

LISTING PARTICULARS dated 17 November 2008



BANCO CENTRAL DE CUBA

(Established by Cuban Decree Law 172 of 28 May 1997)

€71,000,000 9.00 PER CENT. BONDS DUE 2010

€72,000,000 9.25 PER CENT. BONDS DUE 2011

€72,000,000 9.50 PER CENT. BONDS DUE 2012

The €71,000,000 9.00 per cent. Bonds due 2010 (the **Series A Bonds**), the €72,000,000 9.25 per cent. Bonds due 2011 (the **Series B Bonds**) and the €72,000,000 9.50 per cent. Bonds due 2012 (the **Series C Bonds**) and, together with the Series A Bonds and the Series B Bonds, the **Bonds**) were issued at an issue price of 100 per cent. of their principal amount by Banco Central de Cuba (the **Issuer** or **BCC**) on 25 June 2008. The Series A Bonds, Series B Bonds and Series C Bonds mature on 25 June 2010, 25 June 2011 and 25 June 2012, respectively. Each Bond bears interest payable quarterly in arrear.

Application is being made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Bonds to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the **London Stock Exchange**) for the Bonds to be admitted to trading on the London Stock Exchange's Professional Securities Market. The London Stock Exchange's Professional Securities Market is not a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**).

The Bonds do not represent obligations of, and are not guaranteed by, the Republic of Cuba. An investment in the Bonds involves certain risks. For a description of these risks, see "Risk Factors".

The Bonds have been issued in registered form and title to the Bonds is recorded electronically in the Registry of Bonds maintained by Banco de Inversiones S.A.

The issue of the Bonds was arranged by:



Banco de Inversiones S.A.

This document comprises listing particulars for the purposes of section 79(2) of the Financial Services and Markets Act 2000 (**FSMA**).

The Issuer accepts responsibility for the information contained in these Listing Particulars. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in these Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information.

Certain statistical information in this document has been extracted from sources identified in the text. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by those sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

No person has been authorised to give any information or to make any representation other than those contained in this document in connection with the issue of the Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer. The delivery of this document at any time subsequent to its date shall not, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer since the date hereof. This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer to subscribe for, or purchase, any of the Bonds.

These Listing Particulars should be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). These Listing Particulars should be read and construed on the basis that such documents are incorporated and form part of these Listing Particulars.

All references in this document to **US dollars**, **US\$** and **\$** refer to the currency of the United States of America, to **euro** and **€** refer 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 (signed in Rome on 25th March, 1957), as amended, and to **pesos** and **CUP** are to the currency of the Republic of Cuba (**Cuba**). In December 1994, BCC introduced the convertible peso (**CUC**) which was pegged to the US dollar, initially at the official rate of CUC1.00 = \$1.00. During 2005, the convertible peso was revalued and the current official rate is CUC1.00 = \$1.08.

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RISK FACTORS

General

Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Summarised below are the principal risk factors associated with an investment in the Bonds. However, these are not intended to be exhaustive and there may be other risks which should be taken into account in relation to an investment in the Bonds. Investors should also note that a feature of emerging markets is that they are subject to rapid change and the information contained in this document may be outdated relatively quickly.

Political and economic risks

Since the Revolution in 1959, Cuba has enjoyed significant success in improving its economy and the social welfare of its citizens, notwithstanding continuous US sanctions and despite a severe economic disruption following the break up of the former USSR in the early 1990s. In recent years, services (and particularly tourism and medical services) have played a significant part in reducing the country's current account deficit although tourism receipts remain vulnerable to world political and economic events. Cuba also benefits significantly from oil imports from Venezuela on advantageous terms, high world nickel and cobalt prices and a significant trading relationship with China.

Measures adopted by the United States of America against Cuba's political and economic system

Cuba has pursued an active policy of normalising its relations with the outside world and has achieved considerable success in this area with most major countries. Its public relations with the United States of America remain poor, however. Since 1959, the US Government has adopted a number of measures (including but not limited to the Cuban Liberty and Democratic Solidarity Act or "Helms-Burton Act", the Trading with the Enemy Act and the Cuban Assets Controls Regulations) which have contributed to these poor relations. Given current US sanctions, persons resident in, or subject to the laws of, the United States of America should not purchase the Bonds. Cuba notes that in the most recent vote on a resolution against the US blockade presented by it to the United Nations, from 189 countries, 184 were in favour of the resolution with only four against and one abstention.

Notwithstanding the sanctions imposed by the United States of America, Cuba also notes that, in 2006, imports from the United States of America to Cuba amounted to US\$483.6 million, making the United States of America Cuba's fourth largest source of imports.

Oil price increases

Cuba's oil industry produces approximately one half of its own consumption. As a result, Cuba is dependent upon imported oil and any significant increases in the price of oil may adversely affect the country. In 2004, Cuba reached agreement with Venezuela (the world's fifth largest producer of crude) to supply 53,000 barrels of oil daily (increasing to 90,000 in 2006) along with a number of other petroleum products (such as diesel, gasoline and aircraft fuel) under favourable payment conditions, which allow the oil bill to be offset against medical, health, educational and sports services provided by Cuba to Venezuela. Any termination of, or adverse change in, this arrangement could significantly adversely affect Cuba's economy.

Despite the positive results in Cuba's current account of the balance of payments for 2007 (see "*Balance of Payments*"), BCC is closely monitoring the performance of the current account of the balance of payments for the present year. This is a result of the rise in both fuel and food prices which, due to the fact that both of these items are Cuban imports, will have an effect on the current account of the balance of payments.

Decrease in nickel prices

In 2007, Cuba produced more than 73,000 tons of nickel and cobalt, making nickel Cuba's second largest export by value, above tourism. By the end of 2007, average prices for nickel were around US\$37,000 per ton, compared with US\$24,000 per ton in 2006 and around US\$17,000 per ton in 2005 and 2004. During the first six months of 2008, average prices for nickel decreased to around US\$26,000 per ton. Cuba is in the process of significantly expanding its nickel and cobalt production capacity through joint ventures with Canadian and Venezuelan partners. As a result, Cuba remains vulnerable to any significant decrease in world prices for these minerals.

Vulnerability to natural disasters

The Caribbean area has been systematically affected during the second half of every year by tropical hurricanes. These hurricanes can cause significant infrastructural damage and there is also a risk that they may adversely affect the tourist industry which is a major contributor to Cuba's economy. As a result, Cuba has in place contingency plans to evacuate tourists at an early stage and to date these plans have been successfully implemented. There remains a risk, however, that any significant natural disaster affecting the country in the future could adversely affect Cuba's economy in the future.

Debt repayment record

In 1986, Banco Nacional de Cuba (the former central bank and a commercial bank) ceased payments on its external debt (representing debt contracted by the State and Banco Nacional de Cuba). Although a part of this debt has subsequently been rescheduled and is being repaid in accordance with its terms, a significant portion (which, by virtue of Decree Law No. 172 of 1997, is required to be managed by Banco Nacional de Cuba) remains subject to this payment cessation. BCC is not responsible for this debt and BCC has never defaulted on any debt incurred by it. There can be no assurance, however, that any future rescheduling of Cuba's defaulted debt could be reached before the Bonds mature. Since the restructuring of the banking system in 1994, no other Cuban commercial bank has defaulted on any financing facility obtained by it.

Statistics

The statistical information in this document has, unless otherwise stated, been produced by BCC and other official Cuban sources. Such statistical information may differ from that provided by other sources for a variety of reasons, including different definitions and cut-off times. In particular, in 2004 Cuba revised its methodology for calculating GDP to take account of the country's social safety net and subsidised services. All GDP statistics presented in this document reflect this new methodology. No assurance can be given that any statistical information included in this document, where it differs from that provided by any other official source, is more accurate or reliable. In addition, certain information provided for 2007 (where indicated) should be treated as preliminary estimates and statistical information for this and prior years may be subject to future adjustment.

Regarding the sanctions implemented by the United States of America under the blockade against Cuba, it has been a longstanding Cuban policy not to disclose the country's international reserves to avoid any risk to assets that Cuba may have in other countries.

Although, as Cuba's Central Bank, it is BCC's duty to administer the country's international reserves, BCC is subject to this policy and is not able to give any information in relation to those reserves in this document.

Service of Process and Enforcement of Liabilities

BCC is the central bank of a sovereign State. It has submitted to the jurisdiction of the English Courts and has appointed Havin Bank Ltd as its agent for service of process in London. Nevertheless, it may be difficult for investors to enforce against the Issuer in Cuba any judgments they may obtain as there is no treaty relating to the enforcement of judgments in force between England and Cuba.

Factors which are material for the purpose of assessing the market risks associated with the Bonds

The Bonds may not be a suitable investment for all investors

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in these Listing Particulars or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) 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.

Risks related to the Bonds generally

Set out below is a brief description of certain risks relating to the Bonds generally:

Modification

The conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

EU Savings Directive

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

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

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor the Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Bond as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Change of law

The conditions of the Bonds are based on English law in effect as at the date of these Listing Particulars. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of these Listing Particulars.

Risks related to the market generally

The secondary market generally

The Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Bonds in euro. 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 euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro 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 the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Bonds and (3) the Investor's Currency-equivalent market value of the Bonds.

Interest rate risks

Investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of them.

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 Bonds are legal investments for it, (2) the Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Bonds. Financial institutions should consult their legal advisors or the appropriate

regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

DOCUMENTS INCORPORATED BY REFERENCE

The Issuer's audited annual financial statements for each of the two years ended 31 December 2006 and 31 December 2007, which have previously been published and have been filed with the Financial Services Authority, shall be incorporated in, and form part of, these Listing Particulars.

Copies of documents incorporated by reference in these Listing Particulars can be obtained from the offices of Havin Bank Ltd. at 5th Floor, 30 Marsh Wall, London E14 9TP and from the offices of Banco de Inversiones S.A. at 5ta. Ave. No. 6802 esq. a 68, Miramar, Municipio Playa, Ciudad de La Habana, Republic of Cuba.

Any documents themselves incorporated by reference in the documents incorporated by reference in these Listing Particulars shall not form part of these Listing Particulars.

CONDITIONS OF THE SERIES A BONDS

The following is the text of the Conditions of the Bonds:

The €71,000,000 9.00 per cent. Bonds due 2010 (the **Bonds**, which expression includes any further bonds issued pursuant to Condition 14 and forming a single series therewith) are issued by Banco Central de Cuba (the **Issuer**).

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Bonds are issued in registered form in amounts of €100,000, €1,000,000, €5,000,000 and €10,000,000. A bond certificate (each a **Certificate**) will be issued to each Bondholder in respect of its registered holding of Bonds. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the electronic register of Bondholders (the **Register**) which the Issuer will procure to be kept by Banco de Inversiones S.A. (the **Registrar**).

1.2 Title

Title to the Bonds passes only by registration in the Register. The holder of any Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions **Bondholder** and (in relation to a Bond) **holder** means the person in whose name a Bond is registered in the Register.

2. TRANSFERS OF BONDS AND ISSUE OF CERTIFICATES

2.1 Transfers

A Bond may be transferred by depositing the Certificate issued in respect of that Bond, together with a form of transfer obtainable from the Registrar duly completed and signed and such other documentation as may reasonably be required by the Registrar, at the specified office of the Registrar.

2.2 Delivery of new Certificates

Each new Certificate to be issued upon transfer of Bonds will, within five business days of receipt by the Registrar of the duly completed form of transfer and the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Bond to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Registrar is located.

Where some but not all of the Bonds in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Bonds not so transferred will, within five business days of receipt by the Registrar of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred to the address of such holder appearing on the register of Bondholders or as specified in the form of transfer.

2.3 Formalities free of charge

Registration of transfer of Bonds will be effected without charge by or on behalf of the Issuer or the Registrar but upon payment (or the giving of such indemnity as the Issuer or the Registrar may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

3. STATUS

The Bonds are direct, unconditional and (subject as provided in Condition 4) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

4. NEGATIVE PLEDGE AND COVENANT

4.1 Negative Pledge

So long as any Bond remains outstanding the Issuer will not create or have outstanding, and will procure that there is not created or permitted to be outstanding, any mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) upon, or with respect to, any of its present or future assets or revenues or any part thereof to secure any Relevant Indebtedness (as defined below), unless the Issuer shall, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, take any and all action necessary to ensure that:

- (a) all amounts payable by it in respect of the Bonds are secured by the Security Interest equally and rateably with the Relevant Indebtedness; or
- (b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as shall be approved by an Extraordinary Resolution (as defined in Condition 13).

For this purpose, **Relevant Indebtedness** means any present or future indebtedness of the Issuer in respect of any debt securities which are, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market and any guarantee or indemnity given by the Issuer in respect of such indebtedness of others.

4.2 Covenant

So long as any Bond remains outstanding, the Issuer shall duly obtain and maintain in full force and effect all governmental approvals (including any exchange control and transfer approvals) which may be necessary or advisable under the laws of the Republic of Cuba (**Cuba**) for the execution, delivery and performance of the Bonds by it and shall duly take all necessary and advisable governmental and administrative action in Cuba in order to make all payments to be made under the Bonds as required by these Conditions.

5. INTEREST

5.1 Interest Rate and Interest Payment Dates

The Bonds bear interest on their outstanding principal amount from and including 25 June 2008 at the rate of 9.00 per cent. per annum, payable quarterly in arrear on 25 September, 25

December, 25 March and 25 June of each year to and including 25 June 2010 (each an **Interest Payment Date**).

5.2 Interest Accrual

Each Bond will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Bond is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Bond have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Bonds has been received by the Registrar and notice to that effect has been given to the Bondholders in accordance with Condition 12.

5.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full quarter, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the **Accrual Date**) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

6. PAYMENTS

6.1 Payments in respect of Bonds

Payment of principal and interest will be made by transfer to the registered account of the Bondholder. Payments of principal and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender of the relevant Certificate at the specified office of the Registrar. Interest on Bonds due on an Interest Payment Date and principal due at maturity will be paid to the holder shown on the Register at the close of business on the date (the **record date**) being the fifteenth day before the due date for the payment of interest.

For the purposes of this Condition, a Bondholder's registered account means the account specified by it to the Registrar, details of which appear in the Register on the relevant record date.

6.2 Payments subject to Applicable Laws

Payments in respect of principal and interest on Bonds are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8.

6.3 No commissions

No commissions or expenses shall be charged to the Bondholders in respect of any payments made in accordance with this Condition.

6.4 Payment on Business Days

In respect of each payment by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day (as defined below), for value the first following

day which is a Business Day) will be initiated on the Business Day preceding the due date for payment or, in the case of a payment of principal or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of the Registrar.

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day or if the Bondholder is late in surrendering its Certificate (if required to do so).

In this Condition, **Business Day** means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Havana and a day on which the TARGET2 System is open and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

6.5 Partial Payments

If the amount of principal or interest which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount of principal or interest in fact paid.

6.6 Registrar and Paying Agent

The name of the initial Registrar and the initial Paying Agent and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of the Registrar or Paying Agent and to appoint an additional or other Registrar or Paying Agent provided that:

- (a) there will at all times be a Registrar;
- (b) there will at all times be a Paying Agent having a specified office in London or such other place as the UK Listing Authority may approve; and
- (c) there will at all times be a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any changes in specified offices given to the Bondholders promptly by the Issuer in accordance with Condition 12.

7. REDEMPTION AND PURCHASE

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Bonds at their principal amount on 25 June 2010.

7.2 Purchases

The Issuer may at any time purchase Bonds in any manner and at any price.

7.3 Cancellations

All Bonds which are (a) redeemed or (b) purchased by or on behalf of the Issuer will forthwith be cancelled, and accordingly may not be reissued or resold.

8. TAXATION

8.1 Payment without Withholding

All payments in respect of the Bonds by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of Cuba or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Bond:

- (a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note by reason of his having some connection with Cuba other than the mere holding of the Bond; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (c) presented for payment (where presentation is required) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union; or
- (d) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Business Day (as defined in Condition 6).

8.2 Interpretation

In these Conditions, **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Registrar on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Bondholders by the Issuer in accordance with Condition 12.

8.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition.

9. PRESCRIPTION

Claims in respect of principal and interest will become prescribed unless made within five years from the Relevant Date, as defined in Condition 8.

10. EVENTS OF DEFAULT

The holder of any Bond may give notice to the Issuer that the Bond is, and it shall accordingly forthwith become, immediately due and repayable at its principal amount, together with interest accrued to the date of repayment, if any of the following events (**Events of Default**) shall have occurred and be continuing:

- (a) if default is made in the payment of any principal or interest due in respect of the Bonds or any of them and the default continues for a period of at least 10 days; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these conditions and (except in any case where the failure is incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by any Bondholder on the Issuer of notice requiring the same to be remedied; or
- (c) if any other debt of the Issuer shall become due and payable prior to the stated maturity thereof following a default or any security therefore becomes enforceable or the Issuer fails to make payment of any debt incurred by it at the maturity thereof or at the expiration of any grace period originally applicable thereto or any guarantee of any debt given by the Issuer shall not be honoured when due and called upon unless liability under the guarantee is being contested by the Issuer in good faith and in the appropriate form; or
- (d) if a moratorium is declared by the Issuer on the payment of any of its debt or the Issuer repudiates any debt incurred by it or is, or admits that it is, unable to pay its debt or it falls due or the Issuer commences negotiations or proceedings with a view to a general adjustment of its debt.

11. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. NOTICES

12.1 Notices to the Bondholders

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the Register. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any notice shall be deemed to have been given on the fifth day after being so mailed.

12.2 Notices from the Bondholders

Notices to be given by any Bondholder shall be in writing and given by lodging the same, together with the relevant Certificate, with the Registrar.

Any notice or notification to be given by a Bondholder may be delivered to the Registrar in person or sent by fax addressed to:

Banco de Inversiones S.A.
5ta. Avenida No. 6802
Miramar
Ciudad de La Habana
Republic of Cuba

Fax Number: +(537) 204 3377
Attention of: Sandro Vázquez / Maricela Azcue

Any such notice or communication to the Registrar shall take effect, in the case of a letter, at the time of delivery and, in the case of fax, at the time of despatch.

13. MEETINGS OF BONDHOLDERS AND MODIFICATION

13.1 Meetings of Bondholders

The Issuer has specified, and deposited with the Registrar and the Paying Agent, certain provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Bonds held or represented by him or them, except that at any meeting the business of which includes the modification of certain of these Conditions the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders will be binding on all Bondholders, whether or not they are present at the meeting. A copy of these provisions is available for inspection at the office of the Registrar and the Paying Agent upon reasonable notice. As used in these Conditions, **Extraordinary Resolution** means a resolution passed by a majority of not less than 75 per cent. of the persons voting.

13.2 Modification

The Registrar may agree, without the consent of the Bondholders, to any modification of any of these Conditions either (i) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (ii) in any other manner which is not materially prejudicial to the interests of the Bondholders. Any modification shall be binding on the Bondholders and, unless the Registrar agrees otherwise, any modification shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 12.

14. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Bondholders, create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Bonds.

15. GOVERNING LAW AND SUBMISSION TO JURISDICTION

15.1 Governing Law

The Bonds are governed by, and will be construed in accordance with, English law.

15.2 Jurisdiction of English courts

The Issuer irrevocably agrees for the benefit of the Bondholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and accordingly any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Bonds may be brought in such courts. The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum.

15.3 Appointment of Process Agent

The Issuer hereby irrevocably and unconditionally appoints Havin Bank Ltd at its registered office for the time being as its agent for service of process in England in respect of any Proceedings and undertakes that in the event of such agent ceasing so to act it will appoint another person as its agent for that purpose.

15.4 Sovereign Immunity

The Issuer hereby irrevocably and unconditionally waives and agrees not to raise with respect to the Bonds any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against its property (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

16. RIGHTS OF THIRD PARTIES

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

CONDITIONS OF THE SERIES B BONDS

The Conditions of the Series B Bonds will be the same as the Conditions of the Series A Bonds, subject to the following:

- (1) The first paragraph of the Conditions shall be replaced with the following:

"The €72,000,000 9.25 per cent. Bonds due 2011 (the **Bonds**, which expression includes any further bonds issued pursuant to Condition 14 and forming a single series therewith) are issued by Banco Central de Cuba (the **Issuer**).";

- (2) Condition 5.1 shall be replaced with the following:

5.1 Interest Rate and Interest Payment Dates

The Bonds bear interest on their outstanding principal amount from and including 25 June 2008 at the rate of 9.25 per cent. per annum, payable quarterly in arrear on 25 September, 25 December, 25 March and 25 June of each year to and including 25 June 2011 (each an **Interest Payment Date**)."; and

- (3) Condition 7.1 shall be replaced with the following:

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Bonds at their principal amount on 25 June 2011."

CONDITIONS OF THE SERIES C BONDS

The Conditions of the Series C Bonds will be the same as the Conditions of the Series A Bonds, subject to the following:

- (4) The first paragraph of the Conditions shall be replaced with the following:

"The €72,000,000 9.50 per cent. Bonds due 2012 (the **Bonds**, which expression includes any further bonds issued pursuant to Condition 14 and forming a single series therewith) are issued by Banco Central de Cuba (the **Issuer**).";

- (5) Condition 5.1 shall be replaced with the following:

5.1 Interest Rate and Interest Payment Dates

The Bonds bear interest on their outstanding principal amount from and including 25 June 2008 at the rate of 9.50 per cent. per annum, payable quarterly in arrear on 25 September, 25 December, 25 March and 25 June of each year to and including 25 June 2012 (each an **Interest Payment Date**)."; and

- (6) Condition 7.1 shall be replaced with the following:

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Bonds at their principal amount on 25 June 2012."

USE OF PROCEEDS

The net proceeds of the issue of the Bonds, which amounted to approximately €215,000,000, have been added to BCC's hard currency reserves.

DESCRIPTION OF THE ISSUER

General

BCC was established on 28 May 1997 pursuant to Decree Law 172 of the Republic of Cuba passed on that date (**Decree Law 172**) as the central bank and monetary authority of Cuba. BCC has an independent legal status and is not responsible for the obligations of the Government except where it has expressly assumed that responsibility.

BCC's objectives, pursuant to Article 3 of Decree Law 172 and Article 2 of its bylaws, are:

- to oversee the stability of the national currency's purchasing power;
- to help the economy achieve equilibrium and develop in an orderly way;
- to have custody of and administer the country's international reserves;
- to ensure the normal functioning of internal and external payments;
- to exercise functions related to the discipline and supervision of banks, non-banking financial institutions and representative offices authorised to operate in Cuba; and
- to carry out any functions which are entrusted to it by law.

As the country's central bank, BCC has the exclusive right to issue the national currency and is responsible for printing banknotes and minting coins. Decree Law 172 and BCC's bylaws also entitle it to issue debt securities, to represent the Government in relation to its external and domestic borrowings and in negotiations with foreign creditors. BCC's macroeconomic functions include formulating and implementing the country's monetary, exchange and credit policies in line with the Government's overall economic policy and compiling the balance of payments.

Capital Structure

BCC's legal capital amounts to 10 million Cuban pesos, contributed entirely by the Government. The capital may be increased by additional contributions made by the Government or by express decision of BCC's President, by capitalising the reserves and by making monetary corrections adjustments. There are no current plans to increase BCC's capital. BCC's total capital, as stated in its balance sheet, was CUP 99,295,300 as at 31 December 2007.

BCC's reserves may also be increased through contributions of its net profit. Article 7 of Decree Law 172 provides that BCC must distribute its net profits annually: (a) to increase its legal reserve and to create and develop a monetary stabilisation fund and other investment and contingency funds; and (b) by paying the balance to the National Treasury.

Management

BCC is managed by its President assisted by a Board of Directors whose permanent members are set out below:

Name	Title	Significant outside interests
Francisco Soberón Valdés	President	Minister, Member of Government

Jorge Barrera Ortega	First Vice-President
Francisco Mayobre	Vice-President
Ana Rosa Sardiñas Jarel	Vice-President
Arnaldo Alayón Bazo	Vice President
Rene Lazo Fernández	Vice President
Marlié León Simón	Secretary

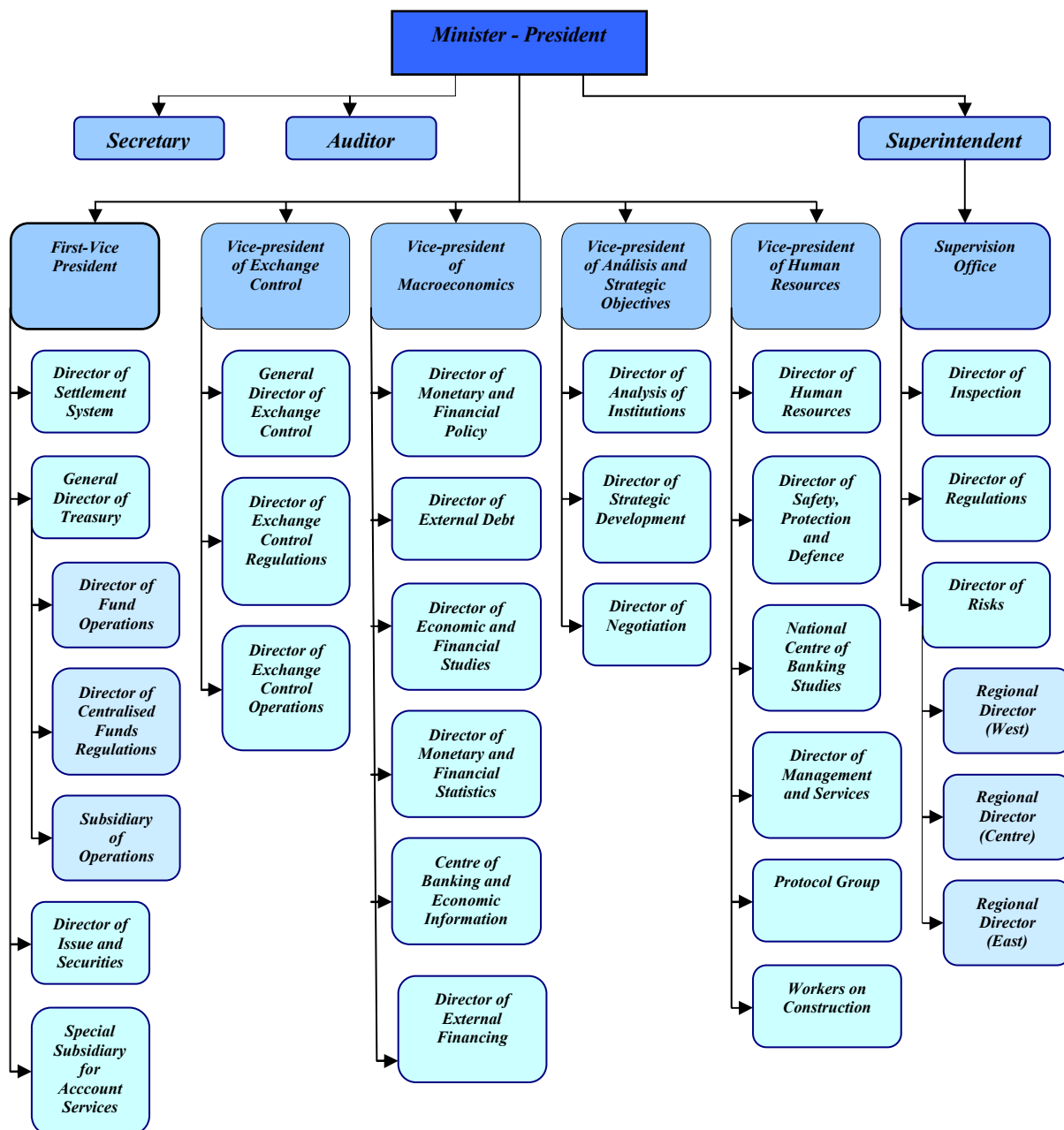
No director has any actual or potential conflict of interest between his or her duties to BCC and his or her private interest or other duties. The business address of each member of the Board of Directors is the principal office of BCC set out below.

According to Article 35 of Decree Law 172, BCC's President is appointed by the National Assembly of People's Power (the **National Assembly**) or the Council of State upon the nomination of the President of the Council of State and is required to be a minister of Government. The First Vice-President is nominated by the President of BCC and appointed by the Council of State. The remaining Vice-Presidents and the Secretary are nominated by the President of BCC and appointed by the Executive Committee of the Council of Ministers. The Board meets monthly on a regular basis and also holds special meetings which may be called by the President at his discretion. BCC's principal office is calle Cuba No. 402, esq. a Lamparilla, Habana Vieja, Ciudad de la Habana, Cuba and its telephone number is +(537) 860 4811.

The Board of Directors examines and makes decisions on the monetary and financial policy proposed to the Government, how to supervise the implementation of that policy once it has been approved and the relevant adjustments which stem from its implementation. The Board of Directors also examines and makes decisions on the policy concerning the exchange rate, and on the management and supervision of financial institutions.

The Board of Directors is assisted by a number of committees. The principal committees are: the Monetary Policy Committee, which advises the Board of Directors on matters related to monetary policy, analysing and making decisions on monetary and financial programming, and issuing regulations on currency issues and liquidity, monetary-exchange rates, credit policy, and rates of interest on assets and liabilities for domestic credits in national and hard currency which require quick decisions; the Supervision Committee, which advises the Board of Directors on matters related to supervision of banks and other financial institutions; and the Credit Committee, which advises on the application of the country's credit policy guidelines.

BCC's organisational structure is set out below:



BCC's role in implementation of macroeconomic policy

BCC's role in the Cuban economy is defined by reference to its objectives (see "General" above). Its primary role involves implementing the Government's macroeconomic policies. General information on the Cuban economy is set out under "The Cuban Economy" below. Information in relation to BCC's role in implementing macroeconomic policy in respect of the first four objectives listed above is set out under "Balance of Payments", "Monetary and Financial System", "Public Finance" and "Indebtedness" below.

BCC has developed the following monetary policy scheme to achieve its objectives:

Instruments	Intermediate Objectives	Final Objectives
– Direct control over interest rates	– Control over monetary aggregates that measure households' financial assets	– Low inflation rate
– Reserve requirements		– Exchange rate stability
– Credit control	– Control over general monetary aggregates	– Gradual appreciation of CUP
– Differential among interest rates (by currency and by term)	– To keep an optimum level of international reserves	– Macroeconomic equilibrium
– Exchange control	– To follow several liquidity indicators: index of asset structure, index of dollarisation, relationship between the trends of wages and retail sales, monetary multipliers	– Orderly development of the economy
– To support the retail sales of the Minister of Internal Commerce		– Manage the international reserves
– Control over monetary issuance for financing the fiscal deficit		

Source: BCC

Banking Sector and Supervision of Financial System

In 1994, the Cuban financial system was made up of Banco Nacional de Cuba (the then central bank and a commercial bank), three other commercial banks and the representation offices of two foreign banks. Following the economic crisis precipitated by the break-up of the former USSR, by 1995 it had become evident that the Cuban banking and financial system required reforming to keep pace with the other reforms instituted in the economy. Accordingly, in 1997, Banco Central de Cuba, was constituted to act as a supervisory authority for all Cuban financial institutions as well as the representative offices of non-Cuban banks located in the country. As indicated under “*General*” above, its main objectives include issuing the national currency and ensuring its stability, proposing and implementing monetary policy and overseeing the banking and financial system. As banking regulator, BCC issues rules and guidelines designed to implement the 25 basic principles of effective bank supervision recommended by the Basle committee of central banks.

Banco Nacional de Cuba was released from its functions of central banking and remained as a commercial bank, authorised to act as universal bank. It also records, services and handles the foreign debt which the Government and the bank itself have contracted with foreign creditors and all foreign debt guaranteed by the State.

The Cuban banking system currently comprises Banco Central de Cuba, 10 commercial banks, 15 non-banking financial institutions and the representative offices of 17 foreign financial institutions. Since 1997, when BCC assumed its role as banking regulator, there have been no insolvencies in the banking sector.

The reserve requirements are fixed at 10 per cent. for demand deposits denominated in Cuban pesos and at 5.5 per cent. for deposits denominated in convertible pesos. Reserve requirements may be met by making deposits with the central bank or by investing in public debt. The reserves deposited with BCC by banks are recorded in BCC's balance sheet under "*Liabilities within the financial sector*".

Issued Bonds

BCC has issued the following debt securities which have been redeemed in full on their due dates:

- US\$500 million bonds, placed with Cuban banks and foreign financial institutions, on 5 December 2005 and 6 February 2006, with an interest rate of 8 per cent. and a maturity of one year from the date of placement; and
- EUR400 million bonds, placed with Cuban banks and foreign financial institutions, on 14 February 2006, with an interest rate of 7 per cent. and a maturity of one year from the date of placement.

In addition, BCC has outstanding the following debt securities:

- EUR150 million bonds, placed with Cuban banks and foreign financial institution, on 3 May 2007, with an interest rate of 9 per cent. and a maturity of two years from the date of placement;
- EUR50 million bonds, placed with Cuban banks and foreign financial institution, on 3 May 2007, with an interest rate of 8.5 per cent. and a maturity of two years from the date of placement;
- EUR71 million bonds, placed with Cuban banks and foreign financial institution, on 25 June 2008, with an interest rate of 9 per cent. and a maturity of two years from the date of placement;
- EUR72 million bonds, placed with Cuban banks and foreign financial institution, on 25 June 2008, with an interest rate of 9.25 per cent. and a maturity of three years from the date of placement; and
- EUR72 million bonds, placed with Cuban banks and foreign financial institution, on 25 June 2008, with an interest rate of 9.5 per cent. and a maturity of four years from the date of placement.

Other than as described above, BCC has no external debt and no Cuban bank (except Banco Nacional de Cuba) has defaulted on any debt incurred by it. None of BCC's indebtedness is secured or guaranteed by the Government or any other third party.

DESCRIPTION OF THE REPUBLIC OF CUBA

Location and Population

Cuba is located in the entrance to the Gulf of Mexico, in the middle of the Caribbean Sea, with a latitude of between 20 and 23 degrees north and a longitude of between 74 and 85 degrees west. Cuba's closest neighbours are:

- 160 km (or 90 nautical miles) to the North, Cayo Hueso (Key West)
- 210 km (or 120 nautical miles) to the West, the Peninsula of Yucatan (Mexico)
- 140 km (or 80 nautical miles) to the South, Jamaica and
- 77km (or 43 nautical miles) to the East, Haiti.

Cuba is an archipelago formed by the island of Cuba (with a surface area of approximately 104,945 km²), the Island of Youth (2,200 km²) and around 4,195 keys and islands with a total surface area of 3,715 km². The island of Cuba is approximately 1,250 km long (east to west) and between 32 and 210 km wide (north to south) and has approximately 5,800 km of coastline.

The total population of Cuba is approximately 11,236,790 inhabitants, with a density of 101 inhabitants per km². 75 per cent. of the population is urbanised, with around 2,200,000 inhabitants living in the City of Havana, Cuba's capital. Cuba's population is principally of Spanish and African descent although Chinese and European immigrants also form part of the population mix.

Cuba's climate is subtropical humid, with two clearly defined seasons, a dry winter which runs between November and April and a rainy summer between May and October. Average temperatures range from around 20°C in winter to around 26°C in summer. Cuba's annual rainfall is around 1,200 mm of which 70 per cent. falls in the summer.

The predominant religion in Cuba is Roman Catholicism.

Cuba is divided in 14 Provinces and the special Municipality Island of the Youth. Its official language is Spanish.

History

On 27 October 1492, Christopher Columbus became the first explorer to discover Cuba. At the time there were about 100,000 native inhabitants, divided into groups with different degrees of social and cultural development, with the more advanced being fishermen, fruit collectors, farmers and potters. 18 years later, in 1510, Diego Velázquez conquered the country, virtually eliminating the native population.

At the end of the 16th century, the first sugar mill was built. Within two centuries, sugar would become the economic mainstay of the island. At the same time, African slaves began to be imported to work in the sugar industry. Over time, slave-dependent sugar plantations were established which subsequently influenced and contributed to the birth of Cuban nationalism.

In the middle of the 18th century, the English briefly occupied Havana (1762) although in 1763 the island was ceded back to Spain in return for the cession of the Florida Peninsula to England.

On 10 October 1868, the fight for independence began, when Carlos Manuel de Céspedes proclaimed independence for Cuba and released his slaves in his sugar mill “La Demajagua”. The ensuing first war of independence lasted 10 years (until 1878).

In 1878, an important figure of the Cuban wars for independence emerged: Jose Martí (1853-1895), who founded the Cuban Revolutionary Party and led the war of 1895 until his death. The war continued until the intervention of the United States of America in 1898 on the Cuban side. The war ended with the Treaty of Paris signed on 10 December 1898 between Spain and the United States of America, as a result of which the United States of America assumed total control of Cuba, Puerto Rico and the Philippines.

On 20 May 1902, Cuba was established as a neo-colonial republic, controlled by an oligarchy dependant on Washington. A succession of corrupt and repressive governments followed, culminating with the Batista regime which lasted until 31 December 1958. During this period, US interests assumed control of Cuba’s principal industry, the sugar industry, as well as services such as electric power and telephony, the fuel supply and the financial system.

On 26 July 1953, a group of young people led by Fidel Castro attacked an army garrison in the Moncada Barracks in Santiago de Cuba. After this event Fidel Castro and the other survivors of the attack were jailed but subsequently released in 1955 and removed to Mexico. On 2 December 1956, Fidel Castro and a group of young revolutionaries returned to Cuba to fight against and, on 1 January 1959, finally defeated the Batista regime and declared Cuba an independent republic.

As soon as it assumed power, the new Revolutionary Government began to significantly reform the political system. Previously repressive institutions and political parties that had operated prior to the Revolution were dissolved and steps were taken to reform public administration and eliminate corruption. A particularly significant measure was the passing of an agrarian reform law in 1959 which transferred ownership of a significant part of farm land in Cuba to the tenant farmers who had previously farmed it.

Relations with the United States of America deteriorated rapidly as that country instituted an economic blockade of Cuba which was thus deprived of supplies vital for its agricultural and other industries. As a result, Cuba developed close relations with the former USSR and other Eastern bloc countries. Following the break up of the former USSR in the early 1990s, Cuba has developed wider international and economic relations, see “*The Cuban Economy*”.

Government

According to its Constitution, Cuba is an independent and sovereign socialist state of workers organised with all and for the good of all as a united and democratic republic. In Cuba, sovereignty lies in the people, from whom originates all power of the State. That power is exercised directly through the Assemblies of People’s Power and other State bodies.

National Assembly of People's Power and Council of State

The National Assembly (or parliament) is the supreme body of power and represents and expresses the sovereign will of all the people. It is the only body in Cuba invested with legislative authority.

The National Assembly comprises deputies elected by free, direct and secret popular vote for periods of five years. It sits twice a year (usually in July and December).

The National Assembly elects, from among its own members, the Council of State. This body comprises one president, one first vice-president, five other vice-presidents, a secretary and 23 other

members. The President of the Council of State is also the head of State and the head of the Government.

The Council of State assumes the functions of the National Assembly in the periods between National Assembly sessions, enforces the resolutions of the National Assembly and complies with all other duties assigned by the Constitution. It is collegiate and for national and international purposes it is the highest representative of the Cuban State.

Council of Ministers

The Council of Ministers comprises the Head of State and Government, who is its President, the First Vice-President, the Vice-Presidents, the Ministers, the Secretary and other members, as determined by law.

The President, the First Vice-President, the Vice-Presidents and other members of the Council of Ministers selected by the President, make up its Executive Committee.

The Executive Committee may make decisions regarding matters pertaining to the Council of Ministers in the period of time between meetings of the Council.

The functions of the Council of Ministers include:

- organising and directing the implementation of political, economic, cultural, scientific, social and defence activities agreed upon by the National Assembly;
- drafting proposals related to general plans for economic and social development and, once approved by the National Assembly, organising, directing and monitoring their implementation;
- directing the foreign policy of Cuba and its relations with other governments;
- approving international treaties and submitting them to the Council of State for ratification;
- directing and monitoring foreign trade;
- drafting the state budget and, once it has been approved by the National Assembly, taking responsibility for its implementation;
- adopting the necessary measures to strengthen the country's monetary and credit systems;
- drafting new legislation and submitting it for consideration by either the National Assembly or the Council of State, as appropriate;
- attending to national defence, the maintenance of internal order and security, the protection of citizens' rights, and the safeguarding of human life and property in the event of natural disasters; and
- managing the administration of the state and unifying, coordinating and monitoring the activities of the central state administration bodies and of local authorities.

The Council of Ministers is responsible for all its activities and periodically reports to the National Assembly.

THE CUBAN ECONOMY

Introduction

The Cuban Revolutionary Government, constituted on 1 January 1959, inherited an economy characterised by an extreme structural weakness and a critical social condition for the vast majority of the people. At the time, Cuba was almost entirely dependent upon the United States of America which controlled Cuba's principal industry, the sugar industry. In addition, services such as electric power, telephony, the fuel supply and the financial system were largely controlled by US capital and approximately 60 per cent. of Cuban imports and 75 per cent. of its exports were linked to the United States of America. Cuba also had a chronic deficit on its balance of payments, reflecting remittances to the United States of America, and a low level of international reserves which had fallen by more than 80 per cent. over the years leading up to independence as monetary assets were removed to the United States of America.

Domestically, up to one-third of the workforce was unemployed, land ownership was concentrated in a limited number of hands, literacy rates were minimal and life expectancy, at 65 years, was low.

To address these weaknesses the Government began a sweeping programme of nationalisation and agrarian reform. In retaliation the US Government introduced a range of economic sanctions. Cut off from its main trading partner, Cuba sought other markets, the most significant of which were the former USSR and other Eastern bloc countries.

With effect from 1979, Cuba experienced increasing difficulties in obtaining foreign credit as its traditional lenders became more indebted themselves and US pressure on potential third country lenders increased and this, coupled with high interest rates and the collapse of sugar prices, caused an inability to continue honouring payment commitments. As it was not possible to achieve an effective agreement with the creditors, Banco Nacional de Cuba decided to suspend payments to its international creditors.

By 1989, Cuba had, nevertheless made significant economic progress with an estimated annual average GDP growth rate of 4.6 per cent. over the 30-year period. Domestically, educational levels had improved, life expectancy had increased and unemployment had been reduced to 5.5 per cent.

During the 1990s, Cuba was significantly adversely affected by the break-up of the former USSR and the economic turmoil experienced at the time by its other principal trading partners in the Eastern bloc, reflected by a reduction of more than 80 per cent. in its foreign trade. In addition, previously available advantageous credit facilities were cut-off, investments were curtailed, equipment became inoperable due to a lack of spare parts and technical assistance ceased.

At the same time, US sanctions were intensified with the passage of the Torricelli Act in 1992 and the Helms-Burton Act in 1996. The Torricelli Act prohibited US companies based in third countries from trading with Cuba and banned ships that berthed in Cuba from entering US ports for a period of 180 days thereafter. The Helms-Burton Act sought to restrict the investment of non-US firms in property nationalised by the Revolutionary Government.

As a result, between 1989 and 1993, Cuban GDP fell by an estimated 34.8 per cent. (in constant 1981 prices), imports declined by 78 per cent. and the fiscal deficit reached 33.5 per cent. of GDP. Since 1993, the Cuban Government has, among other significant reforms, implemented a programme of land reform through the transfer of State land to co-operatives, encouraged increased self-employment, improved administrative efficiency by reducing the number of Government ministries and institutions from 50 to 32, granted greater autonomy to State enterprises, reformed the tax system, improved domestic convertibility of the currency, modernised the banking and financial system,

restructured the sugar industry and diversified the economy through the encouragement of the services sector, in particular tourism.

Reflecting the success of these and other reforms, GDP grew at an average annual rate of 3.0 per cent. between 1996 and 1999, at constant 1997 prices, while from 2000 to 2007 the average annual growth rate amounted to 6.3 per cent. based on a new methodology used for calculation of GDP as described below. Unemployment fell from 1.9 per cent. in 2006 to 1.8 per cent. in 2007, the share of services in the economy grew from 54 per cent. in 1990 to 74.3 per cent. in 2007, the fiscal deficit was estimated around 3.2 per cent. of GDP in 2007 and the current account surplus in the balance of payments was estimated at around 0.8 per cent. of GDP in 2007.

Gross Domestic Product

The method used for GDP measurement prior to 2004 underestimated the share in GDP of social services in Cuba, as these services are rendered on a non-payment basis and therefore did not generate profits nor additional aggregated value and also because salaries used for calculation of expenses did not reflect the real purchasing power, nor the value created by Cuban citizens through their work, given the existence of goods and services that are either provided without payment or on a subsidised basis in accordance with social policies in Cuba. The new calculation of GDP (which has been applied in this document as from 2004) uses tariffs which recognise a profitability from services such as education, public health, sports, radio and TV, allowing a better measurement of the additional value created by their inclusion in this indicator, even though the methodology used only represents a portion of the qualitative transformations achieved by the social services in Cuba.

The following table sets out the growth rate in real terms of Cuba's GDP for the periods indicated:

	2004	2005	2006	2007 ⁽¹⁾
Change in real GDP (%) ⁽²⁾	5.8	11.2	12.1	7.3

Notes:

- (1) Preliminary
- (2) Based on 1997 constant prices

Source: National Office of Statistics.

The following table sets out the GDP of Cuba for the periods indicated both as a total and on a per capita basis and both in current prices and at constant 1997 prices:

	2004	2005	2006	2007 ⁽¹⁾
Total (millions of pesos)				
At constant 1997 prices	32,830	36,507	40,912.0	43,883.0
At current prices	38,203	42,644	52,743	58,604
Per Capita (pesos)				
At constant 1997 prices	2,922	3,247	3,639	3,905
At current prices	3,400	3,793	4,692	5,215

Note:

- (1) Preliminary

Source: National Office of Statistics.

The following table sets out GDP at constant 1997 prices using the expenditure approach for the periods indicated:

	2006		% variation	% of total	
	2006	2007⁽²⁾	2007/6	2006	2007
	<i>(millions of pesos)</i>			<i>(percentage)</i>	
Household consumption	23,093.0	23,443.0	1.5	56.4	53.4
Government and NPI ⁽¹⁾ consumption	11,012.0	12,164.0	10.5	26.9	27.7
Gross capital formation	5,837.0	5,976.0	2.4	14.3	13.6
Exports minus imports	970.0	2,300.0	137.1	2.4	5.3
Total final demand	40,912.0	43,883.0	7.3	100.0	100.0

Notes:

(1) Non-profit institutions.

(2) Estimate

Source: National Office of Statistics.

Principal Sectors of the Economy

The table below sets out Cuba's GDP by economic activity at constant 1997 prices and by percentage contribution for the periods indicated:

	2006	2007⁽¹⁾	2006	2007
	<i>(millions of pesos)</i>		<i>(%)</i>	
Agriculture, hunting, forestry and fishing	1,597.7	1,885.9	3.9	4.3
Exploitation of mines and quarries	459.0	474.4	1.1	1.1
Manufacturing industries	4,996.9	5,490.8	12.2	12.5
Electricity, gas and water	605.5	653.2	1.5	1.5
Construction	3,042.0	2,780.0	7.4	6.3
Trade, restaurants and hotels	10,581.5	10,637.3	25.9	24.2
Transport, warehousing and communications	3,458.6	3,689.5	8.5	8.4
Financial institutions, real estate and services to enterprises	2,292.3	2,478.6	5.6	5.7
Community, social and personal services	13,221.7	15,141.9	32.3	34.5
Import duties	657.0	651.7	1.6	1.5

Notes:

(1) Estimate

Source: National Office of Statistics.

The services sector dominates Cuba's GDP accounting for 75.8 per cent. in 2006 and 74.3 per cent. in 2007. Other significant sectors are the manufacturing industry, construction and agriculture.

Agriculture

Cuba's agriculture sector has been adversely affected in recent years by severe drought in the eastern part of the country and the hurricanes during 2004 and 2005. Important products produced include sugar cane, edible roots (including tubers, vegetables and bananas) and garden vegetables, rice, fruits, corn, eggs, beans and pork.

During 2007, climatic conditions were more favourable allowing the replenishment of dams and other sources of water storage. As a result, the farming sector experienced a recovery with production volumes (excluding sugar cane) increasing by around 16.6 per cent. compared to 2006.

Manufacturing industry (including mining and power generation)

The table below sets out selected industrial production levels for the periods indicated:

	2006	2007⁽²⁾
Clinical furniture and accessories (<i>units</i>)	620.0	5,916.0
Domestic crude oil (<i>thousand tons</i>) ⁽¹⁾	2,900.0	2,905.0
Grey cement (<i>thousand tons</i>)	1,704.7	1,805.3
Natural gas (<i>million cubic metres</i>)	1,085.1	1,217.9
Cigars (<i>million units</i>)	418.1	411.9
Nickel and cobalt (<i>thousand tons</i>) ^(*)	71.7	73.0
New tires (<i>thousand units</i>)	59.8	68.9
Concrete blocks (<i>million units</i>)	56.3	54.2
Accumulators (<i>thousand units</i>)	74.3	46.7
Electric wires (<i>thousand kilometres</i>)	34.2	30.3

Notes:

- (1) This refers to the total production of fuel oil excluding mixtures of by-products which are added to oil to decrease its viscosity
- (2) Preliminary

Source: National Office of Statistics and Ministry of Basic Industry (*)

Oil and Gas

Between 1992 and 2006, an estimated US\$1.3 billion was invested in oil exploration and production by Cuban and foreign oil companies and more than 20 wells were drilled in approximately 30,000 km² in 16 blocks in the Gulf of Mexico as well as in onshore fields. Cuba's current production represents approximately one-half of the country's hydrocarbon consumption. During 2007, 11 exploratory wells were drilled with positive preliminary results.

In relation to nickel, its other principal mineral raw material, Cuba has significant joint venture agreements with Canadian and Venezuelan companies which, it is estimated, will increase the production capacity of nickel and cobalt to 120,000 tons by 2010 from its level of 73,000 tons in 2007. Nickel extraction increased by 1.8 per cent. in 2007 compared with the previous year.

The table below shows the level of Cuba's oil and natural gas extraction and its combined nickel and cobalt production for the periods indicated:

	2004	2005	2006	2007⁽¹⁾
Oil and gas (<i>millions of equivalent tons</i>)	4.0	3.7	3.9	4.0
Nickel and cobalt (<i>thousand tons</i>)	75.9	75.6	71.7	73.0

Notes:

(1) Preliminary

Source: National Office of Statistics and Ministry of Basic Industry

Nickel production was adversely affected in 2006 by damaged equipment in one of the plants as well as damage caused by heavy rains. This production decrease was, to an extent, offset by the increases in prices in the international market.

Power Generation

The average electricity generating capacity installed at the end of 2006 was 4,730.0 MW and by the end of 2007 this had increased by 3.2 per cent. to 4,882.9 MW.

The gross total generation of electricity in 2007 was 17,621.0 gigawatts/hour, an increase of around 7.0 per cent. on 2006 generation.

Cuba's power generation has increased with the installation of generators synchronised to the National Power Supply System. This has improved efficiency as well as generation capacity and has reduced the rate of growth in fuel consumption. The structure of generation of the National Power Supply System has also improved with an increase in gas-powered generators and reduced use of less efficient thermoelectric and peak plants.

Construction

Construction activity decreased by 9.0 per cent. in 2007 as compared to 2006 mainly due to the decrease in the construction of private housing. During 2007, 52,607 new houses were built as well as significant repair and restoration work undertaken. In addition, the construction of 42 educational establishments, 78 health care installations, 5 tourist establishments, 36 industrial constructions and 10 hydrological works was completed.

Services

Within the services sector, the contribution to GDP of communal, social and personal services grew by 14.5 per cent. in 2007, the contribution of financial, real estate and business services and services addressed to companies grew by 8.1 per cent. and the contribution of electricity, gas and water grew by 7.9 per cent.

Tourism

The table below shows the development of tourism in Cuba for the periods indicated:

	2003	2004	2005	2006	2007⁽¹⁾
No. of visitors (<i>thousands</i>)	1,906.0	2,049.0	2,319.0	2,221.0	2,152.0
Gross income from tourism (<i>millions of CUC</i>)	1,999.2	2,113.6	2,398.9	2,234.8	2,236.4

Notes:

(1) Preliminary

Source: National Office of Statistics

Tourism is the single largest generator of hard currency income for Cuba. Tourist numbers have been adversely affected in recent years in particular by the high price of oil and a general worsening of

global economic conditions. Notwithstanding this, gross income from tourism has remained relatively stable.

Transport

Passenger transportation grew by 10.3 per cent. in 2007 compared to 2006. Cuba's programme to restore its public transport stock continues with the purchase of 1,548 buses from China, of which 800 were imported in 2007.

Cuba has invested more than 600 million pesos in its transport in the last three years and expects to invest more than 2 billion pesos in the next five years to purchase new transport machinery and to improve trains, roads and signalling.

Communications

At the end of 2007, Cuba had more than 1 million telephone lines installed and a national digitalisation percentage of 94.9 per cent. Approximately 72.7 per cent. of the telephone lines are for residential use and the telephone density at the end of 2007 was 110 lines per 1,000 inhabitants.

At present, technical, economic and financial studies are being developed for the use of an alternative fixed cordless telephone system, with a view to undertaking a plan to install two million telephones within the coming five years. Cuba and Venezuela have signed an agreement to lay a 1,522 kilometre-long submarine fibre optic cable, capable of transmitting 160 gigabytes per second, a figure 1,000 times higher than Cuba's present capacity.

During 2007, the number of computers in use grew by 18.8 per cent., users of electronic mail increased by 6.4 per cent. and internet users rose by 19.0 per cent.

Medical Services

Public Health

By the end of 2007 and for a consecutive second year, the infant mortality rate in Cuba was 5.3 deaths per 1,000 live births, the lowest rate in the country's history, which places Cuba first among Latin America and Caribbean countries, and among the top 30 nations in the world according to the National Office of Statistics. Life expectancy at birth is 78.3 years, according to the Economic Commission for Latin America and the Caribbean (CEPAL).

In 2007, Cuba had one doctor for each 155 inhabitants and an average of 4.9 beds for medical assistance and 1.3 beds for social assistance for every 1,000 inhabitants.

Provision of Medical Services

Cuban medical personnel have made a significant contribution to the health sector in a range of developing countries in Latin America and the Caribbean as well as in Pakistan and Indonesia in recent years. In 2004, Cuba reached an agreement with Venezuela under which Cuba supplies, among other things, medical services through the provision of personnel and equipment. Cuba is seeking to sell its medical services to other countries in areas such as Latin America, Asia and Africa, in order to diversify its portfolio.

Education

In the 2007/2008 education year, 1,771,280 students were registered in primary, junior and senior high schools and in technical-professional education giving an average rate of 11 students per teacher.

In special needs education, 43,000 children with physical or mental disabilities were taught in 410 schools in the 2007/8 education year, giving an average rate of 4.6 pupils per teacher.

At university level, 44,700 students graduated in 2007 of which 18.8 per cent. were in medical sciences, 9.3 per cent. were in technical sciences, 5.4 per cent. were in economics, 5.2 per cent. in physical sciences, 6.5 per cent. were in social and humanistic sciences, 1.7 per cent. in agriculture, 1.3 per cent. in natural sciences and 0.5 per cent. in arts and 51.4 per cent. were in education.

In 2007, 17 schools in the countryside were repaired and 10 other educational facilities were completed.

Culture

Recent years have seen a substantial development of culture and the arts in Cuba.

Book production amounted to 85 million copies in 2006 and, since 2000, approximately 1,900 titles have been published. This activity was complemented by "The International Book Fair" in 2006 to which there were 5,637,456 visitors.

For music, programmes have been implemented in accordance with the strategy adopted by the Cuban Institute of Music. Other performing arts also benefit from Havana's Festival of Theatre and similar events and Cuba's National Ballet (BNC) is one of the best known dance companies internationally. Visual arts received greater exposure through, amongst other things, the ninth Havana Biennial, attended by over 400 Cuban and foreign artists.

In 2006, the Guayasamin Foundation of Homage of Universal Culture took place to celebrate the 80th birthday of Commander-In-Chief Fidel Castro. This was attended by 1,440 people from 81 countries. There have also been other international cultural exchanges.

Cuba's other cultural assets include nine sites classified as part of the world's cultural heritage, which includes Habana Old Town and its system of colonial fortifications.

Inflation, Unemployment and Wages

The table below shows the percentage change in the consumer price index, the unemployment rate and the average monthly wage in pesos for workers in state agencies and joint ventures for the periods indicated:

	2003	2004	2005	2006	2007
Consumer price index (<i>% change</i>)	(3.8)	2.9	3.7	5.7	2.8
Unemployment rate (<i>%</i>)	2.3	1.9	1.9	1.9	1.8
Average monthly wages (<i>pesos</i>)	273	284	330	387	408

Source: National Office of Statistics

BALANCE OF PAYMENTS

Cuba's current account performance is characterised by a trade deficit and revenues outflow which are compensated by a services surplus. Cuba's foreign trade is described below. The services revenues are dominated by tourism receipts although medical services, telecommunications and international passenger air transportation also contribute significantly. The revenues outflow shown in the table below reflects payments of interest and dividends to Cuba's international joint venture partners and its lenders.

The table below shows the current account of the balance of payments for the periods indicated:

	2006 ⁽¹⁾	2007 ⁽²⁾
	<i>(millions of pesos)</i>	
Exports	2,924.6	3,701.4
Imports	(9,497.9)	(10,082.6)
Goods acquired in ports and airports by foreign transportation means	243.0	128.5
Trade balance	(6,330.3)	(6,252.7)
Services balance	6,456.0	7,899.9
Trade and services balance	125.7	1,647.2
Revenues	(618.0)	(959.7)
Current transfers (net)	277.7	(199.0)
Current account balance	(214.6)	488.5

Notes:

(1) Preliminary

(2) Estimate

Source: BCC

No official data is available for the capital and financial account of the balance of payments since the passage of Resolution No. 80/2004 (see "*Monetary and Financial System*") has resulted in an increase in the country's foreign exchange reserves on which no information is officially published.

Foreign Trade

The table below shows Cuba's trade balance (excluding donations) for the periods indicated:

	2004	2005	2006	2007 ⁽¹⁾
	<i>(millions of pesos)</i>			
Total trade	7,947.3	9,763.7	12,422.5	13,784.0
Exports (FOB)	2,332.1	2,159.4	2,924.6	3,701.4
Imports (CIF)	5,615.2	7,604.3	9,497.9	10,082.6
Trade balance	(3,283.1)	(5,444.9)	(6,573.3)	(6,381.2)

Notes:

(3) Preliminary

Source: National Statistics Office

In 2006, 44 per cent. of Cuba's total foreign trade was conducted with countries in the American continents, 31 per cent. with countries in Europe, 22 per cent. with Asian countries and the remaining 4 per cent. with countries in Africa. Cuba's principal trading partners in 2006 were China, Venezuela, Canada, Spain and The Netherlands, which together accounted for 60 per cent. of Cuba's foreign trade.

Foreign direct investment

Foreign Direct Investment (**FDI**) in Cuba is conceived as a complement to the national efforts for development, and it is designed to assist the search for new foreign markets, competitive technologies and financing (mainly long-term funding). The economic policy on FDI is implemented under Law 77/1995 on Foreign Investment, which takes into account those projects involving high flows of inward investment which benefit national development and have a positive social impact within Cuba.

FDI is largely concentrated in the oil, nickel and tourism sectors, and Cuban entities enter into joint venture arrangements with foreign entities under Law 77/1995. At the end of 2006, there were 357 joint venture businesses in the country, broken down as follows:

- 237 international economic associations, 45 per cent. of which were concentrated in heavy industry, tourism and light industry. Companies from Spain, Canada and Italy accounted for 61 per cent. of the total participants in these ventures.
- 57 co-operative productions, in which companies from Spain, Italy and Panama were the principal participants.
- 55 hotel management contracts, operating under the management of 12 foreign firms.
- eight industrial or service management contracts.

MONETARY AND FINANCIAL SYSTEM

Monetary and Financial Policy

There was a significant shift in Cuba's monetary and financial policy in 2003 and 2004 with the passing of Resolution No. 65/2003, Resolution No. 80/2004 and Resolution 92/2004, each issued by BCC.

As from July 2003, Resolution 65/2003 established the use of the convertible peso as the only means of payment for denomination and execution of transactions which were up to that time being made in United States dollars between Cuban entities, including loans and other financings being granted. Since then, all income received by Cuban entities in foreign hard currency is automatically exchanged into CUC by the banking system, at the time the payments are credited to the accounts of the Cuban entities. At the time of implementation of this measure, Cuban entities which were operating CUC accounts and required foreign hard currency for payment of trade transactions, payment of debts or other duly justified objectives, had to submit requests for authorisation from BCC to purchase such hard currency, which resulted in the creation of a Foreign Exchange Approval Committee. This measure was an important step in the process of de-dollarisation as a strategy of the Cuban government.

Resolution No 80/2004 built on previous measures designed to reduce the dollarisation of the Cuban economy. Resolution No. 80 was a response to US efforts to restrict the deposit abroad of dollars spent in Cuba. The resolution imposed a 10 per cent. surcharge on the conversion in Cuba of dollar banknotes into convertible pesos and required entities in Cuba that previously accepted dollar payments in cash to receive those payments in convertible pesos. The Resolution therefore makes it less attractive to bring dollars into the country than other hard currencies. Cuba receives significant cash remittances in dollars from Cubans resident in the United States of America (who are prevented from transferring them through the banking system) and dollars are also spent in the country by tourists. As a result of this measure, the share of the dollar in Cuba's foreign exchange inflow in the first six months of 2005 was 30 per cent. compared to around 90 per cent. prior to its implementation.

Resolution No. 92 was made effective on January 2005, and established that all income in hard currency which was received by the Central Government was to be deposited in a BCC account entitled "Single Account for Hard Currency Income of the State". Any entity which is a recipient of funds under this scheme would previously have had to buy them using Cuban pesos. Furthermore, this measure strengthened and improved the mechanism for exchange control put in place through Resolution No. 65. The Foreign Exchange Approval Committee, in addition to granting its authorisation on foreign hard currency transactions, is also in charge of authorising CUC transactions. A further change effected by Resolution No. 92 required foreign currency payments to be approved before contractual agreements became effective (rather than before a payment was required).

The exchange rate between the peso and the convertible peso has remained relatively stable at around CUC1.00 = CUP26 since 2001, although in mid-2005 there was a 7 per cent. revaluation bringing the rate to CUC1.00 = CUP24. Each convertible peso is pegged to the US dollar at a current rate of CUC1.00 = \$1.08.

Liquidity and Money Supply

The following table analyses Cuban liquidity as at 31 December in each of the years indicated:

	2006	2007 (millions of pesos)	% change
Monetary Base (M0) (a + b)	13,722.6	13,843.8	0.9
Cash in circulation (a)	9,807.3	10,523.0	7.3

Bank deposits (b)	3,915.3	3,320.8	(15.2)
Money (M1 _A) (a + c + d)	14,949.3	15,530.2	3.9
Demand deposits (c)	5,139.9	5,005.3	(2.6)
Current accounts (d)	2.1	1.9	(9.5)

Source: BCC

During 2007, the Monetary Base registered a 0.9 per cent. increase. Bank deposits in national currency decreased by 594.5 million pesos, while cash in circulation increased by 715.7 million pesos, due mainly to an increase in State payments to the private sector, which grew by 1,906.5 million pesos (47.7 per cent.) compared with 2006, as a result of an increase in storing prices of several agricultural livestock and of other measures taken to encourage their production and sale to the State.

On a year-to-year basis, the monetary aggregate M1_A (the most liquid assets in pesos in the hands of the population) grew by 3.9 per cent. reflecting the growth of cash in circulation.

The M1 monetary aggregate, which takes into account the value of the most liquid assets in pesos in the whole of the economy and includes current accounts of corporations and the budget, increased by 15.5 per cent.

The M2_A aggregate (total liquidity in pesos in the hands of the population) increased by 7.1 per cent. in 2007 as compared to 2006. Included in this figure, fixed-term deposits maintained a rising trend with an annual increase of 16.1 per cent. compared to the previous year. These deposits represented 55.6 per cent. of the total savings in Cuban pesos by the population. Of these deposits, those with a 36-month term accounted for 44.7 per cent. These deposits evidence the confidence of the population in the monetary system and in Cuban financial institutions.

The interest rate regime in Cuba aims to strengthen savings in Cuban pesos and, at the same time, strengthen the peso and lower the pressure on prices and the exchange rate. Cuban interest rates are set by BCC.

The table below shows interest rates in the Cuban banking system at 31 December 2007:

Legal Person							
Currency	Demand	1 month	3 months	6 months	12 months	24 months	36 months
CUC	1.75	2.25	2.25	2.25	2.50	2.75	3.25
USD	1.75	2.00	2.10	2.15	2.50	2.75	3.25

Natural Person						
Currency	Demand	3 months	6 months	12 months	24 months	36 months
CUC	1.00	3.00	3.50	4.00	4.50	5.50
USD	0.50	1.50	1.75	2.00	2.25	2.75
CUP	0.50	4.00	4.50	6.00	7.00	8.00

Source: BCC

The policy of keeping interest rates applied to deposits in US dollars at a very low level aims to achieve two objectives: the first is to de-dollarise the financial sector's liabilities, since most of the transactions within the economy are not made using this currency any more. The second is to incentivise economic agents to keep their assets in Cuban pesos. As a result, the pressures on the exchange rate are diminished which assists two further monetary policy objectives: exchange rate stability and the gradual appreciation of CUP. However, interest rates are not completely disconnected from international trends, and the Monetary Policy Committee determines any necessary change to them.

PUBLIC FINANCE

The table below summarises the State budget for the periods indicated:

	2006	2007 ⁽¹⁾ <i>(millions of pesos)</i>	2008 ⁽²⁾
Taxation	24,020.8	26,121.6	26,083.2
on merchandising and sales	14,203.7	14,463.7	14,347.4
on profits of enterprises	2,039.8	2,998.8	2,916.1
on use of workforce	3,192.0	3,416.9	3,573.6
on personal incomes	328.3	403.7	383.6
Other income	910.5	1,015.4	1,006.7
Contributions from State enterprises	2,281.9	2,411.5	2,472.0
Total revenues	31,632.6	38,095.2	39,166.8
Current expenditure			
on budget activities	21,524.9	27,420.9	30,199.0
on subsidies to cover losses	5,044.1	6,178.8	5,722.0
on financial operations	1,936.3	1,520.8	2,200.0
Investments	4,821.2	4,872.1	3,000.0
Total expenditure	33,326.5	39,992.6	41,741.0
Deficit	(1,693.9)	(1,897.4)	(2,574.2)

Notes:

- (1) Preliminary outcome
- (2) Budget

Source: Ministry of Finances and Prices

Budgetary revenues principally comprise tax revenues of which the most significant is a tax on merchandising and sales borne by the seller and which is levied at variable rates depending on the product sold. This tax accounted for 44.9 per cent. and 38.0 per cent., respectively, of total revenues in 2006 and 2007. For most industries, labour tax paid by companies by reference to the salaries paid to their employees and a personal income tax levied at variable rates based on earnings.

The most significant contributor to non-tax revenues is contributions from profitable State enterprises.

On the expenditure side, current expenditure on budgetary activities is the most significant item. Within this, current expenditure on education, public health, culture, sports and social assistance comprised 53.7 per cent. of the total in 2007. Other significant areas of expenditure include subsidies paid to strategic but loss-making State enterprises and debt service. Capital expenditure comprised 14.5 per cent. of total expenditure in 2006 and 12.2 per cent. in 2007.

The State budget was in deficit in each of 2006 and 2007 and a further deficit is budgeted for 2008. As a percentage of GDP, the deficits for 2006 and 2007 were 3.2 per cent in each year. At the end of 2007, the National Assembly approved a deficit for 2008 of 2,574 million pesos or around 3.8 per cent. of anticipated GDP. The deficit on the State budget is principally financed through debt issued by BCC to commercial banks, which BCC undertakes to repurchase at any time. The amount of the deficit financed in this way is subject to a ceiling approved by the National Assembly which has generally been around 3.0 per cent. of GDP.

INDEBTEDNESS

As indicated under “*The Cuban Economy*”, in 1986 Banco Nacional de Cuba ceased payments on the country’s official external debt. Since then, Banco Nacional de Cuba has sought to reschedule the outstanding debt with some success in recent years. As at 31 December 2006, the total amount of 1986 debt that had not been rescheduled was CUP7,950.1 million, of which 59.7 per cent. was official debt principally comprising debt owed to Paris club creditors. The balance was debt owed to foreign banks and financial institutions.

The table below shows Cuba’s external debt (other than the defaulted debt) by creditor type and by maturity as at 31 December 2006 and 2007

	2006			2007		
	Total debt	Short term	Medium- Long Term	Total debt	Short term	Medium- Long Term
	<i>(millions of pesos)</i>			<i>(millions of pesos)</i>		
Official debt	3,945.2	733.7	3,211.5	4,539.6	645.2	3,894.4
Bank debt	1,371.2	317.5	1,053.7	1,862.1	756.2	1,105.9
Supplier credits	2,477.3	896.4	1,580.9	2,506.5	580.5	1,926.0
Total performing external debt	7,793.7	1,947.6	5,846.1	8,908.2	1,981.9	6,926.3

Source: BCC

In percentage terms, official debt represented 50.6 per cent. in 2006 and 51.0 per cent. in 2007 of performing external debt, supplier credits represented 31.8 per cent. and 28.1 per cent. and bank debt represented 17.6 per cent. and 20.9 per cent. respectively. Of Cuba’s performing external debt, 25.0 per cent. in 2006 and 22.2 per cent. in 2007 was short term. Cuba’s performing external debt represented 14.6 per cent. of 2006 GDP and 14.4 per cent. of 2007 GDP.

As a result of the fact that it was not possible to agree on a multilateral solution with Cuba’s Paris club creditors, bilateral renegotiations took place during 2007. These bilateral renegotiations focused on the strategy of seeking agreements with those creditors that displayed a willingness to come to an agreement.

The external debt grew 14.3 per cent. during 2007, which mainly consisted of increases in medium-long term external debt. These increases were a result of the negotiation processes described above and the growing credibility of Cuban banks in the capital markets. These two factors have made it possible to convert short-term debt into medium-long term debt and also to obtain new financing on equal terms and conditions and, in most cases, for larger amounts.

The figures in respect of obligations that have not been restructured (immobilized debt) show no significant variation.

During 2008, Cuba has reiterated its desire to find a solution to the problem of external debt on a multilateral and/or on a bilateral basis.

GENERAL INFORMATION

Authorisation

1. The issue of the Bonds was duly authorised by a resolution of the Board of Directors of the Issuer dated 18 June 2008.

Listing

2. The admission to trading of the Bonds on the London Stock Exchange will be expressed as a percentage of their principal amount (excluding accrued interest). It is expected that listing will be granted for the Bonds on the Official List of the UK Listing Authority and admission to trading on the London Stock Exchange's Professional Securities Market on or about 20 November 2008.

No significant change

3. There have been no material adverse changes in the prospects of the Issuer since the 31 December 2007 audited financial statements of the Issuer and since 31 December 2007 there has been no significant change in the financial or trading position of the Issuer. The Issuer's audited financial statements are prepared to 31 December in each year.

Litigation

4. Neither the Issuer nor its subsidiary, Havin Bank Ltd, is or has, during the 12 months immediately preceding the date hereof, been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have in the recent past had a significant effect on the financial position or profitability of the Issuer or its subsidiary.

Accounts

5. The Issuer's financial statements for each of the two years ended 31 December 2006 and 31 December 2007 have been prepared in accordance with International Financial Reporting Standards and have been audited in accordance with International Auditing Standards, without qualification, by Interaudit, registered auditors, of Ave Zoologico, No. 72 esq a 36 Nuevo Vedado, Ciudad de La Habana, Republic of Cuba. The auditors of the Issuer have no material interest in the Issuer.

Documents

6. Copies of the following documents will be available for inspection from the offices of Havin Bank Ltd. in London and Banco de Inversiones S.A. in Havana for the life of this document:
 - (a) Decree law No. 172 of the Republic of Cuba establishing the Issuer and the bylaws of the Issuer (in each case, with an English translation thereof); and
 - (b) the audited financial statements of the Issuer in respect of the financial years ended 31 December 2006 and 31 December 2007 (with an English translation thereof).

Post-issuance Information

7. The Issuer does not intend to provide any post-issuance information in relation to the Bonds.

EU Savings Tax Directive

8. Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

Interests of natural and Legal Persons involved in the Issue

9. So far as the Issuer is aware, no person involved in the issue of the Bonds has an interest material to the issue of the Bonds.

Ratings

10. No request has been made to any rating agency to rate the Bonds. The Issuer is not rated by any rating agency.

Description of the Registrar and the Paying Agent

11. Banco de Inversiones S.A. (**BdI**) was incorporated by public deed No. 344 of 14 February 1996, as amended. BdI is a Cuban bank specialized in investment banking, aimed at intermediating and raising finance for the most important sectors of the Cuban economy. Its annual report and related information can be accessed at www.bdi.cu. BdI participates in the external capital markets by structuring and syndicating facilities for its customers.

Havin Bank Ltd. (formerly Havana International Bank Ltd.) is a UK incorporated bank regulated by the Financial Services Authority. Its shareholders are BCC (which owns 86 per cent.), BdI (9.8 per cent.) and two other Cuban banks.

BdI is also acting as arranger, manager and bookrunner of the issue of the Bonds.

Expenses related to the Admission to Trading

12. The estimated total expenses related to the admission to trading of the Bonds are £18,000.

ISIN

13. The ISIN relating to the Series A Bonds is CU0048396493, the ISIN relating to the Series B Bonds is CU0048396840, and the ISIN relating to the Series C Bonds is CU0048397004.

Yield

14. As the Bonds were issued at par, for investors in the Bonds, the yield is 9.00 per cent. (in the case of the Series A Bonds), 9.25 per cent. (in the case of the Series B Bonds) and 9.50 per cent. (in the case of the Series C Bonds). The yield to maturity may be different.

THE ISSUER

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