



GREETINGS DEAR COLLEAGUES



UKRAINE

Geography

Ukraine is located in eastern Europe and covers 603,700 square kilometers, making it the largest country in Europe. It borders the Russian Federation to the east, Belarus to the north, Poland, Slovakia, Hungary, and Romania to the west, and Turkey and Bulgaria to the south (through the Black Sea and the Sea of Azov). Ukraine has many natural wonders including the Carpathian Mountains with its world renowned ski resorts and the Black Sea resorts in Crimea with its Mediterranean climate and wonderful historical sites. The Dnipro River flows through many of Ukraine major cities and is an important link for Ukrainian business, The mouth of the Danube River provides an outlet for Ukrainian trade with the Balkans, Austria, and Germany.





Climate

The climate in Ukraine is largely temperate continental, similar to the wheat-producing regions of Canada. The Mediterranean climate prevails on the southern Crimean coast. Precipitation is abundant, especially in autumn and winter. Winters are long and cold and the average temperature is -6° Celsius (C) or 21° Fahrenheit (F). Summers tend to be warm and can reach 30° C (90° F) or more. The average temperature in summer is 19° C (67° F).

Population

Ukrainians account for 73% of the total population of Ukraine and dominate in most regions of the country, with the exception of the autonomous Republic of Crimea which has a large Tartar population. The remaining minorities are made up of Russian, Belarusian, Moldovan, Polish, Armenian, Greek, Bulgarian, and others. Ukraine ranks fifth in Europe in terms of population (after Germany, Italy, Great Britain, and France) and twenty-first in the world. The Ukrainian population is 68% urban.



INDEPENDENCE AND GOVERNMENT

On the 24th August 1991 the Supreme Council of Ukraine (Verkhovna Rada) declared independence from the former Soviet Union.

On the 1st December 1991 the Ukrainian people voted overwhelmingly for Ukraine's independence and elected the first President of Ukraine.

Along with many new democracies in Eastern Europe, Ukraine adopted a semi presidential system, based on the Belgian model, with separate powers vested in the legislature, executive and judiciary.

President: *Viktor Yushchenko*

Prime minister: *Yulia Tymoshenko*



KEY GENERAL INDICATORS

- ❑ **Population:** 46 372 million (as of 1 January 2008)
- ❑ **Capital:** Kiev
- ❑ **Area:** 603,700 sq km (233,090 sq miles)
- ❑ **Major languages:** Ukrainian (official), Russian
- ❑ **Major religion:** Christianity
- ❑ **Monetary unit:** 1 hryvnya = 100 kopykas
- ❑ **Main exports:** metals, pipes, machinery, petroleum products, textiles, agricultural products
- ❑ **GDP per capita:** 3,003 USD
- ❑ **Internet domain:** .ua
- ❑ **International dialling code:** +380



KEY MACROECONOMIC INDICATORS

❑ Nominal GDP, <i>USD billion</i>	140
❑ Real GDP, <i>% growth</i>	7,3
❑ Consumption, <i>% change</i>	11,6
❑ Investment, <i>% change</i>	18,1
❑ Export, <i>% change</i>	3,3
❑ Import, <i>% change</i>	15,2
❑ GDP deflator, <i>% change</i>	21,4
❑ CPI, <i>% change eop</i>	16,6
❑ Current Account Balance, <i>% GDP</i>	-3,2
❑ Terms of Trade, <i>% change</i>	8,1
❑ Fiscal balance, <i>% GDP</i>	-1,3
❑ External debt, <i>% GDP</i>	50,0
❑ Public and Guaranteed Debt, <i>% GDP</i>	12,7
❑ Commercial banks' prime rate, <i>av.;</i> %	14,0
❑ Exchange rate UAH:USD,	5,05
❑ Exchange rate UAH:EUR, <i>av. 2007</i>	6,92



SIGNIFICANT EVENTS

- February 2008 - Ukraine was formally invited to join the World trade organization. As expected Ukraine will ratify the WTO Entry Protocol before the 1st of August 2008.
- April 2008 – Ukraine will formally begin talks about a possible inclusion in a military alliance NATO.
- July 2012 – Ukraine will host the EURO – 2012 Football Championship



RATING

Currently the Fitch Rating Agency keeps Ukraine at its BB–rating with a positive outlook. Standard & Poor’s left Ukraine’s BB– rating with a negative outlook. Moody’s Investors Service currently rates Ukraine at B1/Positive.



ECONOMY

Ukraine has a well-developed industrial base. The national economy is built on such industries as:

- heavy machine building
- ferrous and non-ferrous metallurgy
- shipbuilding
- automotive industry (buses, cars, and trucks) and manufacturing of tractors and other agriculture machinery
- diesel locomotive manufacturing
- manufacturing of machine-tools
- turbines, and aircraft engines
- production of power plants
- oil extraction
- chemical equipment
- energy production



FINANCIAL SYSTEM

Banking System of Ukraine

The local banking system is a two-tier structure that consists of the National Bank of Ukraine (NBU) and commercial banks of various types and forms of ownership.

In 2007, there was a continual trend towards an increase in principle banking indicators:

- Balance capital UAH 69.6 billion (63,5%)
- Statutory capital UAH 26.2 billion (63,2%)
- Assets UAH 599.4 billion (76,2%)
- Liabilities UAH 529.8 billion (78,0%)
 - due to individuals 166.0 billion (54,9%)
 - due to corporates 152.4 billion (59,1%)
 - due to banks 169.0 billion (120%)



FINANCIAL SYSTEM

The PFTS System

The First Securities Trade System (PFTS) has been in operation since 1996. It is an electronic stock exchange that regulates the securities traded on the Ukrainian stock market.

The PFTS Index, like the Dow Jones industrial index in the USA, is a reflection of Ukraine's top listed companies. The index reached 1174,02 points in 2007, an increase of 135,7% from 2006 which made it the world's 2nd best performing stock market in 2007 after China.



FOREIGN DIRECT INVESTMENTS (FDI)

According to the State Statistics Committee of Ukraine, total FDI received by the country since Ukrainian independence is USD 26.856 billion (as of October, 1 2007)

Ukraine's largest investors:

- Germany, providing USD 5.795 billion (22,0% of the total amount) to the national economy. Germany became the leading investor after the Ukrainian metallurgical plant Kryvorizhstal was sold to the German based Mittal Steel GmbH for nearly USD 4.8 billion.
- Cyprus, holds the second position with an FDI stock of USD 4.957 billion (18,5%). The capital coming to Ukraine from Cyprus is usually of Ukrainian origin and implicitly owned by Ukrainian residents.
- The Netherlands is third with some USD 2.173 billion (8,1%).
- Austria is fourth with some USD 2.011 billion (7,5%) after Raiffeisen International Bank Holding AG bought Ukraine's second largest bank Aval.



INVESTMENT REGIME

- Under Ukrainian investment legislation, foreign investors are eligible for the national regime of investment and business activity (with certain exceptions related to profit repatriation and types and territories of investment activities). In most instances, the law provides for the equal treatment of foreign and Ukrainian-owned entities (e.g., taxation, licensing of business activities, foreign trade activities, competition).
- However, there are some restrictions in respect of particular types of activity (e.g., publishing activity, information agencies, weapons manufacturing, land ownership, and insurance businesses). Ukrainian laws may also establish limitations with respect to the territories where the activities of foreign investors are prohibited due to state security reasons.
- Cash investments are to be made in hard currency either by direct transfer of the investment amount to the recipient's current account or by opening an investment account with a local bank with further transfer of the investment amount nominated in hard currency.



LEGAL SYSTEM

The legal system of Ukraine follows a civil law model and envisages several major tiers of acts and regulations.

The Constitution of Ukraine (adopted by the Ukrainian Parliament, the Verkhovna Rada, on June 28, 1996, and further amended by Law of Ukraine of December 8, 2004) is the law of the land in Ukraine, establishing the framework for its legislative system. Laws adopted by the Verkhovna Rada are subordinated to the Constitution and regulate the main areas of relations arising in the state.

On its way to a market economy, Ukraine has already adopted several new codes:

- Criminal Code
- Land Code
- Civil Code
- Commercial Code



LEGAL FORMS OF INVESTMENT ACTIVITY

Ukrainian legislation envisages various legal forms of investment activity which could be divided into three principal categories:

- Contractual investments. In the Ukraine they may be made by entering into joint investment agreements as envisaged by Ukrainian investment regulations;
- Corporate investments. They are effected by establishing and/or participating in either corporate or unitary business entities;
- Combined investments are deemed to unify the corporate and contractual investment forms by means of contractual establishment of a business unit without the status of a legal entity (industrial financial groups, private equity plan).



COMPANY STRUCTURE

The forms of business most frequently used by foreign investors:

- Joint stock companies (the minimum required statutory capital is currently 130 000 USD);
- Limited liability company (the minimum statutory capital is currently 10 400 USD);
- Representative office (it is not a legal entity)

The legal issues facing a foreign business entering the Ukrainian market can be complicated, but very rewarding due to the large variety of opportunities in the country.



DOMESTIC LAW VS. INTERNATIONAL LAW

Under the general rules set out in the law *On International Treaties* of Ukraine dated 29 June 2004, international treaties duly ratified by the Verkhovna Rada supersede domestic legislation. Ukraine has entered into investment-protection treaties designed to protect foreign investors against specific restrictions and to indemnify losses resulting from expropriation or similar actions. Such treaties have been concluded with:

- ✓ Albania
- ✓ Argentina
- ✓ Armenia
- ✓ Austria
- ✓ Azerbaijan
- ✓ Belarus
- ✓ the Belgian
Luxembourg Economic
Union
- ✓ Bulgaria
- ✓ Bosnia and
Herzegovina
- ✓ Canada
- ✓ Chile
- ✓ China
- ✓ Croatia
- ✓ Cuba
- ✓ the Czech
Republic
- ✓ Denmark
- ✓ Egypt
- ✓ Estonia
- ✓ Finland
- ✓ France
- ✓ Gambia
- ✓ Georgia
- ✓ Germany
- ✓ Greece
- ✓ Hungary
- ✓ India
- ✓ Indonesia
- ✓ Iran
- ✓ Israel
- ✓ Italy
- ✓ Kazakhstan
- ✓ Korea
- ✓ Kuwait
- ✓ Latvia
- ✓ Lebanon
- ✓ Libya
- ✓ Lithuania
- ✓ Macedonia
- ✓ Moldova
- ✓ Mongolia
- ✓ Morocco
- ✓ the Netherlands
- ✓ Oman
- ✓ Panama
- ✓ Poland
- ✓ Portugal
- ✓ Russia
- ✓ Slovakia
- ✓ Spain
- ✓ Sweden,
- ✓ Switzerland
- ✓ Syria
- ✓ Tajikistan
- ✓ the United Arab
Emirates
- ✓ The United Kingdom
- ✓ the United States
- ✓ Turkey
- ✓ Turkmenistan
- ✓ Uzbekistan
- ✓ Vietnam
- ✓ Yemen
- ✓ Yugoslavia



CORPORATE TAXATION

- Corporate profit tax rate 25%
- Capital gains tax rate 25%
- Withholding tax *

 - Dividends 15%
 - Interest on certain types of state securities 0%
 - Other interest 15%
 - Gain on sale of interest-free bonds or state treasury bills 25%
 - Freight 6%

* Withholding tax rates may be reduced or eliminated by applicable double-tax treaties.



VALUE ADDED TAX (VAT)

Standard rate - 20%.

Transactions that are subject to VAT:

- Supply of goods and services on the the customs territory of Ukraine, including transfer of fixed assets under financial lease agreements
- The Importing of goods (ancillary services) into Ukraine (including importation of property under lease agreements and importation and transfer of fixed assets to the charter fund of a legal entity)
- Export of goods (ancillary services)
- Barter transactions and cashless settlements

Transactions that are not subject to VAT:

- The majority of banking transactions, issue and alienation of corporate rights (provided that settlements for corporate rights are made in cash),
- interest or commission included in financial lease payments within the limits of the NBU's double discount rate for the value of leased assets, etc.).



INDIVIDUAL TAXATION

- New rates and changes to the law *On Personal Income Tax* came into force on the 1st of January 2007. Effective from the 1st January 2007, a flat tax rate of 15% has replaced the old 13% rate.
- There are currently four tax rates of 1%, 5%, 15%, and 30%, applicable to different types of income in Ukraine.
- Real estate sales attracts a flat tax rate of 0%, 1%, or 5% depending on the property size or type of property.
- Bank interest earned from bank deposits at the average rate of 15% in Ukraine is currently tax free with a tax rate of 5% starting in January 2010.
- A flat personal tax rate of 30% is applicable to non-residents.



RSM APIK

- The Ukrainian business and regulatory environment continues to evolve on multiple fronts. You should expect opinions on Ukrainian matters to vary widely. Companies doing business in Ukraine, or planning to do so, are strongly advised to obtain current and detailed information from experienced professionals.

- We provide audit and assurance services, bookkeeping, accounting and tax consulting, due diligence, internal audit and other accompanying services.

- 1. RSM APiK has 53 staff with 4 partners and 37 professionals (10 – Certified specialists), including experienced professional auditors, taxation specialists, accounting experts, programmers in methodology, financial analysts and others.



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