural output decreased by 1.8 per cent. The decline in GDP in 2009 was a result of unfavourable external conditions, including both reduced external demand and low export prices, decreased domestic demand and limited volumes of available financing due to the global financial downturn. However, Ukraine's economy was gradually adjusting to external shocks caused by the global economic and financial downturn. As a result, in 2009, cumulative rates of decline in GDP fell throughout the year. In particular, in the second quarter of 2009, the rate of decline in real GDP compared to the second quarter of 2008 (17.3 per cent.) fell as compared to the decline recorded in the first quarter of 2009 compared to the first quarter of 2008 (19.6 per cent.). In the third quarter of 2009, the rate of decline in real GDP compared to the third quarter of 2008 was 15.7 per cent., and the rate of decline in real GDP fell further in the fourth quarter of 2009 compared to the fourth quarter of 2008 (6.7 per cent.). The largest decreases in industrial production were recorded in machinery manufacturing (44.9 per cent.), production of other non metallic mineral products (38.5 per cent.), metallurgy (26.7 per cent.) and construction (48.2 per cent.). In addition, in 2009, gross added value in agriculture, transport and the communications and the trade sectors declined by 2.0 per cent., 7.2 per cent. and 17.5 per cent., respectively.

During the first quarter of 2010, Ukraine's real GDP increased by 4.8 per cent., compared to a 19.6 per cent. decline in the first quarter of 2009; during the second quarter of 2010, real GDP increased by 5.5 per cent. compared to 17.3 per cent. decline in the second quarter of 2009; during the third quarter of 2010, real GDP increased by 3.6 per cent. compared to a decrease by 15.7 per cent. in the third quarter of 2009; and during the fourth quarter of 2010, real GDP increased by 3.3 per cent. compared to a 6.7 per cent. decline in the fourth quarter of 2009. For the full year 2010 real GDP increased by 4.2 per cent. to UAH 1,094.6 billion and that trend is expected to continue in 2011 with an expected increase in real GDP of approximately 4.5 per cent.

The following table sets forth certain information about Ukraine's GDP for the periods indicated:

GDP	Year ended 31 December		
	2008	2009	2010
Nominal GDP (UAH millions).....	948,056.0	913,345.0	1,094,607.0
Nominal GDP (U.S.\$ millions) <sup>(1)</sup> .....	179,992.4	117,227.8	137,936.3
Real GDP ( per cent. change) <sup>(2)</sup> .....	2.3	(14.8)	4.2
Nominal per capita GDP (U.S.\$) <sup>(1)</sup> .....	3,891.0	2,545.5	3,007.1

Notes:

(1) Hryvnia amounts have been converted to dollar amounts using the average exchange rate specified under the heading "Presentation of Financial, Budgetary and Other Information-Exchange Rates".

(2) The State Statistics Service calculates real GDP for a particular period by dividing nominal GDP (UAH millions) for such period by the relevant consumer price index.

Source: State Statistics Service

## Inflation

The following table sets forth certain consumer price index and wholesale price index information, as percentage rates of change as at the dates indicated, as compared to the same date of the previous year:

	31 December					30 April	
	2006	2007	2008 <sup>(1)</sup>	2009 <sup>(1)</sup>	2010 <sup>(1)</sup>	2010 <sup>(1)</sup>	2011 <sup>(1)</sup>
	<i>(increase/decrease against same date in previous year in %)</i>						
Consumer Price Index							
(CPI) .....	11.6	16.6	22.3	12.3	9.1	4.4	4.7
Food .....	3.5	22.9	24.5	10.9	10.6	7.6	5.0
Non Food .....	2.5	6.0	N/A	N/A	N/A	N/A	N/A
Paid Services .....	49.4	12.0	N/A	N/A	N/A	N/A	N/A
Wholesale Price Index							
(WPI) .....	14.1	23.3	23.0	14.3	18.7	10.1	12.1

Note:

(1) Beginning in 2008, the State Statistics Service uses international COICOP classification and does not calculate non food and paid services indices. Also beginning in 2008, food index does not include alcoholic beverages and tobacco.

Source: State Statistics Service

At year end 2008, against year end 2007, Ukraine had a rate of CPI inflation of 22.3 per cent.

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

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

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

In accordance with the Plan, in 2008, a number of memoranda (most of which imposed price controls) were entered into with agricultural producers and wholesale traders in order to prevent unjustified increases in wholesale and retail prices for products of social importance, for example,

sugar and meat. The NBU also pursued tighter monetary policy aimed at reducing inflationary pressure on the economy.

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

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

At year end 2010 against year end 2009, the CPI inflation rate was 9.1 per cent. In 2010, the CPI inflation was 9.4 per cent. as compared to 2009. The reasons for the deceleration of CPI inflation in 2010 as compared to 2009 include the relative stability of the hryvnia exchange rate, a good harvest recorded in 2010 and increased agricultural production. The reasons for the deceleration of CPI inflation also include a moderate increase in the current expenditure of the State Budget, an insignificant increase in prices (tariffs) for goods remaining subject to State price regulation, limited consumer lending and recovery of retail deposits growth, which assisted in withdrawing excess liquidity from the consumer market. Factors adversely affecting CPI inflation in 2010 included external factors such as rising oil and agricultural production prices on global markets (particularly prices for grain and sugar) which contributed to the increase in prices for relevant products on the domestic market. In addition, factors causing inflation in 2010 included internal factors, such as an increase in prices charged by food producers resulting from rising costs of raw materials and an increase in energy prices, as well as an increase of 1.5 times in the prices of natural gas for housing in August 2010. The 9.1 per cent. inflation in 2010, against year end 2009, included 10.6 per cent. inflation in food products, 13.8 per cent. inflation in housing, water, electricity, natural gas and other kinds of fuel, and 5.0 per cent. inflation in transport.

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

At 30 April 2011 against year-end 2010, the CPI inflation rate was 4.7 per cent. compared to a rate of 4.4 per cent. during the corresponding period of 2010 against year-end 2009. The CPI inflation rate was 8.1 per cent. at 30 April 2011 compared to 30 April 2010 while the CPI inflation rate at 30 April 2010 was 10.8 per cent. compared to 30 April 2009. The reasons for the slowing of CPI inflation in the four months ended 30 April 2011 as compared to the same period in 2010 include stabilisation of the hryvnia exchange rate, a moderate increase in the purchasing power of the

population due to continued reductions in consumer lending against the background of the growth in real wages, and renewal of retail deposits growth.

At 30 April 2011 against year-end 2010, WPI inflation was 12.1 per cent. as compared to 10.1 per cent. In the corresponding period of 2010 against year-end 2009. The WPI inflation rate accelerated in the four months ended 30 April 2011 as compared to the corresponding period of 2010 due to favourable price conditions for Ukrainian exports in the global markets.

The Government forecasts that inflation measured by CPI in 2011 against year-end 2010 will be approximately 8.9 per cent., while inflation measured by WPI will be approximately 11.3 per cent.

In 2011, inflation is expected to decrease compared to 2010 due to the prospect of a good harvest and the removal of imbalances in certain food markets owing to the increased competition between domestic and foreign producers coupled with the anticipated growth of domestic food industry output. The reduced budget deficit and intensified privatisation programme pursuant to the implementation of the State privatisation programme for 2010-2014 (assuming this programme is passed in the near future) should enable the Government to increase budget funding, which would not affect inflation.

### **Price Liberalisation**

From 1991 to date, Ukraine has taken steps towards liberalising prices with the aim of ameliorating the problem of misallocation of resources. Starting in 1993, State-determined prices for energy, agricultural products and communal services were gradually raised towards full cost recovery and global market prices. The State eradicated price-distorting practices in most sectors in October 1994.

Currently, the goods that remain subject to national price regulation are gas, electricity, certain telecommunications, postal and transport services and such housing and communal services as central heating, water, sewage and housing maintenance services, and certain agricultural products. Gas and electricity prices are regulated by an independent body, the National Commission on Electric Power Industry Regulation, while local authorities set tariffs on housing maintenance services and certain transport services. In addition, local authorities may regulate prices of bread, crops, sugar, oil, meat, eggs and dairy products. Pursuant to a law that came into effect on 22 July 2010, powers to set tariffs for heating, water and sewage services were transferred to the National Commission for Regulation of Communal Services Market in Ukraine. The new Commission is expected to be established in 2011 and until its establishment, relevant tariffs continue to be set by the National Commission on Electric Power Industry Regulation. In addition, tariffs for certain transport services, in particular, for freight and passenger rail transport, special port and airport services, and air traffic control are regulated by the Ministry of Infrastructure of Ukraine with an approval of the Ministry of Economy of Ukraine and the Ministry of Finance of Ukraine.

In recent years, rates for municipal services, such as central heating, water, sewage and housing maintenance services, have increased steadily, with increases in the range of, depending on the type of services, 15 to 23 per cent. in 2007, 30 to 45 per cent. in 2008, 6 to 40 per cent. in 2009 and 4 to 7 per cent. in 2010. These increases reflect the general policy of gradually bringing such prices to economically reasonable levels. Household electricity tariffs were increased in nominal terms by 26.9 per cent. in 2000 (as a condition to the disbursement of IMF funds) and remained unchanged from that time until May 2006, when household electricity tariffs were increased by 25 per cent.; a further 25 per cent. increase followed in September 2006. From September 2006 to January 2011, household electricity tariffs remained stable. To attempt to bring the electricity tariffs to a reasonable economic level the National Commission for the Electric Power Industry Regulation has adopted resolutions to increase electricity tariffs for households by 30 per cent. and 15 per cent. from 1 February 2011 and 1 April 2011 respectively.

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

### **Privatisation**

Ukraine began to implement a privatisation programme in 1992 with the objectives of increasing the private sector's share of the economy, generating foreign direct investment and contributing funds to the State Budget. From 1992 to 31 December 2010, Ukraine collected more than UAH 43.5 billion in privatisation receipts, with approximately UAH 36 billion collected during the course of 2003-2007. From 1992 to 31 March 2011, 126,244 individual assets were privatised, including 28,658 assets

initially in State ownership and 97,586 assets initially in communal (municipal) ownership. In the first quarter of 2011, 50 assets initially owned by the State and 308 assets initially in communal (municipal) ownership were privatised.

Initially, the privatisation programme focused on the auction of small scale enterprises (defined before 2000 as enterprises with a book value of fixed assets worth not more than UAH 170 million and after 2000, as enterprises with up to 100 employees). According to figures provided by the SPF, approximately 106,737 small scale entities were privatised by 31 March 2011. In addition, between 1993 and 31 March 2011, approximately 11,205 entities were converted into joint stock companies, and as of 31 March 2011 645 companies remain at least partially owned by the State.

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

Several bills governing the activities of the SPF were approved by Parliament throughout 2007-2009, but were vetoed by the President. At present, the activities of the SPF are governed by Temporary regulations on the SPF as approved in 1992 by Parliament.

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

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

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

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

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

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

In 2010, 76 per cent. of the share capital of JSC HC “Luganskteplovoyz” (“**Luganskteplovoyz**”) was sold. The initial privatisation of this company happened in 2007 but had been held invalid by the court. The SPF then conducted a tender on 15 June 2010 for the State shareholding in Luganskteplovoyz and OJSC “Asset Management Company “Bryanskiy Machine-Building Plant”

(“**Bryanskiy Machine-Building Plant**”), the initial tender winner in 2007, was again declared the winner with a bid price of UAH 410 million and a sale and purchase agreement was concluded. Following a number of court proceedings relating to, among other things, the termination of this sale and purchase agreement, on 21 March 2011 SPF and Bryanskiy Machine-Building Plant concluded an amicable settlement agreement, approved by the Resolution of the Kyiv Economic Court. Pursuant to this settlement agreement 76 per cent. of the share capital of Luganskteplovoy was transferred to Bryanskiy Machine-Building Plant and funds paid by Bryanskiy Machine-Building Plant as an initial tender winner in 2007 were set off against its payment of the purchase price under the 2010 sale and purchase agreement.

On 17 August 2010 the SPF sold the 25.02 per cent. stake held by the State in OJSC “Prykarpatsyaoblenergo”, a regional energy distribution company at a price of UAH 86.36 million. In addition, the sale of 16.24 per cent. of the shares held by the State in OJSC “Poltavaoblenergo”, another regional energy distribution company, was completed on 24 December 2010 for a price of UAH 108.74 million. Another 8.76 per cent. interest in this company was sold earlier in 2010 for UAH 58.6 million. The SPF had also intended to sell their interest in a third energy company in 2010, however, the sale of the State’s interest in OJSC “Sumyoblenergo” was not completed that year.

On 10 December 2010 previous presidential decrees restricting the privatisation of certain assets were repealed by presidential decree, thereby allowing those assets to be added to the list of assets subject to privatisation.

For 2011, target privatisation receipts were set at UAH 10.0 billion. In March 2011, the SPF executed an agreement for the sale of a 92.79 per cent. shareholding in OJSC “Ukrtelecom”, preparations for the sale of which began in 2010. The total consideration payable by the purchaser for this shareholding amounted to UAH 10.57 billion. On 10 May 2011, the purchaser paid the full amount of the purchase price. As a result of the sale of OJSC “Ukrtelecom”, the SPF has already met the target privatisation receipts set for 2011.

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

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

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

State bodies have examined a number of privatisations that took place in previous years under irregular conditions and without full transparency. A Special Parliamentary Control Commission on Privatisation supervises compliance with privatisation laws. If the Commission determines that such laws have been breached, it may request that the authorised privatisation bodies, including the SPF, cancel illegal orders or unwind illegal actions. If these sales are found to have taken place in violation of applicable laws, the Government may decide to petition the appropriate courts to cancel the sales of the companies concerned. As at 1 April 2011, 124 privatisations had been challenged in court by the SPF, though the large majority of these challenges have been for non-compliance with the terms

of the relevant sale and purchase agreements rather than for illegally favourable terms. As of 1 April 2011, 296 assets had been returned to State ownership, and 157 had been resold for total proceeds of UAH 97.6 million.

**BORROWER**

**The City of Kyiv**  
acting through the Kyiv City Council  
36 Khreschatyk Street  
01044 Kyiv  
Ukraine

**ISSUER**

**Kyiv Finance plc**  
Fifth Floor  
100 Wood Street  
London EC2V 7EX  
United Kingdom

**TRUSTEE**

**Deutsche Trustee Company Limited**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**PRINCIPAL PAYING AGENT  
AND LONDON TRANSFER  
AGENT**

**Deutsche Bank AG,  
London Branch**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**LUXEMBOURG  
REGISTRAR**

**Deutsche Bank  
Luxembourg S.A**  
2, Boulevard Konrad Adenauer  
L-1115 Luxembourg  
Luxembourg

**U.S. PAYING AGENT,  
U.S. REGISTRAR AND  
U.S. TRANSFER AGENT**

**Deutsche Bank Trust  
Company Americas**  
27th Floor  
60 Wall Street  
MS: NYC60-2710  
New York, NY 10005  
United States of America

**LEGAL ADVISERS TO THE BORROWER**

*As to US and English law*  
**Baker & McKenzie LLP**  
100 New Bridge Street  
London EC4V 6JA  
United Kingdom

*As to Ukrainian law*  
**Baker & McKenzie – CIS, Limited**  
24 Vorovskoho Street  
Kyiv 01054  
Ukraine

**LEGAL ADVISERS TO THE MANAGERS**

*As to US and English law*  
**White & Case LLP**  
5 Old Broad Street  
London EC2N 1DW  
United Kingdom

*As to Ukrainian law*  
**Avellum Partners**  
Leonardo Business Center  
19-21 Bohdana Khmelnytskoho Street  
11th Floor  
01030 Ukraine

**LEGAL ADVISERS TO THE ISSUER**

*As to English law*  
**Norton Rose LLP**  
3 More London Riverside  
London SE1 2AQ  
United Kingdom

**LEGAL ADVISERS TO THE TRUSTEE**

*As to English law*  
**White & Case LLP**  
5 Old Broad Street  
London EC2N 1DW  
United Kingdom

