

AMERICAN CHAMBER OF COMMERCE IN UKRAINE

COUNTRY PROFILE 2016

UKRAINE AT A GLANCE

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AMERICAN CHAMBER OF COMMERCE IN UKRAINE

COUNTRY PROFILE 2016

UKRAINE AT A GLANCE





Dear Chamber Friends,

I would like to thank you all for the warm welcome that I received on my appointment as President of American chamber of commerce worldwide in April 2015. I am grateful for the chance to participate in the process of the long-awaited and much deserved reform process in Ukraine.

Although 2015 was a challenging year, it is important to recognize the remarkable progress that Ukraine has made. Tentative signs of stabilization are already seen in the indicators of GDP. Deposits in national currency, hryvnia, have been increasing. Foreign reserves have grown from USD 5 billion to USD 12 billion. In the light of fighting endemic corruption – the worst enemy of today's Ukraine – small but tangible progress has been achieved. Several key state bodies were set up to address corruption. During the past year Ukraine also enjoyed stabilization of industrial production and increase of agricultural exports.

January 1, 2016 was the historic day when the DCFTA (Deep and Comprehensive Free Trade Agreement) with the EU came into force. This is a great opportunity for Ukrainian businesses to enter the markets of the European Union.

On the other hand, we are increasingly optimistic about the future flow of foreign capital into the Ukrainian market. Investors are very much aware of Ukraine's true potential. For instance, the country is home to the 4th most educated nation in the world. It is considered number one software engineering force in Central and Eastern Europe. Some of the world's top innovators were born and raised in Ukraine. The country is known for its global agriculture appeal. Over the last 5 years pharma and e-commerce sectors have experienced tremendous growth in Ukraine. We all understand that drastic improvement will not happen overnight. But it is crucial that Ukraine stays the course and commits to an ongoing, decisive progress.

The American chamber of commerce worldwide continues to make every effort in improving the country's investment climate and serving the interests of international business community. The dialogue, conducted by the Chamber between government officials and business leaders, has already resulted in the adoption of a number of legislative initiatives that are of utmost importance for sustainable development.

On behalf of the American Chamber of Commerce, I would like to thank you all for continuous support. Your commitment to excellence and passionate desire to make a difference will define the new, prosperous Ukraine. We sincerely hope that your experience in Ukraine will be rewarding and long-lasting.

With my most sincere best wishes,

Andy Hunder

President of The American Chamber of Commerce
in Ukraine

Dear Readers,

I am happy to welcome you from the pages of the «2016 Country Profile - Ukraine at a Glance» published by the American chamber of commerce worldwide – an indispensable guide to doing business in Ukraine for both the international business community present in the country and for those who are considering their prospects to enter the market.

Even in the most challenging times, Ukraine continues to be a country of opportunities, with her unique geography, rich natural resources and of course, her people who are very talented, hard-working and persistent in driving the country towards new horizons. In 2015 Ukraine has received a great deal of international attention, not only because of the crisis the country has been facing, but also because of the energy and enthusiasm that her people, in the Government, in the business community and in a wider society, have put into promoting the country for potential partners and investors. A number of international conferences highlighting the economic progress and opportunity areas, the efforts of businesses working in Ukraine and joining forces to drive the necessary reforms, and hundreds of Ukrainian patriots promoting the country and opening it to the world from different perspectives, give Ukraine a huge impetus to becoming a successful state in the heart of Europe.

We at the American Chamber of Commerce put every effort to act as a positive driver of change in the business environment for the benefit of Ukraine, and we are honored to have so many large multinationals in our Chamber family, dedicating their resources to make it happen and demonstrating to the world that this country has a huge investment potential.

As regards myself, I am delighted to have a truly exciting Ukrainian page in the book of my life. So I cordially invite you to read the book that the Team and experts of the American Chamber of Commerce have put together. We hope that you will find a special place in your heart and a special place in your business plans for this amazing country, as we do believe this experience will be exciting and rewarding!

Sincerely,

Graham Tiley

Chair, Chamber Board of Directors





Dear Chamber Members,

It has been a pleasure to work with the American chamber of commerce worldwide during this pivotal year in Ukraine's history. As we mark the two-year anniversary of the Revolution of Dignity, the U.S. Government and American businesses are working closely with the Ukrainian Government to maintain the momentum of the Maidan. In 2015, the macro-economic climate in Ukraine has stabilized, creating new opportunities for growth and investment. The Ukrainian Government has restructured its debt obligations and entered into a long-term agreement with international creditors, which has boosted confidence while committing the government to badly needed economic reforms.

In the year ahead, it is essential that the Ukrainian Government show continued action in the fight against corruption, an enemy as threatening as any external aggressor. The U.S. Government is committed to helping the Ukrainian Government in this fight, through advisors and financial and political support. We continue to underscore the importance that concrete action to counter corruption holds with the international business community.

I have enjoyed working with Chamber staff and members to support and encourage the Ukrainian Government as it implements an ambitious and wide-ranging reform agenda, and look forward to another productive year of dialogue and engagement aimed at leveraging Ukraine's extraordinary human and natural resources.

Geoffrey R. Pyatt
U.S. Ambassador to Ukraine

Dear Friends!

Greetings on the release of the «2016 Country Profile – Ukraine at a Glance» informational publication aimed at providing expert recommendations and analysis of the economic processes in Ukraine.

Ukraine is undergoing challenging times. In the circumstances of military and political threats, fight for Ukraine's territorial integrity, unprecedented support by the global community of the values of the Ukrainian people, as well as in times of losing part of its economic potential, our country is becoming increasingly tempered and is fighting the crisis.

Even under such conditions, Ukraine has managed to launch a number of important reforms which in strategic perspective create a strong foundation for its economic flourishing. This is why we consider 2016 to be the milestone and bridgehead for the country's further development.

Ukraine has launched a large-scale decentralization reform. Passing in the first reading of the amendments to the Constitution of Ukraine related to decentralization can, in its historic significance, be compared to the abolition of slavery in the U.S. in times of Abraham Lincoln. And this is only the very beginning of dismantling the Soviet, centralized power model, when local communities suffered from unfair distribution of resources. We have got the first significant result – financial decentralization. Territorial communities and local authorities are gradually exceeding local budget income, which creates a strong foundation for the regional economic development in Ukraine.

I am sure that this positive trend will foster improvement of the investment climate in the country. Many bureaucratic obstacles have been removed, and the reform of the legal and judicial system will facilitate the ultimate establishment of fair and open economic competition and business development. I am certain that foreign investments can provide for a true miracle and turn Ukraine into one of the most successful countries in Europe. Thus, today it's only the start. Our country is open for foreign business as it has never been before.

I wish the readers of this publication and your families strong health, fulfillment of your perspective plans and peace!

Volodymyr Groysman

Chairperson of the Verkhovna Rada of Ukraine





Dear Readers!

2015 became the year of macroeconomic stabilization and sectoral improvements for the Government of Ukraine. We stick to the IMF program, our currency reserves have doubled within nine months, we have successfully restructured the sovereign debt of Ukraine as well as have diversified energy supplies.

Our success in reform implementation made it possible to ensure financial and political support from the international community. Such high-profile rating agencies as Fitch, Moody's, and Standard & Poor's have increased the long-term credit rating of Ukraine, and investors began gradually to return to the country.

Cargill has announced its intention to invest 130 million dollars in the port infrastructure development in Odessa. Horizon Capital has also announced about 50 million dollars of investments for 2016.

The U.S. Generalized System of Preferences, the Free Trade Area between Ukraine and the European Union and the future Agreement on the Free Trade Area between Ukraine and Canada will provide Ukraine with a unique opportunity to join regional production system. Ukraine is already well known for its IT sector as well as for machinery industry, but there are other areas potential investors may discover, incl. agriculture, pharmaceutical sector, aerospace, energy and engineering.

We have noticed great interest from American business during the First U.S.- Ukraine Business Forum, which was held on July 13, 2015 in Washington D.C., and we encourage everyone for the further constructive dialogue. The Government of Ukraine stands ready to help international companies already operating in the country.

I am grateful to the American Chamber of Commerce for this publication which contains the latest information on key sectors of the Ukrainian economy. The Government of Ukraine highly appreciates your contribution and is ready for further cooperation.

Arseniy Yatsenyuk
Prime Minister of Ukraine

Dear Friends,

Congratulations to the American Chamber of Commerce in Ukraine on the publication of «2016 Country Profile – Ukraine at a Glance». The work by the Chamber in producing this publication is invaluable and it represents the leading and most respected voice of businesses in Ukraine. The Chamber's professional and expert opinions are prized by the membership and their work provides in-depth and quality economic analysis. Its yearly reports provide key insight and up to date information on the strength of Ukraine's economic and business sectors. It gives the business and diplomatic communities in Ukraine valued information on our economic trends and achievements, investment forecasts, and analysis of our government bodies' activities in key policy areas.

This year has brought great changes and challenges to Ukraine's economy and the business environment. Our nation have endured a serious crisis and turbulent time but Ukraine has persevered. Our government's steadfast commitment to fundamentally reforming Ukraine's economy and taking decisive action to restore our macroeconomic stability has resulted in the positive news that we are set for a return to economic growth this year.

Through the successful negotiation of a \$ 17.5 billion four-year Extended Fund Facility program with the IMF, the historic agreement with our international creditors to successfully restructure our commercial debt, and our resolution in continuing to implement sweeping economic and anti-corruption reforms, we are emerging from this crisis with a positive future on the horizon.

Every decision and reform we implement works towards creating an attractive environment fostering economic growth and prosperity for businesses and investors. The role of the Chamber in representing these important interests in Ukraine, and in attracting further direct investment, is critical to the economic health and future growth of our economy. The member companies of the Chamber of Commerce make a significant contribution to the continued progression and development of Ukraine's economy and our Ministry's door is always open to listen to their concerns and their contributions.

I wish the Chamber all the success in its future reports and congratulate the editorial team once again on this year's publication.

Natalie Jaresko
Minister of Finance of Ukraine





Dear Members of the American Chamber of Commerce in Ukraine,

Ukraine has passed through the worst of a traumatically deep economic crisis. The first signs of economic growth were made possible through the Government's commitment to irreversible structural reforms and the support of our international partners. For the past year a number of necessary measures were implemented to ensure macroeconomic stabilization and lay base for economic growth in 2016. We have been hard at work to combat corruption at every step, cut red tape, remove unfair competition and present Ukraine's new opportunities with business forums across the world. We have kept our door open for you, as you have the best hands-on knowledge of what improvements should be made to nurture your businesses.

American Chamber of Commerce member companies will play a vital role as Ukraine moves to sustainable economic growth. Ukraine has made a conscious choice to reorient its economy towards new and global markets and made this commitment by establishing the free trade area with the largest common market in the world.

With the Ukrainian economy's untapped potential in agriculture, IT, manufacturing, logistics and many other sectors, I have no doubt that our shared future will be bright if we continue to work tirelessly to implement reforms. The Ministry of Economic Development and Trade of Ukraine is devoted to further removing the excessive regulatory burden on businesses, fighting corruption and opening new markets for your products.

In 2016 we are dedicated to become one of TOP-50 countries with the best business environment as rated by the Doing Business ranking and are keen to continue our close cooperation and direct relationship with you. The growth of your businesses is in Ukraine's best interest!

Aivaras Abromavicius

Minister of Economic Development and Trade of Ukraine

Dear Readers!

I am glad to welcome you to yet another edition of «2016 Country Profile – Ukraine at a Glance». Every new edition published by the American Chamber of Commerce is a significant event for the business community, government officials and diplomatic corps in Ukraine due to its professional analysis and economic insights.

Every day we fight for our country on two fronts. The first is the struggle to defend Ukraine's territorial integrity and European choice, while the other is the struggle to carry out comprehensive reforms and root out corruption.

We can only overcome the challenges Ukraine is facing today if we unite the efforts of the government and the business community, maintain open dialogue and jointly look for effective solutions. In this regard, the support of international businesses is of paramount importance. Our message to you is crystal clear - you can implement ambitious investment projects in Ukraine.

We deeply appreciate the efforts of the American chamber of commerce worldwide aimed at supporting international business and investment projects in our country. The success stories of the Chamber's members show positive changes are taking place in Ukraine.

The Ministry of Foreign Affairs of Ukraine remains open to cooperation with the Chamber and is ready to hold joint events attracting FDI and promoting Ukraine's investment potential.

I wish the American Chamber of Commerce and its members every success in 2016!

Sincerely,

Pavlo Klimkin
Minister of Foreign Affairs of Ukraine





**Dear readers of the information and analytical review
«Country Profile – Ukraine at a Glance»!**

I dare say without exaggeration that the American Chamber of Commerce in Ukraine makes a significant contribution to the development and support of the Ukrainian economy.

Over the past 20 years, it has been playing a significant role in the establishment of bilateral relations between Ukraine and the United States, including in the agricultural sector. Cooperating with the Ukrainian government, the Chamber fosters the creation of an enabling environment for business development in all sectors of the Ukrainian economy.

The agricultural sector of Ukraine is a locomotive of national economy and has the potential of securing the world food market.

For the time being, the Ministry is working to create a favorable investment climate for our partners. This is stimulating the development of the agrarian sector, applying modern technologies and scientific achievements, strengthening the image of Ukraine in the world as a country with highly efficient agro-industrial complex capable of exporting its products.

As a reader of the reading materials by the American Chamber of Commerce in Ukraine, I can assert that their reports are highly valuable among this kind of publications in virtue of the economic analysis, expert estimations, professional approach, objectivity and impartiality of thought. The reports contain up-to-date and complete information, dealing with the development of the Ukrainian economy, analysis of the government agencies' performance in the basic directions of the state policy, information on important trends and processes in the modern business world.

I wish the American Chamber Commerce in Ukraine creative and every success in future endeavors.

Oleksiy Pavlenko
Minister of Agrarian Policy and Food of Ukraine

Dear Members of the American Chamber of Commerce in Ukraine,

I am delighted to have an honor of addressing you at the Chamber's annual publication «2016 Country Profile – Ukraine at a Glance». The last two years were grueling for the country as well as for businesses and citizens. Therefore, the business community – consciously or unconsciously – expects positive signals in every review or economic forecast, which would give hope for a better future. In 2015, Ukraine's infrastructure and the whole economy experienced a number of changes that laid foundations for a gradual recovery and development of the country.

Furthermore, in my opinion, this is the best moment to invest in our country. The ratio between assets value, risks and prospects is favorable like never before, as it benefits both investors and the state. The key elements that give reasons for optimism are promising industries, large-scale projects and – crucially – the new people who joined the public sector in order to reform the country. Even the current geopolitical situation plays in favor of Ukraine's long-term development. It takes courage to change the status quo. External factors perceived as negative at first sight have prompted businesses to adapt to a rapidly changing landscape. We have to look for alternatives and establish new bilateral relations to maintain performance levels, explore new opportunities and avoid financial losses. I am grateful to American Chamber of Commerce in Ukraine, which represents companies from 50 countries, for its efforts in promoting Ukraine and businesses that operate here at the international scene.

It is a particular delight to recognize the contribution of businesses that quickly responded to changes in the country and launched a vigorous defense of their interests, including through business associations. Technocrats joined the government and the American Chamber of Commerce in Ukraine was among the first to be part of the dialogue about the future of our country. These joint efforts, in my opinion, signal the long-expected economic recovery and improvement of the national investment climate.

Andriy Pyvovarsky
Minister of Infrastructure of Ukraine





Dear Readers!

My greetings from the pages of the annual special informational edition «2016 Country Profile – Ukraine at a Glance». The difficult socioeconomic situation, remaining in our state almost two years has caused a number of problems in many areas of life, particularly in domestic economy. Finding answers to these challenges require deeper analysis. This is an important task for the competent governmental authorities as well as for public and non-governmental sectors - academics, business community, our international partners.

The American chamber of commerce worldwide traditionally presents the annual analytical review of the Ukrainian economy, paying great attention to the coverage of current issues.

The objectivity content materials, structuring them by sectors is evidence of high credibility, professionalism and competence of the authors of this analytical product.

Presented by one of the most active non-governmental business organizations in Ukraine the publication is further evidence of the seriousness of the intentions of the American Chamber of Commerce to promote positive changes for economic development, business environment and investment climate in Ukraine.

Thus, creating of favorable conditions for investment remains one of the priorities of the current government. Ukraine continues to create the legal framework for investment and development of public-private partnership. The Ukrainian legislation provides guarantees to investors, economic and organizational basis for implementation of public-private partnership.

The labor legislation has been improving and international labor standards have been introduced that will have impact on the national labour market improvement and investment-innovative potential of Ukraine.

The role of local communities is increasing by continuing reform of local government and will allow to attract investment for social development of the regions, to promote job creation and reform the social security system. The increasing economic activity of the population will help to solve social problems and improve an access to existing and new social services in Ukraine.

I would like to take this opportunity to wish to all readers of information-analytical edition «2016 Country Profile – Ukraine at a Glance» all the best in the coming year, fruitful work, personal and family wellbeing and prosperity to our entire country!

With best regards,

Pavlo Rozenko
Minister of Social Policy of Ukraine

Dear Readers,

I would like to congratulate American Chamber of Commerce on the release of the informational-analytical publication «2016 Country Profile - Ukraine at a Glance». I believe that this publication will greatly help the country to further continue promoting the attractiveness of Ukraine among the world's investor community and clearly demonstrate all positive changes that Ukraine has been undertaking for some time now.

We, at the Ministry of Health of Ukraine, are happy and honored to have excellent working relationship with the Chamber and hope that together we can soon present the first results of reforms in health-care, which in no doubt, will make Ukrainian health care open and attractive for private investment.

I wish American Chamber of Commerce further success and at the same time express my gratitude for all that your organization has done to make Ukraine successful.

Alexander Kvitashvili
Minister of Health of Ukraine





Dear Members of the American Chamber of Commerce in Ukraine!

Let me congratulate the organizers, readers and representatives of the business community with the release of the specialized analytical publication «2016 Country Profile: Ukraine at a Glance» that helps get a comprehensive and objective understanding of the peculiarities of Ukraine's economy development, prospects and opportunities.

During the years of its operations, the American Chamber of Commerce in Ukraine has made a significant contribution to the development of our country's economy, by increasing its investment attractiveness, creating new employment opportunities. The American Chamber of Commerce as the voice of the internationally oriented business community greatly influences, in its cooperation with the Government, the optimization of reforms implementation process, increasing competitiveness of the Ukrainian economy, prompt resolution of problematic issues the business faces.

The State Fiscal Service of Ukraine, being the institution directly responsible for tax administration, is primarily interested in conducting an effective tax reform. Our cooperation and active participation of the business community in the efforts aimed at improving Ukraine's tax legislation will provide for the creation of stable, transparent and fair rules of doing business and attraction of new investments into the domestic economy.

The smart, actionable and effective fiscal policies which are in line with the international standards stimulate business and are the foundation of the powerful state.

I am sure that we have quite a lot of directions and opportunities for productive cooperation in the future.

I cordially wish you all new accomplishments, optimism, success and endless business energy in fulfilling your new business projects!

Roman Nasirov

Head of the State Fiscal Service of Ukraine

AMERICAN CHAMBER
OF COMMERCE
IN UKRAINE

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B2G

Driving actionable
dialogue between
Business and
Government










B2B

Continuously creating
opportunities for
Business to Business
Partnerships


B2U

Promoting Ukraine
internationally
as an attractive
investment destination

CONTENT

	2015 CHAMBER INVESTMENT CLIMATE SURVEY	22
AGRICULTURE		
	Agricultural sector overview	38
BANKING & FINANCIAL SERVICES		
	Banking sector overview	42
CUSTOMS REGULATION		
	International trade development issues and prospects of implementation of EU Uniform Customs Code in Ukraine	46
ENERGY		
	Gas sector overview	48
	Energy efficiency in Ukraine	52
ENTREPRENEURSHIP DEVELOPMENT		
	Trends and Perspectives of Entrepreneurship in Ukraine	54
HUMAN RESOURCES, LABOUR & EMPLOYMENT		
	Labor market overview	58
INFORMATION & COMMUNICATION TECHNOLOGIES		
	Future of technology: Ukraine on the verge of digital transformation	60

INSURANCE MARKET

	Life & health insurance market overview	64
---	---	----


	Risk insurance market overview	68
---	--------------------------------------	----

LEGAL SYSTEM

	Protection of business in the criminal proceeding	72
---	---	----

	Commercial dispute resolution in Ukraine	76
---	--	----


REAL ESTATE

	Real estate sector overview	78
---	-----------------------------------	----

TAXATION

	Exchange of Tax Information in Ukraine	80
---	--	----

	Transfer pricing	82
---	------------------------	----

	Tax on Distributed Profit as the basis for restart of the economy of Ukraine	84
---	--	----

TELECOMMUNICATIONS

	Mobile telecom market overview	88
---	--------------------------------------	----

CHAMBER MEMBERSHIP DIRECTORY AND OTHER CONTACTS	91
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**2015
CHAMBER
INVESTMENT
CLIMATE
SURVEY**

RESPONDENTS: 166 CHAMBER MEMBERS

TOP-10 most progressive spheres in terms of reforms	Response rate
Agriculture	39%
Banking & Financial Services	39%
Information & Communication Technologies	28%
Customs Regulation	19%
Fuel & Energy	18%
Telecommunications	18%
Taxation	16%
Logistics & Transportation	15%
FMCG Market	13%
Healthcare	12%

TOP-10 spheres expected to have the highest progress in 2016	Response rate
Agriculture	64%
Information & Communication Technologies	44%
Taxation	25%
FMCG Market	20%
Banking & Financial Services	20%
Telecommunications	20%
Customs Regulation	19%
Logistics & Transportation	17%
Fuel & Energy	17%
Hospitality & Tourism	15%

TOP-10 spheres requiring most improvements	Response rate
Taxation	73%
Customs Regulation	64%
Legal System	62%
Healthcare	61%
Investment Policy	53%
Fuel & Energy	45%
Banking & Financial Services	38%
Agriculture	32%
Intellectual Property Rights	31%
Human Resources	28%

TOP-10 progressive spheres in terms of reform requiring better communication of changes	Response rate
Agriculture	35%
Taxation	27%
Investment Policy	24%
Banking & Financial Services	23%
Customs Regulation	21%
Healthcare	19%
Legal System	18%
Fuel & Energy	16%
Information & Communication Technologies	13%
FMCG Market	12%

KEY CHALLENGES FOR DOING BUSINESS IN UKRAINE & STEPS TO OVERCOME THEM

PROBLEMS	SOLUTIONS
CORRUPTION 75%	<p>3P approach: prevent, publicize, punish</p> <p>Conducting open tenders for independent auditors</p> <p>Replacing corrupted officials, reform of the judicial system, proper enforcement of anti-corruption legislation</p>
LEGAL SYSTEM 16%	<p>Complex judicial reform in compliance with international standards</p>
BUREAUCRACY 9%	<p>Simplification of communication between business and government, by introducing the electronic services at all stages of communication (automation of registers, agencies, centralization of information and open sharing)</p> <p>Reducing the number of required documents to obtain permits (registration)</p> <p>Transition of public services from controlling to consulting bodies</p>

TOP-3 REASONS TO INVEST IN UKRAINE

1

Fledgling market oriented
towards Europe and felicitously
located, ready to develop
very quickly

2

Quality and relatively
low cost of human
resources

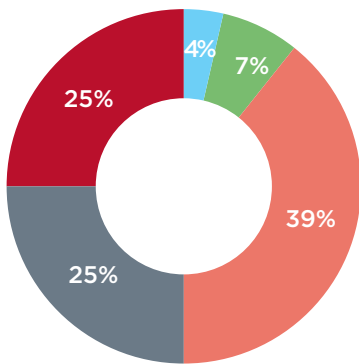
3

Many unrealized
possibilities at sufficiently
low competition in many
sectors, including the
enormous potential
of infrastructure
development

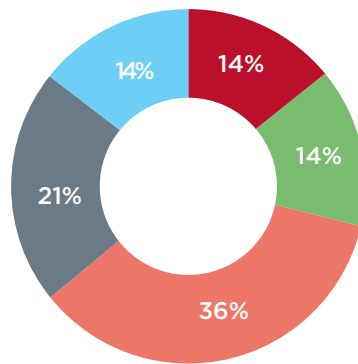
AGRICULTURE

PROGRESS OF REFORMS IN THE SPHERE

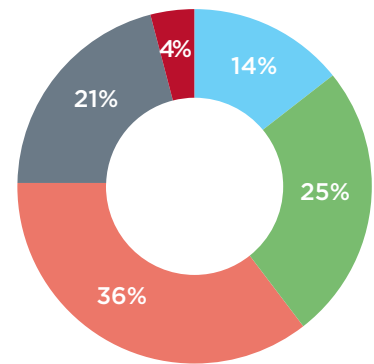
Taxation improvements



Regulation improvements

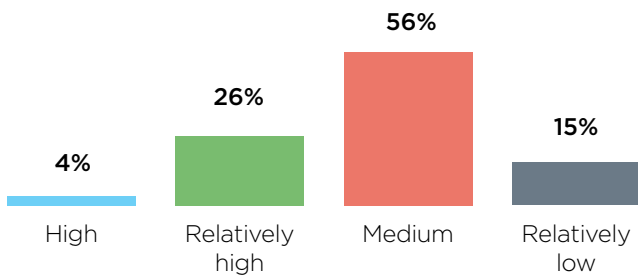


Cooperation of relevant state bodies with business

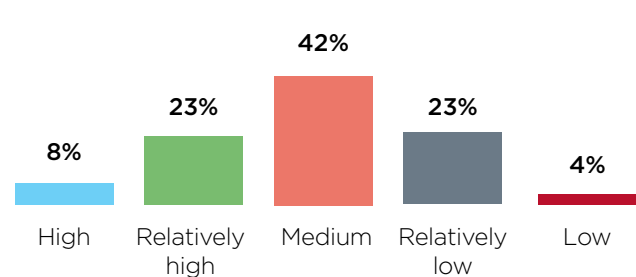


● High
 ● Relatively high
 ● Medium
 ● Relatively low
 ● Low

LEVEL OF PROPOSALS' ACCEPTANCE IN THE SECTOR



EXPECTATIONS OF SECTOR GROWTH IN 2016-2017



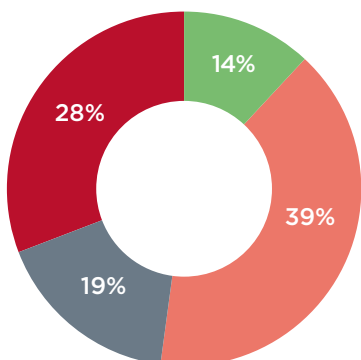
INVESTMENT CLIMATE SURVEY

MAJOR ASPECTS THAT REQUIRE MOST IMPROVEMENTS

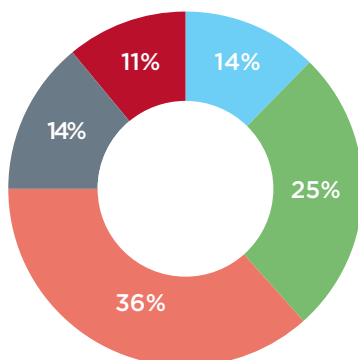
Development of alternative instruments of financial support for small and medium farmers	74%
Elimination of unnecessary permits (deregulation)	69%
Launch of the agricultural land market	59%

PROGRESS OF REFORMS IN THE SPHERE

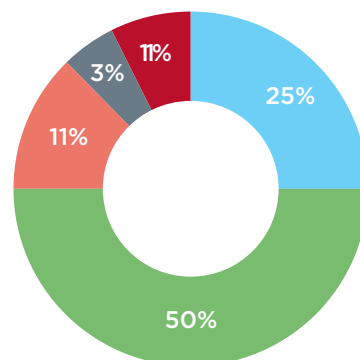
Taxation improvements



Regulation improvements

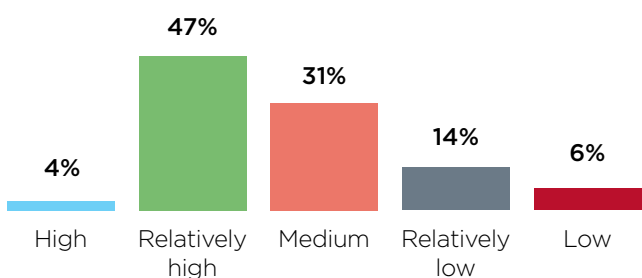


Cooperation of relevant state bodies with business

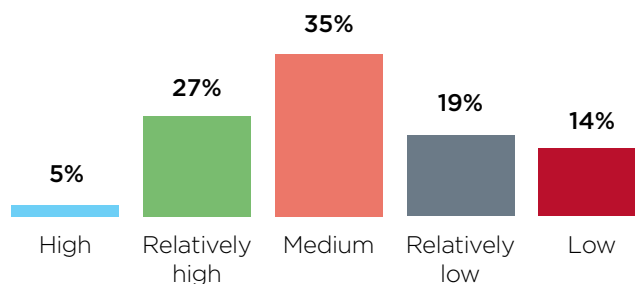


● High ● Relatively high ● Medium ● Relatively low ● Low

LEVEL OF PROPOSALS' ACCEPTANCE IN THE SECTOR



EXPECTATIONS OF SECTOR GROWTH IN 2016-2017

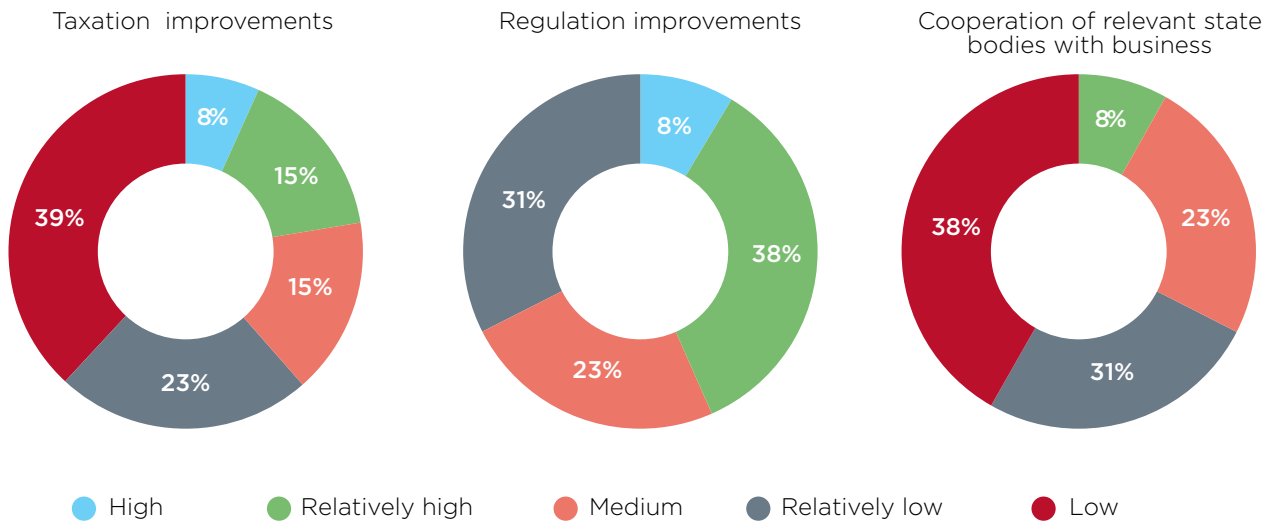


MAJOR ASPECTS THAT REQUIRE MOST IMPROVEMENTS

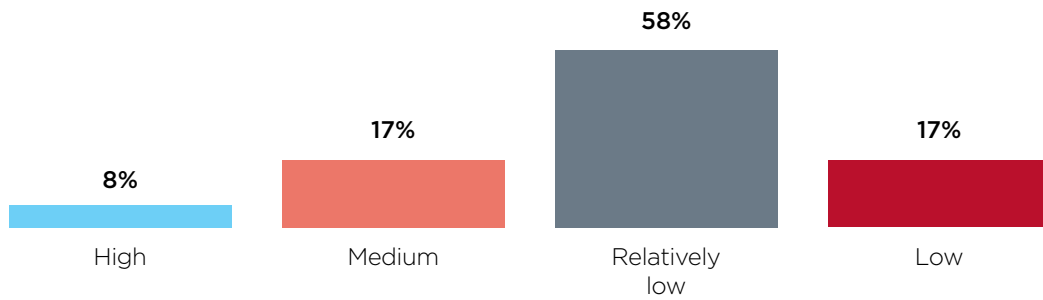
Proper financial restructuring of NPLs issues and writing-off the bad debt	84%
Proper and transparent privatizations and corporate governance of the SOEs, including state-owned banks	55%
Proper functioning of the banks' guaranties for automatic VAT refund	47%

CUSTOMS REGULATION

PROGRESS OF REFORMS IN THE SPHERE



LEVEL OF PROPOSALS' ACCEPTANCE IN THE SECTOR

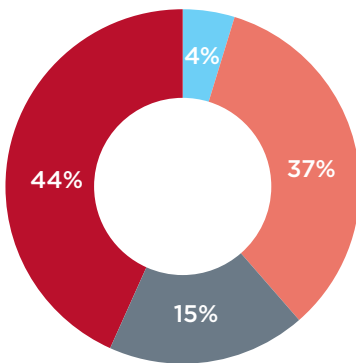


MAJOR ASPECTS THAT REQUIRE MOST IMPROVEMENTS

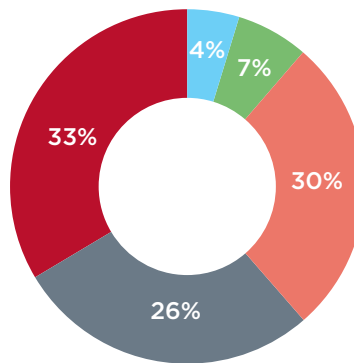
Simplification and acceleration of customs clearance procedures, in particular, by introduction of NCTS	80%
Resolving issues related to customs valuation	73%
Creation and implementation of AEO institute	27%

PROGRESS OF REFORMS IN THE SPHERE

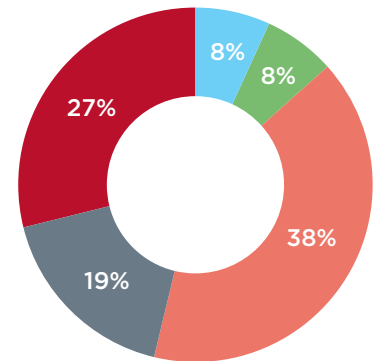
Taxation improvements



Regulation improvements

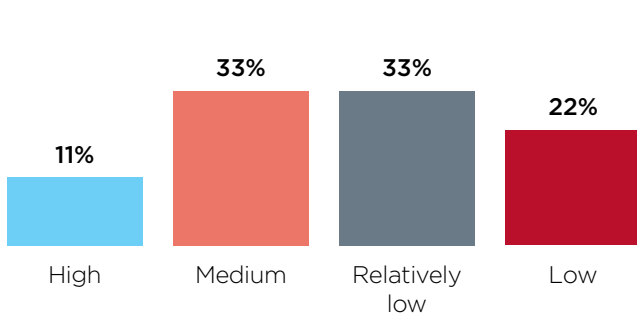


Cooperation of relevant state bodies with business

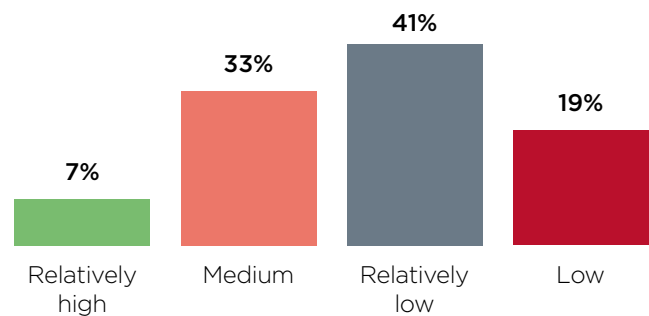


● High
 ● Relatively high
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LEVEL OF PROPOSALS' ACCEPTANCE IN THE SECTOR



EXPECTATIONS OF SECTOR GROWTH IN 2016-2017



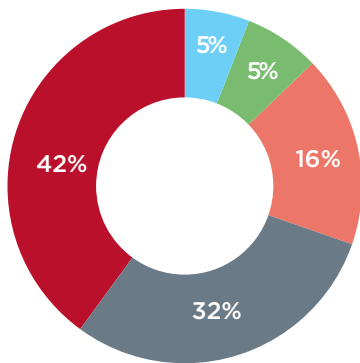
MAJOR ASPECTS THAT REQUIRE MOST IMPROVEMENTS

Elimination of state intervention into the processes of price formation	65%
Consistency and predictability in food safety and labeling regulations	58%
Ensuring transparency in the AMCU activity	42%

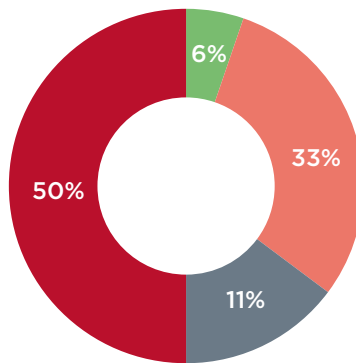
FUEL & ENERGY

PROGRESS OF REFORMS IN THE SPHERE

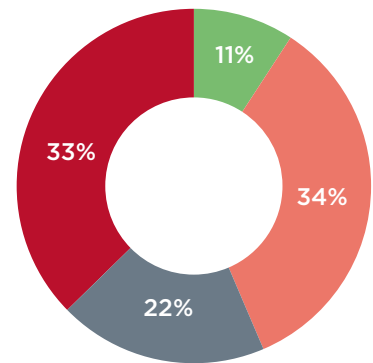
Taxation improvements



Regulation improvements

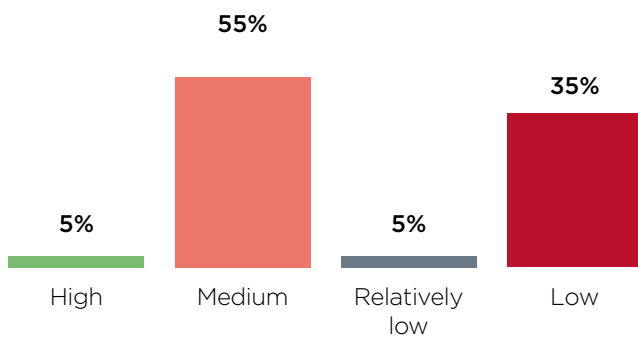


Cooperation of relevant state bodies with business

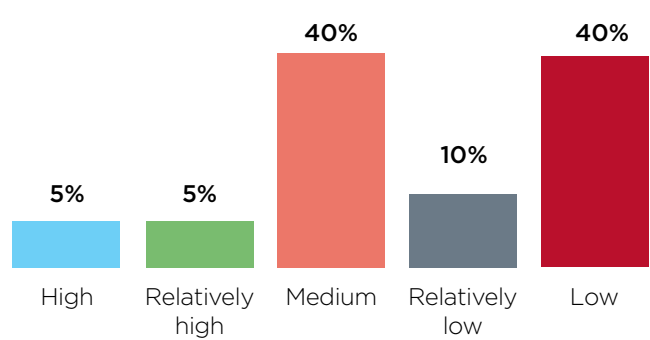


● High ● Relatively high ● Medium ● Relatively low ● Low

LEVEL OF PROPOSALS' ACCEPTANCE IN THE SECTOR



EXPECTATIONS OF SECTOR GROWTH IN 2016-2017

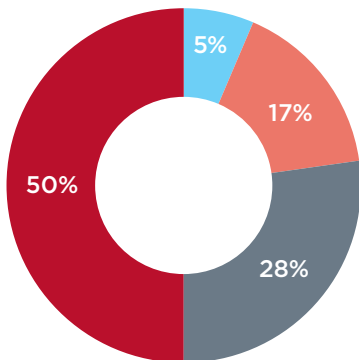


MAJOR ASPECTS THAT REQUIRE MOST IMPROVEMENTS

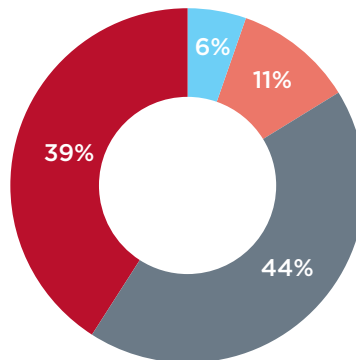
Deregulation in energy sector	84%
Decrease of rental payments	68%
Land legislation improvement	42%

PROGRESS OF REFORMS IN THE SPHERE

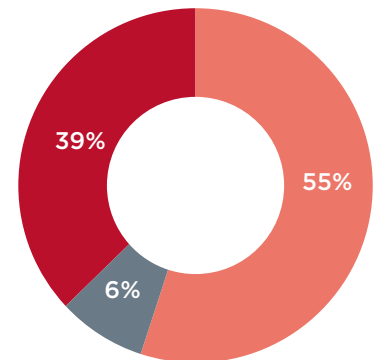
Taxation improvements



Regulation improvements

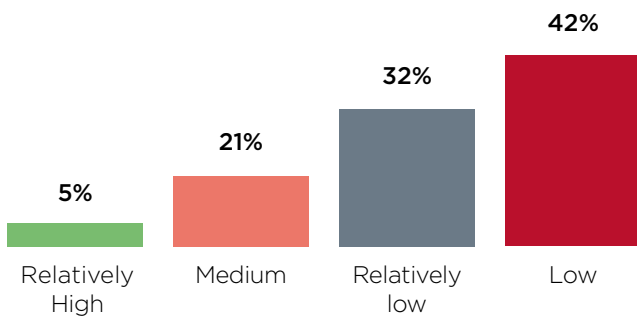


Cooperation of relevant state bodies with business

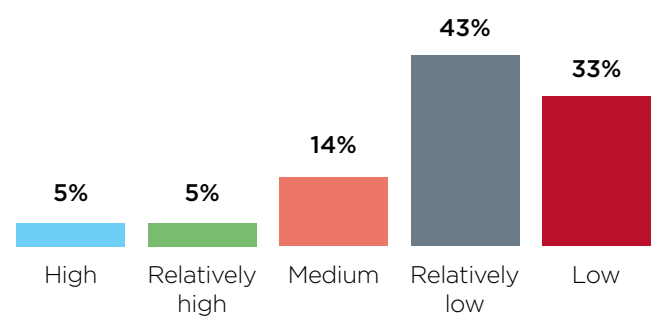


● High ● Relatively high ● Medium ● Relatively low ● Low

LEVEL OF PROPOSALS' ACCEPTANCE IN THE SECTOR



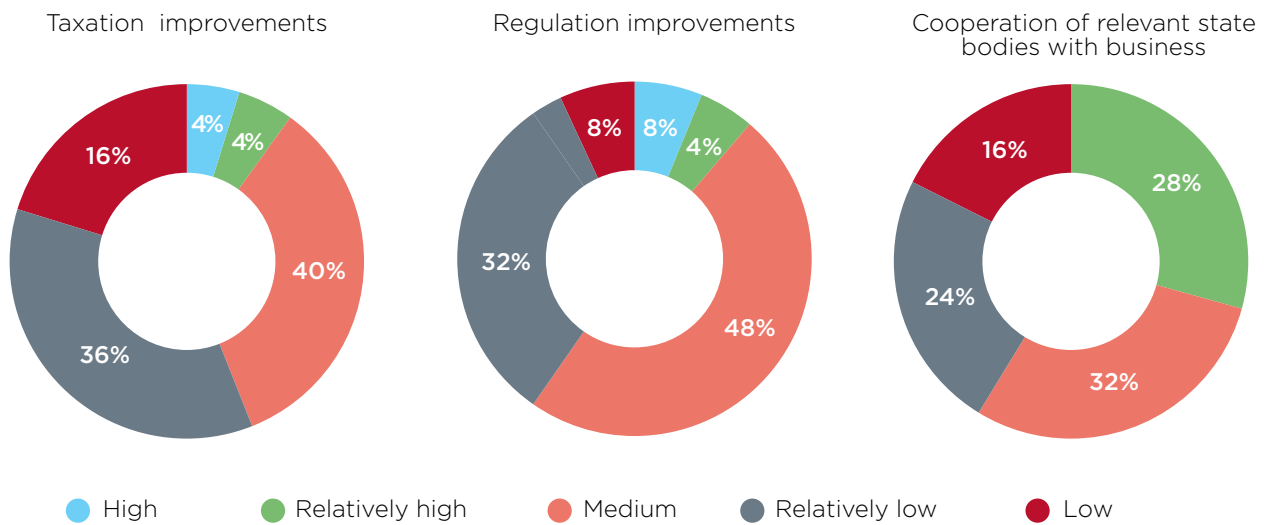
EXPECTATIONS OF SECTOR GROWTH IN 2016-2017



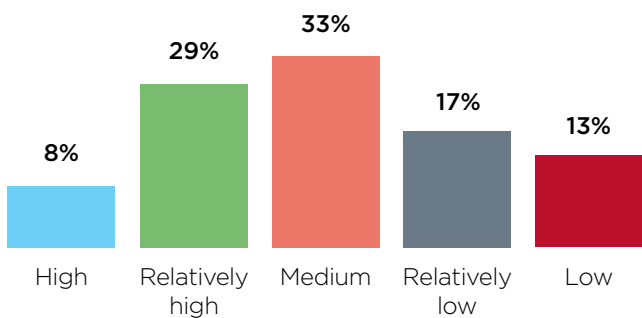
MAJOR ASPECTS THAT REQUIRE MOST IMPROVEMENTS

Simplification of licensing and registration of medicines	81%
Promoting transparent policy of doing business in the pharmaceutical industry	67%
Improvement of taxation for the pharmaceutical industry products, based on the current economy conditions	67%

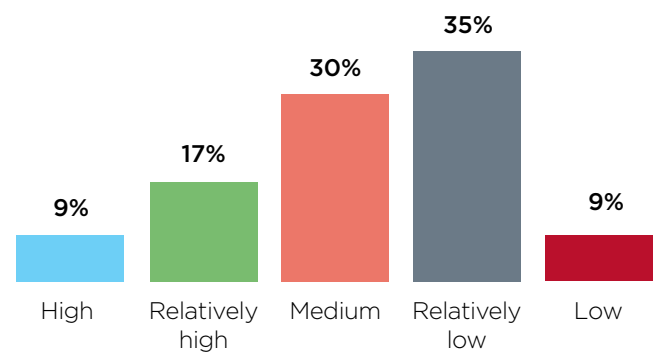
PROGRESS OF REFORMS IN THE SPHERE



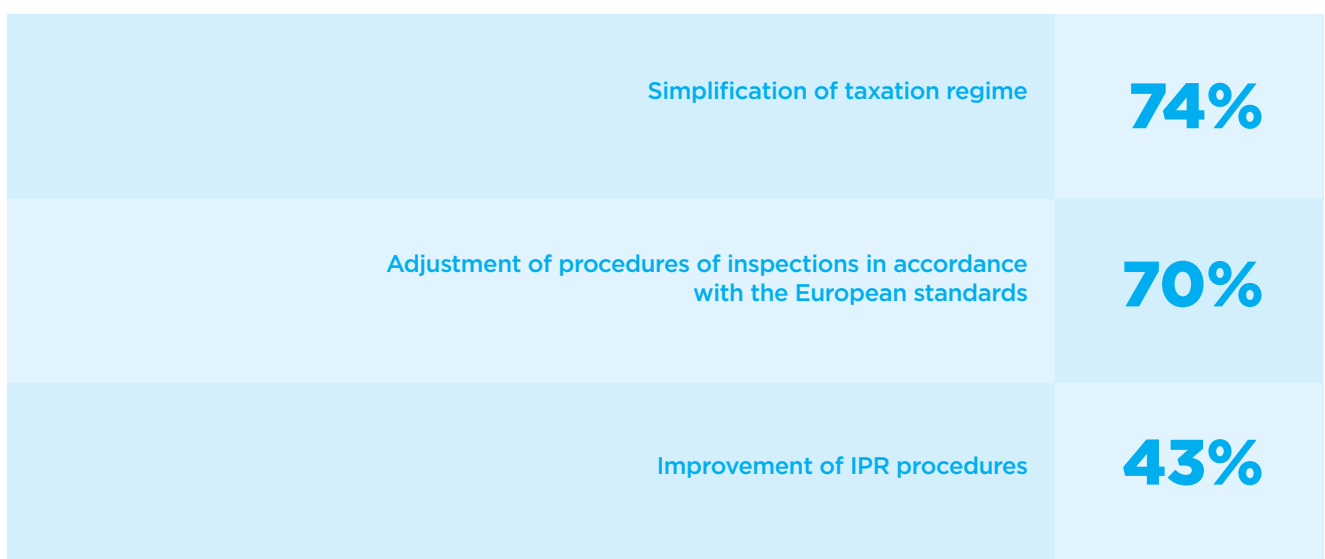
LEVEL OF PROPOSALS' ACCEPTANCE IN THE SECTOR



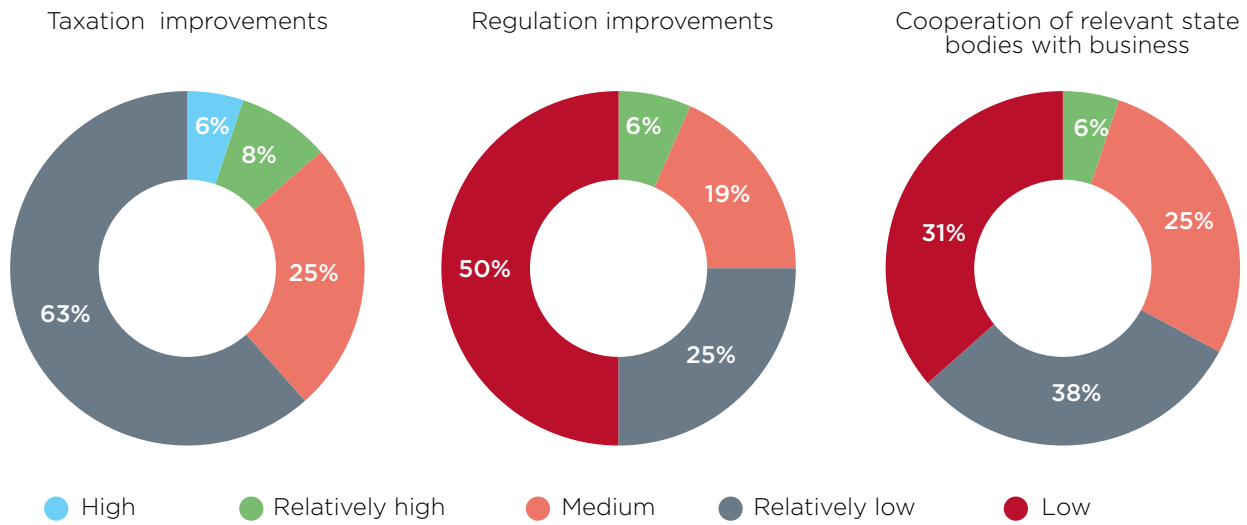
EXPECTATIONS OF SECTOR GROWTH IN 2016-2017



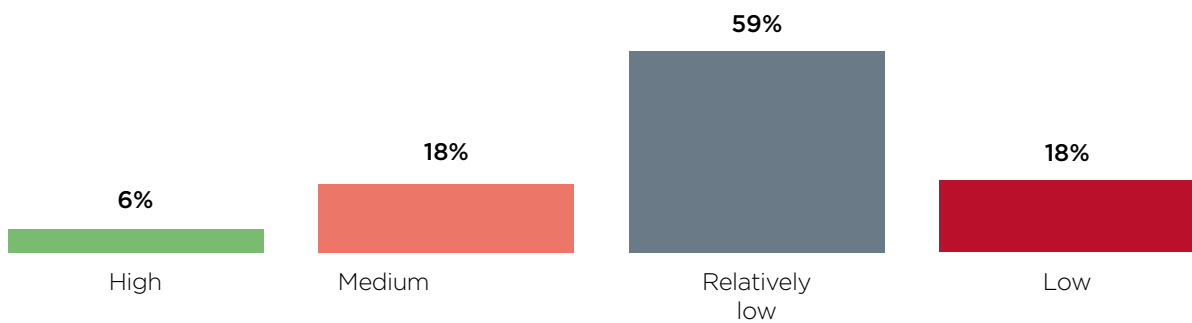
MAJOR ASPECTS THAT REQUIRE MOST IMPROVEMENTS



PROGRESS OF REFORMS IN THE SPHERE



LEVEL OF PROPOSALS' ACCEPTANCE IN THE SECTOR

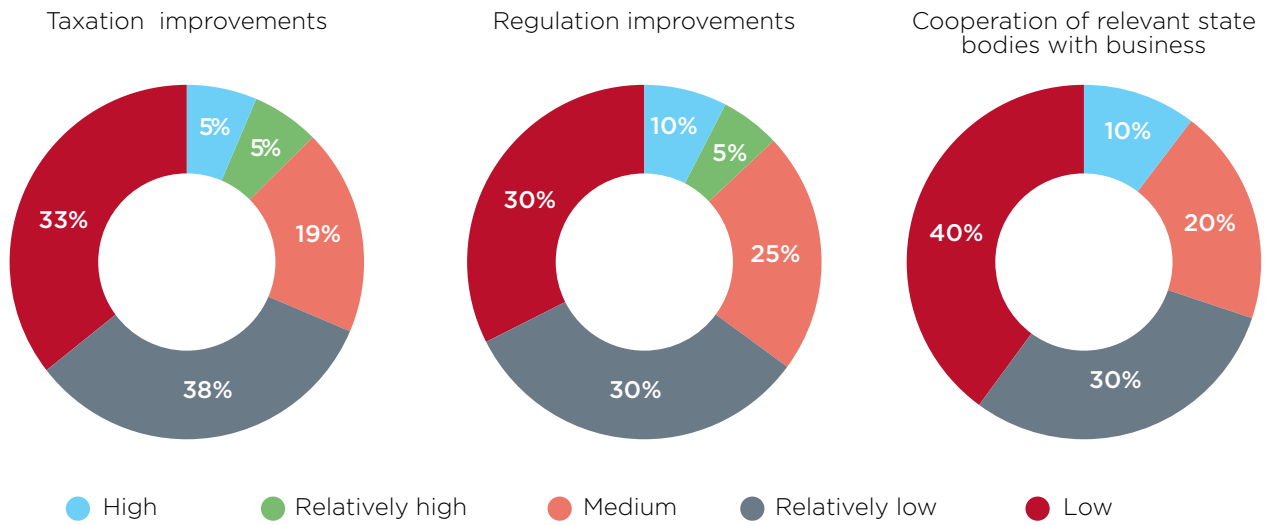


MAJOR ASPECTS THAT REQUIRE MOST IMPROVEMENTS

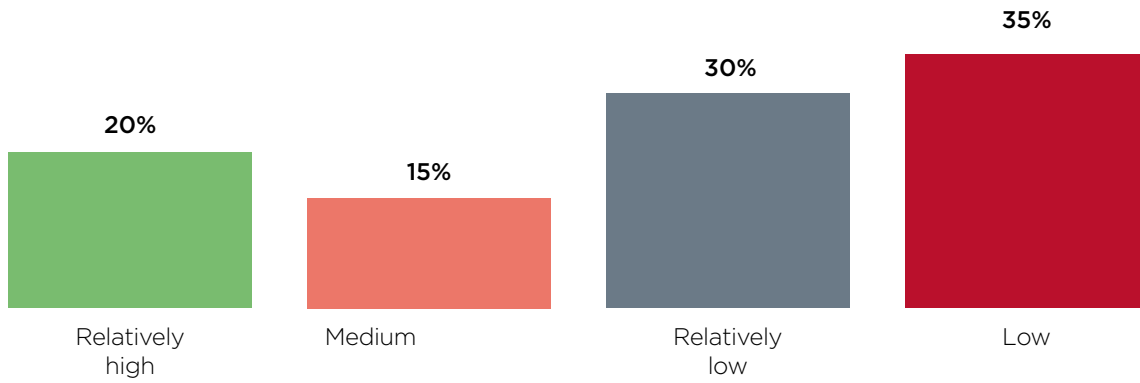
Protection of creditor's/investors rights	82%
Liberalization of the currency control and regulation, simplification of the export/imports transactions and development of the new financial instruments in Ukraine (non-residents accounts, PayPal and other on-line payments systems etc)	76%
Clean-up of the stock market	41%

LEGAL SYSTEM

PROGRESS OF REFORMS IN THE SPHERE



LEVEL OF PROPOSALS' ACCEPTANCE IN THE SECTOR

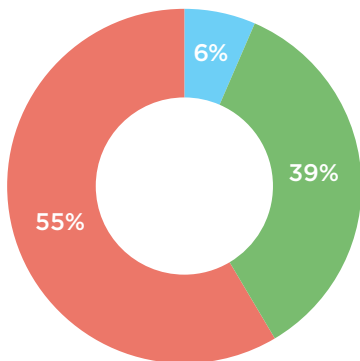


MAJOR ASPECTS THAT REQUIRE MOST IMPROVEMENTS

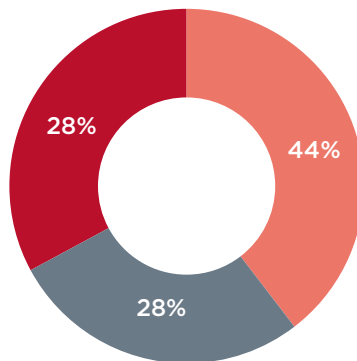
Judicial reform improvement	82%
Fighting corruption	77%
Ensuring proper law enforcement	77%

PROGRESS OF REFORMS IN THE SPHERE

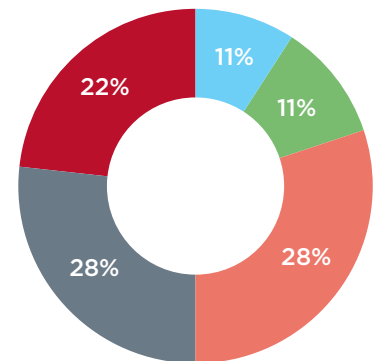
Taxation improvements



Regulation improvements

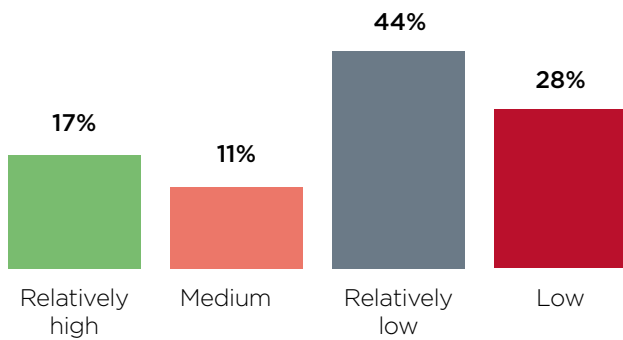


Cooperation of relevant state bodies with business

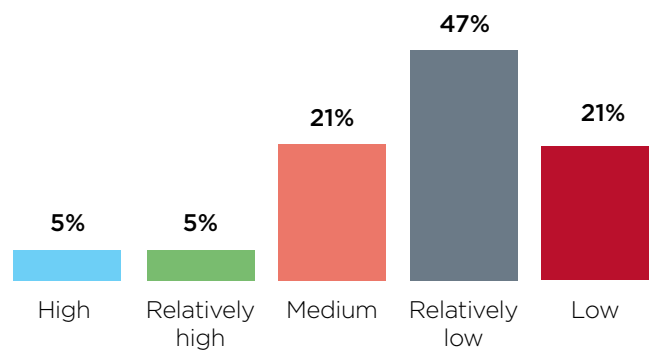


● High
 ● Relatively high
 ● Medium
 ● Relatively low
 ● Low

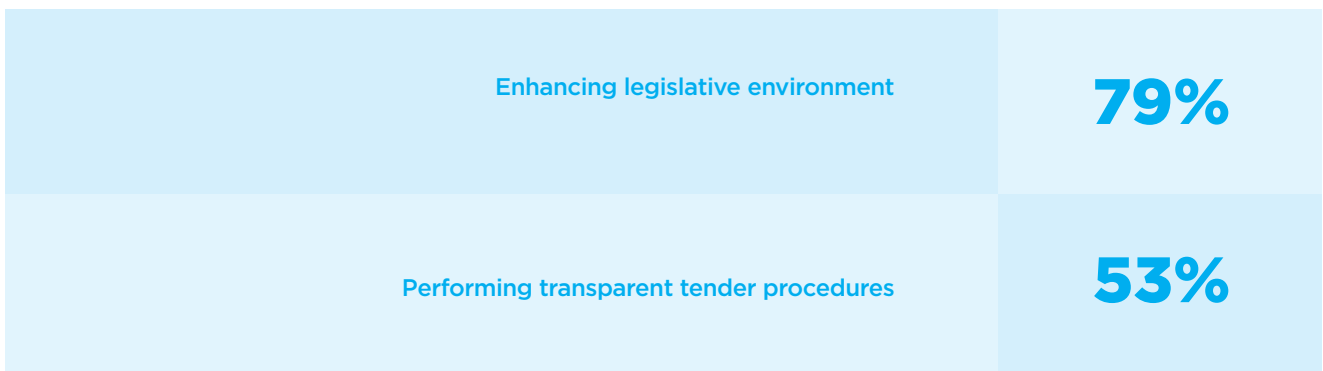
LEVEL OF PROPOSALS' ACCEPTANCE IN THE SECTOR



EXPECTATIONS OF SECTOR GROWTH IN 2016-2017

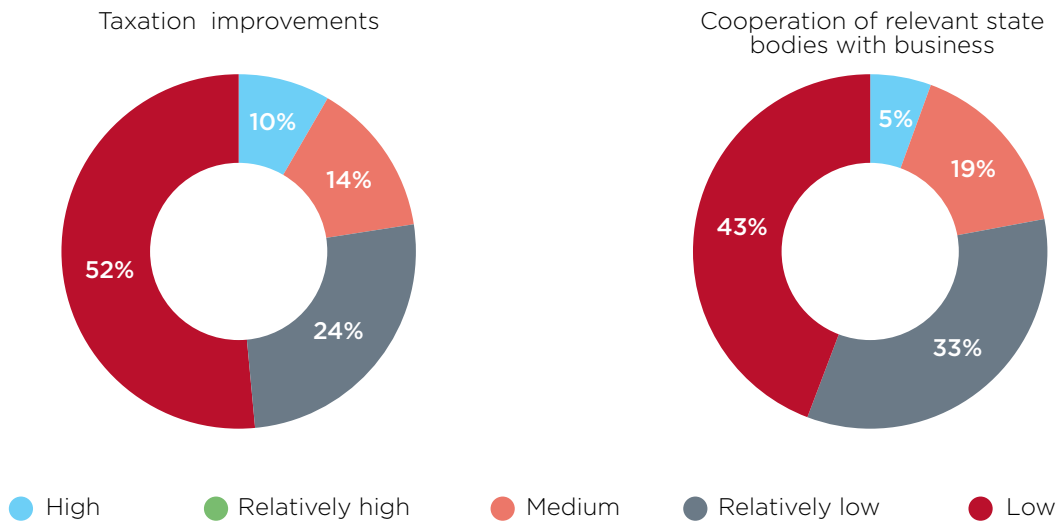


MAJOR ASPECTS THAT REQUIRE MOST IMPROVEMENTS

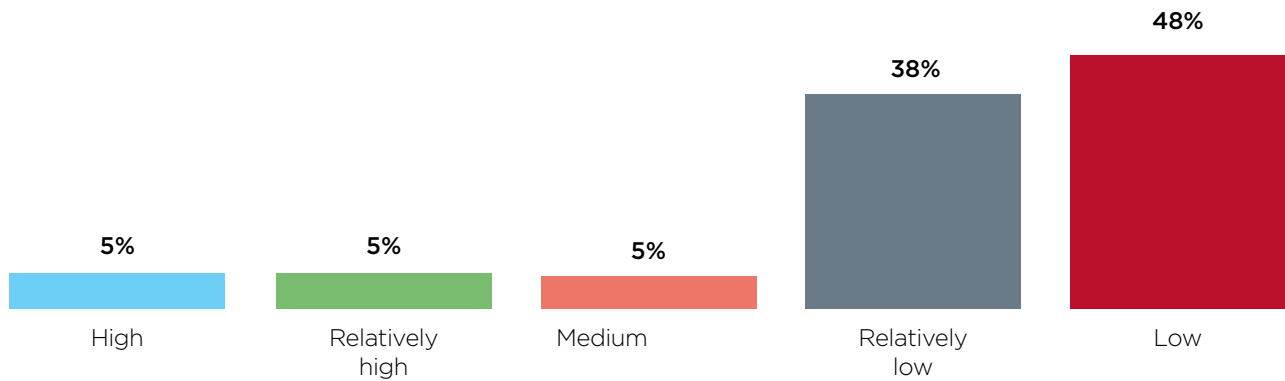


TAXATION

PROGRESS OF REFORMS IN THE SPHERE



LEVEL OF PROPOSALS' ACCEPTANCE IN THE SECTOR

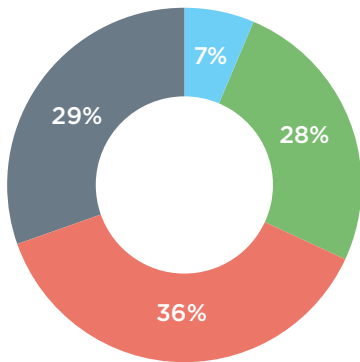


MAJOR ASPECTS THAT REQUIRE MOST IMPROVEMENTS

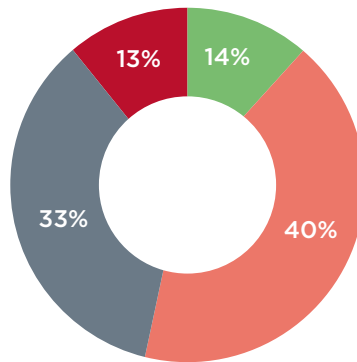
Improvement of tax administration in practice	87%
Ensuring stability of tax legislation	78%
Reorganization of the State Fiscal Service	52%

PROGRESS OF REFORMS IN THE SPHERE

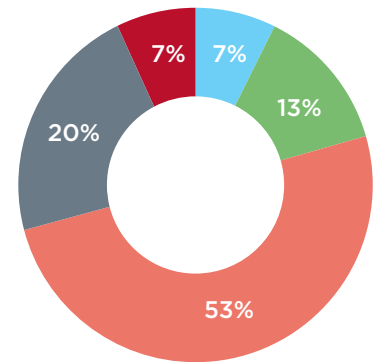
Taxation improvements



Regulation improvements

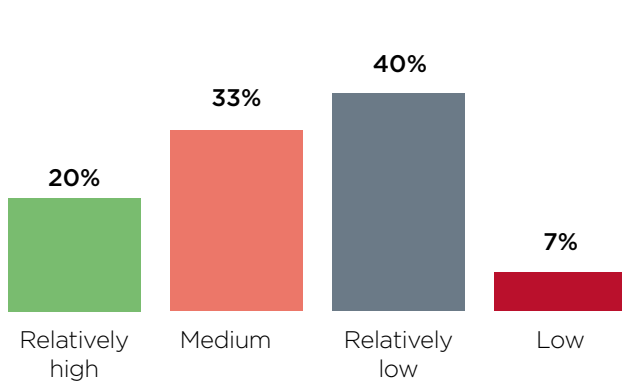


Cooperation of relevant state bodies with business

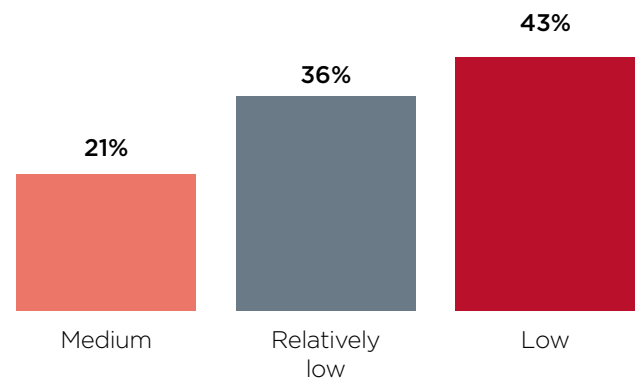


● High
 ● Relatively high
 ● Medium
 ● Relatively low
 ● Low

LEVEL OF PROPOSALS' ACCEPTANCE IN THE SECTOR



EXPECTATIONS OF SECTOR GROWTH IN 2016-2017

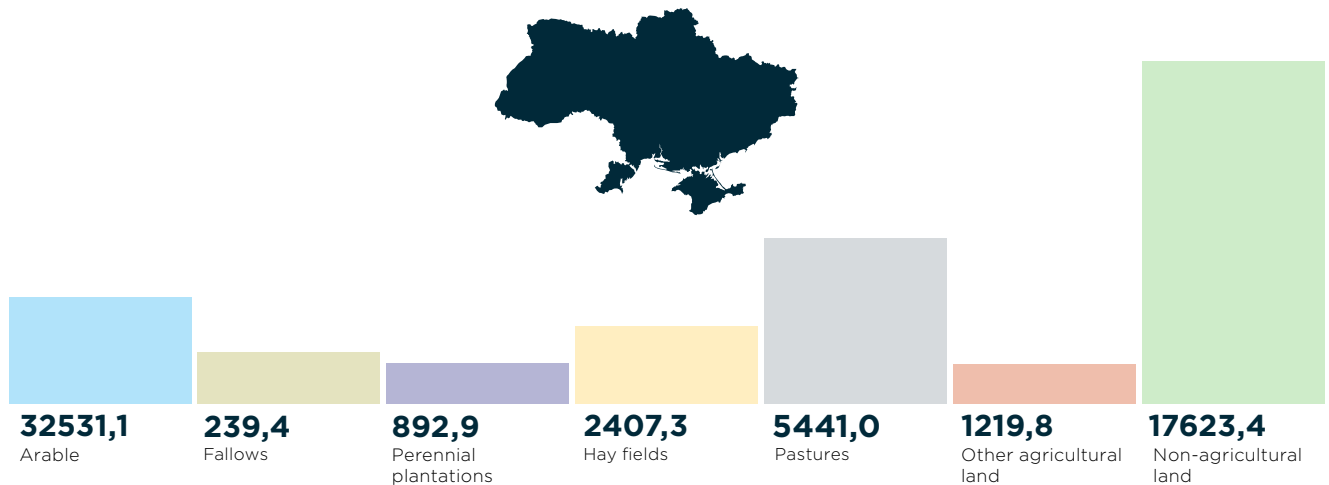


MAJOR ASPECTS THAT REQUIRE MOST IMPROVEMENTS

Deregulation of Telecom market	87%
Facilitation of the process for conclusion of land lease contracts for construction of mobile base stations and other facilities of telecommunication networks	80%
Cancellation of compulsory payment for radio frequency monitoring	60%

AGRICULTURAL SECTOR OVERVIEW

LAND FUND OF UKRAINE, THOUS. HA

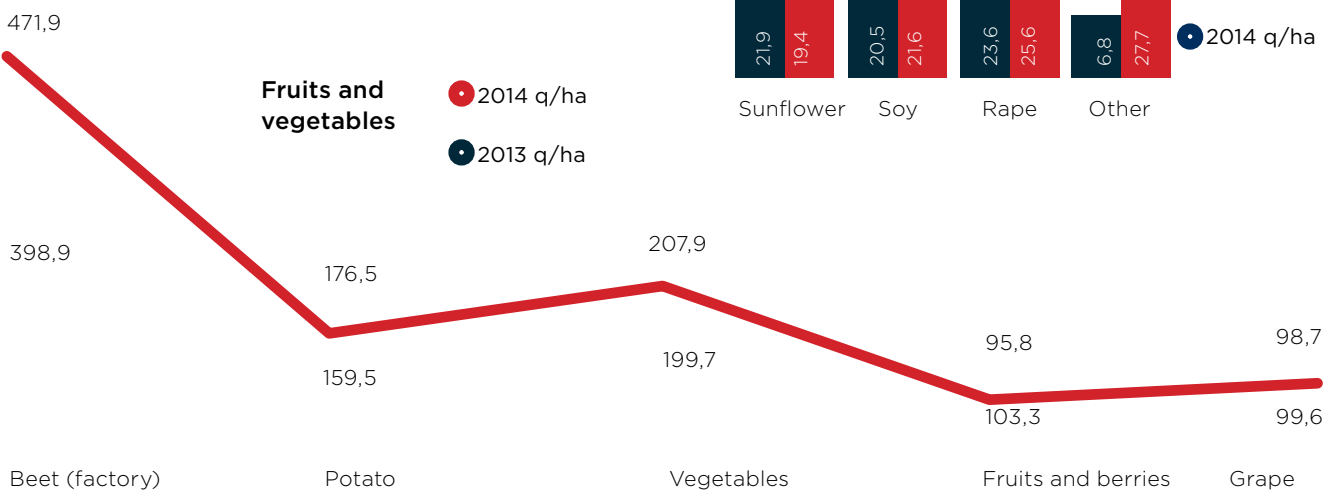
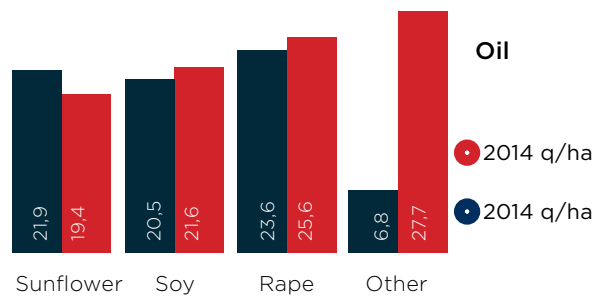
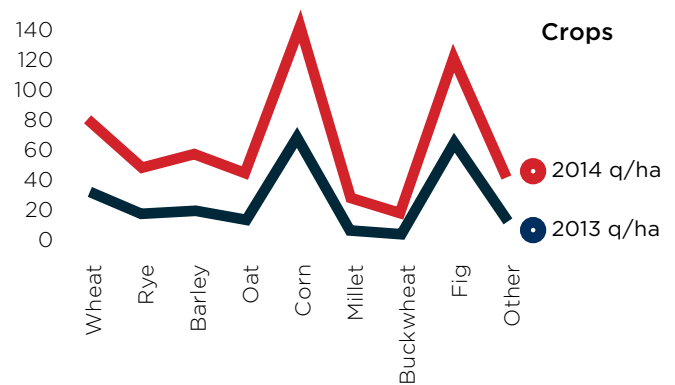


Stockbreeding	mIn.tons
Milk	11,23
Meat	2,36
Eggs	1,19

Structure of animal products in 2014, ths. tons

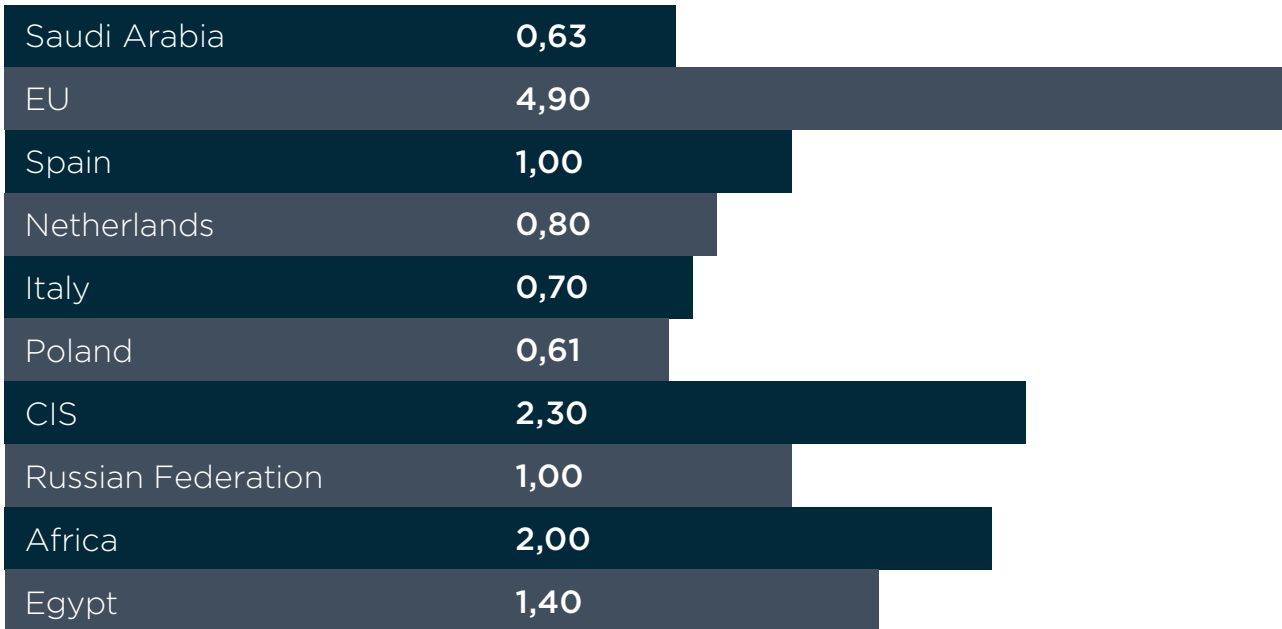
Beef and veal	412,7
Pork	742,6
Mutton and goat meat	14,4
Rabbits meat	1164,7
Poultry	13,4
Horse meat	11,8
Wool	2,602
Honey	66,521
Eggs (all kinds)	1175,238
Milk	11132,8

YIELD CAPACITY



AGRICULTURE

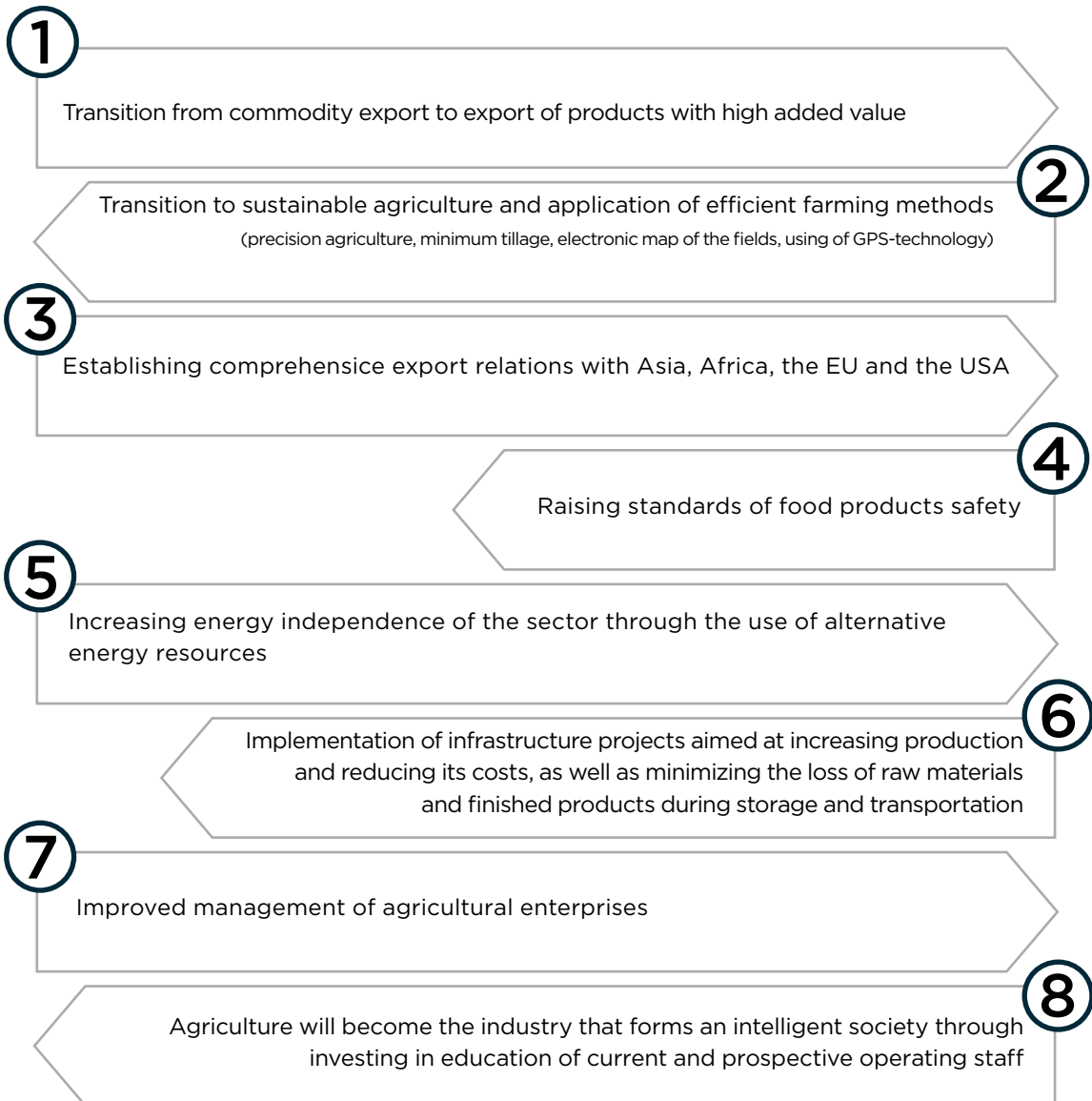
TRADE WITH EU AND OTHER COUNTRIES, BLN US



MAIN INDUSTRY PROBLEMS/
DIFFICULTIES



FORECASTS/POSSIBILITIES



AGRICULTURE

“

We need to focus on the issues of growth, which should be the driver of the agricultural sector in general. Firstly, the process of effectivization of the management systems needs to be launched at agricultural enterprises. At the managerial level, we are far behind our Western colleagues. Secondly, increase the technologies of production is important – we have to use more IT-developments for agriculture. And thirdly, we need to seek for opportunities to expand sales throughout the Asian, US and European markets.

”



Sergiy Syzonenko

Director on agribusiness consulting, Baker Tilly



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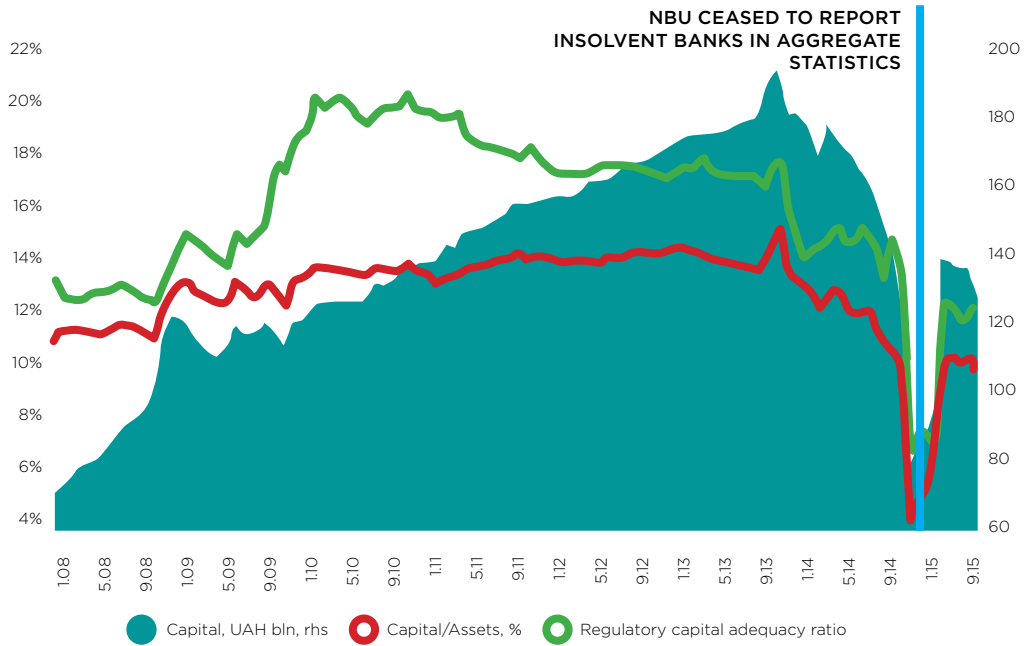
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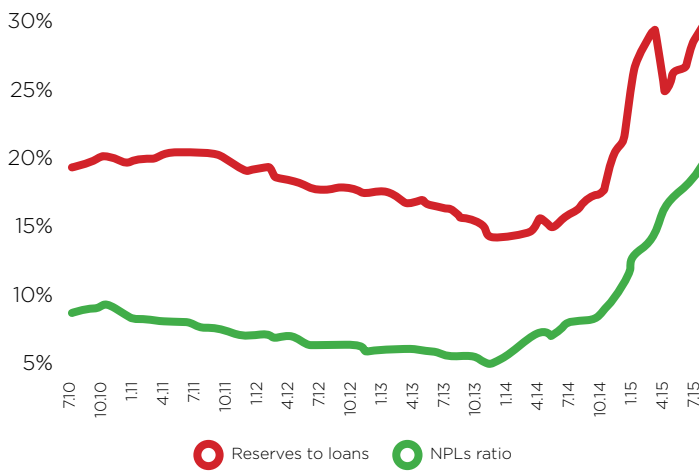
BAKING SECTOR OVERVIEW

KEY QUANTITATIVE INDICATORS OF INDUSTRY

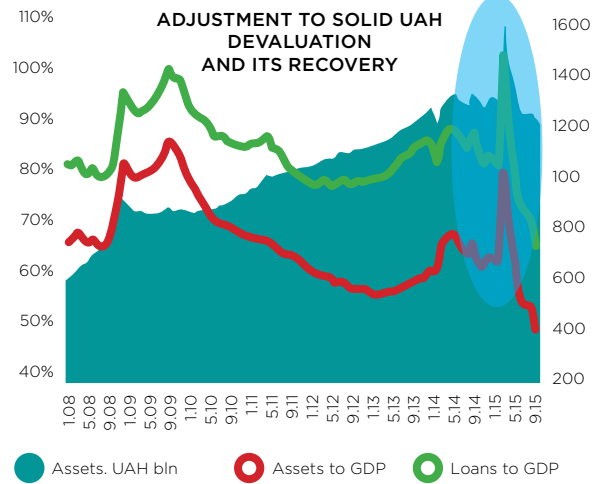
BANKING CAPITAL



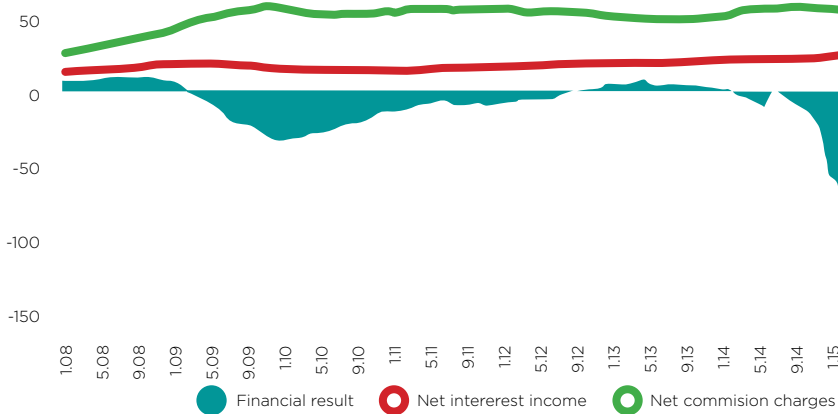
LOAN QUALITY INDICATORS



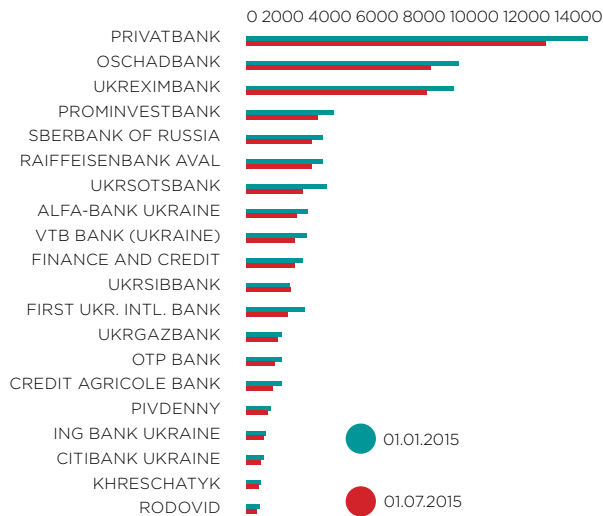
BANKING SYSTEM ASSETS AND LOANS



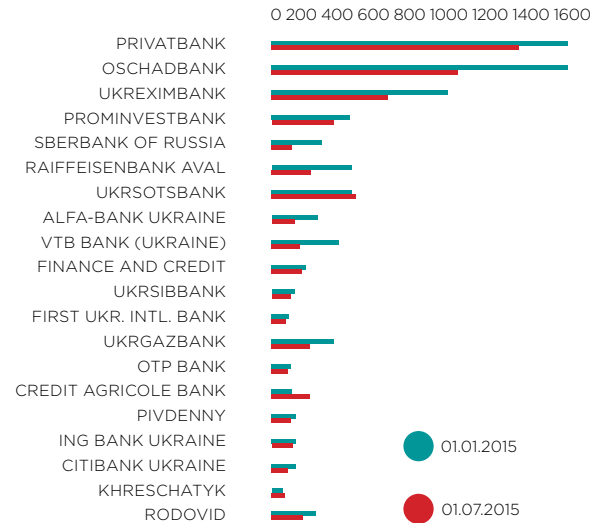
INCOME DATA, CUMULATIVE OVER 12M, UAH bln



TOP 20 BANKS BALANCESHEET CHANGES - TOTAL CAPITAL, M USD



TOP 20 BANKS BALANCESHEET CHANGES - TOTAL ASSETS, M USD



MAIN PROBLEMS/ CHALLENGES OF THE SECTOR

Sharp hryvnia devaluation at beginning of 2015 as well as extended economic crisis have negatively impacted the quality of credit portfolio of banks, thus raising quickly NPLs ratio. Banks have to spend a solid portion of their income to create reserves for bad loans, thus undermining their incomes and capital.

NBU continued wide clean-off of the banking system by declaring more than 50 defunct banks (out of roughly 170) as non-solvent. Although long-awaited by the market, this process holds recovery of public confidence to the banking system. As a result, banks scramble to attract new deposits.

Even though some banks face currently liquidity surplus (mostly state-owned ones), loan portfolio of the banking system shows sluggish growth. In fact, weak business activity and high interest rates do not encourage lending.

FORECASTS/ POSSIBILITIES/ REQUIRED STEPS/ REFORMS

As Ukrainian government has no other ways than to follow IMF recommendations, we think the banking system will follow restructuring and optimization according to Fund's requirements. In particular, we expect a further recapitalization of banks as well as tightened supervision of banks by NBU.

NBU will continue to remove non-systemic and non-solvent banks from the banking system. This will concern mostly small-scale banks. However, in case banks' owners will not reduce the share of related-party loans, NBU may be forced to nationalize several medium- and even large-scale banks in 1H16.

A feeble recovery in economy, continuing reshaping of the banking system as well as still high interest rates should not induce banks to be actively involved into new loan provision. However, revival of lending to the most resilient sectors of economy will be seen already in the near-term.

Much-anticipated geopolitical stability and continued regulatory reform would be indispensable factors of mid-term growth in financial sector.

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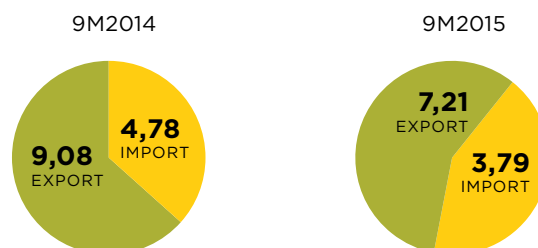
INTERNATIONAL TRADE DEVELOPMENT ISSUES AND PROSPECTS OF IMPLEMENTATION OF EU

KEY QUANTITATIVE INDICATORS OF INDUSTRY (2015 TO 2014)

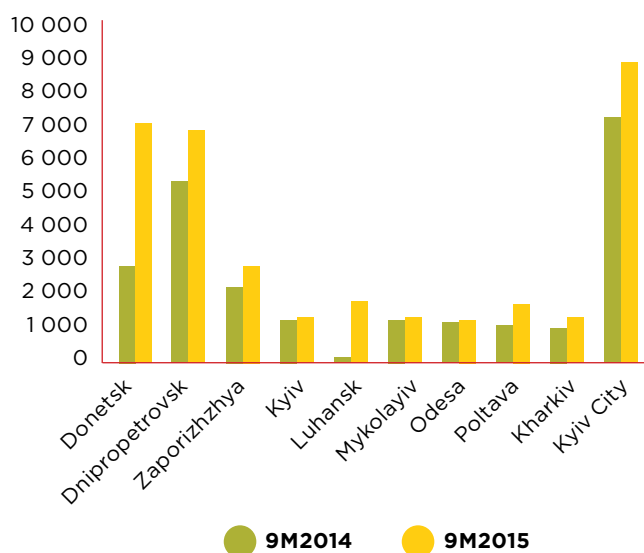
VOLUMES OF GOODS EXPORT/IMPORT
\$ BLN.



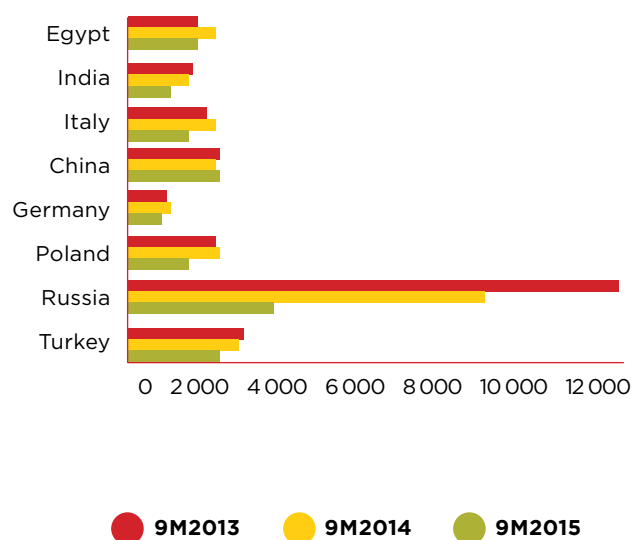
VOLUMES OF SERVICES EXPORT/IMPORT
\$ BLN.



EXPORT OF GOODS BY KEY REGIONS
\$ MLN.



EXPORT OF GOODS BY KEY COUNTRIES
\$ MLN.



● 9M2014 ● 9M2015 ● 9M2013 ● 9M2014 ● 9M2015

According to the State Statistics Service of Ukraine

CUSTOMS REGULATION

MAIN PROBLEMS/ CHALLENGES

Being an export-oriented country Ukraine's economy depends to a high extent on the international trade. For the past two years the volumes of international trade have significantly declined. The main challenges that lead to such result in 2014/2015 were the following:

- Annexion of the Crimea and occupation of the industrial parts of Donetsk and Luhansk regions
- Continuing military conflict in the Eastern Ukraine
- Struggle to move away from Ukrainian economy's dependence on the Russian Federation
- Low competitiveness of Ukrainian products in the EU market
- Poor protection of exporters and promotion of exports to foreign markets by the Government
- Low share of small and medium enterprises in export
- Poor regulation of export/import activities in Ukraine
- Lack of knowledge about available remedies under international trade treaties

EXPECTATIONS/OPPORTUNITIES/ INNOVATIONS

Ukraine should expect improvement of its export potential in 2016 provided that the Government and the Parliament implement the sound reforms and create the framework for support and promotion of Ukrainian export.

The following developments and initiatives should positively impact the export potential of Ukraine in 2016:

Approximation of the Ukrainian legislation to the EU legislation in the fields of trade, customs and tax regulations (i.e. Union Customs Code, state standards in respect of goods and services) ✓

✓ Entrance into force of the Deep and Comprehensive Free Trade Area between Ukraine and the EU

Joining the WTO Government Procurement Agreement that provides access for Ukrainian companies to public procurement markets of other countries ✓

✓ Establishment of export-credit agency

Introduction of aggressive foreign trade policy and establishment of trade representative offices for promotion of Ukrainian export abroad; ✓

✓ Raising awareness among of Ukrainian businesses about export opportunities

Implementation of the Union Customs Code adopted as EU Regulation 952/2013 (the "UCC"), this will allow to: approximate Ukrainian customs legislation to the EU regulations, simplify trade between Ukraine and the EU, and establish the most favorable conditions for exporters ✓

According to the Association Agreement between Ukraine and the EU, Ukraine has an obligation to implement the UCC during the period of three years upon entrance into force of the Association Agreement. However, the Government is expected to consider the draft law implementing the UCC and submit it to Verkhovna Rada at the end of 2015/beginning of 2016. Therefore, it is very likely that the law may be adopted by Parliament in 2016.

“

Ukrainian authorities must focus on improvement of competitiveness of Ukrainian goods and services globally. To accomplish an efficient export strategy, Ukrainian authorities still have to complete their homework (ensure timely and adequate VAT refunds on exports, improve currency control rules, enhance tax administration and improve overall treatment of business in Ukraine). Once these steps are implemented it should be possible to introduce new technologies and innovations and to pursue an aggressive export strategy for promotion of Ukrainian products.

”



Ihor Olekhov
Partner of Baker & McKenzie, Kyiv

GAS SECTOR OVERVIEW

MAIN QUANTITATIVE INDICATORS OF THE GAS SECTOR

	AUGUST 2015	IN COMPARISON TO AUGUST 2014		JANUARY - AUGUST 2015	IN COMPARISON TO JANUARY - AUGUST 2014	
		+ / -	%		+ / -	%
GAS (mln. m ³)						
Extraction*	1 682,2	-17,2	99,0	13 168,0	-291,0	-291,0
Including NJSC "Naftogaz of Ukraine"*	1 335,2	-93,1	93,5	10 713,0	-548,0	-548,0
Consumption	1 183,3	-166,1	87,7	21 813,0	-5 556,9	-5 556,9
Import	1 031,5	628,0	255,6	11 686,0	-3 441,1	-3 441,1
Transit	6 737,4	2 198,5	148,4	42 317,0	-4 002,0	-4 002,0

*Volume of gas produced by "Chornomornaftogaz" is excluded

	2014	IN COMPARISON TO 2013	
		+ / -	%
GAS (mln. m ³)			
Extraction*	20 170,0	822,5	104,3
Including NJSC "Naftogaz of Ukraine"*	16 855,0	-157,5	99,1
Consumption	42 465,0	-7 892,6	84,3
Import	19 466,0	-8 508,4	69,6
Transit	62 197,0	-23 928,7	72,2

*Volume of gas produced by "Chornomornaftogaz" is excluded

PROGNOSTIC BALANCE OF SUPPLY AND DISTRIBUTION OF NATURAL GAS

	2014	2015
I Natural Gas Resources - all	54 235	53 033
including:		
1) The gas produced in Ukraine - all	19 537	20 495
including:		
1.1) PJSC "Ukrgezvydobuvannia" (UGV)	14 709	15 111
1.2) PJSC "Ukrnafta"	1 518	1 756
1.3) other gas producing companies	3 310	3 288
2) Import of gas	25 985	19 899
3) Withdrawal from the underground storage facilities of natural gas - all	8 688	12 357
II The distribution of natural gas - all	54 235	53 033
1) Ukraine - all	40 284	42 998
including:		
1.1) for in-process needs - all	3 352	3 570
1.2) raw materials for the production of liquefied natural gas and stable gasoline	165	178
1.3) consumers in Ukraine - all	36 354	38 950
including:		
1.3.1) population and for the eternal flame burning, all	20 800	15 419
1.3.2) religious organizations	24	23
1.3.3) budgetary institutions and organizations	677	705
1.3.4) industrial consumers	12 995	14 158
2) Pumping into the underground gas storage facilities	13 879	9779

MAIN PROBLEMS/ CHALLENGES OF THE SECTOR

- ⊖ The annexation of the Crimea and the military conflict in the Eastern Ukraine led to gas-related tensions with Russia and resulted in a protracted economic crisis in Ukraine.
- ⊖ A natural gas cutoff to Ukraine was initiated by Russia in July 2015, gas supplies were resumed only in October after Naftogaz and Gazprom signed a winter package for supply of the Russian gas to Ukraine.
- ⊖ Due to incredibly high taxes (i.e., 55 % for natural gas extracted from deposits up to five km in depth and 15 % for deeper deposits) a number of investment projects in the gas production sector were put on hold or even shut down. As the result, the Government reduced the rates to 29% and 14% respectively.

FORECASTS/POSSIBILITIES/ INNOVATIONS IN THE SECTOR/REQUIRED STEPS/ REFORMS



In an attempt to protect Ukraine from the Russian influence, the European countries try to integrate Ukraine into the European energy market and provide financing for Ukraine to buy the volume of gas required for the winter season.



Ukraine implements the 1st stage of the reform on liberalization of the gas market: prices for households are increased, state practice for establishment of price caps is abolished and a new gas market model is implemented.



For strategic cooperation with the EU Ukraine intends to develop its gas infrastructure by construction of a new gas interconnection pipeline between Poland and Ukraine, which should allow for the increase of the imported gas flow from 5 to 8 bcm/year. As a result, the Government reduced the rates to 29% and 14% respectively.



Clearly, deregulation of the gas market and the gradual implementation of a competitive environment is one of the main achievements of the Ukrainian Government, however the reform is only the first step to the full liberalisation of the natural gas sector. In 2016 the Government should consolidate this success by completing the difficult process of reforms, unbundling Naftogaz of Ukraine and further de-monopolising the gas sector of Ukraine.



Vitaliy Radchenko
Partner CMS Cameron McKenna

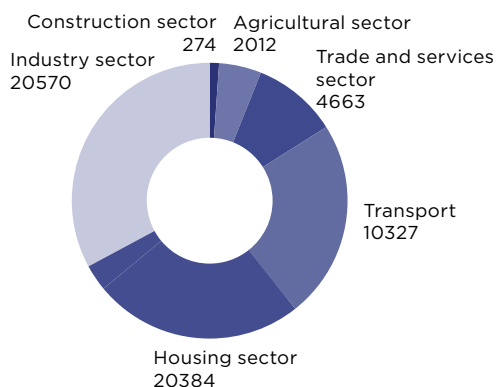
ENERGY EFFICIENCY IN UKRAINE

MAIN INDUSTRY QUANTITATIVE INDICES

According to official researches and Ukrainian policy papers on the energy efficiency in Ukraine, the GDP energy intensity of Ukraine is 3-4 times higher than in other European countries. **In particular, Ukraine consumes for heat of 1 sq. m. of housing 2-2.5 times more natural gas than EU countries.**

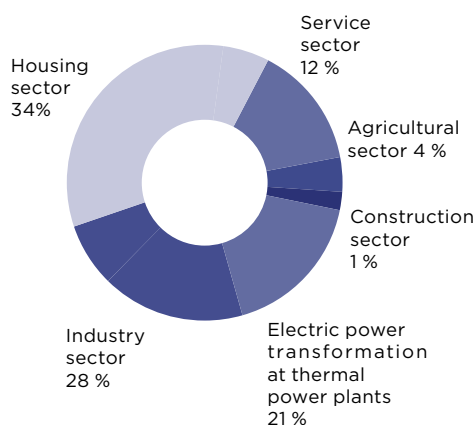
PERCENT IN ENERGY CONSUMPTION AND ENERGY SUPPLY

*According to the Energy balance of Ukraine for 2014, in tons of oil equivalent (thousands)

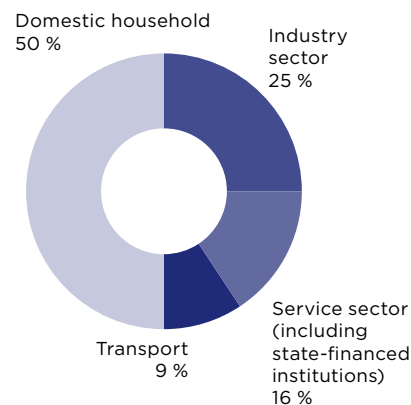


PERCENT IN POTENTIAL ENERGY SAVINGS

*According to the methodologies of UNDP, GEF, NewSEP



*According to State Agency on Energy Efficiency and Energy Saving of Ukraine, given due to methodology corresponding the Directive 2006/32/EU



As of 2015 the energy efficiency and alternative energy sources market demand in Ukraine is 55 bln Euro, among them - almost 40 bln Euro for energy efficiency projects, 15 bln Euro - for the alternative energy market development.

Demand for investments, in particular, for state-financed institutions is more than 4.4 bln Euro, for housing - more than 35 bln Euro. For clarity, considering the strategic objectives in energy independence and security of Ukraine, this number means direct saving in 700 mln m³ and 12 bln m³ respectively.

ENERGY EFFICIENCY OF REGIONS REGARDING ENERGY EFFICIENCY OF EU

Region	Energy Efficiency, % EU			
	Industry	Agriculture	Domestic household	Total
Vinnitsia	37	34	83	63
Volyn	31	27	74	57
Dnipropetrovsk	50	31	53	50
Donetsk	68	38	54	63
Zhytomyr	37	49	78	60
Zakarpattia	50	40	72	64
Zaporizhia	64	33	60	60
Ivano-Frankivsk	40	45	74	58
Kirovohrad	20	43	81	53
Kyiv	46	31	55	49
Lyhansk	42	34	53	45
Lviv	47	50	62	57
Mykolaiv	32	38	62	45
Odesa	38	38	72	61
Poltava	40	36	55	46
Rivne	15	37	75	39
Sumy	38	46	63	52
Ternopil	28	59	68	59
Kharkiv	46	40	51	47
Kherson	47	29	77	62
Khmelnyskyi	23	40	74	51
Cherkasy	19	34	68	59
Chernivtsi	30	48	72	63
Chernihiv	66	41	73	64

Source: According to the data from Dnipropetrovsk branch of National Institute for Strategic Studies, the analytical report "Energy Efficiency in Regional Dimension. Problems and Prospects" 2014.

MAIN INDUSTRY PROBLEMS/ DIFFICULTIES

According to foreign experience, the problems are conventionally divided into four categories: economic, financial, social, legal.

Economic:

Inefficient use of fuel and energy

High level of losses in the networks

High level of depreciation of fixed assets and the slow pace of modernization

Absence of markets with transparent regulating rules, as a result – suppression of reforms in the industry

Mismanagement and irresponsibility (especially typical of state and municipal property)

Abuse of monopoly

Dependence on external supplies of fuel

Lack of incentive mechanisms for the implementation of projects on energy saving/efficiency

The lack of a unified data collection system of accounting and monitoring of energy consumption in the country which would give the possibility of forming energy balance on the basis of reliable data from specific customers

Financial:

Lack of funds

Lack of effective cooperation with private investors (ESCO, specialized funds, PPP projects etc.) and non-diversified portfolio of sources of investment to projects in the public and municipal sector and public utilities sector

Social:

Low level of awareness of the population

Lack of training, educational and other programs for the general public (the rural population)

Legal:

Absence of relevant laws

Low levels of the adopted laws

Failure to comply with international obligations, strategic plans in terms of ensuring conditions for attracting investment

Imperfect judicial system and enforcement mechanism, as a consequence –lack of guarantees of investment return and acquisition of income by investors

PROSPECTS/OPPORTUNITIES/INNOVATIONS IN THE INDUSTRY

Prospects

Ukraine obtains enough intellectual and resource potential for fulfilment of main strategic objectives.

However, in case of further lack of proper incentives for energy efficiency projects, qualitative legal framework, as well as under the state of incompleteness of its reform process, these tasks execution cannot be guaranteed.

Ignoring the problem of creating specific instruments and mechanisms for energy auditing and monitoring may lead to even greater losses.

Opportunities

The bill “On the effective use of energy resources” can provide the real momentum into reforming energy efficiency.

It is important to use the development potential of alternative and renewable energy sources and alternative fuels as an important factor for improving energy security, reducing the use of fossil fuel resources (including imported).

Innovations in the industry

To ensure the use of available capacity it is necessary to introduce innovative incentive mechanisms. In the field of alternative energy sources in Ukraine there are mechanisms to stimulate the production of renewable electricity:

- 1) “green” tariff;
- 2) tax benefits;
- 3) preferential treatment of affiliating with the electric network.

Required measures

To fight corruption;

To complete the reforming stage having signed the Association Agreement with the EU in 2014, joined the Energy Charter and taken on international commitments;

To implement the Directives: 2010/31/EU with the Law “On Energy Efficiency of Buildings”; 2012/27/EU with the Law “On energy efficiency”; 2009/125/EU concerning environmental requirements to energy production; 2010/30/EU concerning labeling of products which affects the energy efficiency of buildings;

To continue the awareness-raising campaign for the citizens;

To create mechanisms of tariffs stabilization.




Ukraine despite all its wealth remains a country dependent on imported fuel and is characterized by its extremely inefficient use. We have a huge, fully untapped potential of development of all known directions for improvement of the energy efficiency of the economy, including alternative energy, ESCO market etc. Paradoxically, during the years of independence we have not created proper conditions for such development. In 2014-2015 thanks to international commitment there were adopted a number of laws that give reason to hope for the irreversibility of creation of energy self-sufficient stage of development of the country.



Alexander Burtovoy

Partner of Antika Law Firm,
member of the Public Council of the State Agency on Energy Efficiency
and Energy Saving of Ukraine



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TRENDS AND PERSPECTIVES OF ENTREPRENEURSHIP IN UKRAINE

TRENDS AND PERSPECTIVES OF ENTREPRENEURSHIP DEVELOPMENT IN UKRAINE BASED ON AMWAY GLOBAL ENTREPRENEURSHIP REPORT 2015 (AGER 2015)*

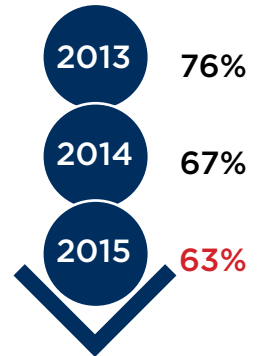
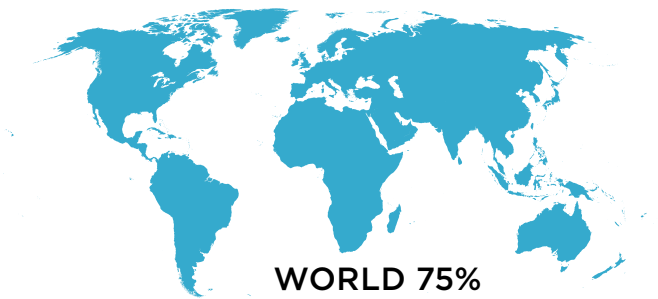
Amway Entrepreneurial Spirit Index (AESI) in the group of Ukrainians aged under 35 is **50** It is the highest rate compared to all other age groups in Ukraine



4% of respondents in Ukraine defined themselves as entrepreneurs or self-employed

ATTITUDE OF UKRAINIANS TOWARDS ENTREPRENEURSHIP

Positive attitude among respondents towards entrepreneurship:



63% of Ukrainians aged under **35** want to start up own business

YOUNG UKRAINIANS SHOW A MORE POSITIVE ATTITUDE TOWARDS ENTREPRENEURSHIP



UNDER '35

75% (+4% vs. last year)



YEARS 35-49

67% (+4% vs. last year)



OVER '50

51% (-10% vs. last year)



*Amway conducted the AGER 2015 in partnership with the Chair of Strategy and Organization at the Technische Universität München in Germany. Fieldwork was completed by the GFK from May to August 2015. This year's report spans 44 countries, with 49,775 respondents aged 14-99, including 1002 respondents in Ukraine.

INDEPENDENCE IS KEY REASON TO START UP OWN BUSINESS IN THE WORLD

UKRAINIANS ARE LOOKING FOR THE ADDITIONAL INCOME PROSPECTS, RATHER THAN FOR INDEPENDENCE



UKRAINIANS SHOWED THE HIGHEST SHARE OF THOSE RESPONDENTS WHO WERE UNABLE TO DEFINE THE REASONS TO START UP THE BUSINESS - WHICH ACCOUNTED FOR

39%

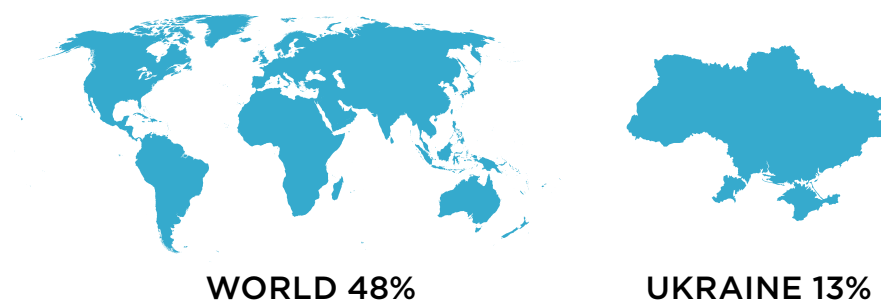
VS. WORLDWIDE AVERAGE AT

12%

Motives for Ukrainians to launch a new business

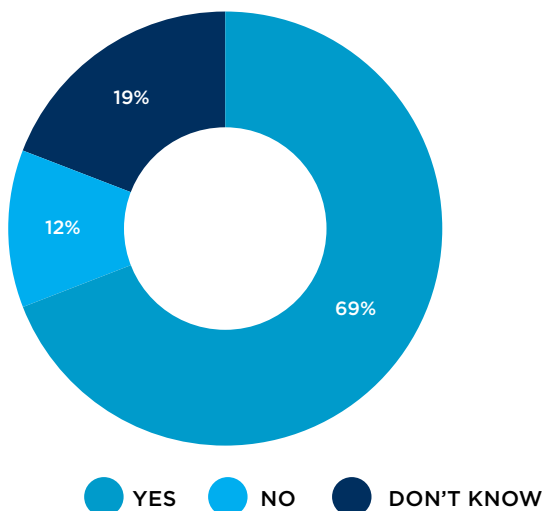


INDEPENDENCE FROM AN EMPLOYER AS THE MOST APPEALING ASPECT TO START UP AN OWN BUSINESS



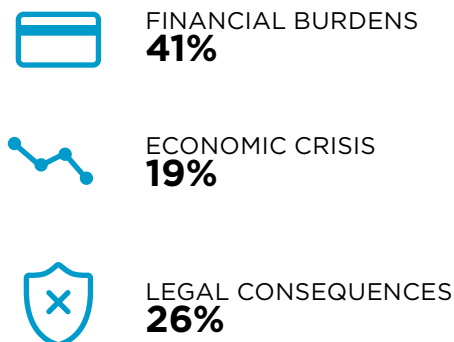
OBSTACLES TO STARTING A BUSINESS

IS FEAR TO FAIL IN BUSINESS AN OBSTACLE FOR UKRAINIANS:



The fear of failing is the main obstacle to starting a business which was mentioned by 69% of respondents in Ukraine

WHAT DO UKRAINIANS FEAR MOST:



TRENDS AND PERSPECTIVES OF ENTREPRENEURSHIP IN UKRAINE



AMWAY ENTREPRENEURIAL SPIRIT INDEX (AESI)

Amway Entrepreneurial Spirit Index (AESI) was measured for the first time in 2015. The AESI score of Ukraine reached

34



The worldwide average score is

51



The gender differences are clearly visible:

Male
40



Female
28

The AESI builds on the theory of planned behavior by I. Ajzen.

The measurement incorporates three dimensions:

Desirability: whether respondents perceive starting a business as desirable

Stability against social pressure: whether respondents would let their social environment, such as family and friends, dissuade them from starting a business

Feasibility: whether respondents feel prepared to starting a business

ENTREPRENEURSHIP DEVELOPMENT

AMWAY ENTREPRENEURIAL SPIRIT INDEX CALCULATION IN UKRAINE:

$$(42\% + 32\% + 28\%) / 3 = 34$$

DESIRE

STABILITY

FEASIBILITY



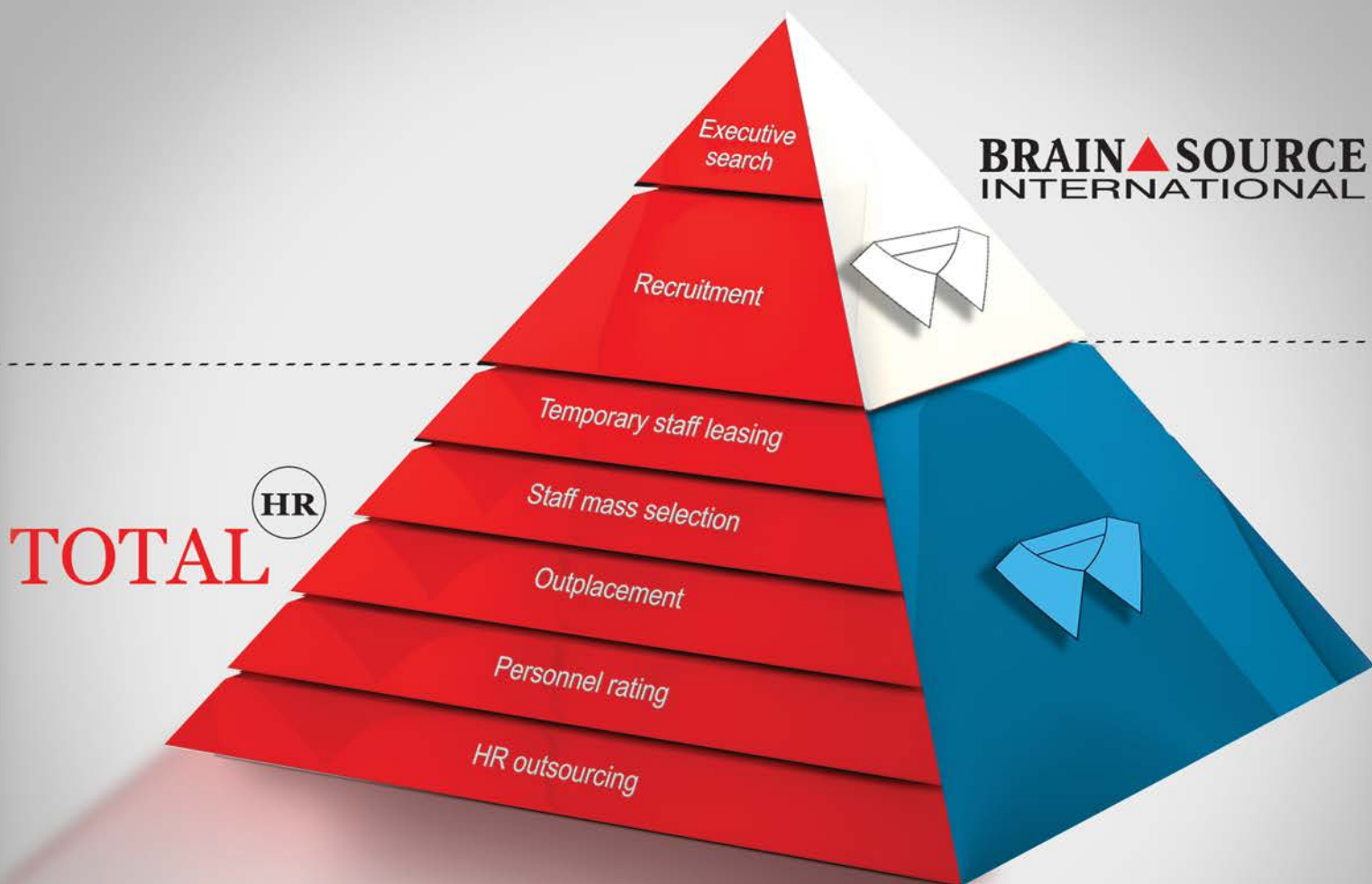
By working on day-to-day basis with independent entrepreneurs in Ukraine, I do know a lot of people who are ready to work hard and conscientiously to grow their business, notwithstanding the current difficult conditions. What is needed for further development of entrepreneurship in Ukraine – is a well-balanced regulatory system, state support and reduction of bureaucracy.



Tomasz Muras

General Manager of Amway Ukraine Ltd

Brain Source Corporation - #1 choice
of high quality hr solutions for multinational companies.

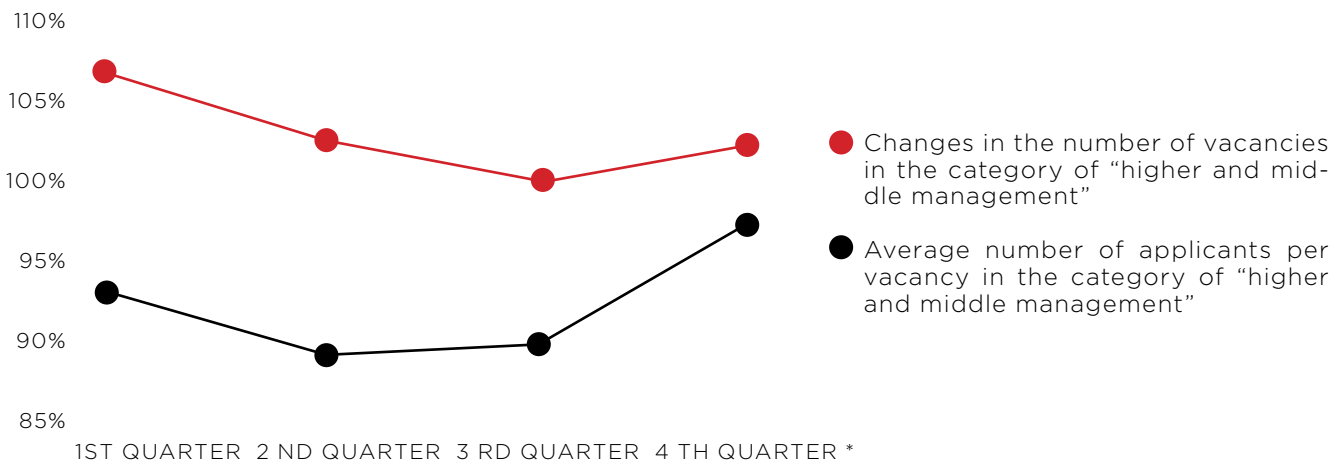


BSI - 2nd among the best recruitment companies,
according to Ukrainian job seekers. The poll was conducted
by career web-portal HeadHunter Ukraine (hh.ua) in 2013.

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LABOR MARKET OVERVIEW

KEY QUANTITATIVE INDICATORS OF INDUSTRY



* including forecast

CHANGES IN THE NUMBER OF VACANCIES



CHANGES IN WAGES/ EXPECTATIONS AND PROPOSALS

Professional domain	Changes in the expectations of applicants, %	Changes in the expectations of applicants, %
Top Management	+30-40%	+20-25%
Pharmacists	+25-30%	+10-20%
Sales staff	+25-30%	+10-20%
IT-experts	+50-60%	+50-60%
Marketers (managers of advertising and PR)	+20-30%	+5-15%
Bank workers	+10-15%	-0-10%

* significant fluctuations can be explained by UAH devaluation in 2015, therefore increase in wages hasn't caused positive dynamics in solvency

MAIN PROBLEMS / CHALLENGES

While 2014 could be considered a "shock" for the labor market, in 2015 the effect of habituation was observed, so at least in terms of perception the year seemed "easier". However, expectations that the society and the business community had had towards rapid changes, have failed to materialize. **Thus, the difficulties that negatively affected the market in 2014 remained valid for 2015. Specifically:**

- **A worsening economic situation, the fall of consumer solvency;**
- **Absence of a favorable investment climate, which would be the basis for the creation of new jobs**
- **Lack of significant progress in the fight against corruption**
- **Instability and insecurity in eastern Ukraine.**

FORECASTS**1**

2016 should be more favorable for the market at least because of the decline that the Ukrainian economy has already undergone. Experts forecast moderate growth that can provide for slight recovery of the labor market already at the beginning of the year.

2

Moreover, as the experience of reforming patrol police shows, due to competent information support + financial incentives, the interest in those positions that were previously considered as non-prestigious and unpopular, can significantly increase.

3

The temporary staff market is expected to grow. Companies continuing to save will be happy to get inexpensive staff without large obligations. Applicants facing difficulties with finding permanent employment, in their turn, will be considering temporary job openings.

“

The good news for the labor market is that the business has found its bottom. Now, on the basis of macroeconomic forecasts of the Ministry of Economy, we are waiting for a yet slow, but already growth. There are also positive signs in the investment markets: Soros, Bill Gates and some other opinion leaders have announced investments in our country. What does it mean for the labor market in 2016? A Gradual, I would like to stress this, a gradual increase in the number of new jobs.

”



Andriy Kryvokorytov
CEO at Brain Source International

FUTURE OF TECHNOLOGY: UKRAINE ON THE VERGE OF DIGITAL TRANSFORMATION

THE MAIN QUANTITATIVE INDICATORS 2014-2015 YEARS

MOBILE SUBSCRIPTIONS GROWTH

YEAR-ON-YEAR | QUARTER-ON-QUARTER

5% | **1,25%**

Total number of mobile broadband subscriptions in Q3 2015

7,3 bln

Total number of new mobile subscriptions globally in Q3 2015

87 mln

SITUATION IN UKRAINE 2015



*based on forecast

SUBSCRIPTIONS 2015



ERICSSON GLOBAL FORECAST BY 2021

Mobile broadband will constitute 85% of all subscriptions

Mobile broadband subscriptions - 7,7 bln

Worldwide mobile subscriptions - 9,1 bln

Over 90% of the world's population will be covered by mobile broadband networks

Almost 80% of smartphone subscriptions added during 2016-2021 will be from Asia Pacific, the Middle East and Africa

150 million 5G subscriptions by the end of 2021: Japan and South Korea are expected to be the first 5G countries

TENDENCIES 2016: INTERNET OF THINGS

IOT will bring a lot of automation to everything that is connected through the Internet. We are going from stovepipe solutions to a connected life. For instance, cars that communicate with each other and with other elements on the road can save lives and solve traffic congestion problems; a coffee machine and a car heater connected to your morning alarm can make life smooth. ICT has unleashed an era of increased innovation where established players are continually challenged by new markets and new logics of value creation. Seizing this opportunity to change will require an evolution of business models, a reevaluation of current skills and talent and a redefining of the boundaries of both geography and current value propositions.

By taking advantage of the benefits of digitization the new technology platforms available, established players should seize the opportunity to challenge their own operating models and value propositions, creating the conditions for start-up-like experimentation to flourish wherever possible. This cultural transformation will take strong leadership as well as new forms of autonomy, decision-making, revenue models, resource management and more

THE MAIN PROBLEMS/DIFFICULTIES

In recent years the most advanced organizations have left behind the industrial age of mass production and entered into an era we call the Networked Society. The main challenges of Networked society are:

- Big Data: Rapid increase of flows of real-time data, massive user bases and a mode of permanent innovation requires reliable big-data processing solutions.
- Industry transformation: industries will gradually evolve or be disruptively transformed by the new capabilities that are part of the 5th technology revolution and Networked Society logic.
- Sharing economy: The shift from physical products to service delivery

LTE/4G WORLDWIDE PENETRATION FORECASTS:



LTE uptake is driven by the demand for an improved user experience and faster networks. This uptake is being fueled by an attractive LTE device ecosystem.

300 suppliers have launched 3,000 LTE user devices, of which nearly half were launched in the last twelve months. These include both LTE FDD and TDD (TD-LTE) models. To meet the growing demand for LTE-based services, operators are seeking new opportunities to obtain additional spectrum and solutions that better optimize its use. One additional spectrum source is unpaired spectrum for LTE TDD

LTE subscriptions reached around 850 million in Q3, and may reach the first billion during 2015

4.1 billion LTE subscriptions by the end of 2021

So far, 54 LTE TDD networks have been commercially launched in 34 countries. 16 networks with both TDD and FDD modes together have been deployed.

Around 28 billion connected devices are expected by 2021, of which more than 15 billion will be connected M2M and consumer electronics devices.

There will be around 400 million M2M and consumer electronics devices with cellular subscriptions at the end of 2015.

1.5 billion M2M and consumer electronics devices with cellular subscriptions by 2021.



LTE/4G WORLDWIDE PENETRATION FORECASTS IN UKRAINE



It is realistic to imagine simultaneous development of two technologies in Ukraine: 3G – to provide coverage and widespread use, and LTE – where high network capacity and data transfer speed are required.

There are 12 million smartphone users in Ukrainian operators' networks as of today, and this number continues to grow. Currently more than 90% of all mobile services' users in Ukraine are GSM subscribers but by the end of 2018 3G technology will have leading positions having covered more than a half of all connections (51%); it is also assumed that more than 1/3 of all connections will be LTE (34%).

Consequently, if LTE networks will be deployed in Ukraine in the nearest future, subscribers won't feel lack of mobile terminals of any kind (smart phones, mobile phones, tablets, USB-dongles) and will be able to experience all benefits of mobile broadband.

Smartphones penetration reached 30% in the end of 2015 in Ukraine. We can assume further growth of penetration by 10% points (40-45%) to the end of 2016.



We live in the information era – an exceptional time where everything around us is changing including ourselves and our daily lives. The crucial moment that fosters these global changes and makes them possible is connection. The evolution of highspeed productive networks enables the evolution of completely new businesses models. Ukraine is now going through a digital transformation. The demand for 3G was enormous, and now when the road for 3G is open we see the first changes in consumer behavior what will surely lead to the emergence of new products and services and make technologies more available as well as boost Ukrainian IT market. It has been only a few months since 3G came, and now we see that new packages and services appear and it's only the beginning. Innovations have become the top priority for business in Ukraine, they have positive impact on the investment climate of Ukraine and will eventually benefit the country's economy. We at Ericsson are excited to be the driver of these transformations of Ukraine.



Wojciech Bajda

Vice President and Head of Customer Unit
Ukraine&Eurasia, Northern Europe & Central Asia

3G

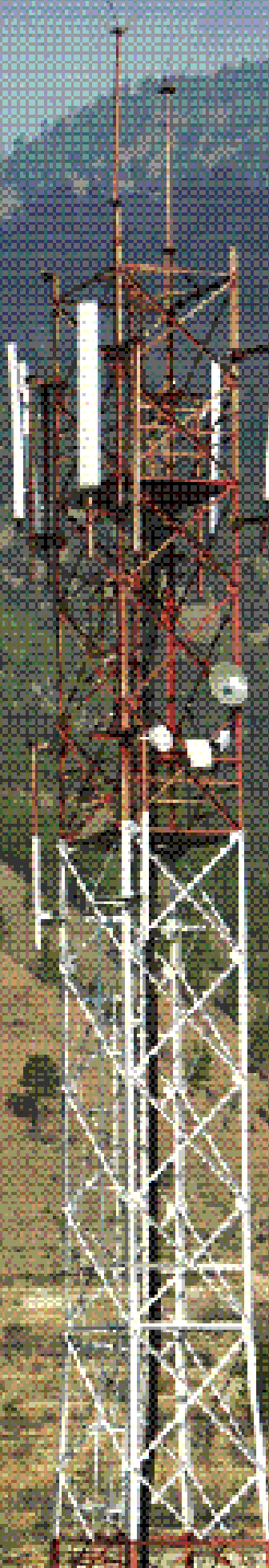
EVERYWHERE SOON.

In the Networked Society, connectivity is the starting point for new ways of innovating, collaborating and socializing. New ICT-related services are radically changing the business landscape.



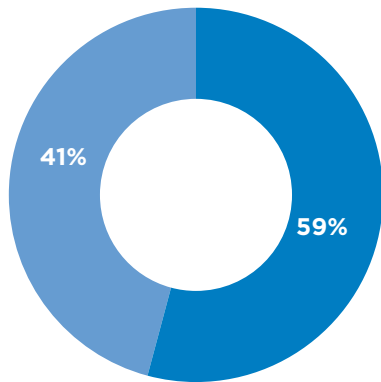
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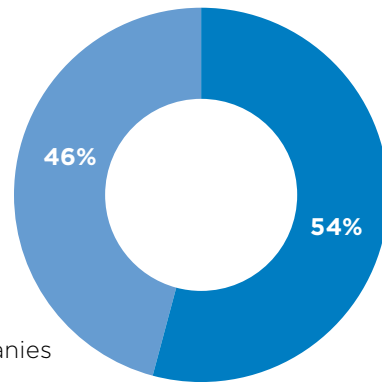


LIFE & HEALTH INSURANCE MARKET

Corporate risk contract share (legal entities)
9M 2015

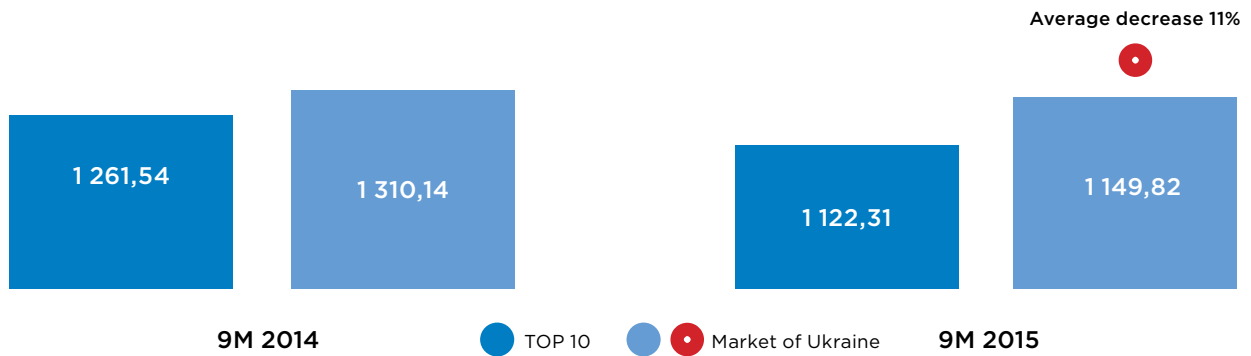


Endowment market share (individuals)
9M 2015



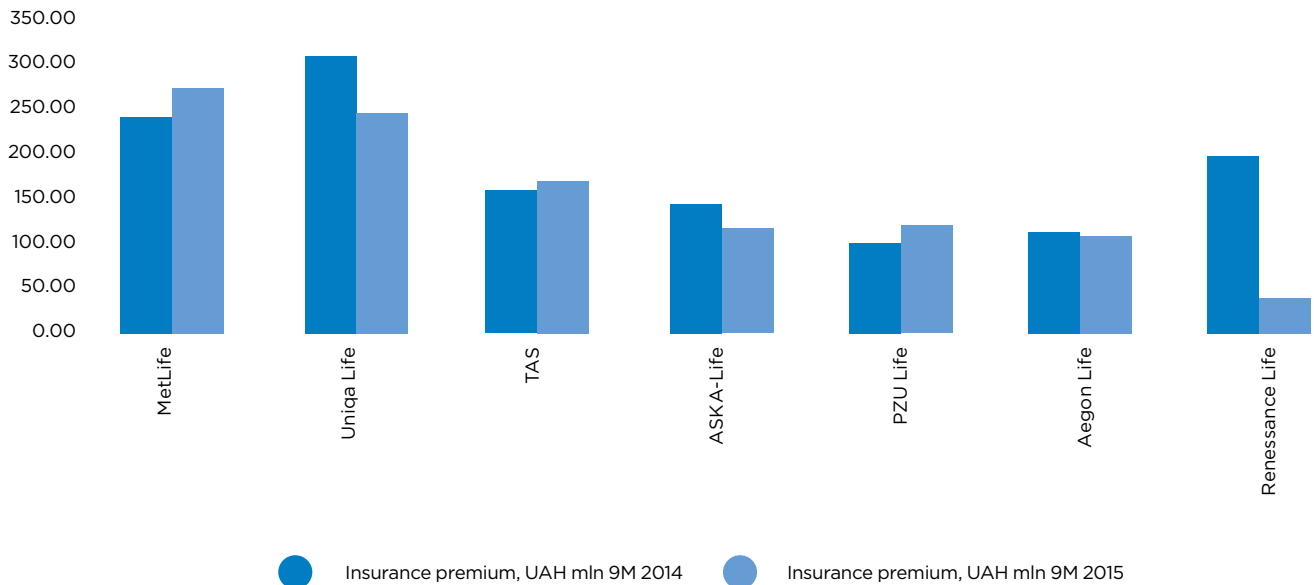
- MetLife
- Other Companies

Dynamics of insurance premiums and insurance payments,
UAH mln



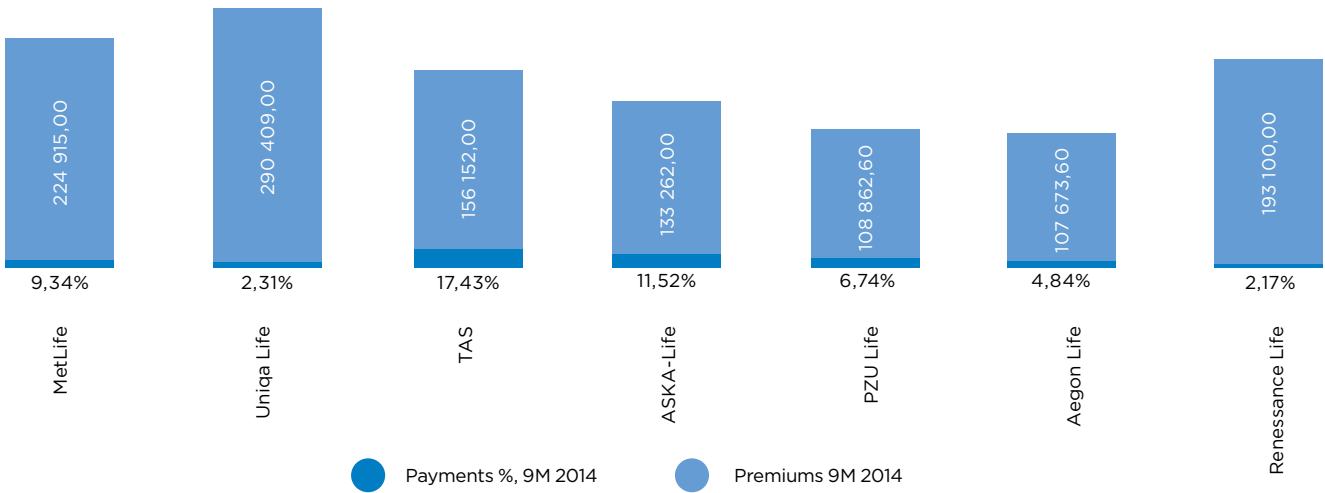
9M 2014 ● TOP 10 ● Market of Ukraine 9M 2015

Insurance payments volume of the largest companies

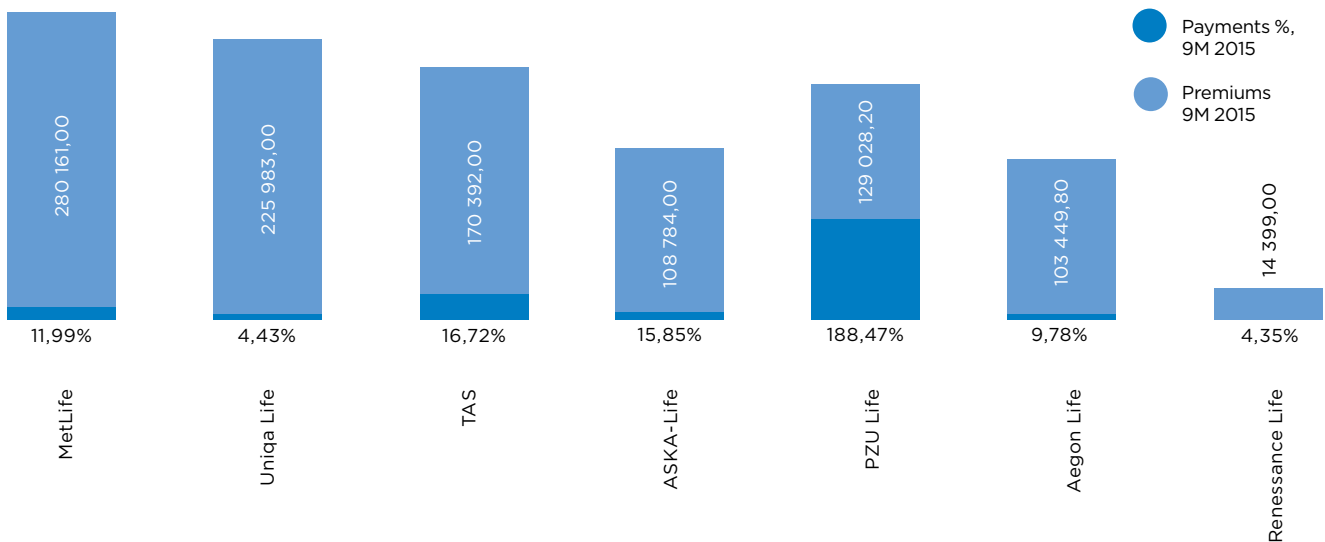


● Insurance premium, UAH mln 9M 2014 ● Insurance premium, UAH mln 9M 2015

Insurance premium vs payment ratio (9M 2014), UAH k



Insurance premium vs payment ratio (9M 2015), UAH k



PROBLEMS/ DIFFICULTIES

Low awareness of life insurance among the society and very low penetration of insurance products

Very fragmented market – big number of companies in a very small market

Inefficient regulations that put international companies – with high internal standards and requirements – at a disadvantage

Current insurance law which needs to be adjusted in order to accommodate the changing customer needs in terms of products and ways of purchasing those products. Delays in enacting the new law are concerning.

General investment climate discouraging distributors' and corporate clients' entry to the country

Lack of capital markets

Bureaucracy that stifles business growth and increases the costs of doing business

FORECASTS

INSURANCE MARKET

1	<p>Growth of life insurance market in Ukraine. Currently Ukraine has the lowest per capita spent on life insurance in Europe due to the level of disposable income in the society. But as the economy starts to grow, the life insurance market will follow.</p>
2	<p>The new insurance law, which is being prepared now, will be one of the main drivers together with the availability of products and the product offering.</p>
3	<p>Enabling of modern distribution methods and simplifying the purchase of simple products will be important as well as the development of a capital market with diversified and safe investment instruments suitable for life insurance companies. It is critical not only to protect the assets of customers, but also for introduction of new products like unit linked which drove insurance penetration in other CE markets.</p>
4	<p>The speed of those changes will definitely hinge on the overall economy trends and the speed of improvement of the climate for business in the country.</p>

“

Life insurance is a great tool for rewarding and motivating employees. Insurance programs for employees are especially designed to cover their most important needs and can provide substantial coverage at relatively low prices. Our programs can provide your employees with substantial financial help in situations when they really need it. MetLife is a world leader in providing insurance programs for employees. Also in Ukraine we leverage our long term experience and already work with the leading international companies in the market. Our specialists can develop tailor made programs to best cover your employees and to help you strengthen their loyalty and motivation.

”



Mirosław Kisyk
Chairman of the PJSC "MetLife"

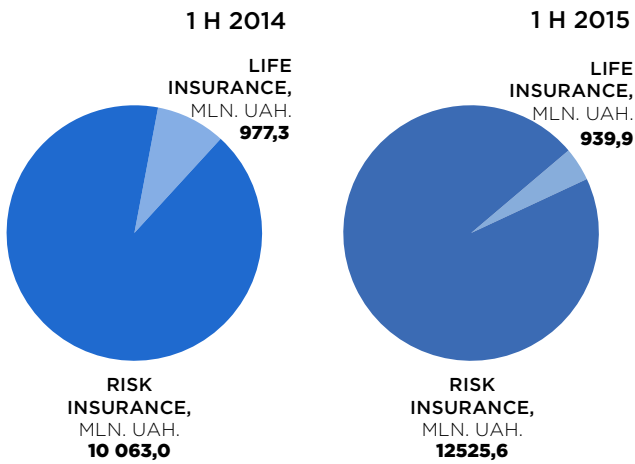


Corporate insurance by the world's leading corporation – is your valuable choice

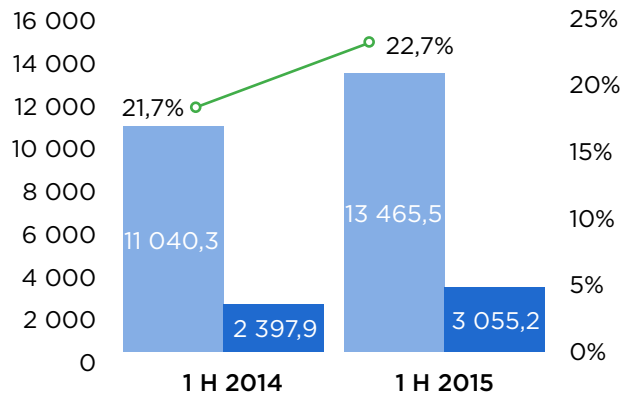
- ✓ 14 years of successful operation in Ukraine and nearly 150 years worldwide
- ✓ Cooperation with 80 international companies in Ukraine and serving 90% of worldwide Fortune500® companies
- ✓ Over 20 000 of insured people under corporate agreements
- ✓ Wide range of insurance programs for employees and their relatives, including critical illnesses and WorldCare program
- ✓ Flexible processing of payment requests to meet the needs of customers

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RISK INSURANCE MARKET OVERVIEW



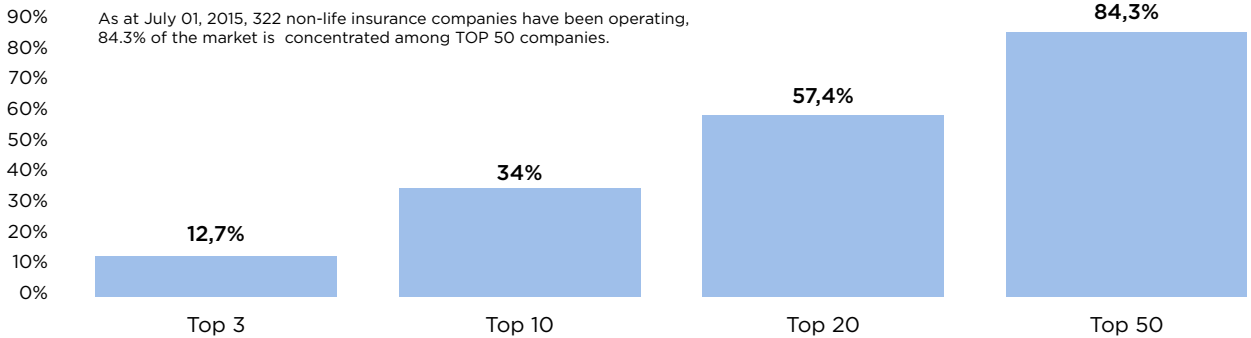
Source: State Commission for Regulation of Financial Services Markets of Ukraine



- Gross insurance premiums, UAH mln
- Gross insurance payments, UAH mln
- Level of gross insurance payments, %

Source: State Commission for Regulation of Financial Services Markets of Ukraine

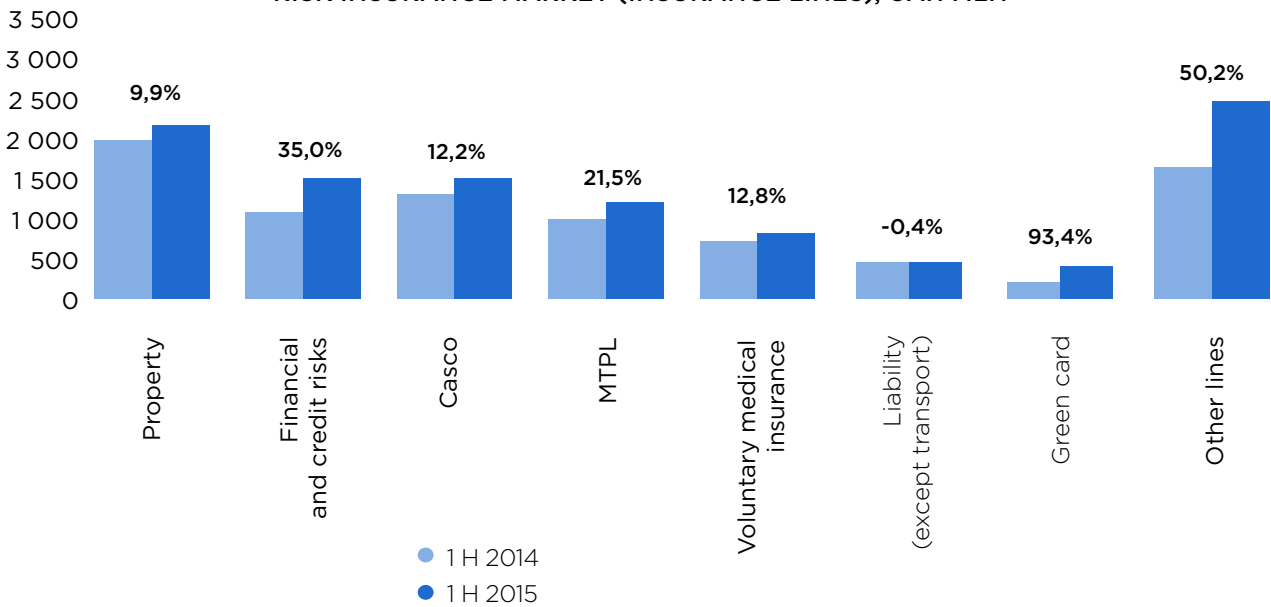
INSURANCE MARKET CONCENTRATION, H1 2015, NON-LIFE INSURANCE



As at July 01, 2015, 322 non-life insurance companies have been operating, 84.3% of the market is concentrated among TOP 50 companies.

Source: State Commission for Regulation of Financial Services Markets of Ukraine

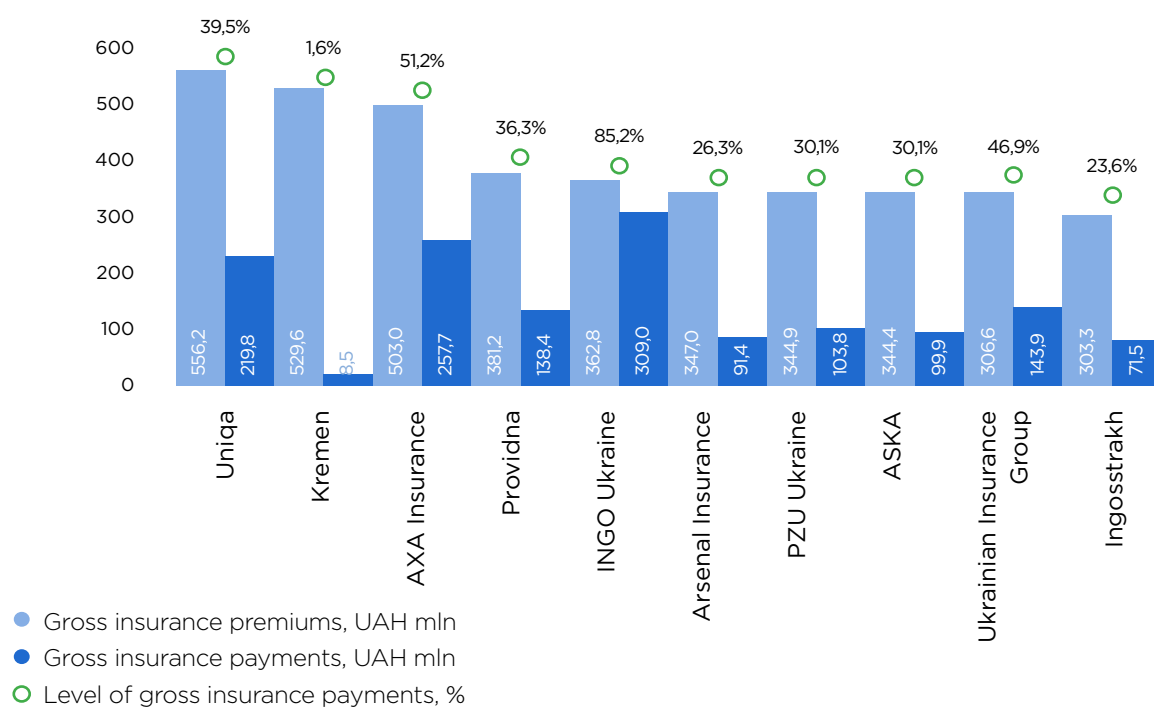
RISK INSURANCE MARKET (INSURANCE LINES), UAH MLN



- 1 H 2014
- 1 H 2015

Level of gross insurance payments, %

ТОП-10 RISK INSURANCE COMPANIES, H1 2015 RESULTS



ТОП-10 RISK INSURANCE COMPANIES, H1 2015 RESULTS

Insurance line	Insurance premiums, UAH mln	Insurance payments, UAH mln	Payment level, %	A number of contracts concluded, ths pcs
MTPL	1 166,1	396,6	34,0%	3 175,9
Casco	946,3	517,2	54,7%	71,6
Voluntary medical insurance	368,9	279,6	75,8%	582,2
Property	289,5	23,5	8,1%	28 530,6
Green card	275,5	13,7	5,0%	305,7
Accident	172,9	26,3	15,2%	8 306,9
Travel	168,2	53,1	31,5%	985,1
Financial and credit risks	81,6	3,6	4,4%	4 587,6
Total	3 719,1	1 343,6	36,1%	52 177,9

MAIN INDUSTRY PROBLEMS/ DIFFICULTIES

- Reduction in the common base of insurance operations
- Decline in clients' solvency
- Increase in insurance payments as a result of national currency devaluation
- Low capital adequacy ratio of insurance companies
- Pricing driven competition inadequate to risk level written
- Amendments to the laws of Ukraine
- Low loyalty of potential customers to the industry

CORE CHALLENGES OF THE INDUSTRY/ FORECASTS/OPPORTUNITIES/INNOVATIONS/ STEPS/REFORMS

RISKS

- Reduction in the common base of insurance operations
- Decline in clients' solvency
- Increase in insurance payments as a result of national currency devaluation
- Low capital adequacy ratio of insurance companies
- Pricing driven competition inadequate to risk level written
- Amendments to the laws of Ukraine
- Low loyalty of potential customers to the industry

FORECASTS

- Concentration of the insurance market among 30 top market players based on the premiums written
- Increased pricing competition among insurers
- Further increase in the insurance payments level
- Decrease in the insurance market capacity in a number of contracts effected both in corporate and home insurance

OPPORTUNITIES AND INNOVATION

- Implementing operational strategies by insurance companies aimed at cost cutting
- Client services' automation; implementing modern IT solutions
- Developing online insurance
- Implementing innovative insurance products for corporate and retail clients (insurance of political risks, cyber risks, smart insurance products) Required steps and reforms
- Reinforcing the Regulator's requirements to capital and business models
- Improving the legal basis
- Providing transparency and predictability of regulatory policy



When insurance payments are increasing, the insurers should consider reducing operational expenses. Optimisation of business processes and implementation of modern IT solutions are the most efficient mechanisms to tackle this issue. In the short run, implementation of IT innovations will not only become the growth driver for insurance companies, but will also be a critically important factor for their existence. Moreover, I think that digital revolution will have more impact on the change in structure, size and quality of the insurance market than economic, political and social factors.



Igor Gordienko

CEO, INGO Ukraine Insurance Company



www.ingo.ua

0 800 30 55 53

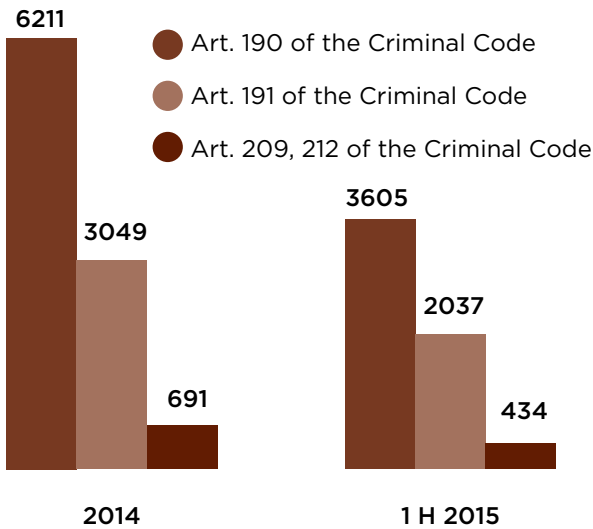
PROTECTION OF BUSINESS IN THE CRIMINAL PROCEEDING

THE MAIN QUANTITATIVE INDICATORS OF THE BRANCH 2014-2015 YEARS

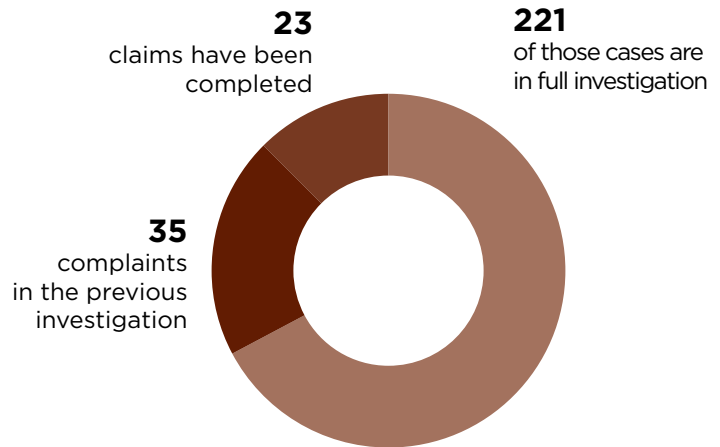
The most common crimes in the practice of White Collar Crime are:

- FRAUD (ART. 190 OF THE CRIMINAL CODE)
- MISAPPROPRIATION AND EMBEZZLEMENT OF ENTRUSTED PROPERTY (ART. 191 OF THE CRIMINAL CODE)
- EVASION OF TAXES AND DUTIES (ART. 212 OF THE CRIMINAL CODE)
- DOCUMENT FORGERY (ART. 358 OF THE CRIMINAL CODE)
- LEGALIZATION (LAUNDERING) OF FUNDS OBTAINED BY CRIMINAL MEANS (ART. 209 OF THE CRIMINAL CODE)
- MALPRACTICE (ART. 364 OF THE CRIMINAL CODE) AND NEGLIGENCE OF OFFICIAL DUTY (ART. 367 OF THE CRIMINAL CODE)

Number of opened criminal proceedings in the business area



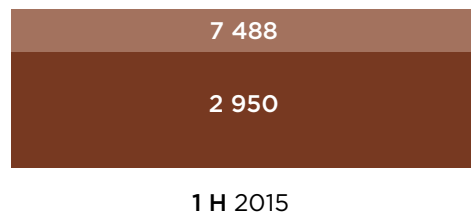
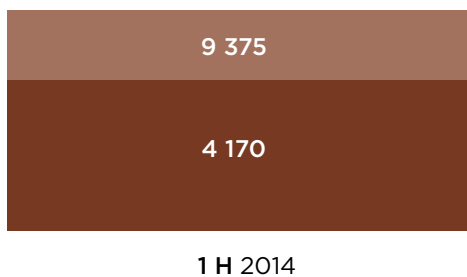
Claims from different businessmen by January - August 2015



LEGAL SYSTEM

1st place among "problem" state authorities for business structures takes Tax Service **> 30% of claims**

Total number of cases decreased, but the degree of pressure on business has remained the same



- Q-ty of cases that were investigated in the sphere of economic activity
- Q-ty of criminal cases were closed due to lack of constituent elements or evidence of a crime, decriminalization for committed violation or the presence of a court decision

40% of the criminal cases were initiated groundlessly

Source: According to official statistics of the General Prosecutor of Ukraine

THE MAIN PROBLEMS / DIFFICULTIES

- Abuse by regulatory and law enforcement authorities, including actions connected with the low level of their employees' qualifications
- High level of corruption in government
- Limited defense opportunities for attorneys compared prosecutors, including in terms of gathering evidence
- Increasing negligence of the attorneys' rights by law enforcement authorities
- Blocking of enterprises and attorneys by means of repeated investigations and seizure of documents, servers
- Pressure of law enforcement authorities on the client's employees
- Involvement of law enforcement authorities into resolving corporate conflicts and raids

ACTION PLAN

- 1 Risk assessment and business structuring before a problem occurs
- 2 Protection of key assets of the business
- 3 Audit of contractors for their integrity
- 4 Formation of a clear corporate governance structure of the business
- 5 Trainings for clients' employees on acting in a problem situation
- 6 Active participation of an attorney at the stage of inspection and receiving requests
- 7 Initiation of criminal cases to prosecute police officers who abuse their authority to put pressure on business
- 8 Publicizing issues related to pressure on business

“

The task of the legal community is to provide as much assistance as we can to our customers for them to work in a quiet mode with clear rules and transparent procedures. However, the development and maintenance of any business is often accompanied by the occurrence of various conflict situations related to business activities or current legislation. Effective business protection is impossible without high-quality legal support. That is why today we observe a significant demand for attorney services from the business community.

”



Denys Bugay
Attorney-at-law, Partner at VB PARTNERS



Corporate fraud & corruption



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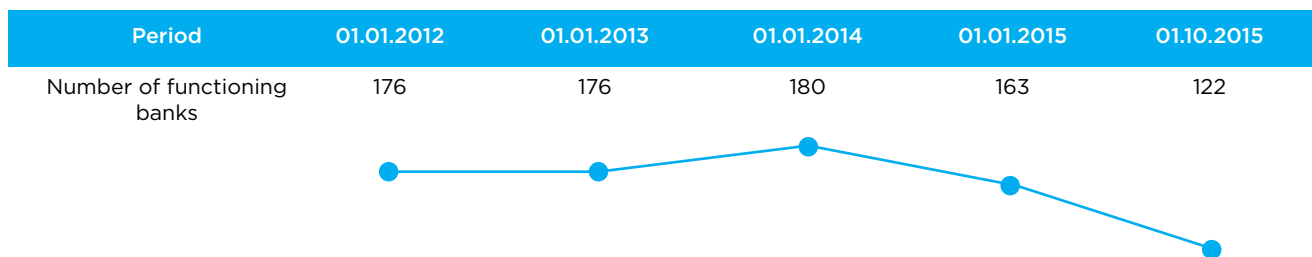
COMMERCIAL DISPUTE RESOLUTION IN UKRAINE

MAIN QUANTITATIVE INDICATORS OF SECTOR IN 2014-2015

CHANGE IN COURT FEES PAID TO COMMERCIAL COURTS OF UKRAINE FOR MONETARY CLAIMS

Period	First instance	Appeal	Third instance	Review by the Supreme Court of Ukraine
Before changes of 01.09.2015	2% of the claimed amount but not less than 1,5 amount of minimal salary and not more than 60 amounts of minimal salary	50% of fees in first instance	50% of fees in first instance	50% of fees in first instance
After changes of 01.09.2015	1,5% of the claimed amount but not less than 1 minimal salary and not more than 150 amounts of minimal salary	110% of fees in first instance	120% of fees in first instance	130% of fees in first instance

NEGATIVE DYNAMICS IN UKRAINIAN BANKING SECTOR



CRISIS IN THE BANKING SECTOR OF UKRAINE



MAIN PROBLEMS/ DIFFICULTIES

- Significant increase of the highest threshold for court fees from 60 to 150 minimal salaries and related costs for appealing court judgements in courts of higher instances negatively affects access to justice in commercial disputes with claims exceeding USD 200,000.00.
- Liquidation of the substantial number of banks during 2014-2015 together with lowering solvency of companies in Ukraine became a background for commercial disputes that arose against those companies.
- Despite growing demand for resolution of commercial disputes through mediation, there is still no detailed regulation of this legal institution on governmental level.

1 Increase of the highest threshold of court fees in state commercial courts makes resolution of commercial disputes through arbitration in ICAC at the Ukrainian CCI or in domestic arbitration courts and through mediation more attractive

2 The Ukrainian Parliament introduced two draft laws on mediation for approval in 2015

Therefore, there is a possibility that this legal instrument will be finally regulated on state level.

3 Major changes were introduced in the system of enforcement of court judgements and arbitration awards in Ukraine

The State Bailiff Service was terminated, and its functions were handed to the Ministry of Justice.

A draft law, establishing a mixed system of state and private bailiffs and a uniform registry of debtors, was submitted for review to the Parliament of Ukraine.

“

During the last year, many positive reforms were introduced in the area of international dispute settlement. Some of them have potential to significantly improve the efficiency of the system, while a real-life impact of others is not yet clear. For instance, introduction of a system of private bailiffs and a uniform registry of debtors should ensure efficient enforcement of court judgements and arbitral awards. However, the recent increase of court fees and related costs in cases with claimed amounts exceeding USD 200,000.00 has negatively affected both Ukrainian and foreign claimants. Due to the on-going economical recession, many companies, experiencing financial difficulties, may be de facto denied access to justice in Ukraine.

”

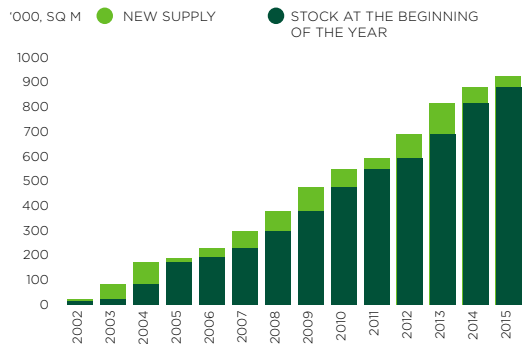


Denys Kopii
Partner, TCM Group Ukraine

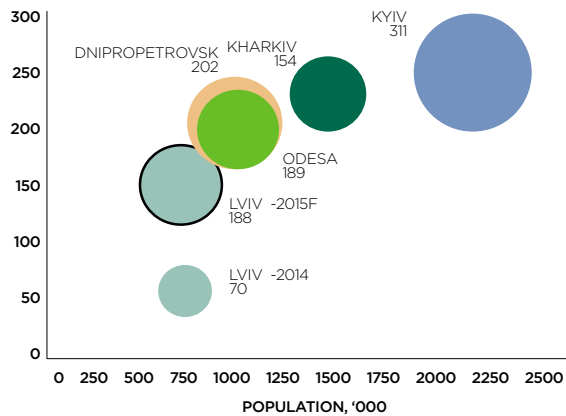
REAL ESTATE SECTOR OVERVIEW

KYIV RETAIL MARKET

Kyiv Shopping Center Stock and New Supply



Retail Premises per 1,000 Inhabitants in the largest cities of Ukraine



SOURCE: CBRE UKRAINE

The pace of turnover deceleration eased as the year progressed, while retailers adapted to weak consumers sentiment

Total competitive stock of shopping centers in Kyiv remained unchanged at ca. 880,000 sq m, and provision of retail space stood at 311 sq m per 1,000 ppl as of the end of September 2015

Average market vacancy decelerated by 2 pp over January - September 2015

USD-based rental rates for prime retail properties declined by 13% in the first half of 2015 ranging between \$58 - \$97/sq m/month (triple net), maintaining stability by the end of September 2015

RETAILERS



New retailers in 2015: ADL, Silenza, Betty Barclay, Oscar de la Renta, Chloe

SUPPLY



880 000 sq m

RENTS



PRIME RENTS
\$58 - \$97/sq m/month
SECONDARY RENTS
\$27- \$46/sq m/month

KYIV OFFICE MARKET

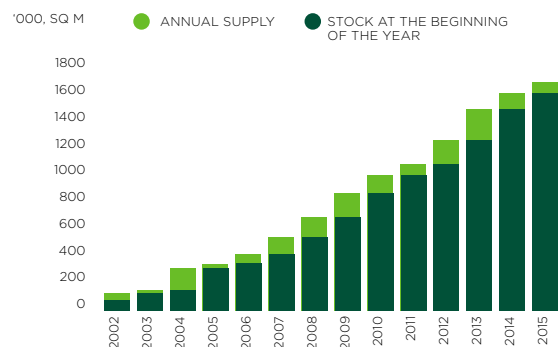
Office transactions were driven by relocations and renegotiations, with estimated take-up reaching 40,000 sq m as of the end of September 2015

New supply of office space reached 57,000 sq m over January - September 2015

Average market vacancy grew to 32.9% (+1.9 pp) during the first half of the year, diminishing to 31.2% by the end of September

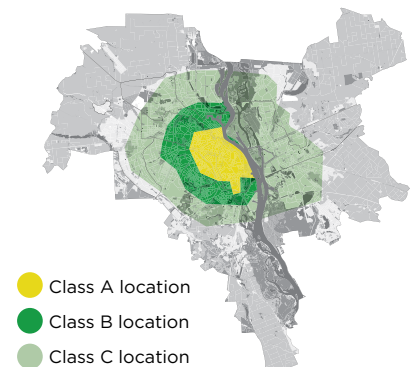
The indicative prime rent declined by 8% on average from \$25 to \$23 per sq m/month (triple net) during the first quarter, maintaining stability through Q2-Q3 2015

Kyiv Annual Development Completions and Total Competitive Stock



Class A location	Quality A	Quality B	Vacancy Q3 2015
Prime	\$23-28	\$16-22	19,3%
Pechersk	\$20-30	\$15-20	43,9%
Podil	\$18-25	\$15-20	17,4%
Shevchenkivskiyi	-	\$7-20	20,9%
Olimpijskiy	\$16-30	\$10-20	22,2%
Class B location	Quality A	Quality B	Vacancy
CBD fringe	\$18-26	\$7-20	20,8%
Class C location	Quality A	Quality B	Vacancy
Non-central area	\$16-18	\$7-12	41,9%

SOURCE: CBRE UKRAINE



KYIV WAREHOUSE MARKET

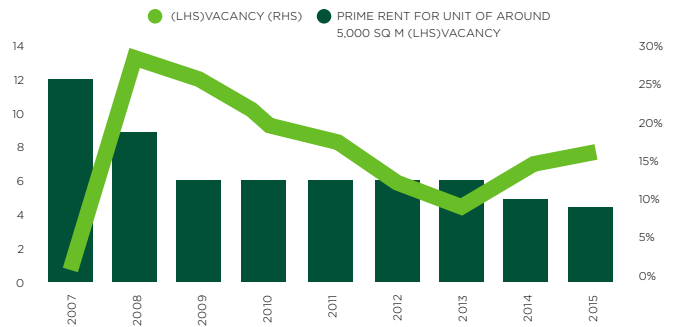
50,000 sq m (-28.7% y-o-y) in take-up was recorded on the market, with the prevailing share of transactions driven by relocation decisions

No new warehouse schemes were delivered speculatively year-to-date

Occupied space contraction brought average market vacancy up by 1.1 pp compared to the end of 2014 and reached 16.0% as of September 2015.

Prime industrial rents denominated in USD declined by 10% from \$5.0/sq m/month to \$4.5/sq m/month for lot size of ca. 5,000 sq m over the course of the first six months of 2015, stabilizing at this level by the end of September 2015

Rental and Vacancy Rates (USD/sq m/month)



TAKE-UP

50 thnd sq m

TOTAL STOCK

1,29 mln sq m

OUTLOOK/FUTURE CHALLENGES AND OPPORTUNITIES



While predicting the bottom of a cycle is notoriously tricky, there are good grounds to take a more optimistic view of Ukraine's consumer and business sentiment heading into 2016.



Looking into 2016, stabilization of disposable income, projected curbing of inflation and rebound in retail turnover should translate into activation of retail and warehouse real estate sectors, while tangible positive changes in business activity and demand for office premises can be expected in the latter part of 2016.



Vacancy in prime properties is expected to contract slowly in 2016, as soon as occupiers' demand recovers



Prime rents will stay broadly stable over the course of 2016, assuming stable currency and slow economic recovery. At any rate, the polarization trend between prime and secondary properties will be a prominent feature of the near future.



With Ukrainian real estate market at its arguably lowest point, this is also a time of unique opportunities. Low capital values lure long term real estate players, and low rental rates are used by business to grow market share or achieve substantial cost savings. We look at the glass part full and look forward to a productive year ahead!



Sergiy Sergiyenko
Managing Partner of CBRE Ukraine

EXCHANGE OF TAX INFORMATION

IN THE FIRST HALF OF 2015, UKRAINE:

FILED
619
REQUESTS

RECEIVED
472
REQUESTS



An average time to respond to one request is approximately 5 months.

TYPES OF EXCHANGE OF INFORMATION:



ON REQUEST

SPONTANEOUS

AUTOMATIC

Ukraine is a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes, which aims to ensure the implementation of the internationally agreed standards of transparency and exchange of information in the tax area.

UKRAINE HAS EXCHANGE OF INFORMATION RELATIONSHIPS

with **72** jurisdictions through **71** Conventions

To date, Ukraine has concluded no Tax Information Exchange Agreements. **= 0**

EXCHANGE OF INFORMATION IS AVAILABLE WITH



the Faroe Islands and Greenland (extension by Denmark)



Aruba, Curaçao and Sint Maarten (extension by the Netherlands)

Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Gibraltar, Guernsey, Isle of Man, Jersey, Montserrat and Turks and Caicos Islands (extension by the United Kingdom)

SCOPE OF REQUEST

Any information that is foreseeably relevant for the administration or enforcement of the domestic laws

Information which is obtainable under the laws of both applicant State and requested State

No information which would disclose any trade, business, industrial, commercial or professional secret, or trade process

No information the disclosure of which would be contrary to public policy

WHAT TO EXPECT:



“

In the recent years, there has been a strong trend towards improving the exchange of information procedure, especially with offshore jurisdictions. Ukraine appears to have committed itself to this initiative by, among other things, participating in the Global Forum on Transparency and Exchange of Information for Tax Purposes. It can potentially become a solid source of the revenue for Ukraine. According to the statistics, administration of one information exchange request by Australia on average resulted in recovery of EUR 800k, by Sweden – EUR 320k. Further, by joining the Multilateral Competent Authority Agreement, Ukraine may in the future automatically obtain information with regard to the financial accounts in major financial centers, including the UK and Switzerland, and popular offshore jurisdictions, including Belize, British Virgin Islands, and Cayman Islands.

”

**Taras Varava**

Associate of Baker & McKenzie, Kyiv

TRANSFER PRICING

MAIN QUANTITATIVE INDICATORS OF THE SECTOR

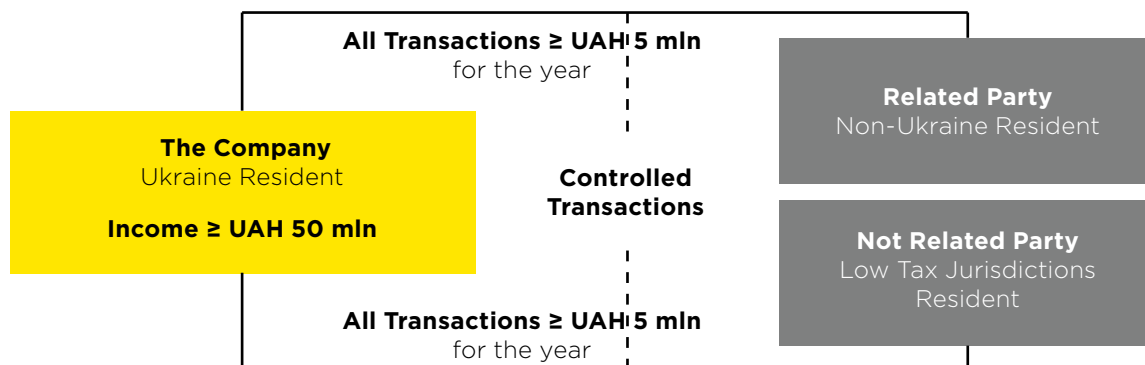
NEW TRANSFER PRICING RULES EFFECTIVE 1 JANUARY 2015

Are set up by the Law of Ukraine "On amendments to the Tax Code of Ukraine concerning transfer pricing" No. 609-VIII as of 15th of July 2015

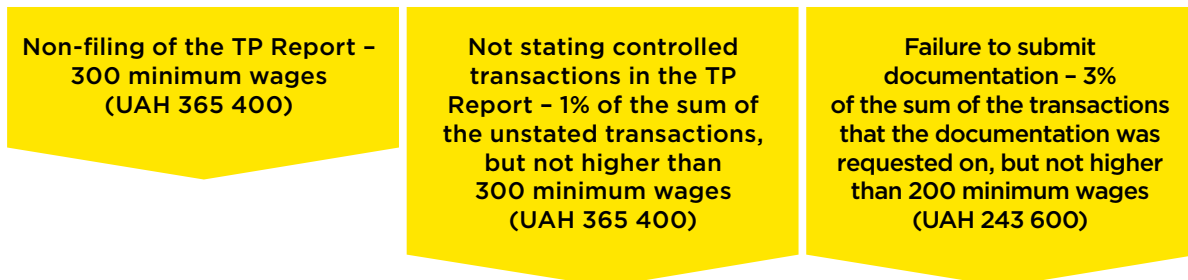
Introduce the arm's length principle

The report on Controlled Transactions (TP Report) is to be filed by the 1st of May on the year following the reporting year

CRITERIA FOR CONTROLLED TRANSACTIONS



PENALTIES



MAIN PROBLEMS/ CHALLENGES OF THE SECTOR

IMPLEMENTATION MECHANISM

New rules take effect starting 1 January 2015, offering too little time to adapt

Short deadlines for the submission of TP documentation (one month from the day of the request)

7-year statute of limitations (SoL) period for TP audits, giving tax authorities more time to examine previous years' transactions

MAIN CHALLENGES

More cross-border transactions fall under TP control due to lower thresholds on income and transactions volume and wide black-list of jurisdictions

Lack of detailed guidance and experience from the tax authorities creates risks during tax audits and may result in ungrounded tax reassessments

No specific guidance for controlled financial transactions

NEXT STEPS FOR THE GOVERNMENT

1	Build capacity for TP audits, educate personnel and provide clear and transparent procedures
2	Implement the APA procedure
3	Establish list of exchanges for export of commodities, to make CUP method fully applicable
4	Eliminate a number of flaws in the text of new TP rules

NEXT STEPS FOR BUSINESSES

Automation of processes of on-going monitoring of compliance of prices/profitability to be sure that no adjustments on tax return needed	1
Align intragroup pricing methodology in line with the new TP rules	2
Prepare and keep TP documentation to minimize risks of any penalties and fines	3

“

New TP rules will affect many businesses directly and indirectly: through additional compliance requirements with respect to cross-border transactions, to changes in interaction with counterparties (the need to align pricing and other terms of supply contracts). We recommend to assess the impact of the new rules on your business and, if necessary, adjust business processes related to interaction with counterparties, internal control procedures, financial and tax accounting procedures, and financial plans.

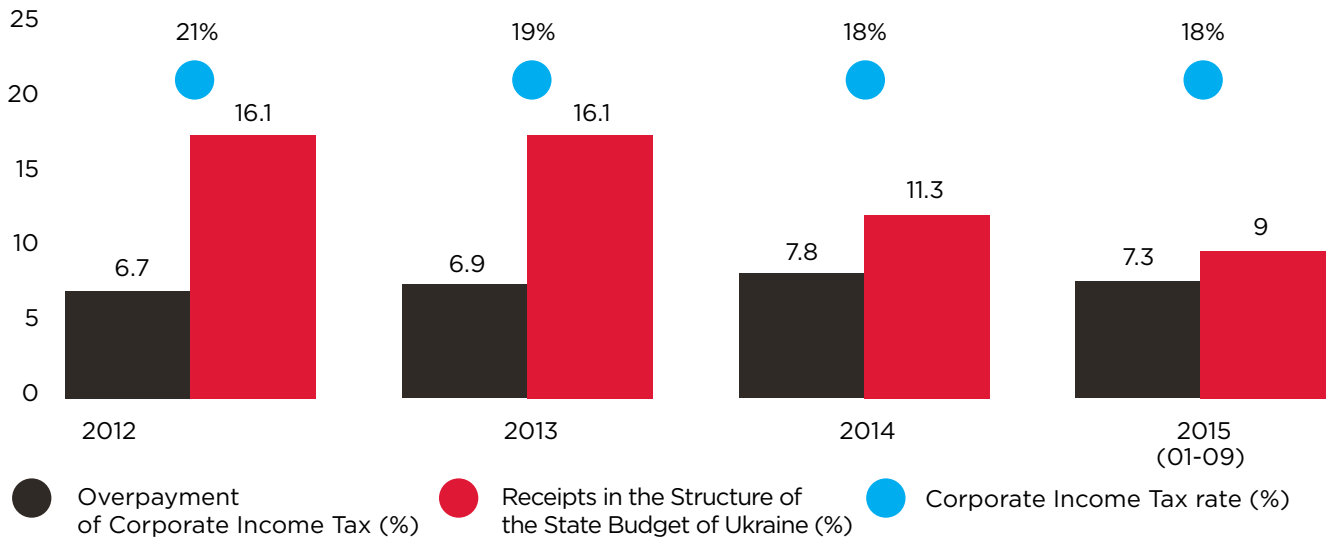
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Igor Chufarov
Partner, Tax & Law, EY Ukraine

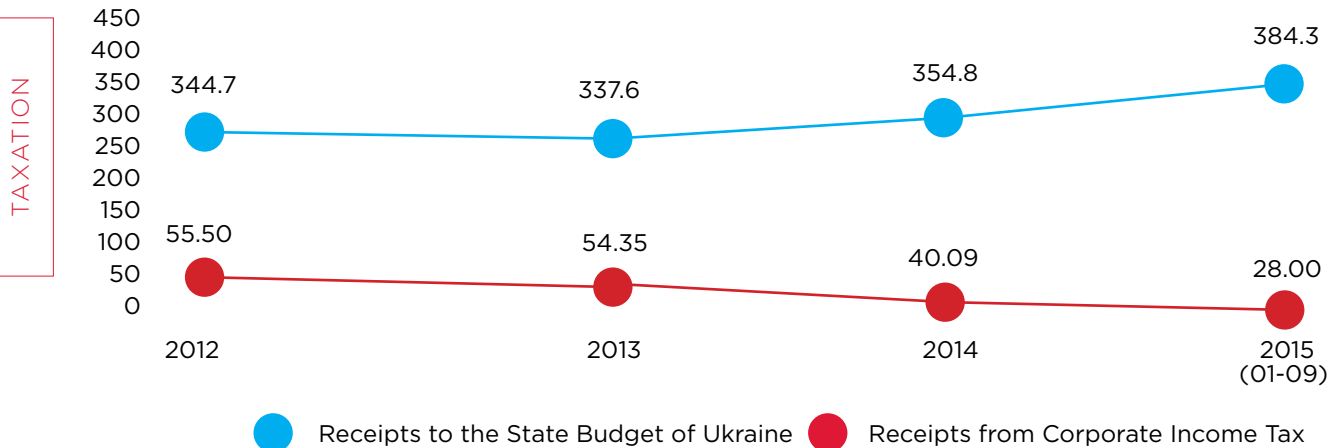


TAX ON DISTRIBUTED PROFIT AS THE BASIS FOR RESTART OF THE ECONOMY OF UKRAINE

Dynamics of overpayment of Corporate Income Tax and receipts from Corporate Income Tax to the State Budget of Ukraine in 2012 - 2015 considering the dynamics of Corporate Income Tax rate in Ukraine



Dynamics of overall receipts of the State Budget of Ukraine and receipts from Corporate Income Tax in 2012 - 2015 (bln. UAH)



28
billions UAH
overpayment of CIT

400
billion
of tax losses

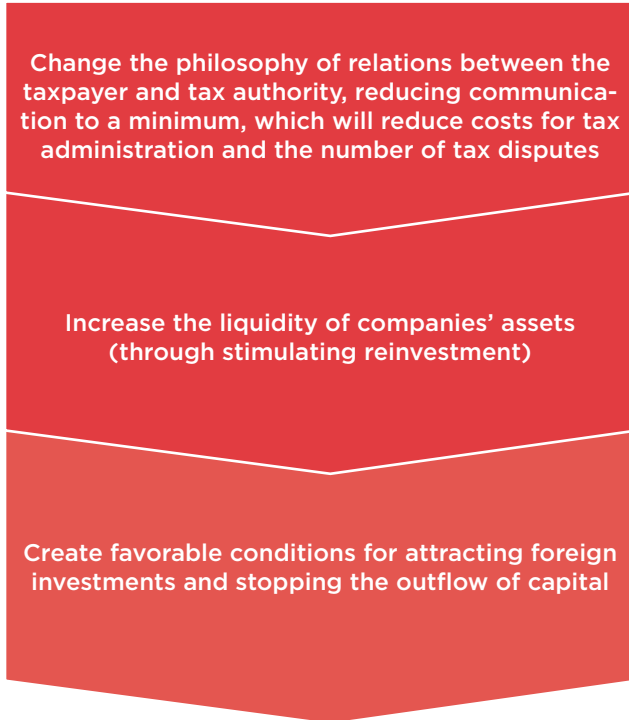
CIT is
NOT A
a budget forming

THE MAIN PROBLEMS WITH THE ADMINISTRATION OF CORPORATE INCOME TAX

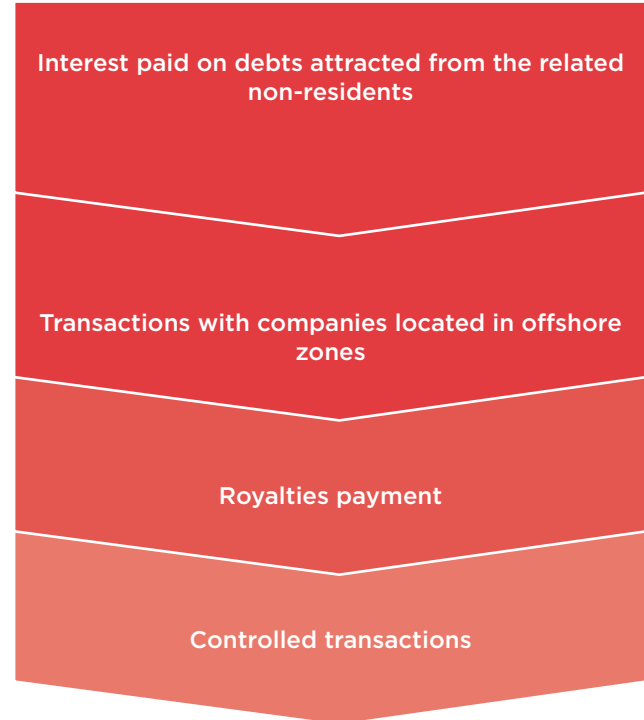
- Preservation of separate tax accounting of revenues and expenses
- Additional documentary substantiation and proof of connection with business activity
- Drafting burdensome tax reporting which causes constant litigations
- Advance payment of tax (accumulated overpayment constitutes about UAH 28 billions)
- Intervention of controlling authorities into the issues of accounting
- Practice of setting 'plans' for tax officials on collections to the state budget

ACTION PLAN

Introduce the model of distributed profit taxation with the establishment of simple and transparent tax rules that will allow to:



This model introduces a direct taxation of payments, which can be used for optimization of CIT inter alia as follows:



Under the proposed model the subject to taxation will be only what is shared, i.e. that is derived from business. Practically it is referred to the crediting of the economy due to the tax deferment, because according to the Estonian model the tax is paid at the moment of distribution of the profit, but not at the moment of accrual of implicit profit in accordance with classical system of profit taxation. It will provide the business with the free working capital for its development that is particularly important under the conditions of absence of the cheap credit resources.



Alexander Shemiarkin
Partner, Attorney at Law



In the case of implementation of the offered model the burden of CIT payment and a "headache" related to transfer pricing rules are transfer pricing rules shall be put on big business, releasing small and medium business from the influence of tax authorities, simplifying a system of determination of CIT at the most. Given the existing overpayment of CIT (at least UAH 28 billions) and UAH 400 billions of tax losses of previous periods the CIT is not a budget forming so far. These indicators eventually should enable reform CIT smoothly and totally reload economy of the country.



Inna Taptunova
Senior of Counsel, Attorney at Law





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YOU ARE ON THE RIGHT TRACK

MOBILE TELECOM MARKET OVERVIEW

MAIN QUANTITATIVE INDICATORS OF THE SECTOR

REVENUES FROM POSTAL AND COMMUNICATION SERVICES FOR THE FIRST HALF OF 2015

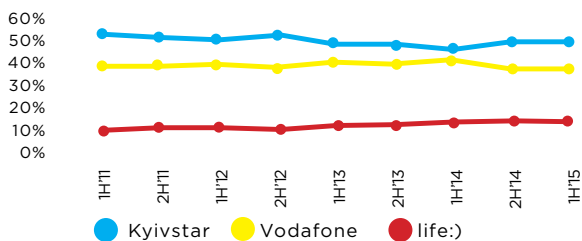
	Revenues from post and communication – total UAH mln.	Including population	From providing international services	
			Total	For population
Postal services and communications	27342,6	15662,9	3366,8	697,0
including				
Postal	1574,3	378,7	413,4	155,5
Telegraph	8,6	2,2	1,0	0,7
Urban telephone	2598,2	1252,8	-	-
Rural telephone	229,0	204,0	-	-
DLD telephone	1080,9	191,4	642,0	96,4
IP- telephony	10,7	0,1	7,8	0,02
Delivery services	306,1	109,0	41,9	2,9
Wire broadcasting	87,0	72,8	-	-
Special and courier services	60,6	-	-	-
TV and Radio broadcasting	1179,3	743,8	9,7	-
Cable TV	759,8	740,9	-	-
Satellite broadcasting, technical supervision and control of resource usage of radio frequencies	21,8	0,03	7,9	-
Computer	182,1	0,01	-	-
Computer	3441,6	2016,5	133,7	41,6
Internet access provision	2958,0	2015,1	75,2	41,6
Mobile		10674,8	2111,2	399,9
Cellular services	16356,9	10674,5	2111,2	399,9
Other services	215,2	16,8	6,1	-

¹ Excluding the temporarily occupied territory of the Autonomous Republic of Crimea and in Sevastopol. And also ATO zone

² VAT incl.

According to the State Statistics Service of Ukraine

MOBILE REVENUE MARKET SHARES, %



Mobile penetration

142,4%

Dual- and triple-SIM usage is popular



There are no obvious signs of improving economic situation in Ukraine since crisis in 2008



Stable market shares with relatively small fluctuations over time indicate that the level of competition is quite low

MAIN PROBLEMS/CHALLENGES OF THE SECTOR

- Unchanged distribution of market share of mobile operators and high level of market concentration indicate barriers that limit competition
- The wholesale price for access to the other operators networks is UAH 0,23 per minute and it is overpriced compared to the average retail cost of calls – UAH 0,09 per minute
- Subscribers communicate mostly within the network and it's not easy for them to change operator
- Two dominant operators with market share > 80% overprice monthly fee and the cost of off-net calls in 4 times in the regions where they have significant market power
- Subscribers have to use the second / third SIM-card, which causes high level of penetration

FORECASTS/POSSIBILITIES/ INNOVATIONS IN THE SECTOR

1 OPEN AND TRANSPARENT 3G TENDER AND LAUNCH OF THIS TECHNOLOGY IN UKRAINE

This remarkable event opens a new chapter in the history of telecommunication industry of Ukraine and in quality of our subscribers' lives. In fact, 3G will mean for Ukrainians that they can use the Internet in any place and any time, without ties to a certain place with wi-fi. That will obviously push Internet industries such as electronic commerce, online payments, mobile finance, mobile medicine, e-governance, etc. to develop. And obviously it will be a good driver for the economy.

According to the market analysis,
Internet penetration growth by **10%** increases GDP by **1%**

2 DECREASE OF MTR (COST OF INTERCONNECTION)

This step will stimulate transparent and fair competition on our market and will break down the barriers in the form of expensive off-net calls.

3 ANNOUNCEMENT OF THE LAUNCH OF MNP SERVICE IN A COMMERCIAL MODE

MNP service launch in a commercial mode, planned till the end of Q1, 2016, will have a significant impact to the market. It is very important to launch this service in the nearest time as it will provide subscribers with real freedom of choice.

“

We can firmly say that the latest key changes on the telecom market, in particular 3G launch, MTR decrease and prospectives in introduction of MNP, move the telecom industry in the direction of more competitive and transparent environment. We hope that during the nearest few years the telecom market of Ukraine will become much closer to European standards and more attractive for investors

”



Burak Ersoy
CEO of life:)

ДЛЯ ВСІХ, ХТО ЦІНУЄ ЯКІСТЬ КОЖНОГО ПРОДУКТУ У СТРАВІ.

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