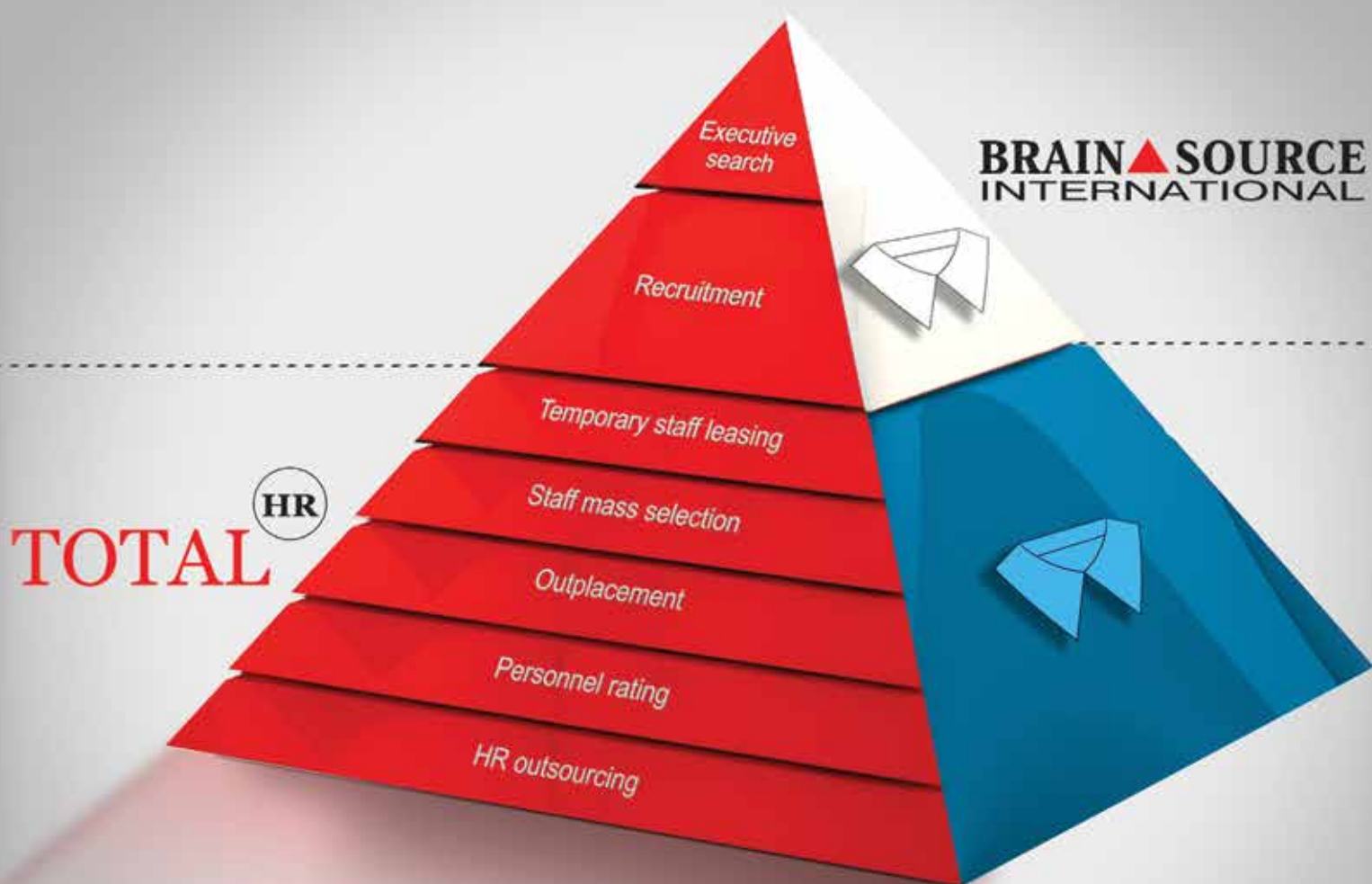


American Chamber of Commerce in Ukraine



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BSI - 2nd among the best recruitment companies,
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by career web-portal HeadHunter Ukraine (hh.ua) in 2013.

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Dear Chamber Members,

The past twelve months have seen changes and challenges in Ukraine that few could have foreseen. As the incoming Board Chair, I am proud of the work of the Chamber to support our Member Companies through these difficult times. At this key point in Ukraine's development we are ready to work with the Ukrainian Government and its people as they develop on a path of closer European integration, embracing reforms that are the hallmark of successful market economies.

The Chamber and its Board of Directors remain focused on the supporting our Members during the challenges that lay ahead in 2015. Over the past year, the Chamber maintained an effective dialog between the business community and the Government of Ukraine despite the rapid changes. The Chamber worked diligently to provide our members with relevant information, high level engagement, and access to key decision makers. Our Committees and Working Groups continued to push for the comprehensive economic reform that Ukraine urgently needs in order to attract and retain much needed domestic and foreign investment.

On behalf of the Board of Directors, I would like to express our gratitude for the support and involvement of every one of our Member Companies. Your efforts and contributions are at the heart of the Chamber's activities. We continue to work closely together and support each other to the benefit of all our Member Companies.

I would also like to thank the Chamber Team who work every day to make the Chamber and our Member Companies a success! Their professionalism and dedication during these difficult times has been inspiring.

A special thank you to Taras Kachka, for stepping up to the role of Acting President. Taras brought his expertise and enthusiasm to the role, and under his leadership the Chamber has continued to deliver the benefits and services that the Chamber has so successfully delivered over the years for our Members.

A key task for the Board of Directors in 2015 will be to ensure that we select a new President early in the New Year that can lead the Chamber to the next level of performance on behalf of its Members. The Board will work with the new President to strive to create a more prosperous market economy in Ukraine that benefits our Members' businesses and the overall quality of life for all Ukrainians.

My best wishes to you and your business for 2015!



Graham Tiley,
Chairman of the Chamber
Board of Directors

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ASSOCIATION AGREEMENT BETWEEN UKRAINE AND EU

Main quantitative indicators in 2013–2014

Base EU import customs duties:



12,7%

For agricultural
goods



9,2%

Extraction
industry



4,3%

Textile
manufacturing



0,4%

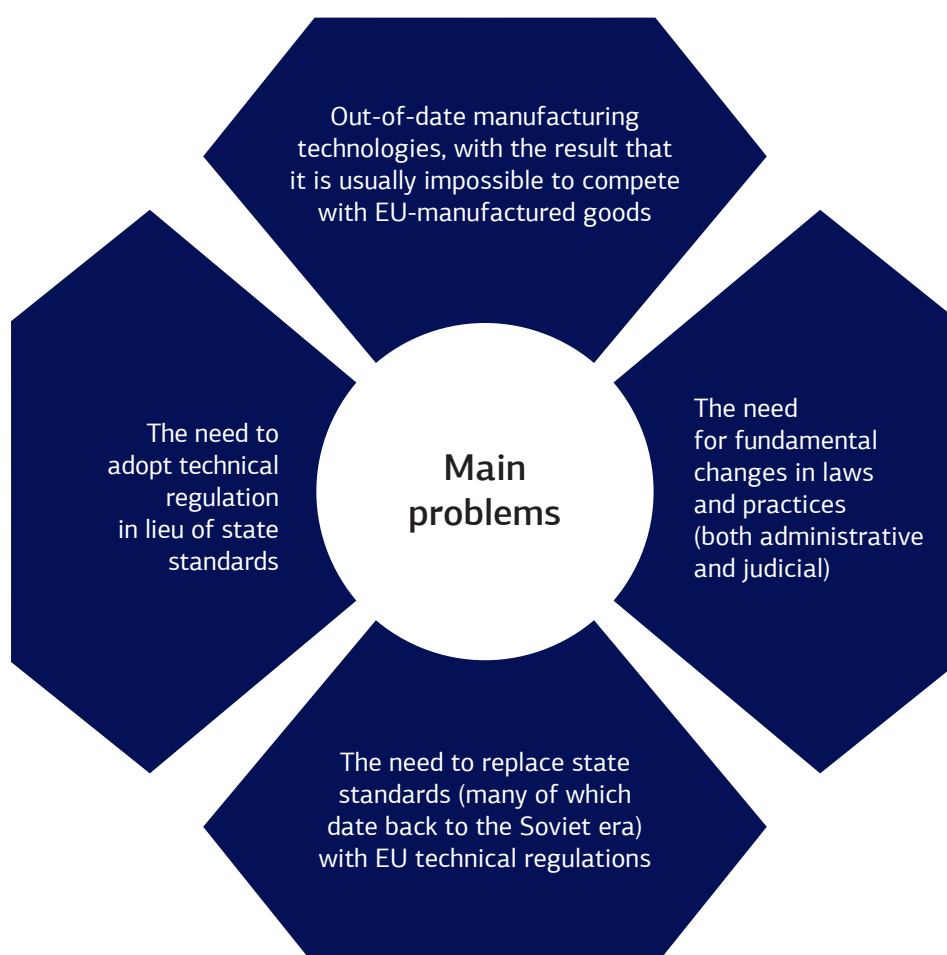
Food and drink
production

83,1%

of Ukrainian agricultural goods
are already imported duty-free to the EU

41 000

passenger vehicles were on average
imported by Ukraine from EU annually
(except for 2014, due to introduction of the
utilization levy and general political turmoil)



Forecasts, possibilities, required steps/reforms

Within 10 years — a deep and comprehensive free trade area with the EU.

Over 90% of customs duties will be eliminated (reduced to 0%):

Ukraine will withdraw
98%
of import duties

EU will withdraw
96,3%
of import duties

Over the next 15 years Ukraine will preserve safeguards in the automotive industry aimed at protecting domestic vehicle manufacturers

The Ukrainian economic sectors which should benefit the most from the free trade area (% growth expected):



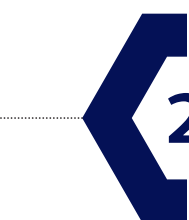
Agriculture — **42,8%**



Food industry — **15,2%**



Light industry — **100%**



National treatment for Ukrainian companies seeking to set up a business establishment in the EU



End EU import customs duties (due to the Association Agreement):



Agricultural goods — **0,3%**



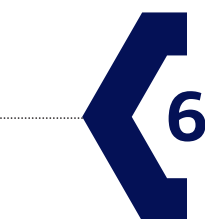
Fossil fuel extraction industry — **0,4%**



Food and drink production — **0,0%**



Textile manufacturing — **0,0%**



Cumulative growth of Ukrainian GDP is expected to reach

14,1%



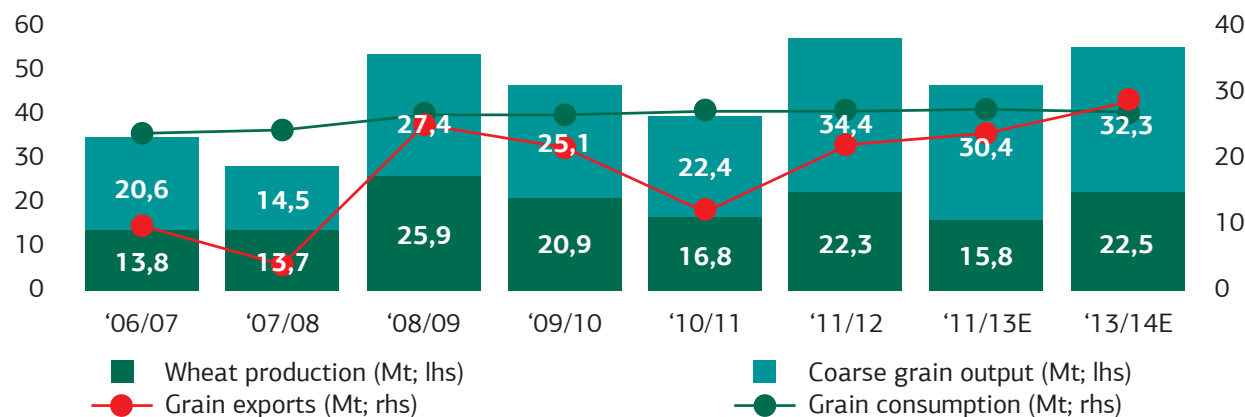
“The signing of the Association Agreement is a very important decision taken by Ukraine and marks the beginning of a long path ultimately leading to a higher quality of life. Ukraine will face a number of challenges and will need to adapt a large number of laws and standards to meet the requirements set by the Association Agreement. We sincerely hope that Ukraine's leadership understands the needs to perform necessary reforms and that they will put all efforts into achieving this goal.”

Daniyil Fedorchuk, Ph.D, Senior Associate at Gide Loyrette Nouel

AGRICULTURE SECTOR OVERVIEW

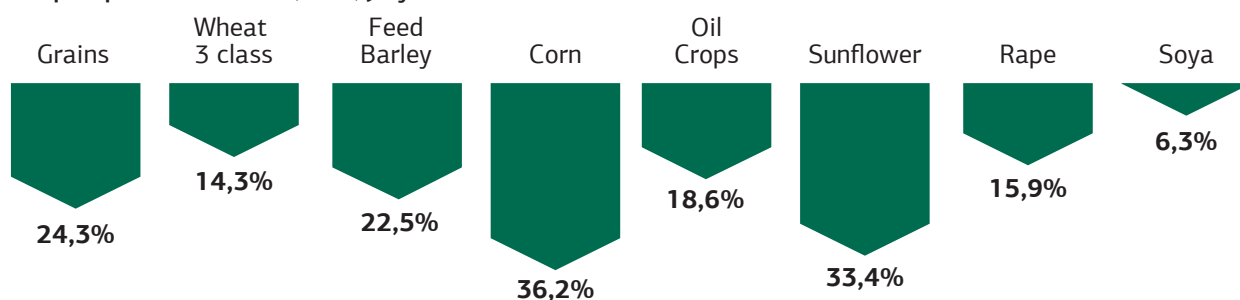
Main quantitative indicators of the sector

Ukraine Grain Output, Export and Consumption (Mt)



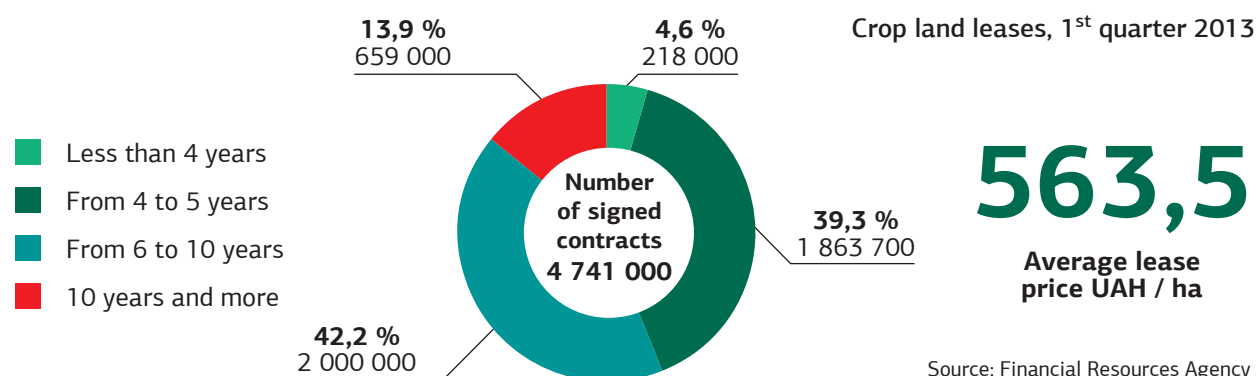
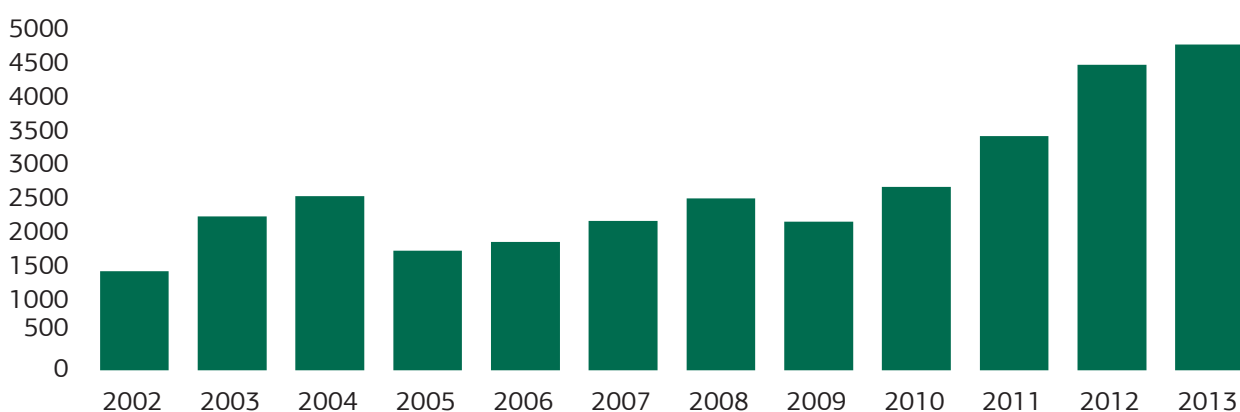
Source: SSS, UkrAgroConsult, Dragon Capital estimates

Drop in prices Ex-Works, YoY, July



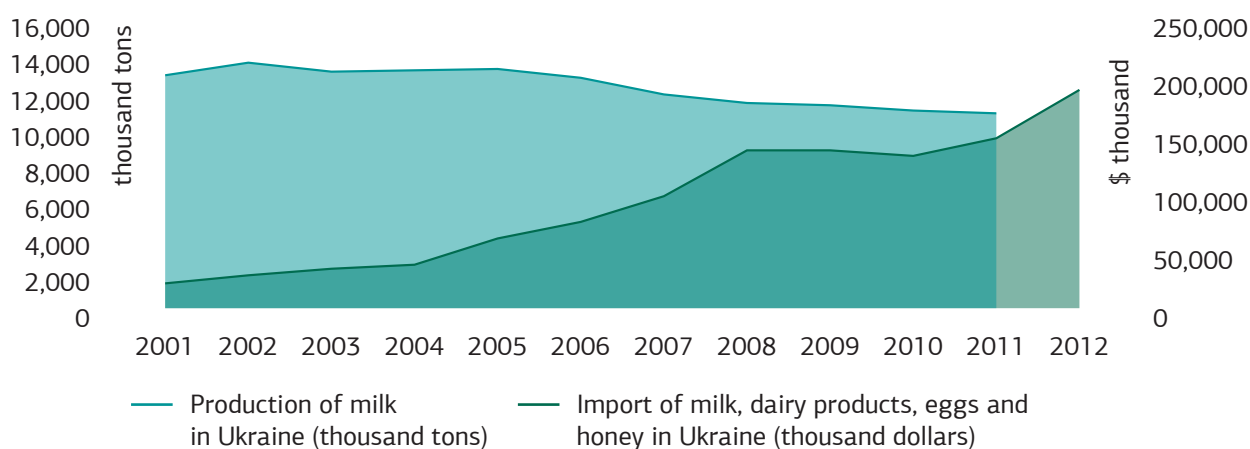
Source: various sources and observations in CAB

"Take off" of corn sown areas



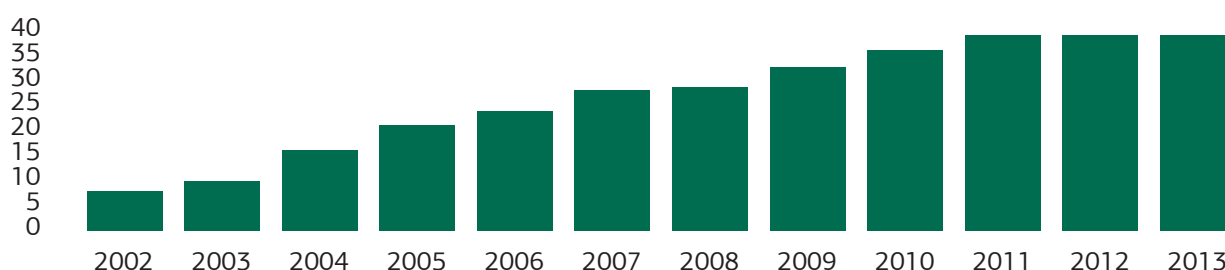
Source: Financial Resources Agency

Production and import of milk in Ukraine



Source: State statistics, UN Comtrade database

Changes in the transfer capacity of Ukrainian ports (million tons)



Source: OukragroConsult

Main problems/challenges to the sector

- Agriculture has been leading the country's economy since the crisis between Ukraine and Russia began. Despite a 20% YtY GDP dip, agribusiness has grown by 6%. This year Ukrainian farmers are expected to harvest over 60Mt of crops. Agribusiness thus generates hard currency revenues and contributes to better commercial results;
- Indeed, the ban on Ukrainian food exports to CIS countries is a serious constraint on dairy, meat and confectionery production. Ukrainian entrepreneurs are looking for alternative markets in Europe, Asia or Africa and enterprises that have invested in energy independence are gaining a competitive edge.

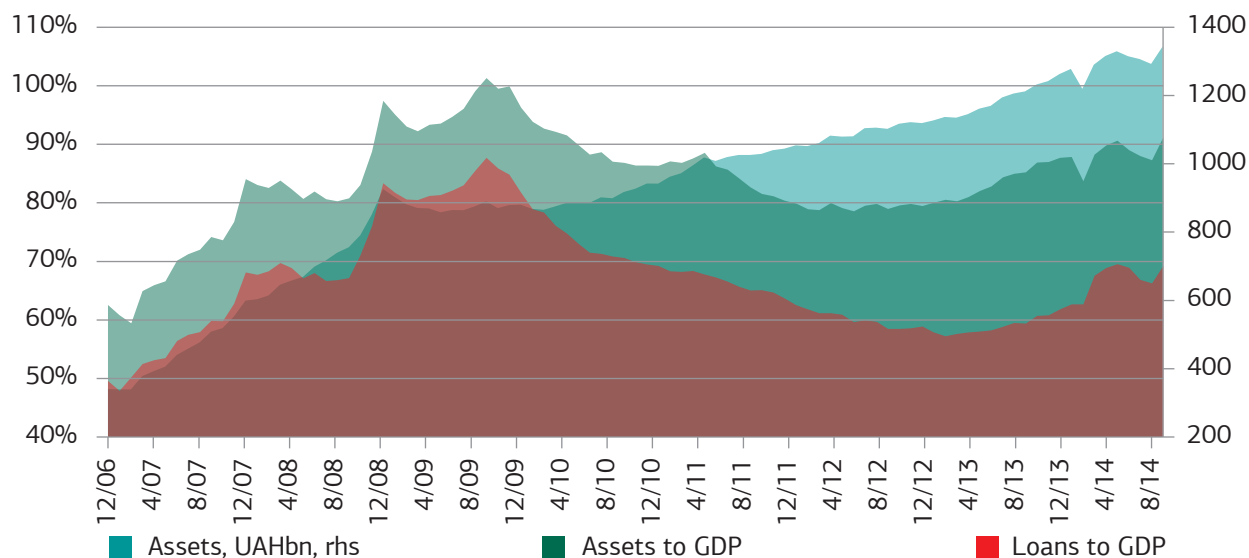
Forecasts, possibilities, innovations in the sector, required steps/reforms

- + The Verkhovna Rada must carry out profound reforms to support Ukraine's exceptional agro potential;
- + Entrepreneurs in the sector seek stability;
- + The first step is to adopt a law promoting a long-term, bribe-free and transparent land lease system;
- + Secondly, a reasonable tax system for both farming and processing should be introduced, including VAT refund;
- + The public authorities should similarly simplify standardization and encourage respect for the rule of law;
- + They should also promote training of civil servants for efficient employment in the private sector in order to reduce corruption.

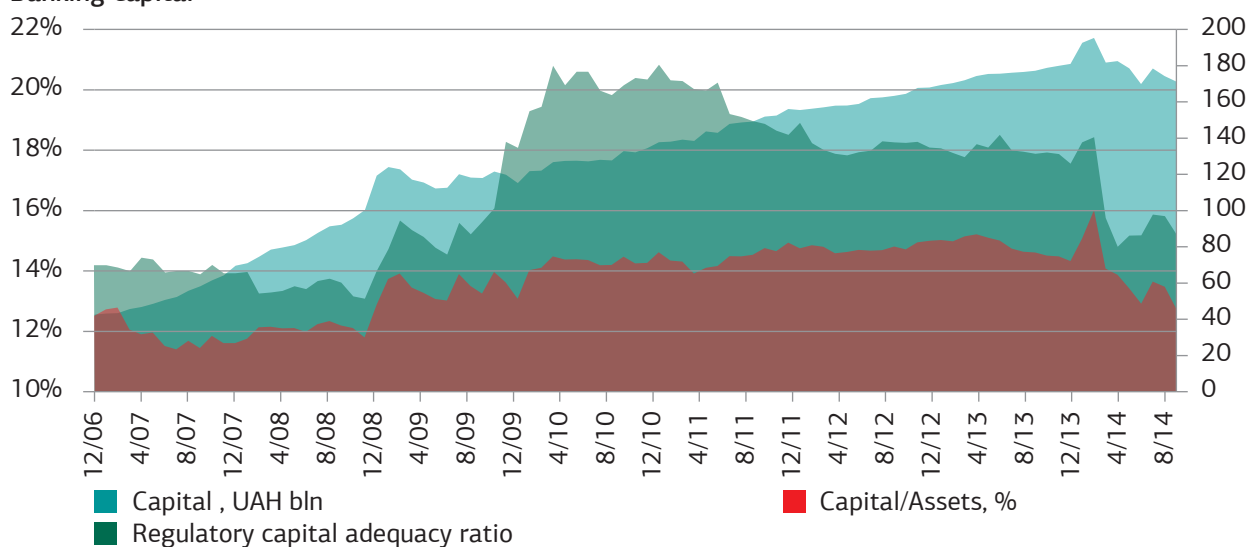
BANKING SECTOR OVERVIEW

Main quantitative indicators of the sector

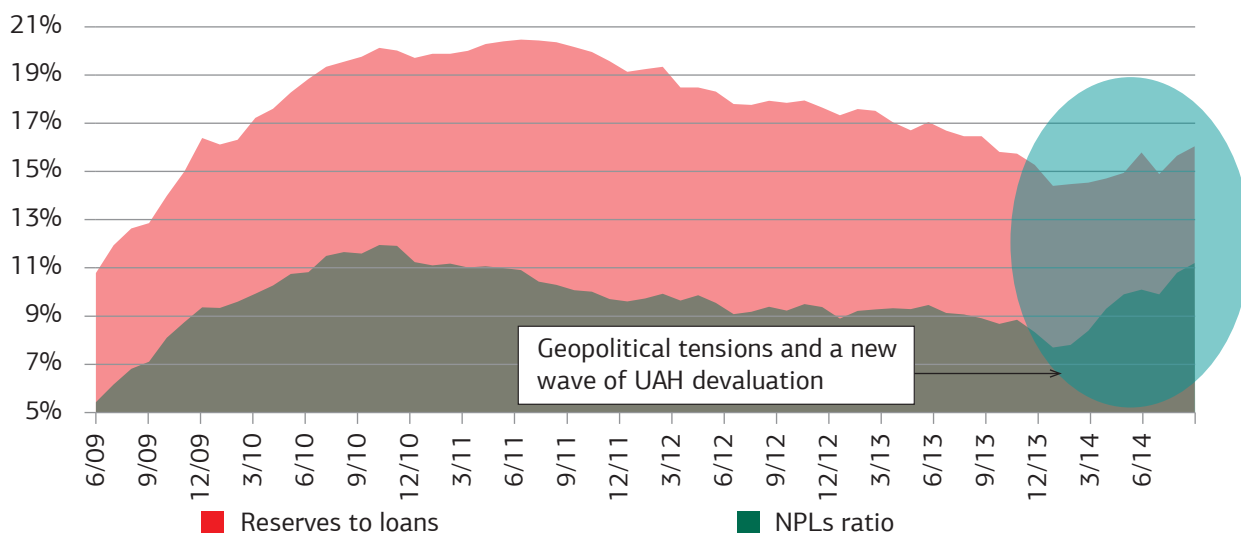
Banking system assets and loans

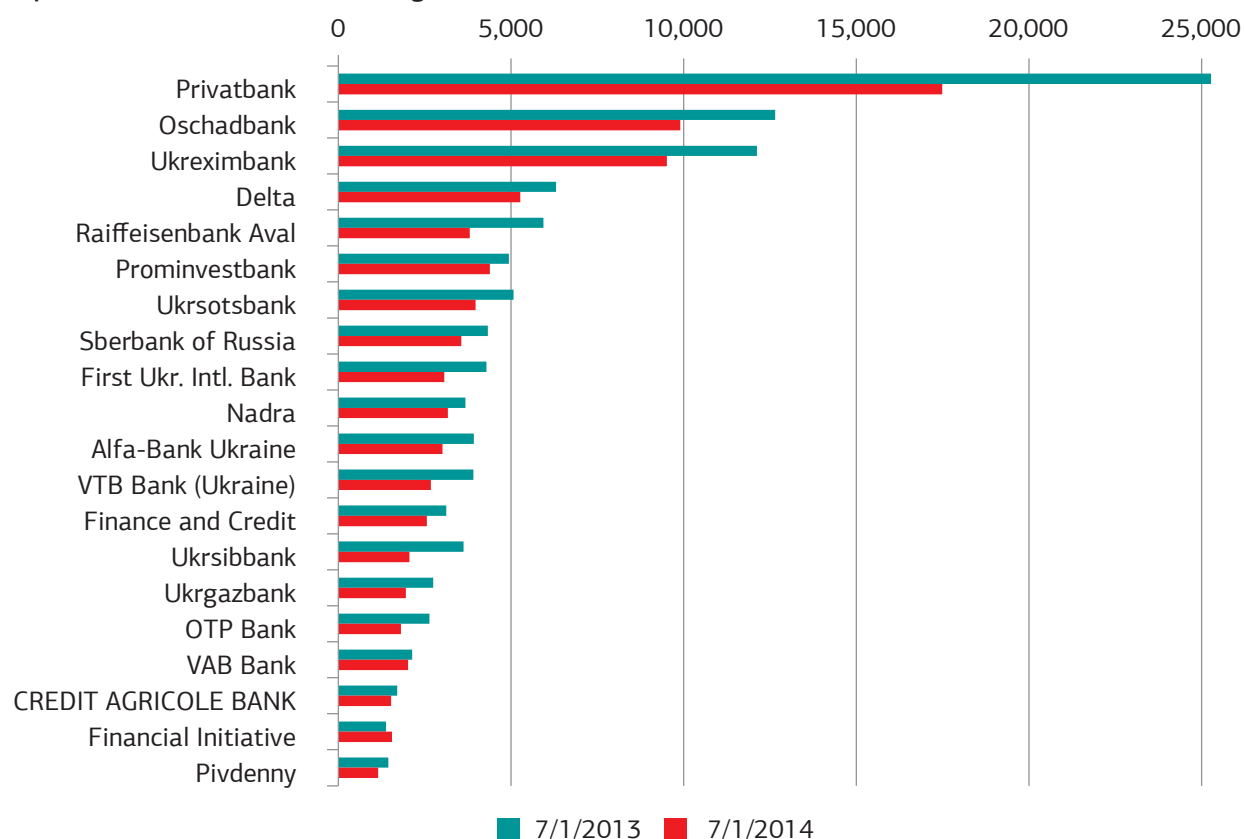
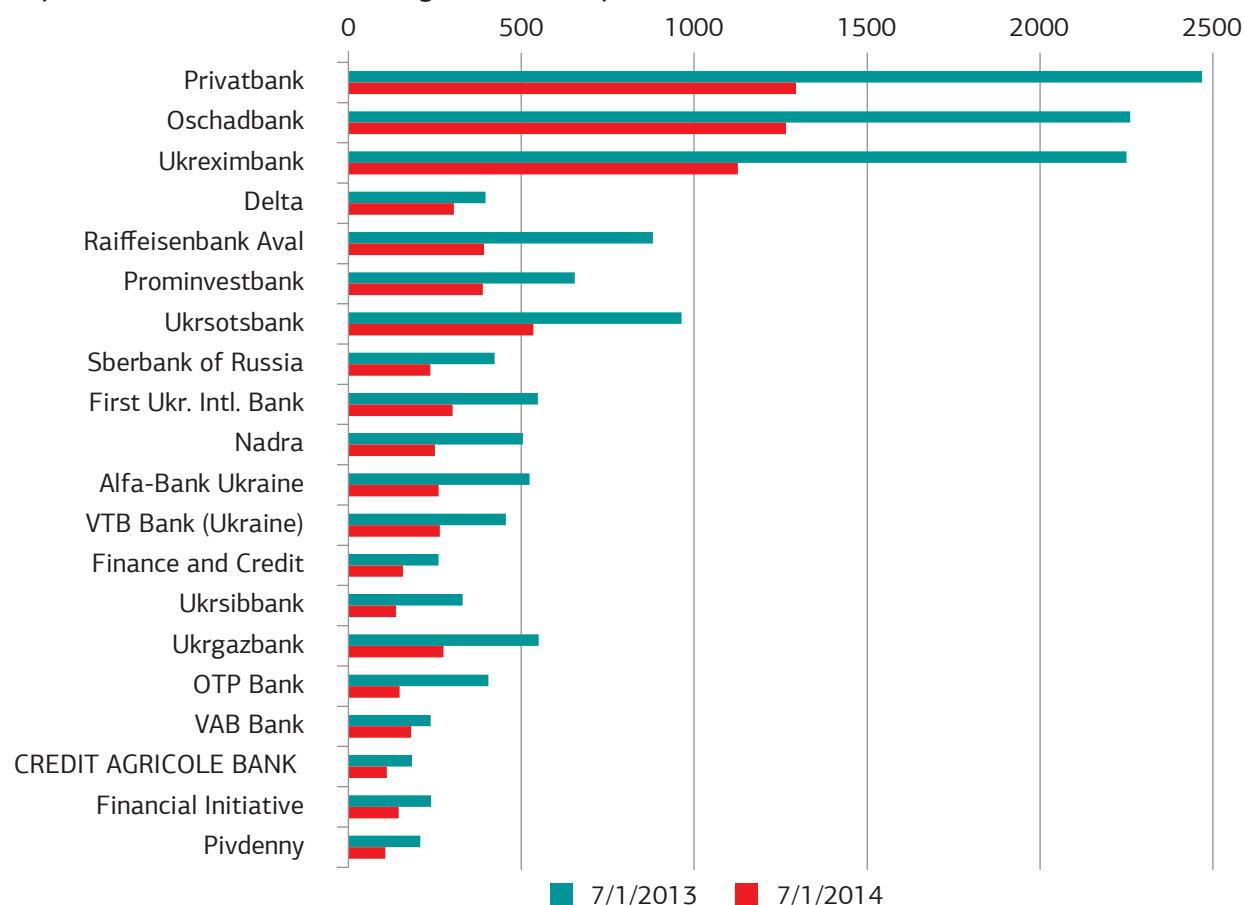


Banking capital

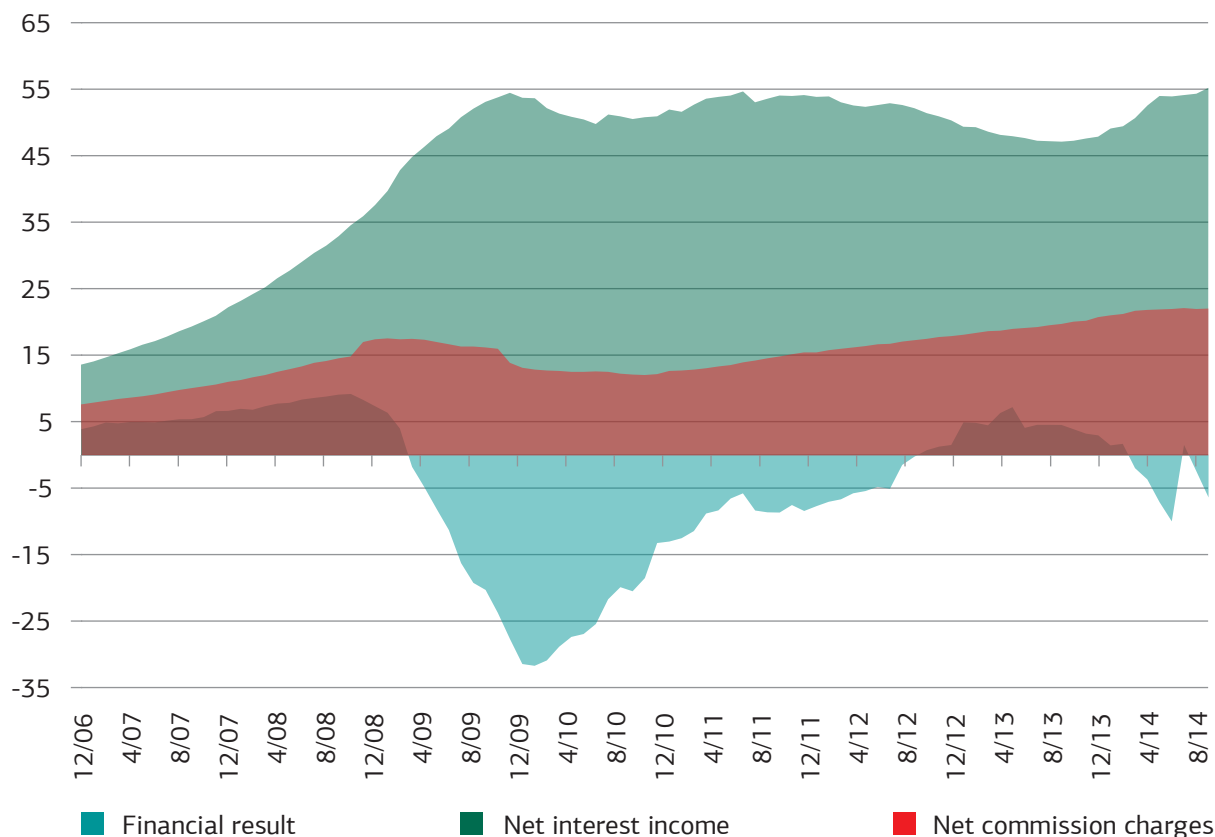


Loan quality indicators



Top 20 Banks Balance Sheet Changes — Assets, USDm

Top 20 Banks Balance Sheet Changes — Total Capital, USDm


Income data, cumulative over 12M, UAHbn



Main problems/challenges of the sector

- ❌ Negative economic performance and recent hryvnia devaluation are affecting the quality of banking assets, preventing banks from expanding their lending;
- ❌ Armed conflict in eastern Ukraine and growing geopolitical risks are undermining people's trust in the domestic banking system and causing an outflow of deposits;
- ❌ Some banks are being sold by their Western shareholders; small banks owned by local investors are going bankrupt, thus reshaping the banking system;
- ❌ The NBU's inconsistent monetary policy is limiting the length of available financial resources and creating risks of sharp interest rate fluctuations.

Forecasts, possibilities, innovations in the sector, required steps/reforms

The recent hryvnia devaluation and the unfavorable economic environment are compelling banks to channel their income into provisions, at least in 2014

The low quality of banking assets is forcing bank owners to recapitalize them. We do not see any significant problems in the recapitalization of state-owned, foreign-owned and a few private domestically-owned banks



The IMF program will guide both the NBU and the banking system in general towards more active reformation of the sector to bring it into line with international standards

The bankruptcy of small banks will continue in the mid-term perspective

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Free from all phones within Ukraine

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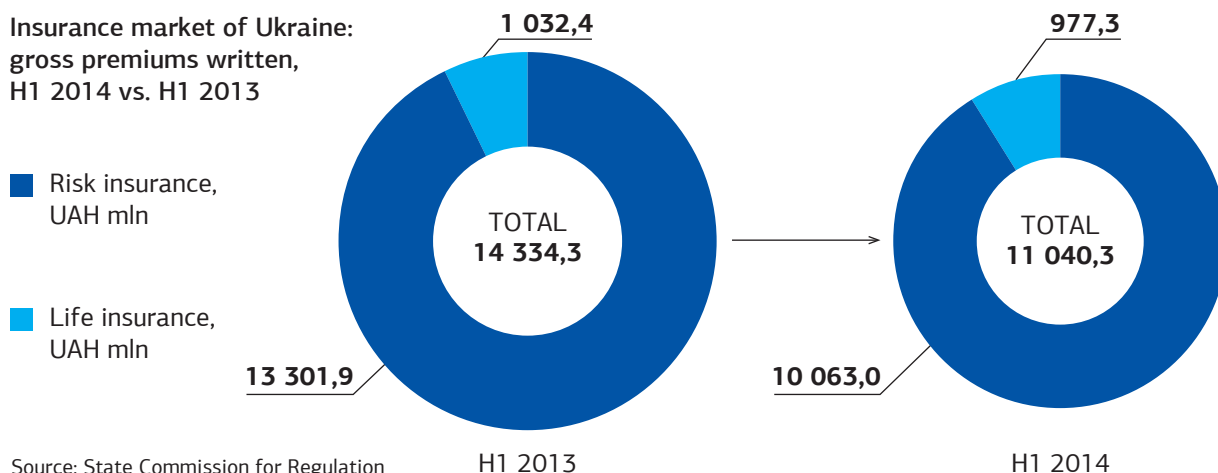
CRÉDIT AGRICOLE

My bank is Credit Agricole. It makes sense

INSURANCE MARKET OVERVIEW

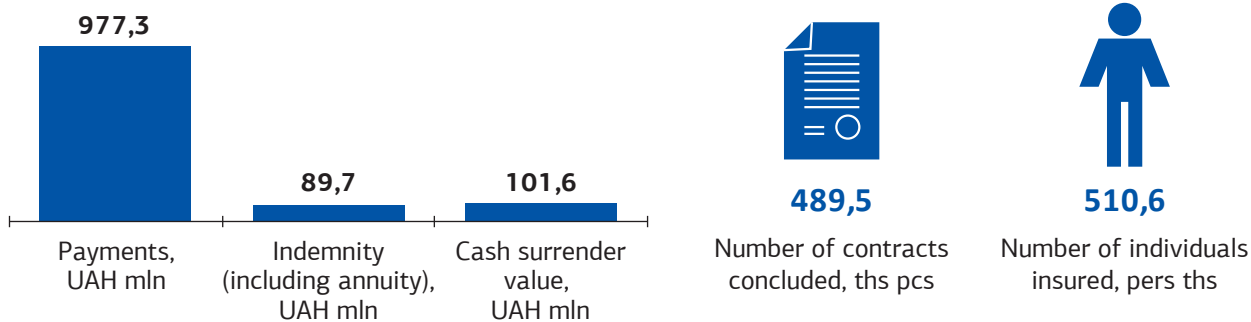
Key quantitative indicators, 2013–2014

Insurance market of Ukraine:
gross premiums written,
H1 2014 vs. H1 2013



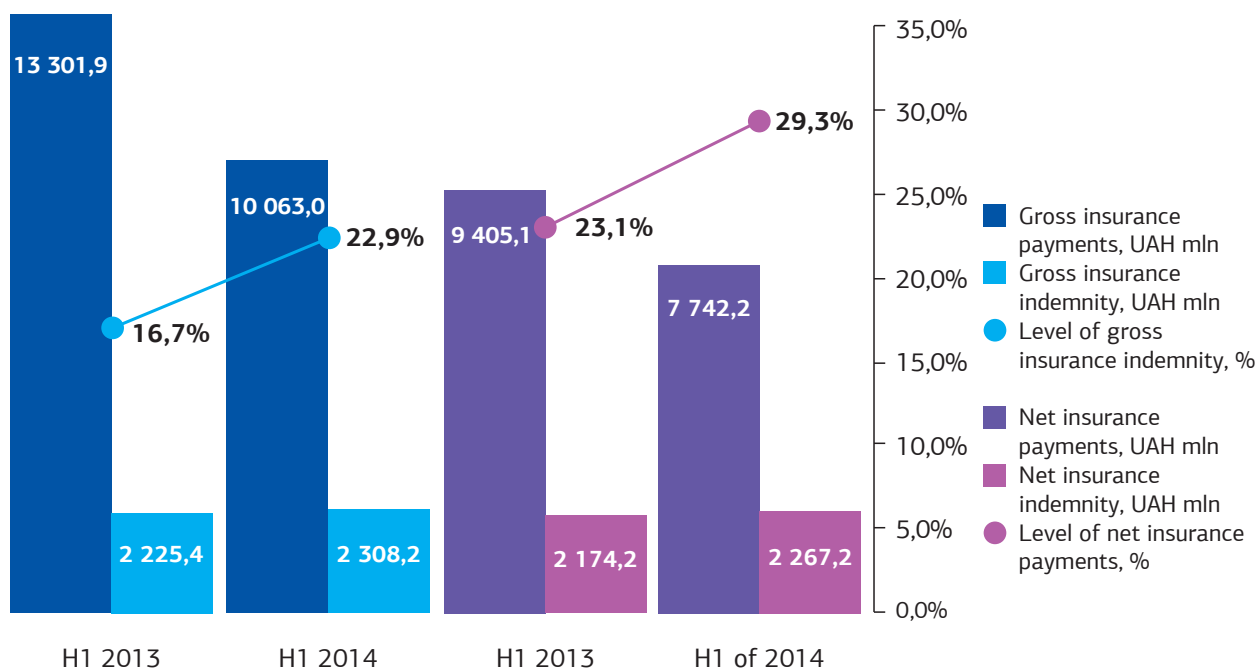
Source: State Commission for Regulation of Financial Services Markets of Ukraine

Life insurance market: insurance payment,
indemnity, structure, H1 2014 vs. H1 2013



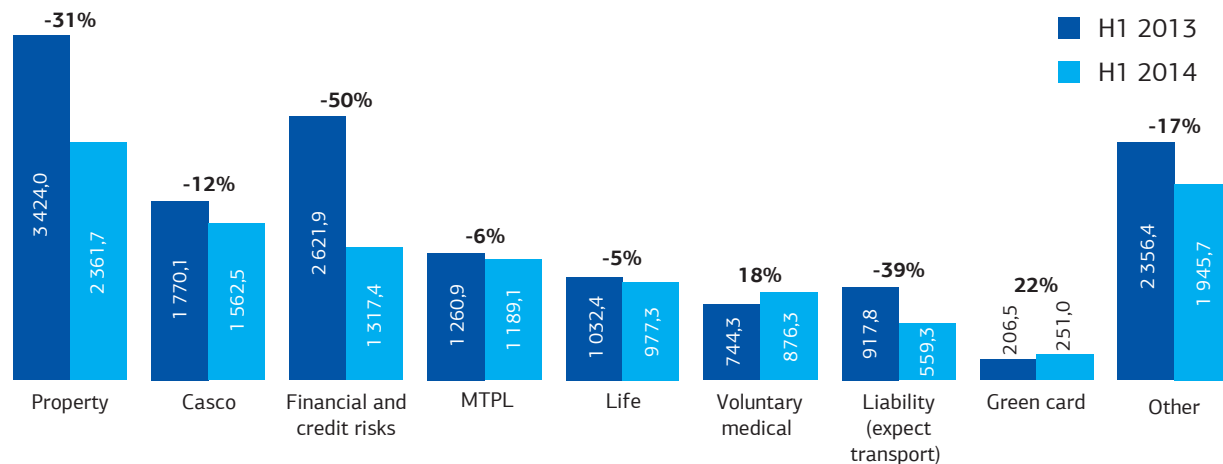
Source: State Commission for Regulation of Financial Services Markets of Ukraine

Risk insurance market: payments, indemnity, structure, H1 2014 vs. H1 2013



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

Premiums portfolio by main insurance lines, H1 2014



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

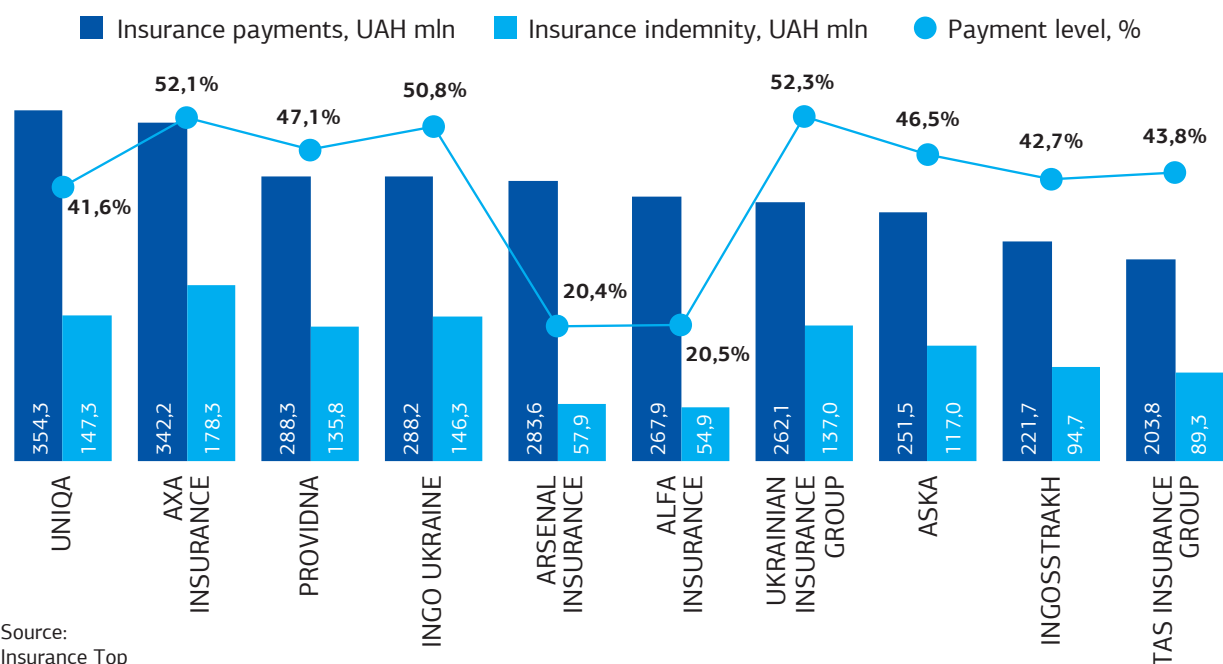
Individual's insurance market by main insurance lines, H1 2014

Insurance Line	Insurance payments, UAH mln	Insurance indemnity, UAH mln	Indemnity level, %	Number of contracts concluded, ths pcs
MTPL	944,0	388,4	41,1%	3 556,1
Casco	937,0	487,5	52,0%	113,0
Life	815,8	65,2	8,0%	489,5*
Voluntary medical	416,4	295,5	71,0%	786,8
Casualty	351,4	32,9	9,4%	4 852,3
Property	277,0	14,2	5,1%	2 609,6
Financial and credit risks	142,5	0,7	0,5%	366,6
Green card	141,6	20,5	14,5%	276,7
Travel	106,2	35,2	33,2%	972,5
TOTAL	4 368,8	1 381,1	31,6%	56 689,6

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

*total number of contracts

TOP-10 Risk Insurance Companies, H1 2014

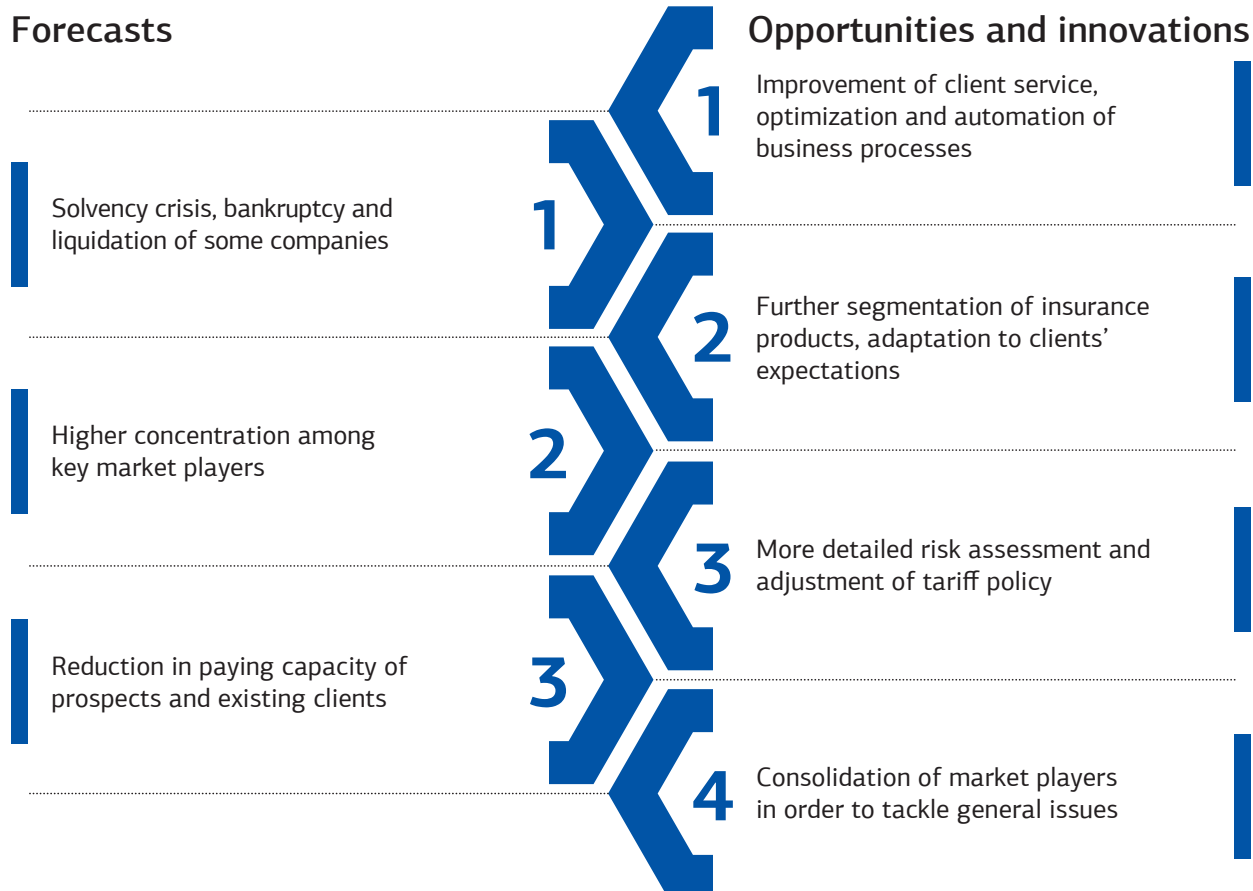


Source:
Insurance Top

Risks

- Solvency decline in corporate and retail segments;
- Hryvnia volatility;
- Counteragent bankruptcy;
- State deregulation;
- Client confidence crisis;
- Business models of some insurance companies are inconsistent with the economic situation (high expenses, loss of income);
- Liquidity shortage on the part of some insurers;
- Need for additional capitalization;
- Unreasonable damping of some market players.

Forecasts



Necessary steps and reforms

- + Improvement of regulatory framework;
- + Ensuring transparency and predictability of regulatory policy;
- + Intensification of control over unlawful damping and other gross breaches of insurance law.



“In 2014 we’ve seen the insurance market shrink in terms of the number of contracts concluded in both the corporate and retail segments. This tendency will persist in the year ahead. Within the next 3–5 years the economic environment will remain turbulent. Hence companies pursuing an adequate underwriting and risk appetite policy and optimizing their internal procedures and business processes will stay afloat.”

Igor Gordienko, CEO of INGO Ukraine PJSIC



PRIVATE JOINT-STOCK INSURANCE COMPANY



INSURANCE



MOTOR CASCO



MOTOR TPL



PROPERTY



CASUALTY



TRAVEL



HEALTH (MEDICAL)

0 800 30 55 53*

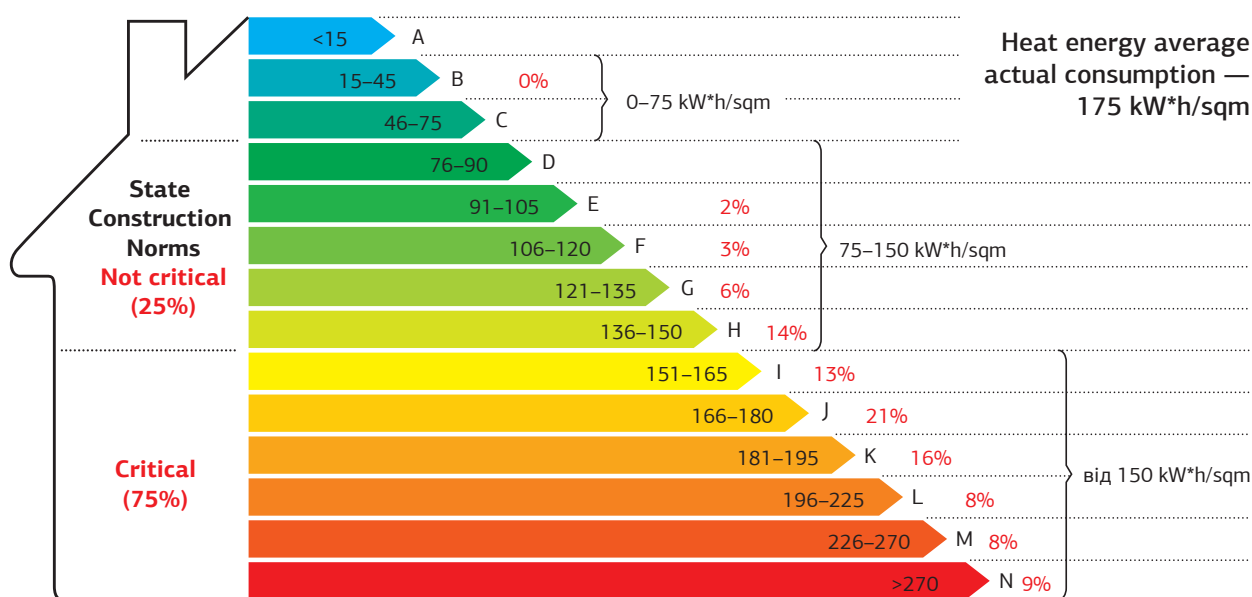
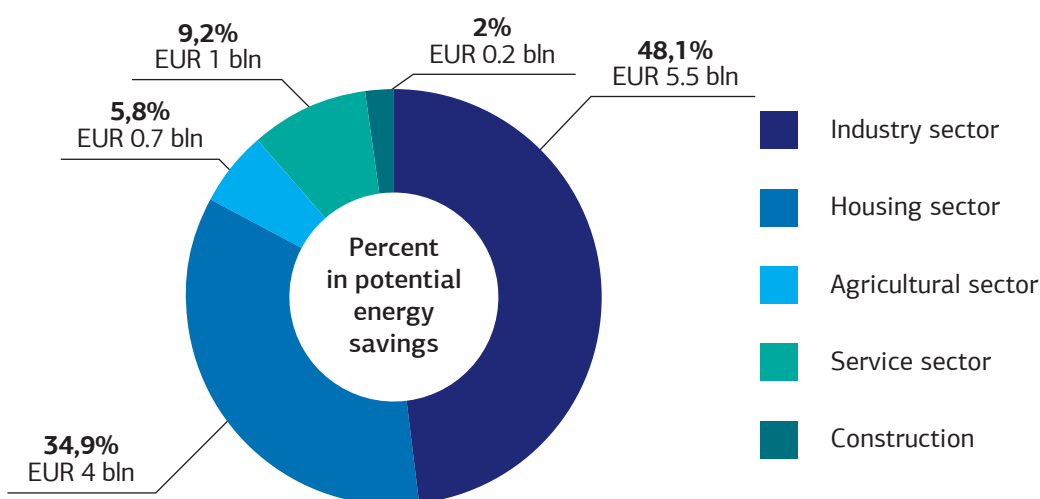
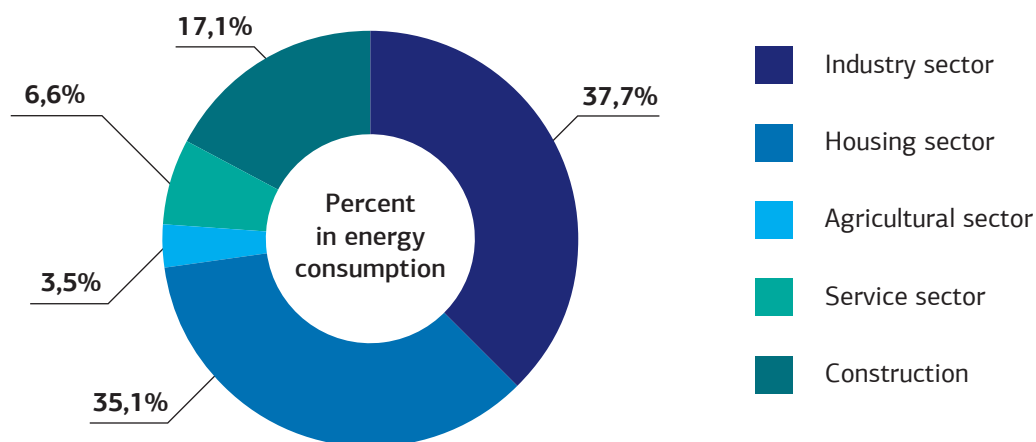
*Billing increment is carried out based on mobile operators' rates.

www.ingo.ua

The State Registration Certificate of the Financial Institution of the State Commission for Regulation of Financial Services Markets of Ukraine, registration number 11100857, series CT No. 170 as of 21.08.2004.

ENERGY EFFICIENCY

Main industry quantitative indices



Average energy consumption

260 In Ukraine
kW*y/sqm

90-120 In the EU
kW*y/sqm

Energy resource saving potential 2013 statistics

Region	Energy potential, in EUR mln.
Dnipropetrovsk	2112.5
Donetsk	1576.8
Lugansk	1081.9
Kharkiv	659
Zaporizhia	579.6
Kyiv	503.9
Poltava	471.6
AR of Crimea	398
Cherkasy	375.1
Lviv	346.5
Mykolaiv	333.3
Rivne	333.9
Odesa	277.2

Region	Energy potential, in EUR mln.
Khmelnyskyi	258.4
Sumy	226.5
Ivano-Frankivsk	209.4
Vinnytsia	199.9
Kirovohrad	180.1
Zhytomyr	175.1
Chernihiv	139.7
Ternopil	135.5
Volyn	128.9
Kherson	119.9
Zakarpattia	111.5
Chernivtsi	85.6

Main industry problems and difficulties:

- Imperfect legal regulation, lack of concept of energy service/energy savings services, etc.;
- Peculiarities of budget legislation that prohibits institutions from concluding long-term agreements and from bearing long-term financial obligations;
- Lack of effective incentives for directors to implement energy-saving measures or to reduce energy resource consumption;
- Deep depreciation of buildings that require not only measures to reduce energy consumption during their thermal modernization but capital repair as well.

Prospects, opportunities, innovations in the industry, required measures/reforms

- + The energy-savings service market in Ukraine is a high-potential one, and the opportunities for effective and profitable investment are high;
- + Today projects are being implemented only in the private sector (including the industry sector), while the public and the utility sectors are seeing only certain pilot programs. Such a situation has arisen due to the lack of required legal regulation;
- + The high-priority task for today is to carry out the necessary legislative reforms (in particular, to adopt the law on ESCO). This will enable project implementation in the public and utility sectors.



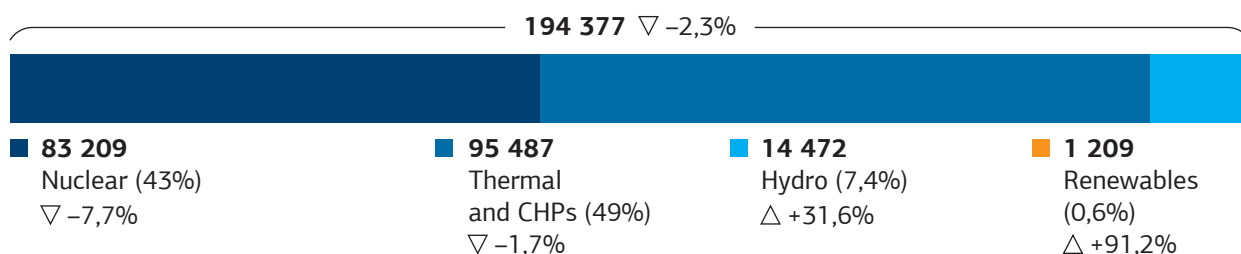
“The current situation in the energy sector makes necessary introducing binding energy management and audit; establishing more demanding energy efficiency standards during the construction and renovation of buildings and increasing the energy efficiency of existing ones; inciting energy service company (ESCO) development by establishing a proper legal environment and introducing EPC mechanisms; and implementing EU Directives and fulfilling obligations under international agreements in the energy and energy conservation sectors.”

Alexander Burtovoy, Partner of Antika Law Firm

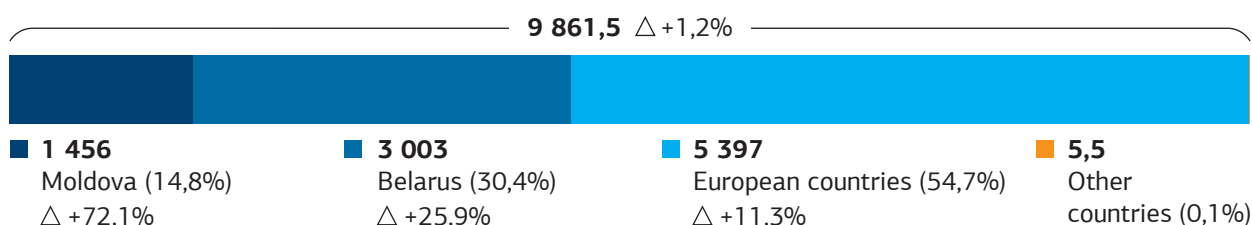
ELECTRICITY MARKET OF UKRAINE

Main quantitative indicators of the electricity sector in 2013–2014

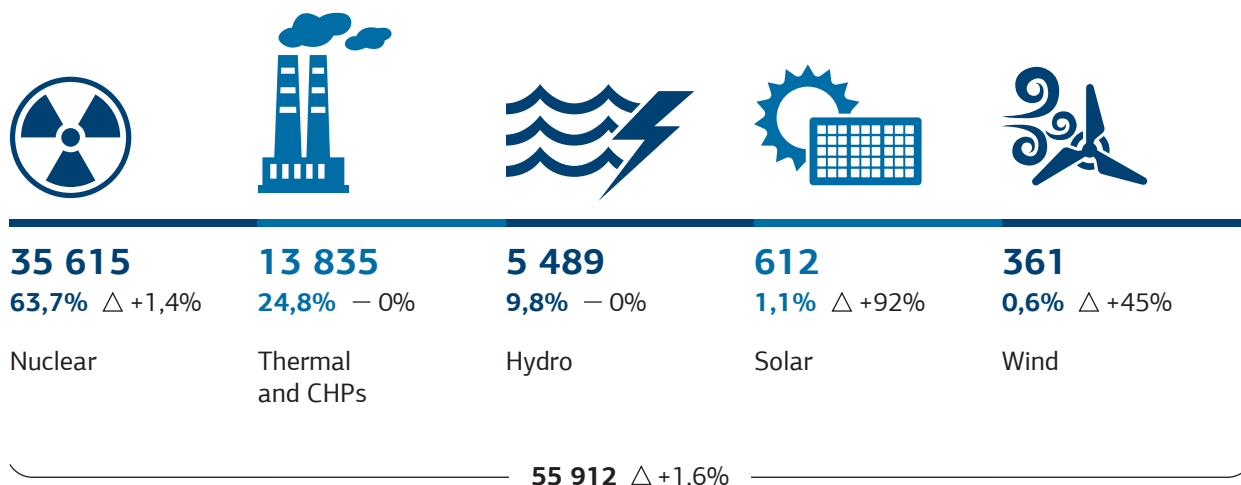
Generation, total January – December 2013,
m kW/h in comparison to 2012



Export, total January – December 2013,
m kW/h in comparison to 2012



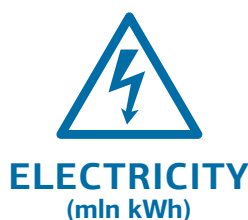
Capacity, total 2013, thous. kW
in comparison to 2012



Consumption, total
January – December 2013, m kW/h
in comparison to 2012

147 264
▽ -2,3%

Industry (45%), including inter alia:	66 269	▽ -6,2%
Metallurgy	35 048	▽ -5%
Chemical	4 859	▽ -18,4%
Machine building	5 301	▽ -9,32%
Transport (5.9%)	8 688	▽ -6,3%
Construction (0.7%)	1 031	▽ -1%
Households (28.1%)	41 382	△ +2,8%
Agriculture (2.7%)	3 976	△ +2,7%
Municipal utilities (12.6%)	18 555	△ +0,2
Other non-industrial consumers (5%)	7 363	△ +4,4%



January – September 2014 vs.
January – September 2013

Generation	135 173,8	▽ -4,7%
Export	6 983,1	▽ -6,4%
Consumption (net)	100 049,8	▽ -4,2%



January – September 2014 vs.
January – September 2013

Production:	53 425,9	▽ -13,2%
— coking	14 030,7	▽ -20%
— thermal	39 395,2	▽ -10,4%
Consumption	26 522,5	▽ -6,6%

Main problems/ challenges and trends

- ➖ After the temporary occupation of Crimea (dependent on Ukraine for around 80 percent of its electricity) the power infrastructure on the peninsula was de facto separated from the Ukrainian power system;
- ➖ Significant damage was done to the energy, coal production and supply infrastructure in Donetsk and Luhansk regions as a result of armed conflict;
- ➖ The government declared a state of emergency on the electricity market due to the disrupted supply of coal to TPPs (Ukraine limited the electricity supply to Crimea by 50% and fully cut off export of electricity to Belarus).

Forecasts, possibilities, and innovations and required steps/reforms

- ➕ Electricity market restructuring: the full-scale liberalized market should start operating in Ukraine on 1 July 2017 according to the new electricity market law;
- ➕ The necessary by-laws and market rules are expected to be adopted in 2015–2017 (the so-called “transition period,” when only certain features of the new electricity market law are to be effective);
- ➕ The auction procedure for obtaining access to transnational power lines should have been liberalized starting from 1 December 2014, however the relevant legal framework has not yet been developed and adopted by the regulator;
- ➕ The Parliament is expected to eliminate all types of cross-subsidies and to implement new incentive tariff methodology directed at attracting investments, modernizing assets, and boosting energy efficiency.



“Ukraine’s electricity sector is in deep crisis due to damage to the power infrastructure in Donbas and the shortage of coal. But the crisis also represents a chance for the government to take tough decisions and to find complex solutions to the most difficult systemic problems. Ukraine should continue its way towards energy efficiency, upgrade its infrastructure, liberalize its electricity market, institute economically justified tariffs, and continue privatization in the sector.”

Vitaliy Radchenko, partner, CMS Cameron McKenna

Your World First



> 800 partners

> 3,000 Lawyers

> 30
new partners
in 2013

53
cities

>17 practice
and sector
groups

59
offices

6th
largest
law firm

344
Number of M&A
transactions in
2013

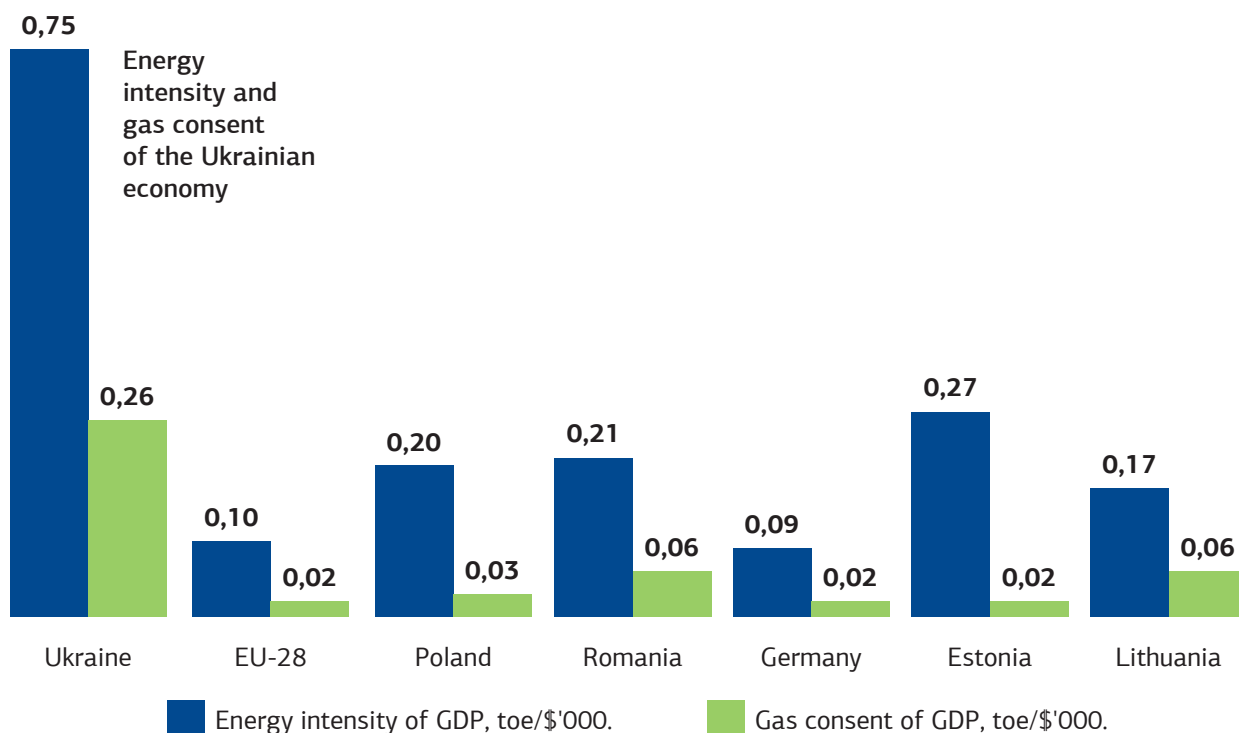
33
countries

**Chambers & Legal 2013 Rankings:
92 Band 1 / 185 Band 2**

**Chambers Europe 2012-2014:
Band 1 law firm in Ukraine for
Energy and Natural Resources**

UKRAINE'S ENERGY INDEPENDENCE

Key quantitative industry indicators

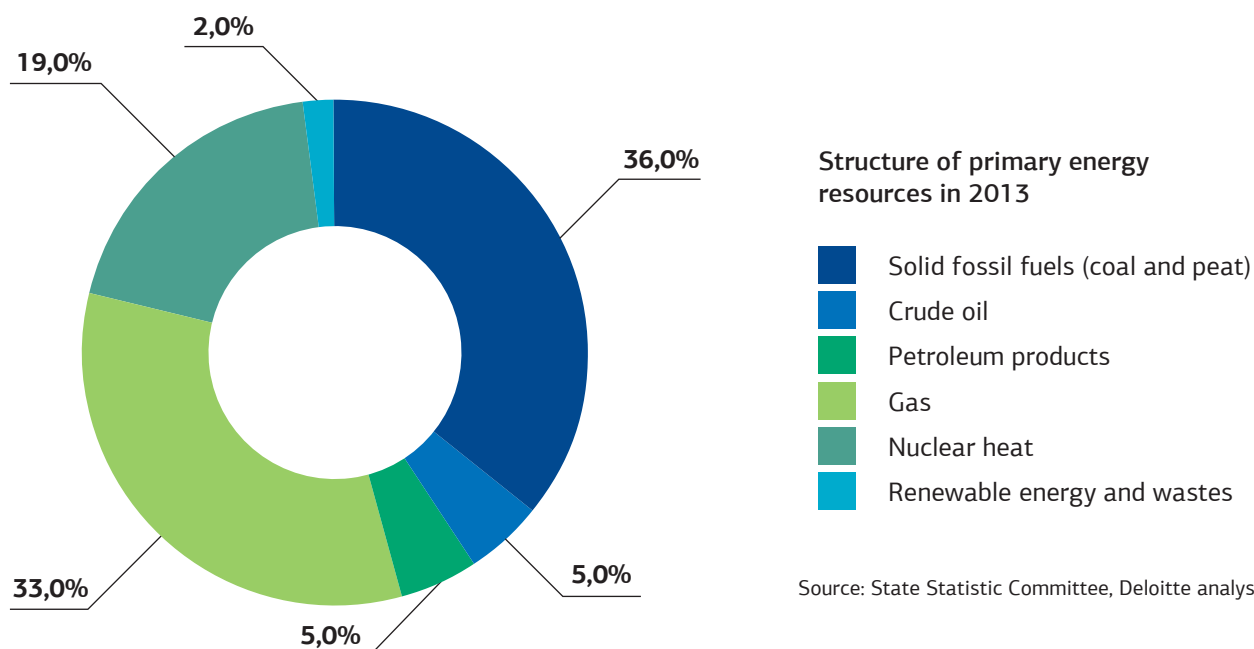


Source: State Statistic Committee, Deloitte analysis

Natural gas accounts for one-third of all primary energy resources consumed in Ukraine for the past six years.

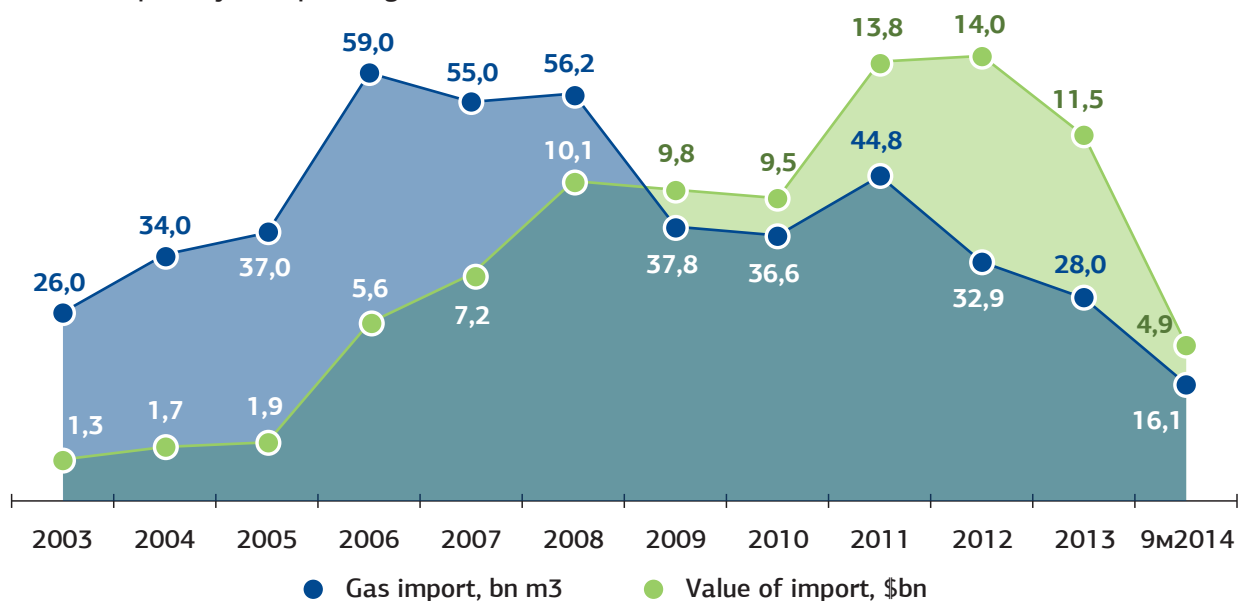
The energy intensity of the Ukrainian economy is extremely high: the state uses 0.75 tons of oil equivalent per USD 1,000 of gross domestic product, while the average rate for EU countries is only 0.1 toe per USD 1,000.

The gas content of Ukraine's economy exceeds the average level of EU countries by more than 10 times and surpasses the countries most dependent on gas, like Romania and Lithuania, by more than four times

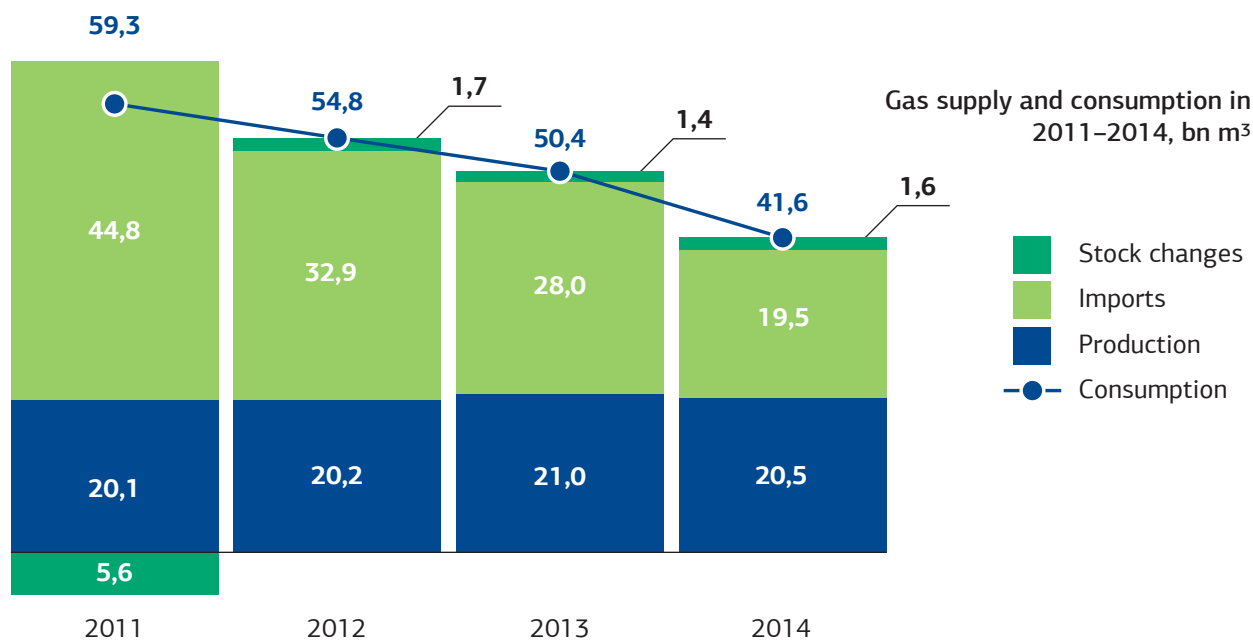


Source: State Statistic Committee, Deloitte analysis

Value and quantity of imported gas

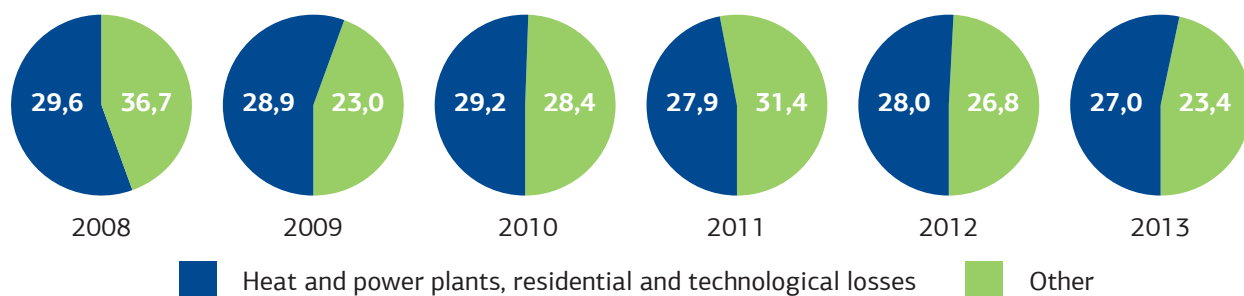


Source: Naftogaz, "Gazprom" magazine, Ministry of Economic Development and Trade of Ukraine

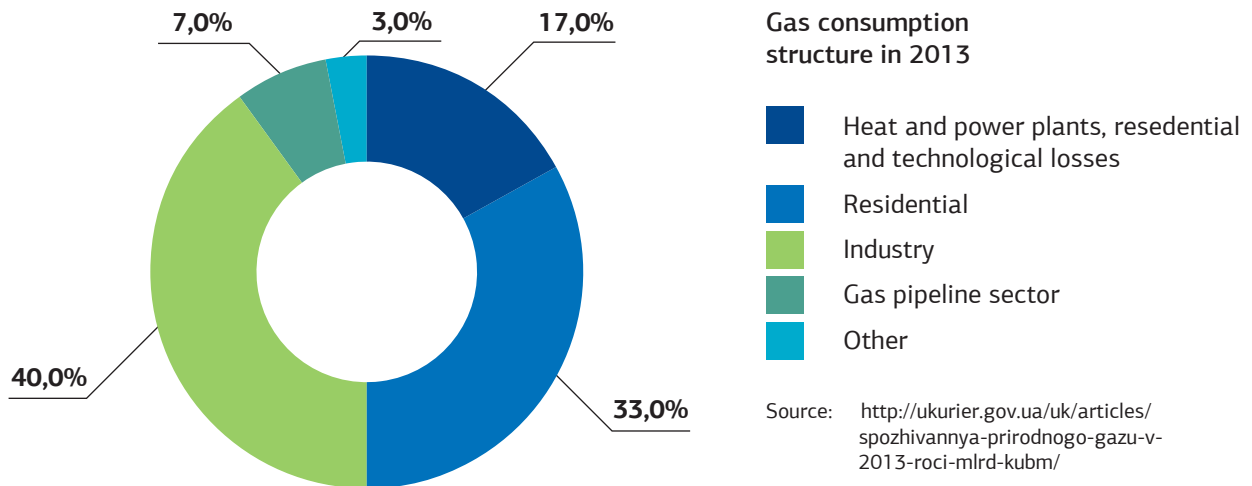


Source: Live data of the Ministry of Energy and Coal of Ukraine, press reports and author estimates

Gas consumption structure in 2008-2013, bn m3



Source: Naftogaz



In past years heat and power plants, combined with the household sector, accounted for about half of all gas consumed. The share of Russian gas in overall consumption declined from 77% in 2005 to 51% in 2013.

Problems and difficulties

- Excessive dependence on a single gas supplier (Russia);
- Lack of sequential energy conservation and efficiency programmes;
- Problems in energy efficiency and energy savings;
- Obsolescence and poor condition of power and heat generation systems.

Necessary steps/reforms

A decrease in Ukraine's dependence on Russian gas, right down to a complete rejection of foreign supplies, will be possible only through the widespread introduction of energy conservation and efficiency programmes at the domestic level, as well as through an increase in the use of alternative gas supply sources, the most important of which include:

- + An increase in domestic gas production, including unconventional gas;
- + Purchase of gas from Europe ("reverse"), which in view of EU plans for alternative gas supplies (from the Middle East, Turkmenistan, etc.) could become a much more reliable source of supply than it is today;
- + Supply of liquefied natural gas (LNG) by sea;
- + Implementation of the Third Energy Package by Ukraine.



"Ukraine's economy remains one of the most energy-intensive compared to Europe and the rest of the globe. While such a state of affairs may be acceptable for net exporters of natural gas, it is totally unacceptable for Ukraine. Today, the gas problem has grown into a topical issue which has the power to define Ukraine's state of independence.

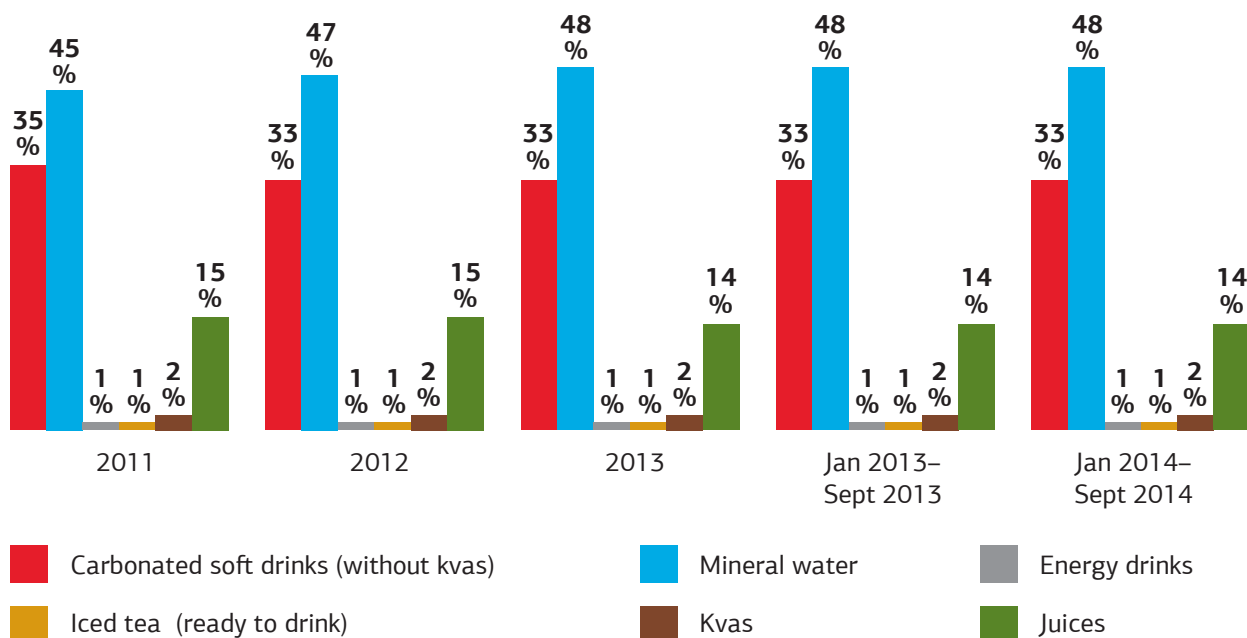
Ensuring Ukraine's energy independence, which will necessitate finding solutions to gas market issues, will be possible only through the adoption of an integrated approach. First of all, Ukraine will have to implement the Third Energy Package. This process mainly involves reforming NAK Naftogaz Ukrainy, the first steps towards which we could observe this year."

Artur Ohadzhanyan, Partner, Energy & Resources Industry Group Leader at Deloitte

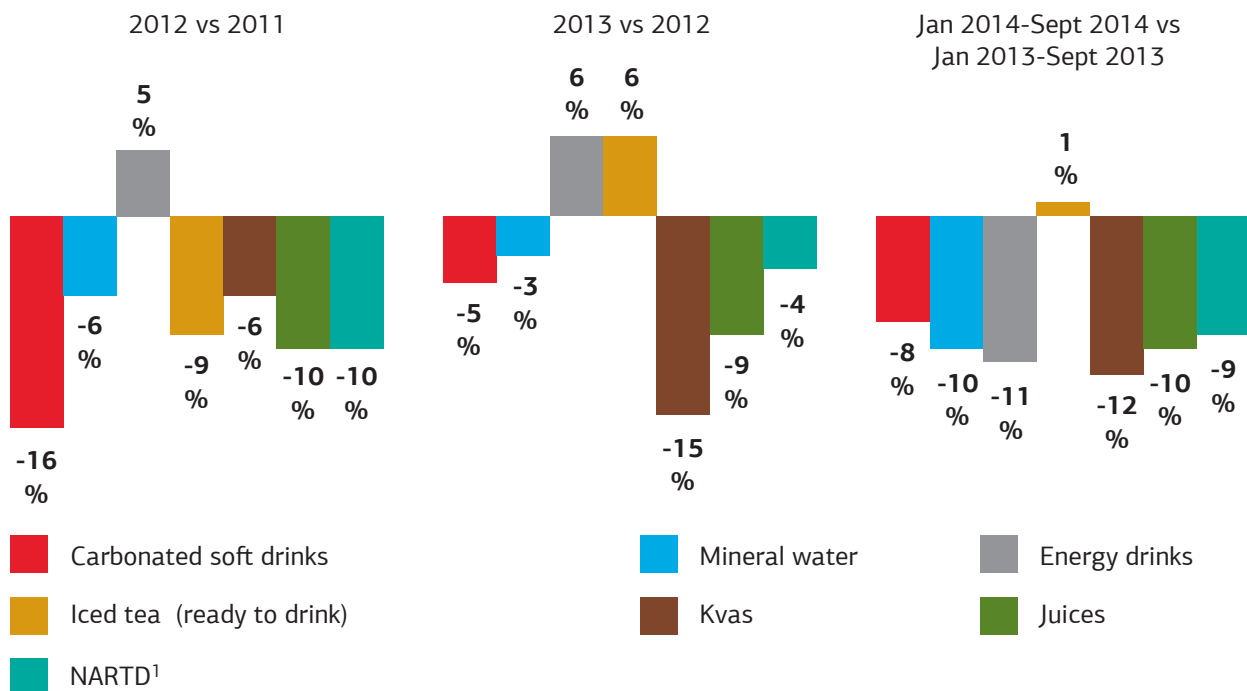
KEY TENDENCIES OF NARTD MARKET DEVELOPMENT IN UKRAINE

Main quantitative indicators of the NARTD sector

Mineral water is the biggest category on the NARTD market (NARTD — non-alcoholic ready to drink beverages) and its share is growing in comparison to 2011.*



Overall NARTD is declining; only the iced tea category is growing vs PY.



¹The following categories make up a macro segment among NARTD (non-alcohol ready to drink) beverages: mineral water, juices, carbonated soft drinks, iced tea, energy drinks and kvas. (This macro segment has been defined by Coca-Cola Ukraine.)

* Figures in tables are provided by ACNielsen Ukraine

Coca-Cola Ukraine Limited's estimations are partially based on figures from the ACNielsen retail audit reports for the categories mineral water, carbonated soft drinks (without kvas), kvas, iced tea and energy drinks for January 2011 - September 2014 for urban retail in Ukraine, valid for 10.11.2014. © ТОВ "АСНІЛЬСЕН УКРЕЙН," 2014.

In the carbonated soft drinks category cola is the biggest flavor segment and its importance for the Ukrainian consumer is growing.

	2011	2012	2013	Jan 2013– Sept 2013	Jan 2014– Sept 2014
Lemon & lime	21%	21%	20%	20%	19%
Mohito	0%	0%	1%	1%	1%
Non-fruit	14%	15%	15%	15%	15%
Orange	9%	8%	8%	8%	8%
Other fruit	23%	20%	18%	18%	18%
Colas	22%	26%	30%	29%	31%
Apple	8%	7%	7%	7%	6%
Tonics	0%	1%	1%	1%	1%
Tangerine	0%	0%	0%	0%	1%
Grapefruit	0%	0%	0%	0%	0%
Private label flavor segment	1%	1%	1%	1%	1%

Main problems/ challenges of the sector, trends

There was a decrease in NARTD consumption per capita as a result of the following economic factors:

- Declining real wages in comparison to 2013;
- Declining private consumption in 2014;
- Growing category inflation as well as a general rise in CPI;
- Declining consumer confidence, which returned to the 2009 level;
- Devaluation, resulting in increased production and raw materials costs;
- Military conflict in the east of Ukraine (traditionally the biggest region in terms of population and volume before 2014);
- The temporary occupation of Crimea.

Forecasts, possibilities, innovations in the sector, required steps/reforms

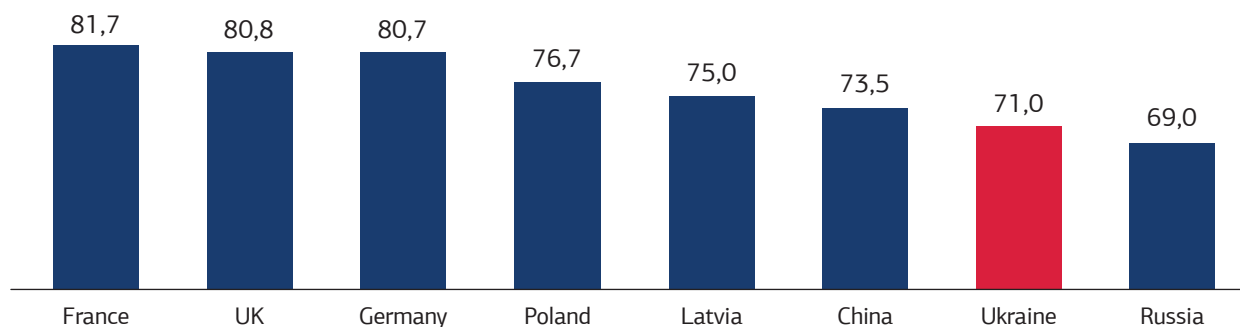
- + Overall the NARTD industry in Ukraine has consolidated around the big, strong market players and brands;
- + NARTD performance is heavily influenced by a combination of factors:
 - Pricing: we anticipate further price increases driven by devaluation;
 - Economic growth: we anticipate further GDP pressure in 2015;
 - Industry activity: NARTD remains highly competitive, but stronger. We anticipate no declines in industry marketing spending;
 - Overall we see another challenging year for NARTD, with possible gains in the latter half of the year.
- + There is also a tendency towards consolidation around flavors. The NARTD market is led by popular flavors like cola, lemon and orange. Cola is the biggest flavor segment in the carbonated soft drinks category. The importance of the cola flavor for Ukrainian consumers is growing and is driven by international brands.

The Coca-Cola Company in Ukraine is one of the key taste and industry drivers, having in its portfolio a number of leading global brands as Coca-Cola, Cola-Cola Light, Fanta and Sprite, including 4 of the top 6 in the world.

COMPARISON OF THE UKRAINIAN HEALTHCARE AND PHARMACEUTICAL SECTOR TO INTERNATIONAL COUNTERPARTS

Overall health system performance

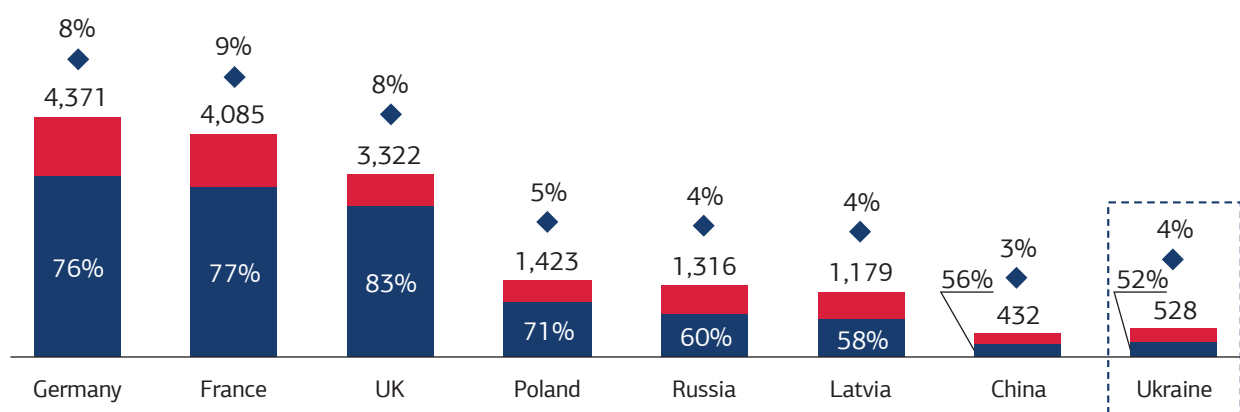
Life expectancy at birth, years, 2013



Source: World Bank

Health system financing

Total health expenditure 2011, USD ppp (constant 2005)

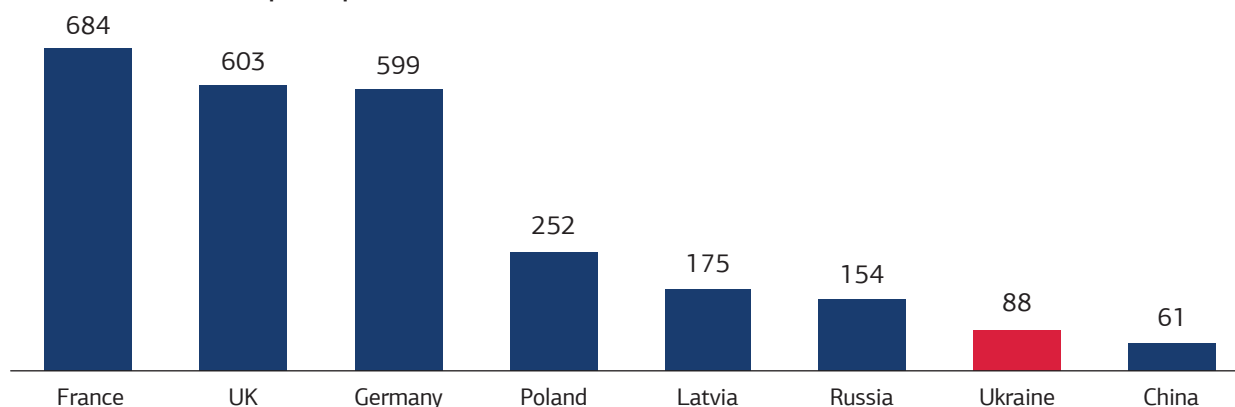


- Private health expenditure per capita, PPP constant \$
- Government health expenditure per capita, PPP constant \$
- Government Health Expenditure as % of GDP

Source: World Bank

Access to medicines

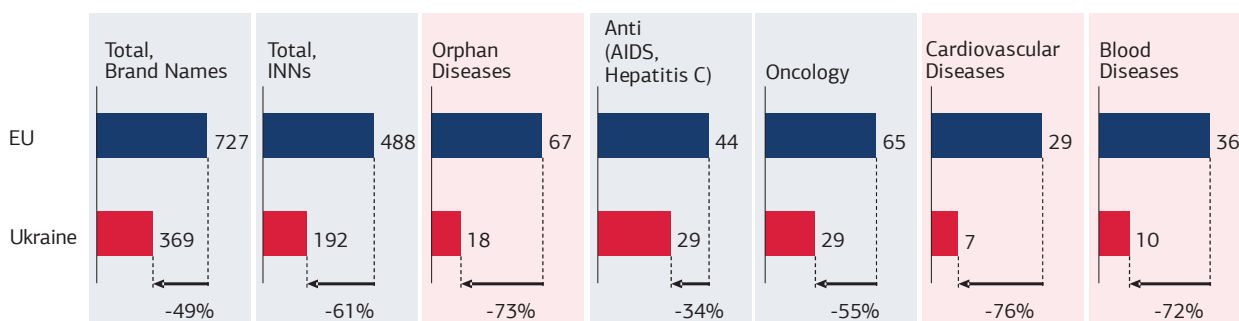
Pharmaceutical sales per capita, USD, 2012



Source: BMI

Drug registration system

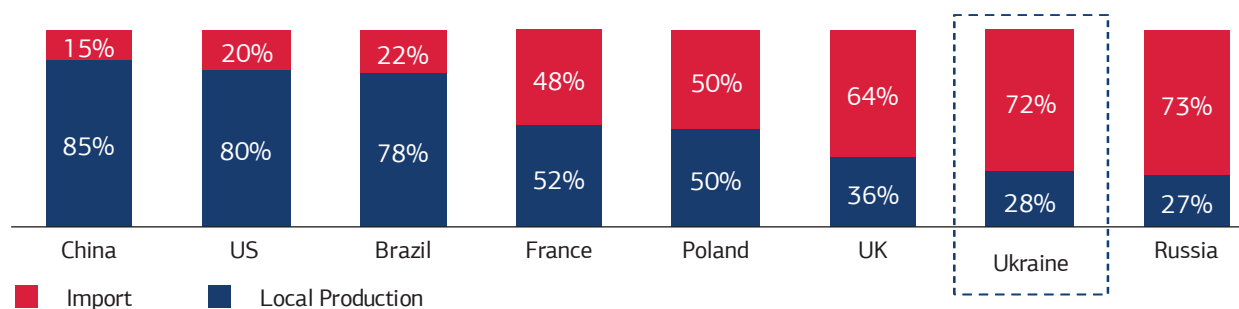
Number of drugs registered
in Ukraine vs. EU by type of drugs, 2013



Source: State Administration of Ukraine on Medicinal Products

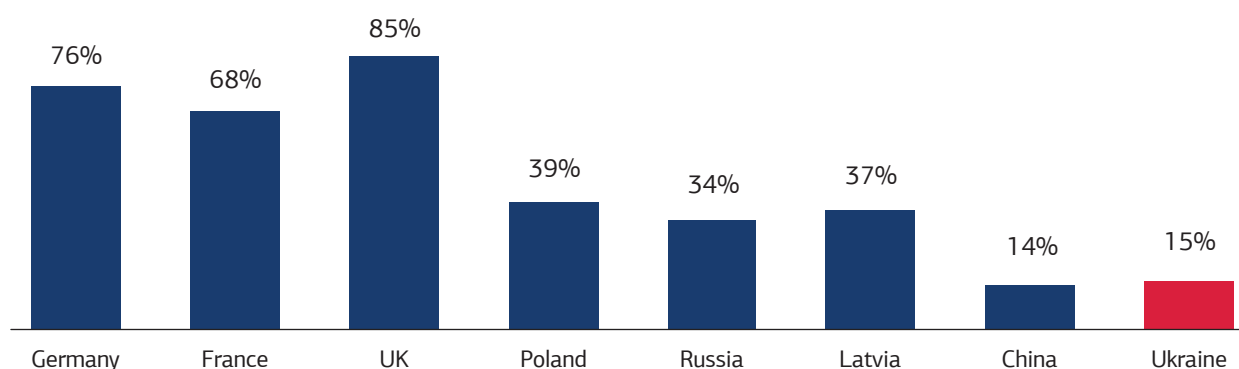
Pharmaceutical Manufacturing

Share of local production in the pharmaceutical market, 2011, %, value terms



Source: PwC estimates based on BMI and export.gov.ua

Share of government financing in total expenditure
on pharmaceuticals (incl. hospital segment), 2011, %



Source: WHO

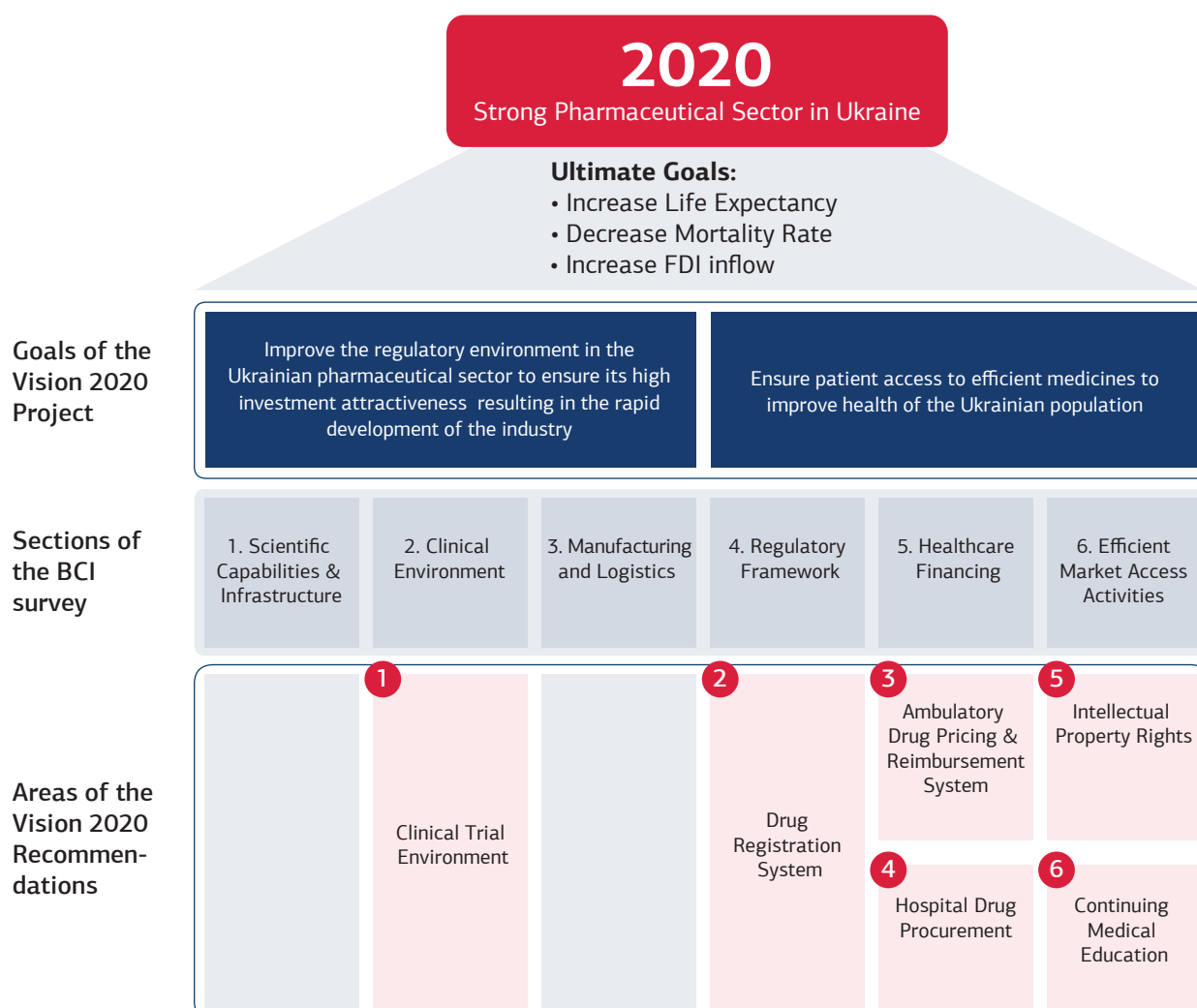
Main challenges

- ❌ Ukraine is still behind other developed countries, including CEE countries;
- ❌ Recent economic and consequent budget restraints put further pressure on the government financing;
- ❌ Ukraine's public healthcare expenditure almost tripled from 1996 to 2011 in absolute terms but still healthcare expenditure in the GDP are far below other countries;
- ❌ Ukraine also does not have a developed healthcare insurance system;

- ➖ Not surprisingly, because of the lower public and private healthcare expenditures, pharmaceutical sales per capita in Ukraine are low if compared to some of the developed and developing countries;
- ➖ Clinical trials, one of the biggest opportunities for the patients to get innovative treatment for free are not utilized in Ukraine;
- ➖ During the last 5 years, Ukraine undertook a significant effort in the harmonization of the drug registration regulations with that of the European Union, however, the number of the innovative drugs registered is still very low;
- ➖ Even with the high GMP compliance of the Ukrainian pharmaceutical production facilities, Ukraine's export of pharmaceutical products is far below its real potential;
- ➖ Because of the low public healthcare financing, most of the pharmaceuticals in Ukraine are purchased on the private expenditures.

Policy Recommendations on the Basis of International Best Practices

The recommendations developed within "Vision 2020: Roadmap for development of the pharmaceutical sector of Ukraine" project offer a pathway to a globally-competitive innovative pharmaceutical industry in Ukraine, improvement of the health of the Ukrainian citizens and increase in the welfare of the country.



More than **110 000**
employees in 100 countries

A comprehensive offer of medicines,
vaccines and innovative services
all over the world

112 industrial sites
present in 41 countries



SANOFI FOCUSED ON PATIENTS' NEEDS

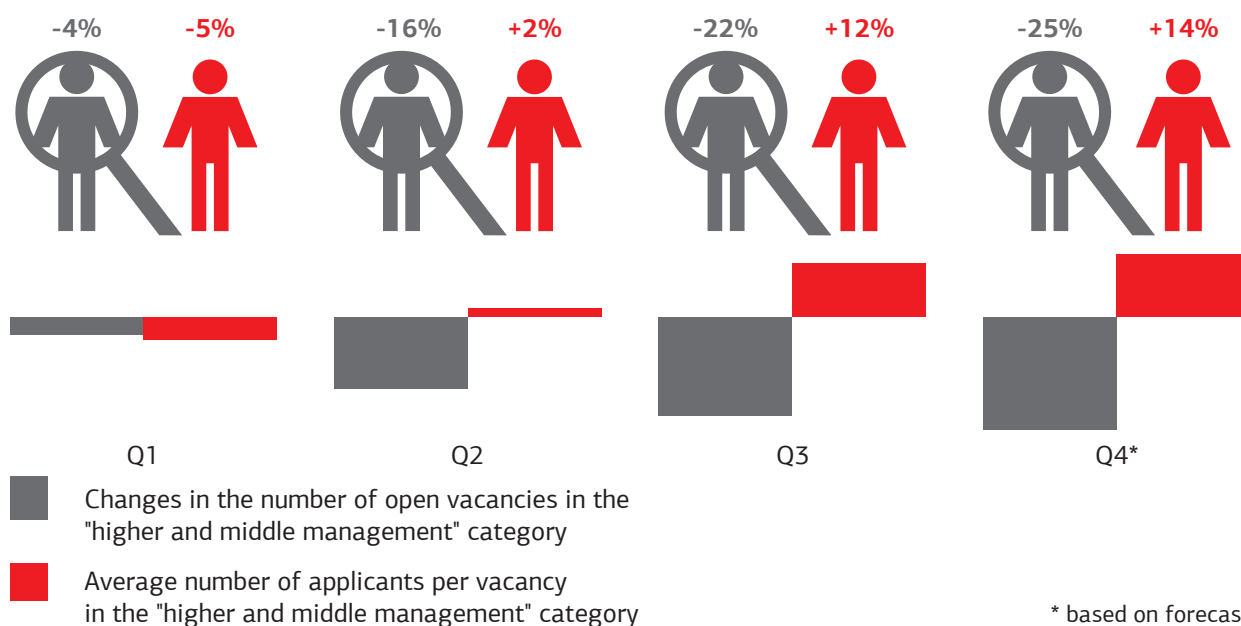
Over the years, Sanofi has evolved to meet the new challenges of healthcare worldwide. Today, Sanofi is a global healthcare leader focused on patients. We listen to their needs, support them in their disease and treat them. Through our diversified portfolio of medicines, vaccines and innovative therapeutic solutions, we strive to protect the health and meet the needs of the world's 7 billion people.

www.sanofi.ua



LABOR MARKET OVERVIEW

Main indicators 2013–2014



Changes in the number of vacancies in some professional fields

△ Professional areas where the number of vacancies increased in 2014	— Professional areas where the number of vacancies remained stable in 2014	▽ Professional areas where the number of vacancies declined in 2014
IT	Top management	Marketing
Pharmaceuticals	Sales staff	Bank workers
Agribusiness	Working specialties	Service industries

Changes in wages (expectations and proposals) in some areas

Professional field	Changes in expectations of applicants, %	Changes in proposals of employers, %	Features / Trends
Top management	△ +20–25	△ +10–15	Business owners are more configured to tie wages to company results
Pharmacists	△ +10–15	△ +5–10	
Sales staff	— 0	▽ -10	Reduction associated with decrease of profitability of some imported goods
IT specialists	△ +15–20	△ +15–20	Wages often pegged to the dollar
Marketers (Advertising manager and PR)	— 0	▽ -10–15	Small recovery in "around elective" periods
Bank employees	▽ -10	▽ -20–25	

Main problems/ difficulties

- A generally unstable economic situation, which in some cases is making businesses cut jobs and reduce compensation; some companies with 100% foreign capital have, due to the unstable and unpredictable situation in the country, decided to leave the Ukrainian market or significantly reduce their presences in it;
- Lack of an attractive investment climate that in the short term could guarantee new jobs;
- The outflow of skilled workers to other countries;
- The lack of an effective state algorithm that could serve as the basis for eliminating shadow wages;
- A general psychological background that, according to psychologists, has a negative impact on the performance of a large part of the population;
- High internal migration; lack of effective mechanisms to support internal migrants in employment matters.

Forecasts

1	Positive changes in the labor market are unlikely in the first half of 2015
2	In connection with more currency devaluation in late 2014 the more serious question of indexing wages rises — employees will hope that during annual review their employer will fully or partially restore their much "thinner" income
3	Only some companies (not more than 20%–25%) can do that, however. As a result, at the beginning of the year the market might see a wave of jobseekers
4	Ukraine will continue to send out a strong flow of migrant workers, not only to the West but also in other directions (such as Kazakhstan and Azerbaijan)
5	Recovery should come when stability returns and given increasing interest in Ukraine from the West. Obviously, making accurate predictions in this regard is almost impossible now



“For obvious reasons 2014 was a very difficult year for the job market. Indications are that 2015 will be difficult as well — the only question is too what extent. But even in a difficult period, certain labor market participants — employers, employees, job seekers — could well see positive developments. First, such a period represents a great opportunity to strengthen a team with highly qualified professionals of the sort who are now with greater frequency entering the labor market. Employees could find this a good time to make career breakthroughs, because it’s in a crisis that one can find the best chance to make a difference in one’s area of responsibility. In addition, job seekers must learn how better to “sell themselves,” which can lead to realizing strengths and professional success.

Testing is an integral part of both business and life in general. The ability to move on from difficulties is what truly makes us stronger.”

Andrey Krivokorytov, Chief Executive Officer

UKRAINIAN SOFTWARE AND INFORMATION TECHNOLOGY MARKET PERSPECTIVES

Main quantative indicators

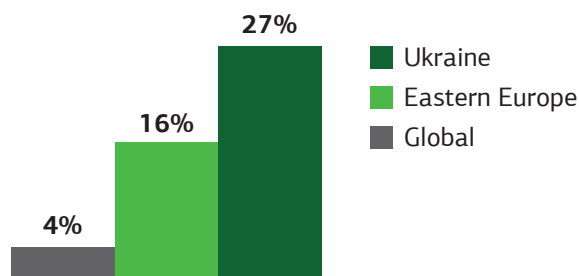
Ukraine has been among the top players in the IT outsourcing market since 2007. The country has been short-listed on Gartner's list of TOP 30 outsourcing destinations and has been ranking high on the A. T. Kearney Global Services Location Index (GSLI)* chart.

Rating A. T. Kearney Global Services Location Index (GSLI)

38	-8	Argentina	2,27	1,48	1,31	5,06
39	+9	Turkey	2,22	1,35	1,48	5,05
40	-11	Senegal	3,26	0,80	0,98	5,04
41	-3	Ukraine	2,76	1,23	1,04	5,03
42	-1	Uruguay	2,16	1,06	1,70	4,91
43	0	Colombia	2,30	1,28	1,32	4,90
44	+6	Portugal	1,68	1,27	1,94	4,89

Compound Annual Growth Rate (CAGR), 2009–2013, %

The turmoil that Ukraine faced in 2014 affected the state of the IT industry. As the latest GSLI chart shows, Ukraine has dropped three positions, but the industry sector still shows good dynamics according to A Ventures Capital Managing Partner Eugene Sysoev, who defined the Compound Annual Growth Rate (CAGR) in Ukraine during 2009–2013.**



Outsourcing volume over the next 3 years



Comparison of existing and potential revenue, mln\$



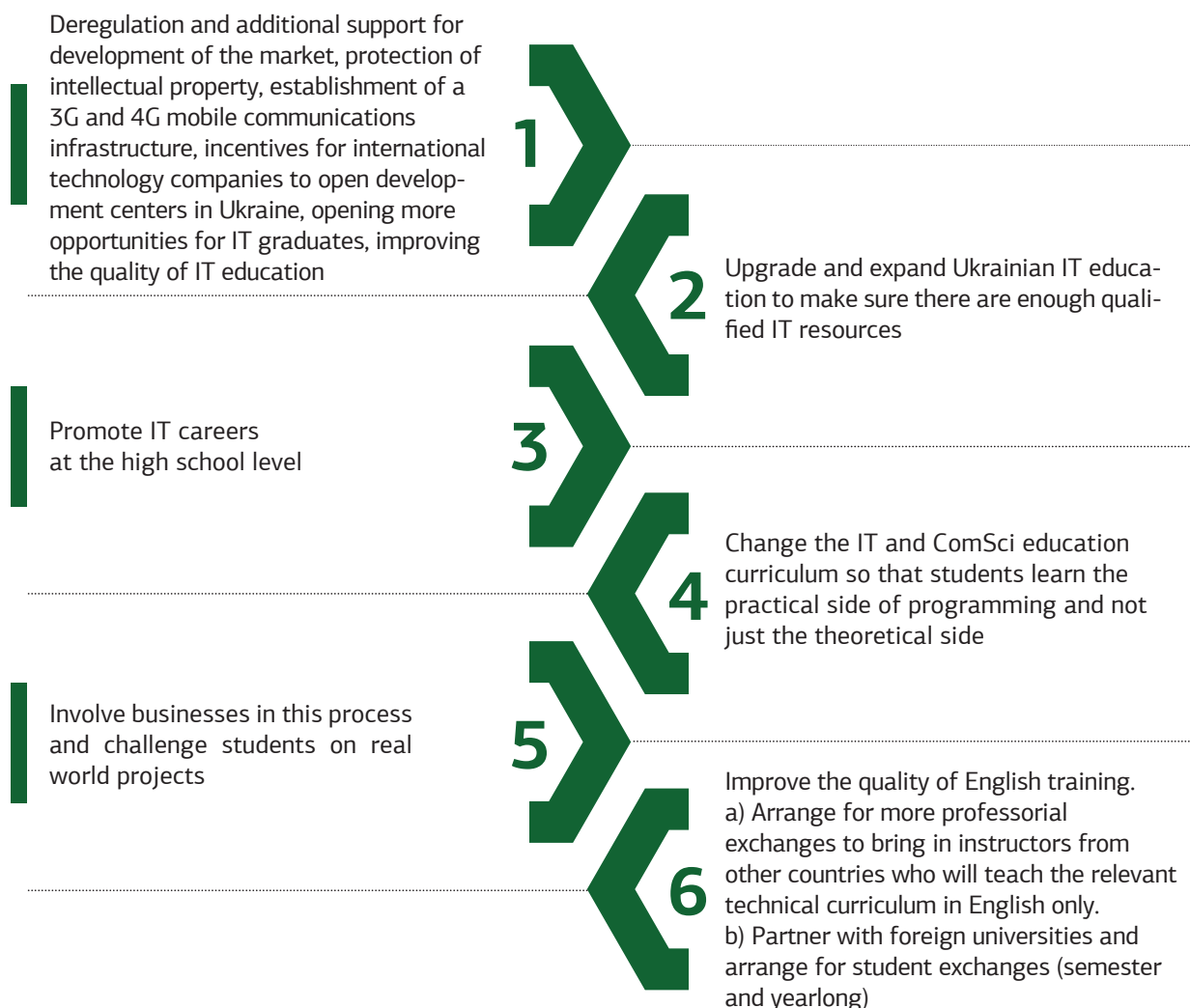
In 2014 the Ukrainian government announced that the IT industry should become a more important export market for Ukraine. The target given was for the overall market to reach 20 billion USD in 10 years. Currently this market is approximately 5 billion USD.***

* <http://www.atkearney.com/research-studies/global-services-location-index/full-report>

** <http://www.slideshare.net/YevgenSysoev/ss-32717561>

*** <http://www.worldbank.org/en/news/press-release/2014/10/29/doing-business-ukraine>

Upgrade and expand Ukrainian IT education to make sure there are enough qualified IT resources.



Ukraine is currently in 27th place (Moderate Proficiency) in terms of English language knowledge level, according to the Education First Company.

High proficiency	Moderate proficiency	Low proficiency
12. Singapore	23. Spain	29. Uruguay
13. Belgium	24. South Korea	30. Sri Lanka
14. Germany	25. Indonesia	31. Russia
15. Latvia	26. Japan	32. Italy
16. Switzerland	27. Ukraine	33. Taiwan



“Ukraine has an excellent educational foundation in mathematics, technology and the sciences on which to build. It does not have to start from scratch building a technical educational system as other countries have had to do. The potential is there, and the government and businesses need to work together in order to grow the software and IT industry and make it a significant factor in Ukraine.”

Emmy B. Gengler, CEO, Softjourn, Inc.

IT INDUSTRY OF UKRAINE AND ITS ROLE IN THE GLOBAL COMMUNITY

The Ukrainian IT industry is a world leader and Ukraine is a viable destination for sourcing IT services.

Key successes of IT companies represented in Ukraine

The 2014
Global
Outsourcing 100



Company	Luxoft	SoftServe	EPAM Systems	Intetics	Miratech
Services	IT & Comm. Mgmt	Indus.-Specific Svcs	IT & Comm. Mgmt	R&D	IT & Comm. Mgmt
Key Strength	Demonstrated Competencies	Management Capabilities	Management Capabilities	Balanced Performance	Balanced Performance

Source: International Association of Outsourcing Professionals



The 2014 NOA
Award Finalists

ELEKS
Miratech
SoftServe



The 2014 NOA
Outsourcing
Professional
Award Winner

Miratech — Best
IT Outsourcing Team

Source: National Outsourcing Association

The 2013 Global Services 100

Ciklum, DataArt, EPAM Systems, GlobalLogic, Intetics, Lohika, Luxoft, Miratech, SoftServe.

Source: www.globalservicesmedia.com

Human capital background for ICT industry growth

	Quality of math & science education		Tertiary education enrolment		Population	Tertiary Enrolment	Availability of Scientists and engineers (Rank)	Labor pay and productivity
	Rank	Value	Rank	Value	(millions)	(millions)	(rank)	Rank/144
Ukraine	30	4,8	13	79,7%	45,426	36,205	48	31
Romania	31	4,7	53	51,6%	19,96	10,299	72	66
Poland	50	4,4	23	73,2%	38,14	27,918	62	53
Serbia	53	4,3	52	52,4%	7,144	3,743	82	116
Bulgaria	54	4,3	34	62,7%	7,168	4,494	96	55
Russia	59	4,3	19	76,1%	142,468	108,418	70	24
Hungary	60	4,3	44	59,6%	9,881	5,889	56	64
Kazakhstan	72	4,1	62	44,5%	16,951	7,543	83	16
Czech Republic	74	4,1	32	64,2%	10,481	6,729	55	19
Slovak Republic	75	4	51	55,1%	5,423	2,988	76	32
Moldova	80	4	69	40,1%	3,554	1,425	128	35




Source: The Global Competitiveness Report 2014–2015 by WEF

TOP 25 IT Companies Representatives in Ukraine

Company	Country	Since	Staff					Vacancies	
			Jul 14	Aug 13	Aug 12	Aug 11	Growth	Jul 14	Aug 13
Luxoft	Russia	2005	3510	3082	2475	1926	82,2%	265	421
SoftServe	Ukraine	1993	3450	2708	2189	1924	79,3%	168	286
EPAM Systems	USA	1993	3300	3000	2600	1810	82,3%	79	180
Ciklum	Denmark	2002	2404	2023	1771	1197	100,8%	212	195
GlobalLogic	USA	2002	2403	2365	2130	1854	29,6%	110	120
Samsung R&D Ukraine	Korea	2012	1350	1100	680			11	54
Infopulse Ukraine	Norway	1999	1079	1038	866	729	48,0%	60	100
ELEKS	Ukraine	1991	914	849	687	500	82,8%	35	42
NetCracker	USA	1993	882	724	475	430	105,1%	55	50
Miratech	Ukraine	1989	804	650	600	457	75,9%	38	40
Nix Solutions*	Ukraine	1994	800	750	520	250	220,0%	14	20
ISD	Ukraine	1993	731	710	656	540	35,4%	40	20
DataArt	USA	1997	659	469	384	208	216,8%	177	62
Lohika Systems	USA	2001	644	640	568	534	20,6%	35	50
Parus Corporation	Russia	1990	550	550	550			10	6
GeeksForLess	Ukraine	2004	547					7	
Wargaming.net	Ukraine	2000	524					70	
Win Interactive	Ukraine	2003	520					3	
Terrasoft	Ukraine	2002	515	455	330	250	106,0%	19	44
Sigma Software	Sweden	2005	470	400	350	280	67,9%	30	40
Software MacKiev	USA	1997	400	400	400			3	22
Delphi	Ukraine	1999	368					4	
SysIQ	USA	2000	361	373	351	178	102,8%	46	50
CS Ltd.	Ukraine	1997	355	320	301			14	12
Playtika UA	Ukraine	2010	322					31	
AM-SOFT	Ukraine	2000		356	333	300			17
Softline	Ukraine	1995		297	289				3
Intecracy Group	Ukraine	2007		290					9
Cogniance	USA	2008		259	270	204			7
Magento	Ukraine	2006		250	273	200			3
frog	USA	2006		closed	360	400			
Materialise	Belgium	2000				251			
Gameloft	USA	2007				200			
TEAM Internat.Services	USA	2004				190			
Intetics	Belarus	1995				165			
Levi9 Ukraine	Ukraine	1989				150			
TOTAL TOP-25			27862	24058	20408	15127	84,2%	1536	1853
Growth			3804	3650	5281			-317	
Growth %%			15,8%	17,9%	34,9%			-17,1%	

Source: DOU.UA <http://jobs.dou.ua/top25/>

Main challenges

-  Crisis in Ukraine and anti-terroristic operation in the east causes some risks for all the economic sectors:
 - Labor market risks
 - Logistics risk
 - Trade and Investment risk
 - Crime and security risk
-  Large number of vacancies in IT companies caused by a lack of IT qualified specialists on labor market;
-  Corruption still stays one of the biggest problems for new investors to enter Ukrainian markets.

Tendencies:

1

The demand for IT outsourcing is rising, and will continue to do so, allowing the absolute best and brightest IT talent to help govern and deliver on client IT asset management requirements. Annual market research confirms this trend.

2

The technology competencies required of an enterprise today, to run a stable and secure IT environment, have become so complex. Further, IT talent is increasingly expensive and difficult to keep.

3

Thus, favourably positioning an enterprise to most rapidly exploit effective IT tools, technologies, and techniques to create shareholder value requires — more than ever — strategic investment in the most economical technical capacity and the highest technical competencies.

4

Shareholders around the world recognize Ukraine for its incredible, proactive IT talent and a flexible, collaborative, creative IT culture that is highly customer-focused.

5

The current economic crisis seems to be the main driver for further outsourcing industry development in Ukraine.

6

The current economic instability stimulates Ukrainian companies to concentrate their attention on key business processes and to transfer more and more non-core functions and structures to outsourcing providers. Outsourcing enables companies to save about 15–20 percent in costs, which is significant. From the other side, IT outsourcing services supplied by Ukrainian system integrators to large customers provide a safety net for them while there is no demand for integration projects within the Ukrainian IT market.



“Within the Top 25 IT companies represented in Ukraine, 80 percent of their revenue comes from abroad, while only 20 percent of revenue comes from domestic projects. The reasons for this split are a larger international market volume as well as more attractive margins with international projects. Nevertheless, during the last two years, we have often competed with other Top 25 Ukrainian companies on domestic project bids. On one hand, each year the Ukrainian IT market matures, and projects increase in size and cost. On the other hand, the domestic market provides an excellent opportunity for adjusting IT services to better respond to customers’ needs.

As for Miratech, we will always have a presence within the domestic market. All our best service products were first adjusted and proved by Ukrainian customers.”

Nikolay Royenko, President, Miratech

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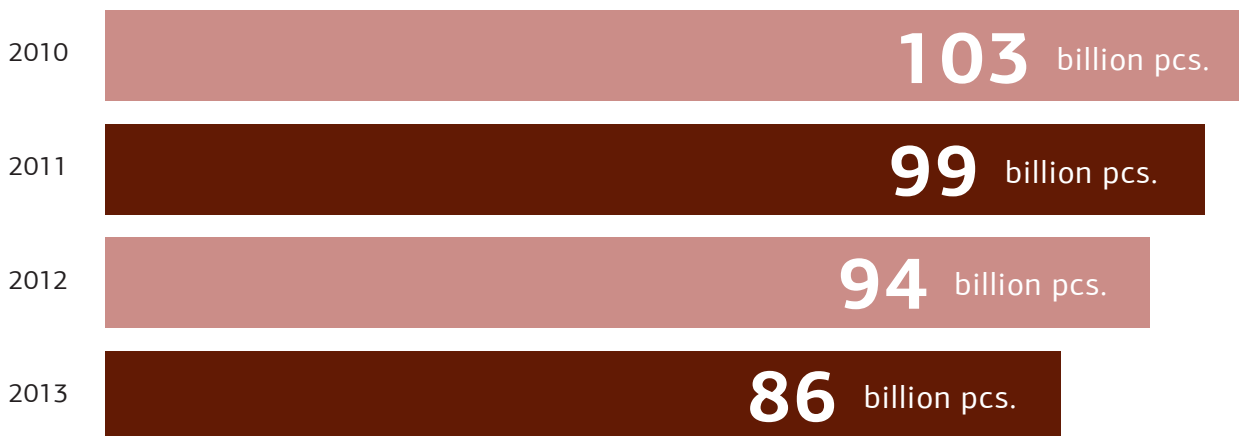
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E-mail: office@rsmapik.com.ua
www.rsmapik.com.ua

COMBATING COUNTERFEITING IN THE TOBACCO INDUSTRY

Main quantitative indicators

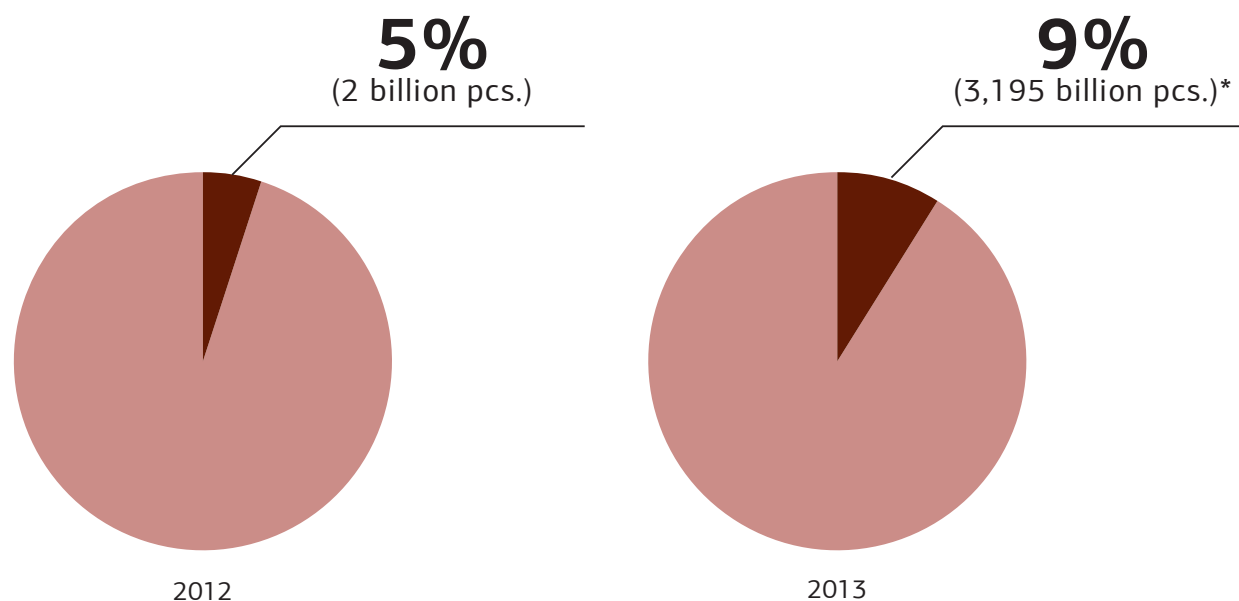
Cigarette production in Ukraine*



Cigarette consumption among the Ukrainian population*



The share of consumption of counterfeit and contraband cigarettes*



Despite the gradual reduction of cigarette consumption in Ukraine, the share of counterfeit and contraband cigarettes continues to grow. Against the decrease in production of tobacco products in Ukraine, this suggests that producers are missing out on significant potential profits.

*data from the Institute for Economic Research and Policy Consulting

Main problems in combating counterfeit tobacco products

One of the problems in combating counterfeiting is that Ukraine lacks effective legal mechanisms that would allow destruction of the equipment used in illegal production. In particular:

- There is no punishment for illegal production of excisable goods that would involve destruction of production equipment (Art. 204 of the Criminal Code of Ukraine). The only way to destroy equipment is by classifying the actions of the accused as illegal use of trademarks for goods under Art. 229 of the Criminal Code of Ukraine. However, mandatory feature of the said crime is the presence of damage that needs to be proven;
- There is no way to calculate the damage that illegal production causes to trademark owners;
- There is no real control at the enforcement proceedings stage over the forfeiture and destruction of equipment used to make illegal products;
- There is no sustained judicial practice of punishment that involves the destruction of equipment.

Necessary steps to combat counterfeit goods

Overcoming the increase in illegal production requires the following steps:

1

Changing the law to make it simpler to destroy equipment used for counterfeit production. This measure should be available to fight illegal production of cigarettes

2

Creating a legal mechanism for calculating the damage that illegal production causes; and forming judicial practice as concerns its use

3

Making law enforcement agencies more efficient in forming evidence for criminal prosecution of organizers and owners of illegal production



“Despite the shortcomings in the current legislation the prospect exists of combating illegal production in Ukraine. The positive experience we have of destroying illegal equipment and products and the fact that violators have been brought to criminal and civil liability provide evidence of this. However, changing the law would make this process more efficient.”

Oleksandr Lukyanenko, Attorney At Law, Counsellor

White collar crime



Corporate fraud & corruption

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LEGAL SYSTEM OVERVIEW

Main quantitative indicators



Around 100 regulatory permits have been canceled in 2014

30–50%!

are to be canceled as part of deregulation initiatives

**\$5677,3
mln**

The volume of direct foreign investment

**\$1298,0
mln**

2013

January – June
2014

Main problems

- Many anti-crisis regulations (driven by the situation in Crimea and Eastern Ukraine and the overall financial situation in the country) were enacted this year, the quality/contents of which may be questionable;
- Rather strict currency control rules (supposedly temporary), actually prohibiting repatriation of foreign investments and affecting foreign trade, have been introduced;
- There is legal uncertainty about business and property located in Crimea, which Ukraine has recently declared a free economic zone;
- The lustration law, which extends to many categories of posts, including judges, has been implemented. But its implementation triggered certain difficulties and may last for indefinite period.

Reforms

Possible liquidation of economic courts

1

Further deregulation in different sectors of business (e.g., switching to electronic filing and obtaining of documents; reduction of the number of, or simplification of the procedures for, obtaining licenses/permits)

2

Tax reform (the number of taxes may be reduced from 22 to 9 and tax compromise is being discussed)

3

A squeeze-out draft law is again in the parliament

4

Innovations

- + Implementation of anti-corruption legislation, requiring, among other things, disclosure of UBO information in the Companies' Register;
- + The Real Estate Register is to become publicly available;
- + Corporate seals are no longer mandatory;
- + Shareholders can terminate the employment of officers of a company at their discretion at any time;
- + Liability of companies' managements has increased.



"We are witnessing essential changes in the legislation. Some of these changes are just an effort to tackle the challenges Ukraine has been facing lately and thus introduce more strict or contentious rules; yet the goal of the Government is to make life easier for business. There are initiatives (some of which have been implemented to a certain extent) to reduce the number of regulatory agencies, permits and audits; to simplify administration and reduce the number of taxes; to use electronic means of communication more extensively; and in general to make Ukraine a more attractive place in which to do business."

Olena Kuchynska, Senior Associate

Your lawyers in Ukraine

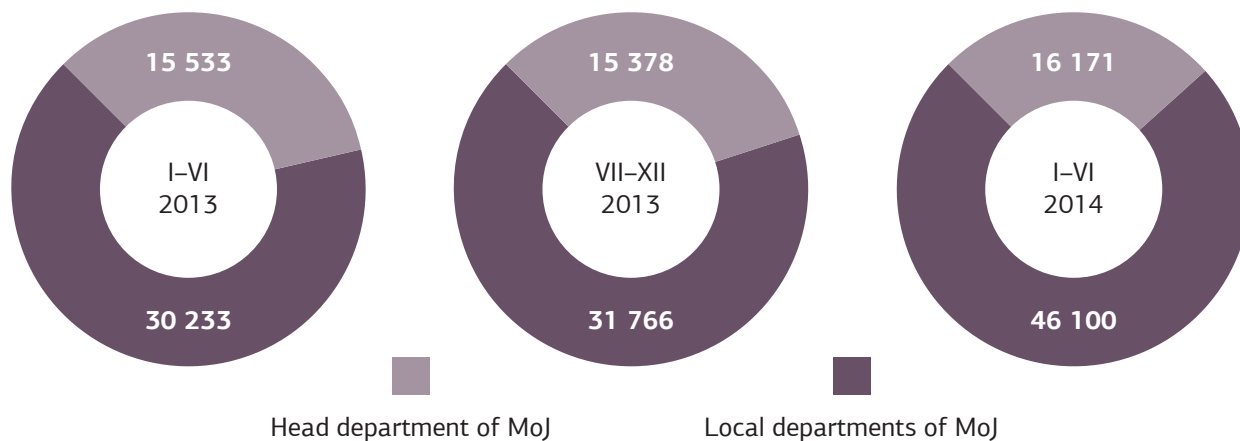
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SETTING UP AN NGO IN UKRAINE

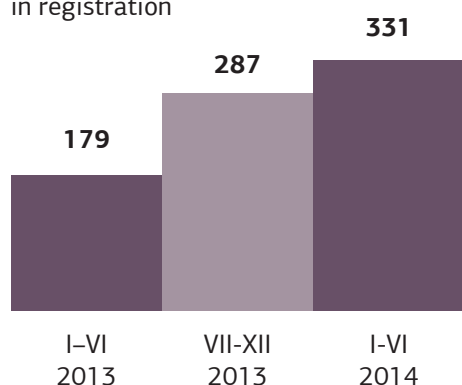
Main industry quantitative indices

NGOs registered by Ministry of Justice

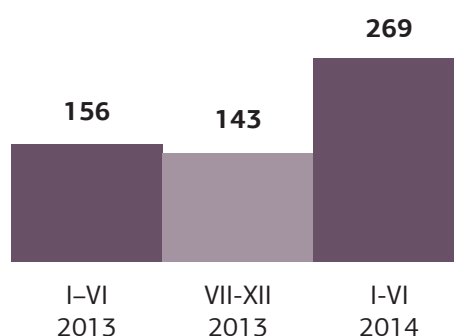


Number of refusals to NGOs

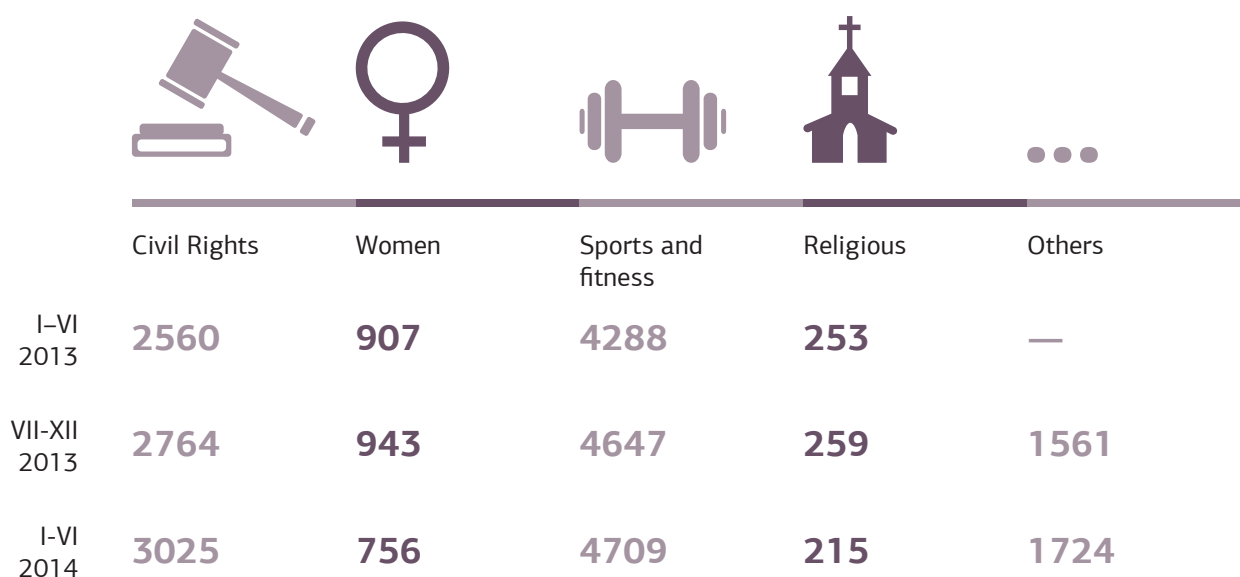
Refusals in registration



Refusals in registering amendments



NGOs which changed significantly in 2013–2014



- Main problems

Non-governmental organizations (NGOs) are registered with the departments of justice (DJ) and the state registrars (SR), making the process longer

Absence of official guidelines on the registration procedure, thus allowing DJ/SR to manipulate the Law of Ukraine "On Non-governmental Organizations" ("the Law")

DJ and SR have different views on some registration matters and on NGO activity

NGOs lack real tools of control over whether DJ/SR follow the registration procedure

NGOs are deprived of the chance to correct errors, add necessary documents, etc., before DJ/SR decide to register them or not

Forecasts, possibilities, + necessary steps and reforms

1

1 The number of NGOs will increase

2

2 DJ shall have the right to register NGOs as legal entities without SR

3

3 Official guidelines should be passed to clarify and unify the Law

4

4 The time period for the registration of NGOs and for changing registrations shall be shortened

5

5 Whether the DJ and SR abide by timeframes shall be strictly supervised



"Practical experience of the registration process is important in registering non-governmental organizations. Since NGOs are not as widespread as other types of legal entities, registration bodies sometimes are unaware of the right course of action themselves. It's best to consult with the registration officer every time you have a doubt."

Sergiy Aleksandrov, corporate practice department of Law Offices "Alekseev, Boyarchukov and partners"



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REAL ESTATE: SECTOR OVERVIEW

Office property market

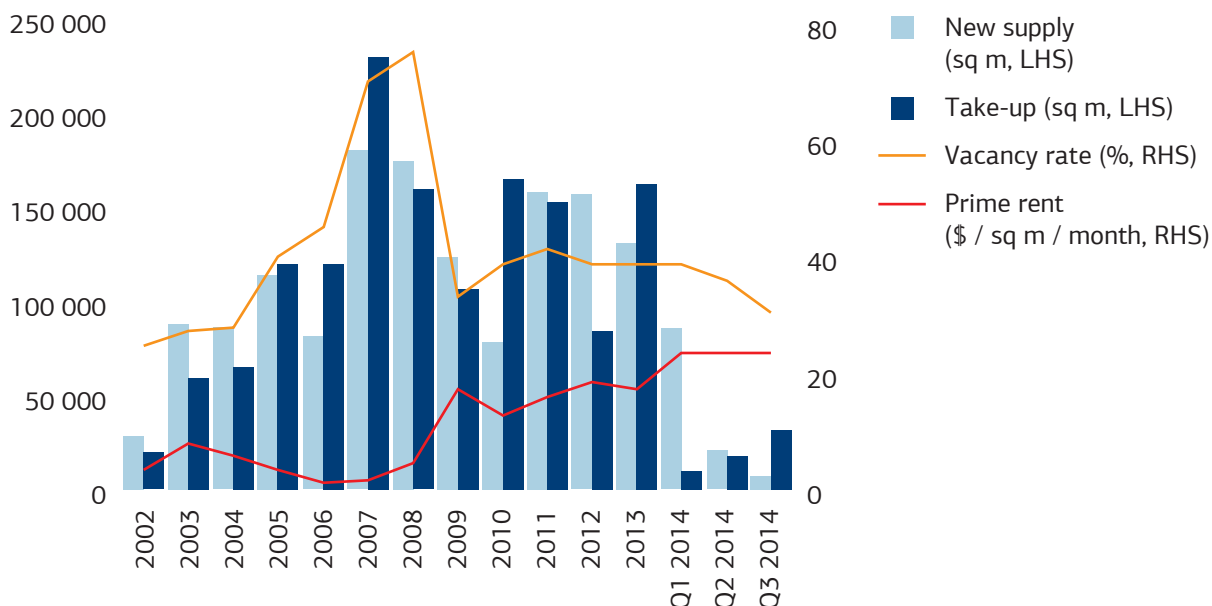
Key office property market indicators in Kyiv

	2012	2013	Q1 2014	Q2 2014	Q3 2014	Annual outlook
Stock (sq m)	1,434,350	1,564,150	1,653,960	1,675,195	1,673,430	△
New supply (sq m)	158,000	131,100	86,040	21,235	6,640	△
Take-up (sq m)	84,300	162,300	10,500	18,300	31,500	<△>
Vacancy rate (%)	18,1	17,0	23,8	23,6	23,1	<△>
Prime rents (USD/sq m/month)	35–41	25–38	22–38	20–36	20–30	▽

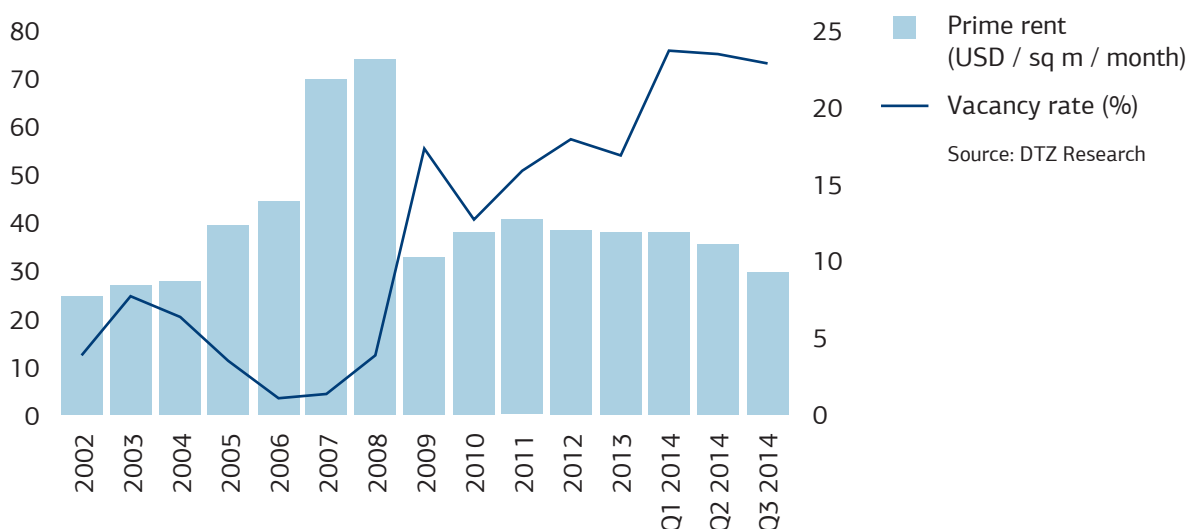
Source: DTZ Research

Notes: All figures are period-end and due to the non-transparency of the market are subject to continued revision. Take-up and vacancy figures do not include sub-lease opportunities.

Major office property market indicators in Kyiv



Prime office rents and overall market vacancy in Kyiv



Source: DTZ Research

Retail property market

Key retail property market indicators in Kyiv

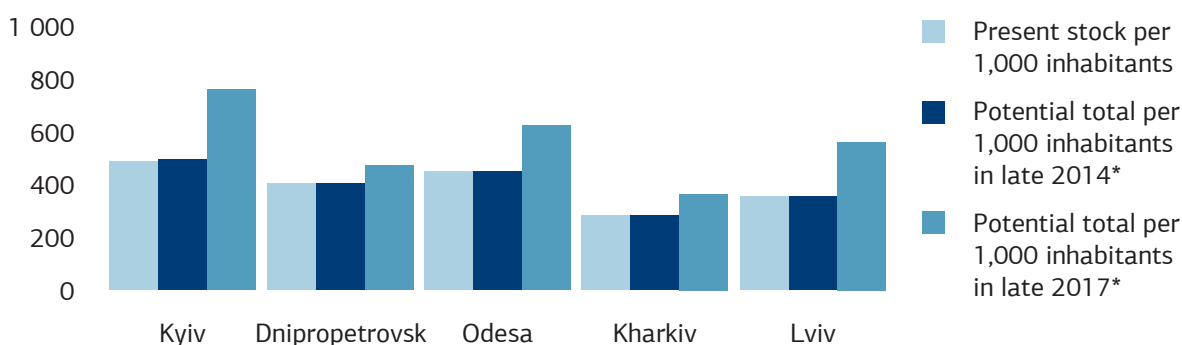
	2012	2013	Q1 2014	Q2 2014	Q3 2014	Annual outlook
Stock (sq m)	1,143,700	1,321,140	1,336,140	1,366,140	1,407,540	△
New supply (sq m)	142,300	177,440	15,000	30,000	41,400	▽
Prime shopping centre rents (USD / sq m / month)	160–200	150–200	110–160	100–150	100–150	▽
Prime high street rents (USD / sq m / month)	110–230	110–230	n/a*	70–160	50–110	▽

Source: DTZ Research

Notes: All figures are period-end, while rents are quoted for retail units of 100–300 sq m in area.

* In Q1 2014 the prime central retail locations in Kyiv became the arena for the massive protests known as the “Euromaidan.”

Modern retail stock per 1,000 inhabitants in major cities of Ukraine (sq m per 1,000 inhabitants)

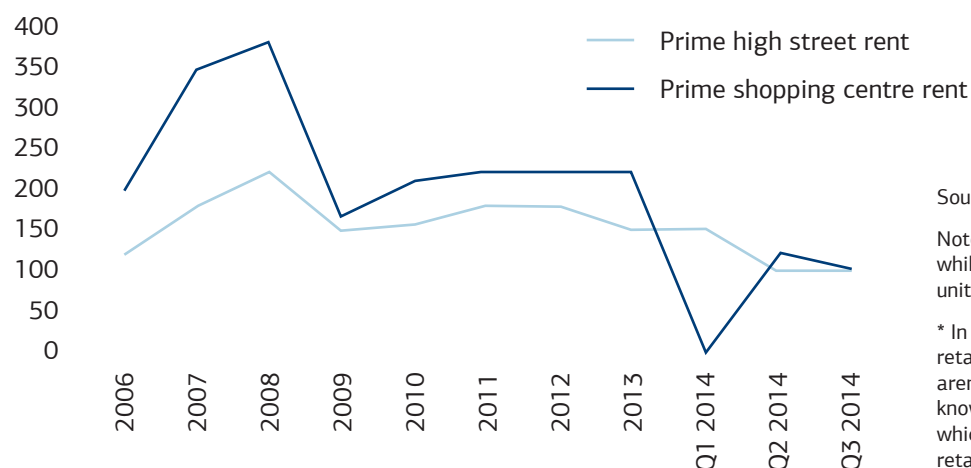


Source: DTZ Research

Note: All figures are year-end, covering both multi-tenant retail centres and big boxes.

*Based on existing and pipeline stock as of November 2014.

Retail rents in Kyiv (\$/sq m/month)



Source: DTZ Research

Notes: All figures are period-end, while rents are quoted for retail units of 100–300 sq m in area.

* In Q1 2014 the prime central retail locations in Kyiv became the arena for the massive protests known as the “Euromaidan,” which resulted in an absence of retail activity in these areas.

Industrial and logistics property market

Key industrial and logistics property market indicators for the Greater Kyiv area

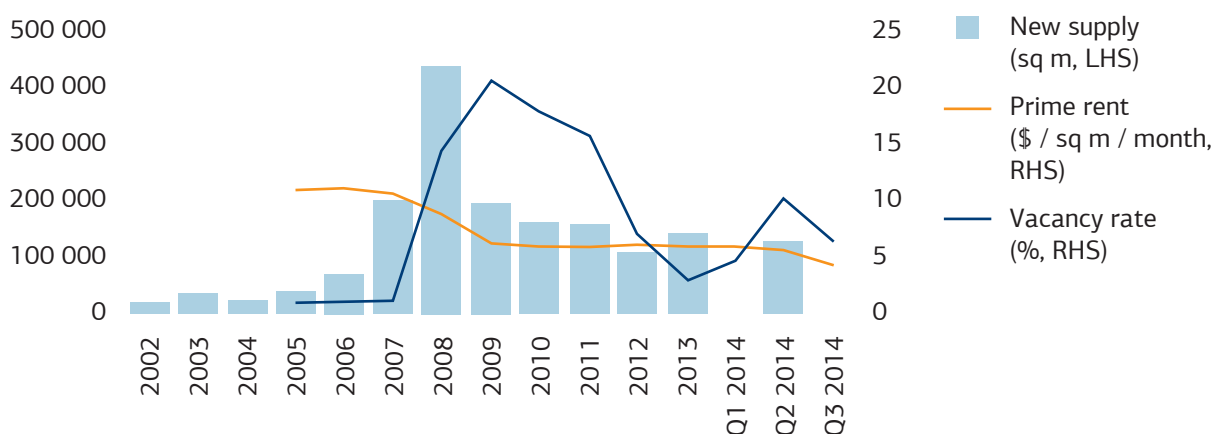
	2011	2012	2013	Q1 2014	Q2 2014	Q3 2014	Annual outlook
Stock * (sq m)	1,322,000	1,440,000	1,575,350	1,579,150	1,705,790	1,705,790	△
New supply* (sq m)	156,000	108,000	139,200	0	126,640	0	▽
Take-up (sq m)	222,000	236,000	311,380	39,100	44,300	65,780	<△>
Vacancy rate (%)	15,7	6,8	3,2	4,7	10,1	6,5	<△> ▽
Prime rents (USD/sq m/month)	5-7	5-7	5-7	4-7	3,5-6,5	3-5,5	<△>

Source: DTZ Research

* Including ancillary office and mezzanine space

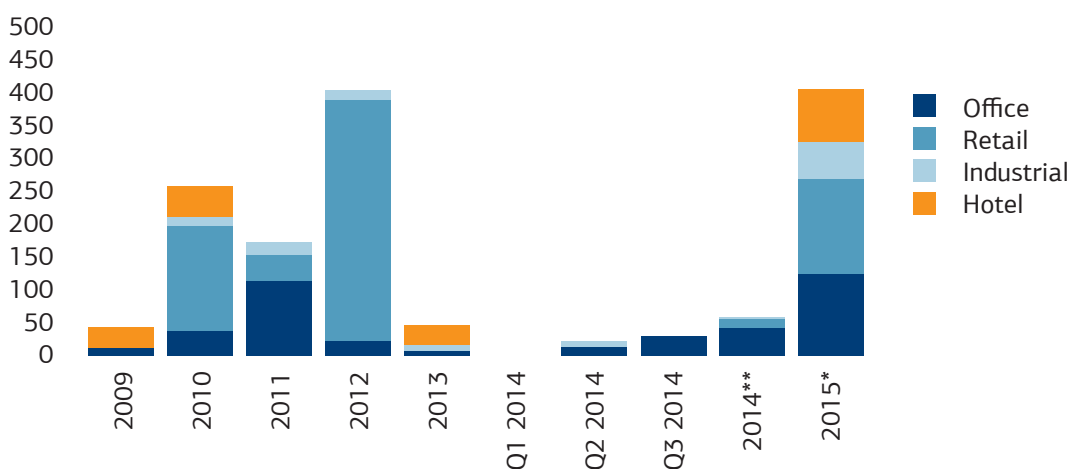
Note: All figures are period-end.

Key indicators of logistics property market in Greater Kyiv



Investment

Investment volume in Ukraine* (million USD)



Source: DTZ Research

Note: All figures are year-end.

*The figure includes secondary investment transactions (the sale of land plots was excluded).

** Year-end projections.

Forecasts, possibilities, required steps/reforms



“The challenges facing the commercial real estate market in Ukraine are extremely difficult. This does however in itself raise the need and opportunity to implement long overdue initiatives to ease the burden of development bureaucracy, improve the rule of law in relation to recovery of assets subject to non-performing loans, drive a focus towards a more integrated planning system reflecting the social, environmental and commercial needs of society.

In short, the time of delivering poorly conceived and executed developments for a quick financial return are now a thing of the past.

Going forward, we have the opportunity to ensure that new development is driven by sustainable business considerations and controlled by responsible social management.”

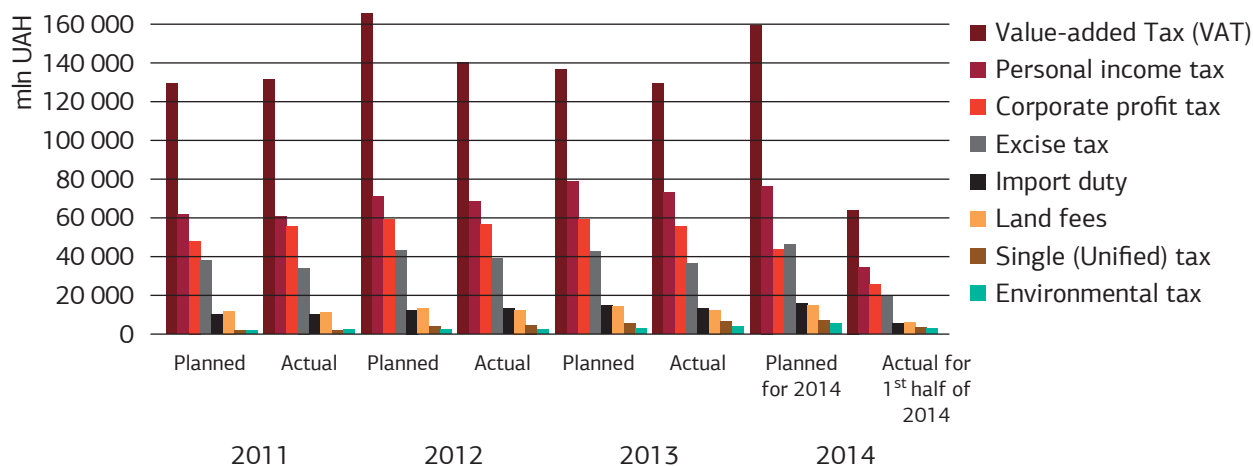
Nick Cotton, Managing Director of DTZ in Ukraine

TAXATION SYSTEM OF UKRAINE

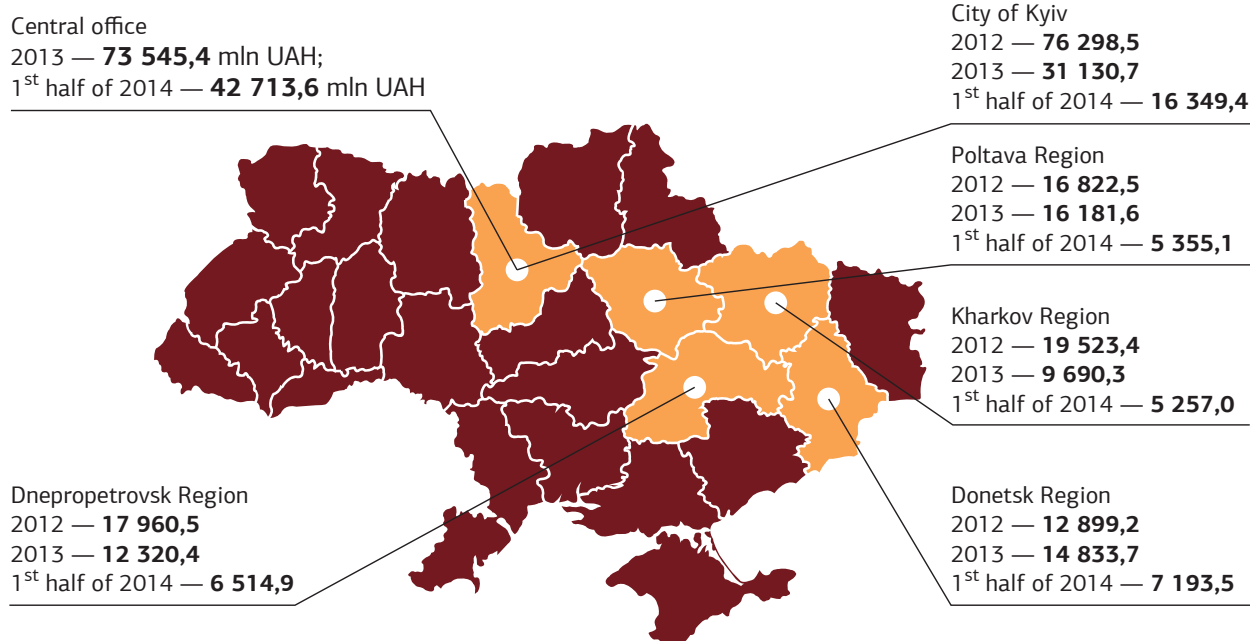
State revenue is generated with 4 main taxes: value added tax, corporate income tax, personal income tax and excise tax.

VAT revenues constitute more than one-third of all tax revenue in the consolidated budget of Ukraine.

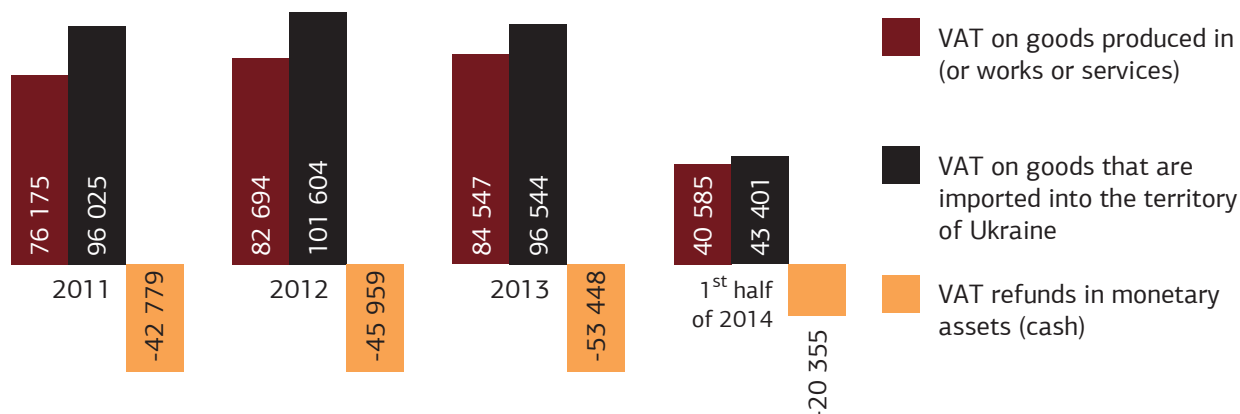
Total tax revenue, mln UAH



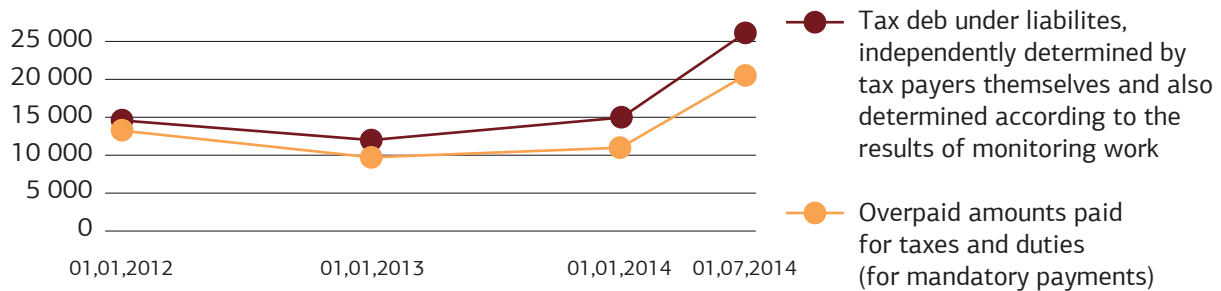
The main regions contributing to the state budget in the period 2012–2014, mln UAH



Value-added tax structure



Tax debt & overpayment



Main problems

- ⊖ Growth dynamics for overpaid taxes and tax debt among taxpayers indicate that the growth of these indicators is proportional;
 This may indicate that, in order to implement planned state budget revenues in the event of tax debt for some taxpayers, there may be increased pressure on other taxpayers for the purposes of refunding tax overpayments;
- ⊖ In the first half of 2014 alone tax debt increased by 86% and tax overpayments to the state budget increased by 75%;
- ⊖ The decrease in tax revenues observed in some regions occurred due to the fact that in 2013–2014 some major corporate taxpayers were transferred to the central office for servicing major taxpayers. That office is located in Kyiv;
- ⊖ Beginning in March 2014 there has been virtually no tax revenue coming from the Republic of Crimea or the City of Sevastopol;
 In the first half of 2014 revenues have also significantly decreased from the Donetsk and Lugansk regions due to the antiterrorist operation that is currently taking place in these regions. Many taxpayers' accounts from these regions were transferred out of the region and are now registered for tax purposes in other regions. However, the growth dynamics for tax revenues recorded for the neighboring regions indicate that such transfers did not really materially affect actual budget revenues;
- ⊖ In the first half of 2014, the ratio of budget refunds to VAT refunds decreased by 6% compared to 2013 and by only 1% compared with 2011 and 2012. This reduction was due in part to a decrease in export volumes (VAT at a rate of 0%) and to the fight against corrupt practices with respect to VAT refunds.

Tendencies

- ⊕ Annual revenues from corporate profit tax are relatively stable;
- ⊕ The growth dynamics of personal income tax point to a tendency for wages to come out of the shadow economy;
- ⊕ The state budget does not provide for target indicators for revenues from fines incurred for tax law violations. There exists the risk that, during the crisis period in Ukraine, planned tax revenues could be obtained from penalties (fines), which may result in increased pressure on business entities operating in the country;
- ⊕ In connection with the anti-terrorist operation that is being carried out in Eastern Ukraine and as a result of the temporary occupation of the Republic of Crimea and the City of Sevastopol, the indicators regarding budget revenues in the first half of 2014 are not comparable to those for previous periods.



“Ukraine's economy is currently in recession and needs urgent effective tax reforms aimed at de-shadowing of the business, which could have a positive effect on the budget of 2015. The potential de-shadowing is really high, which is obviously from the statistics of the past periods.”

Igor Synytsyn, expert, EBS

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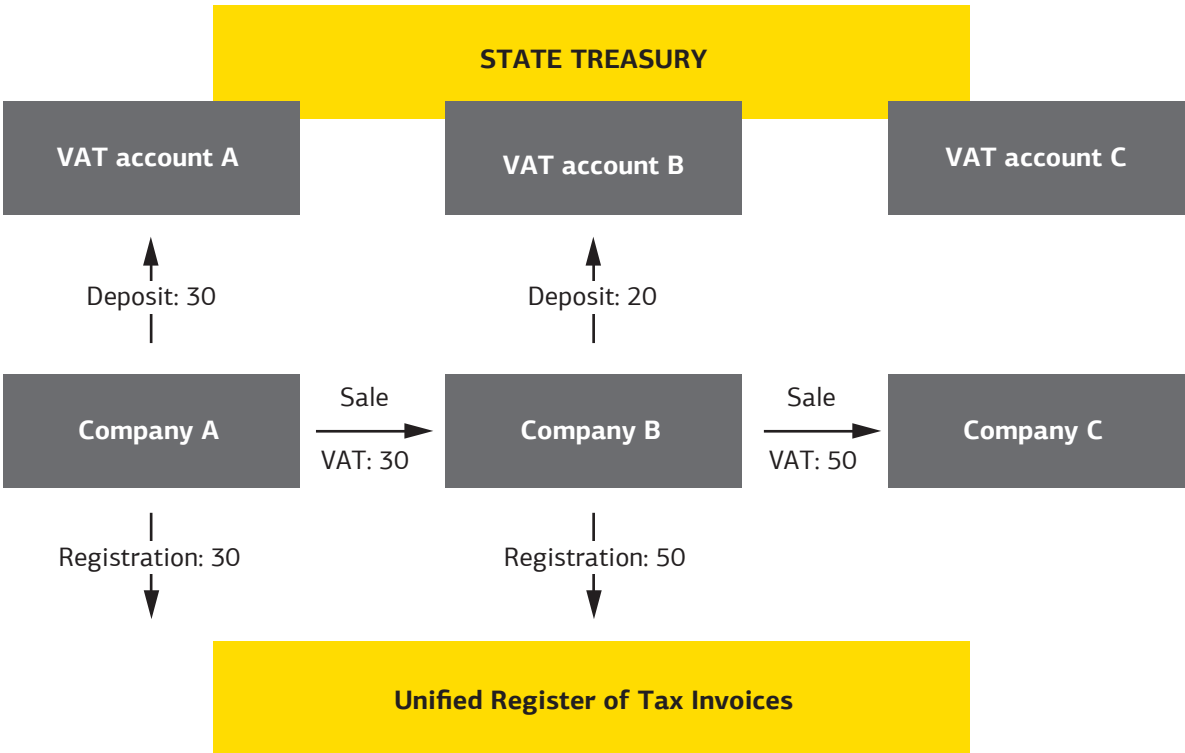
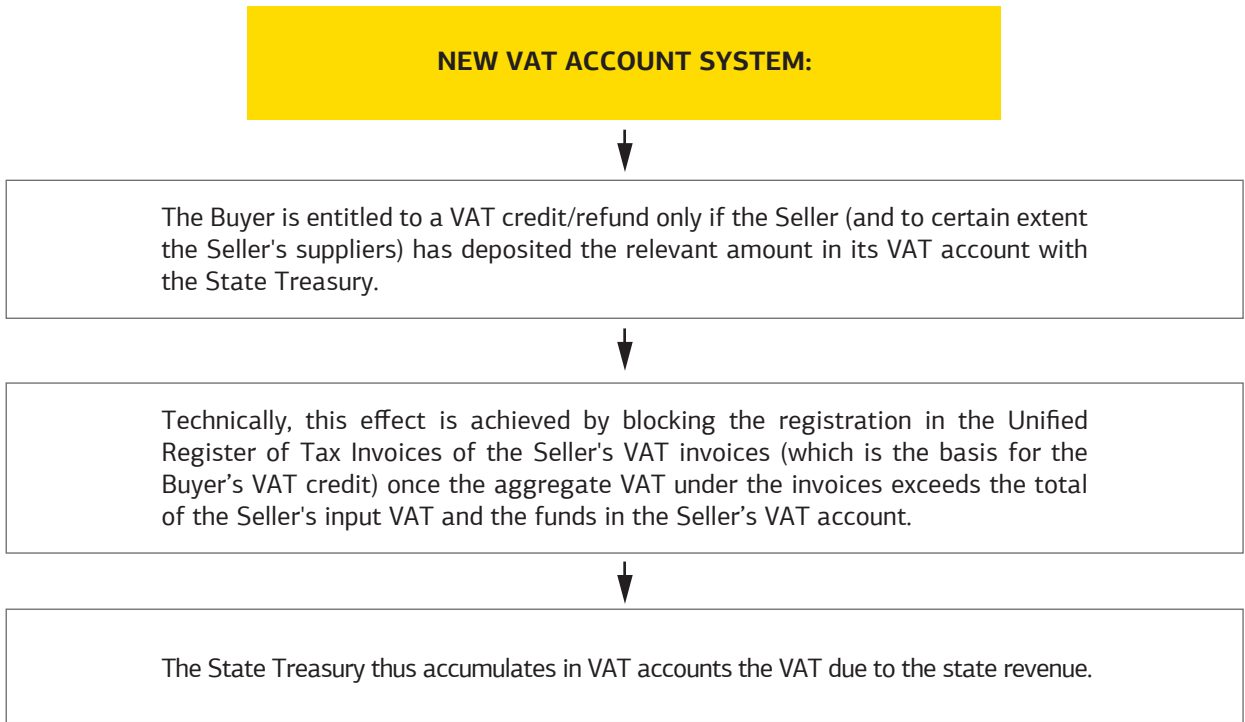


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VAT ACCOUNTS



Threshold for registration of VAT invoices:

Threshold = \sum Received VAT invoices "Import" VAT VAT account balance - \sum Issued VAT invoices Claimed VAT refund VAT liabilities w/o invoices ("non-standard" transactions)

Implementation mechanism

New rules take effect on 1 January 2015

All VAT invoices should be issued in electronic form and registered with the Unified Register

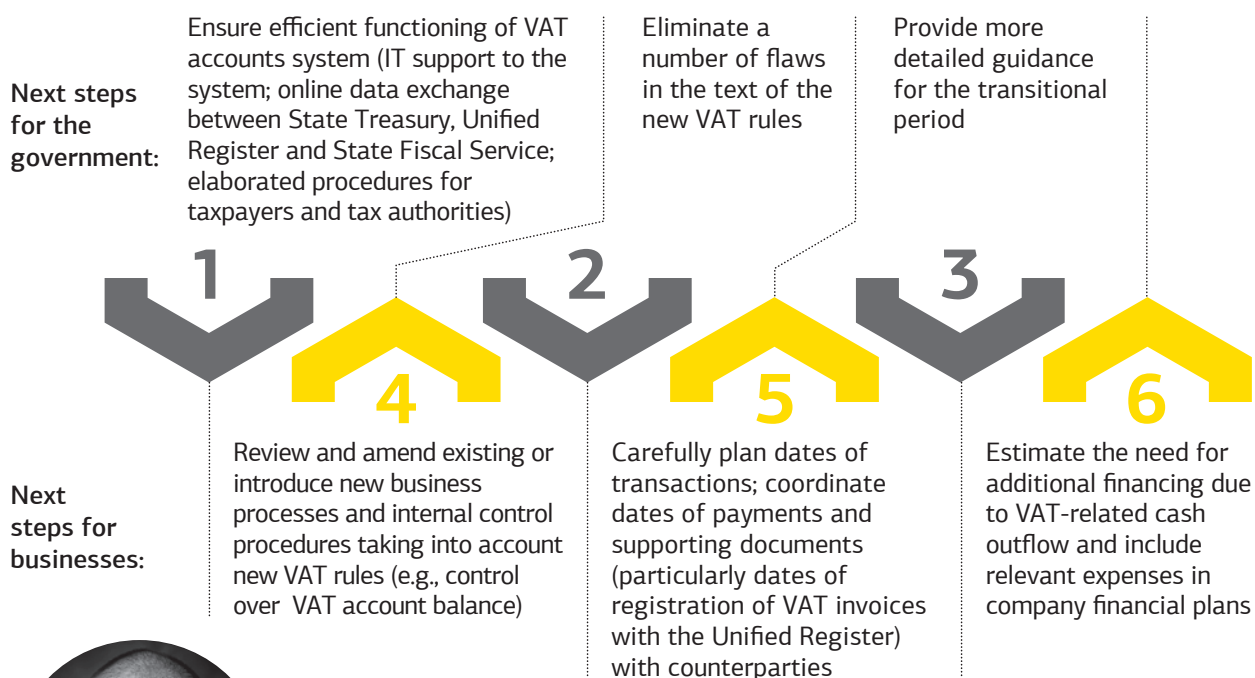
A supplier will be able to register issued VAT invoices for output VAT within the total of its input VAT and the funds transferred to its VAT account

Funds accumulated in VAT account can be used exclusively to “guarantee” VAT liabilities under the issued VAT invoices or to settle the VAT due to the state revenue.

Main challenges

- Additional outflow of a business's cash to VAT accounts;
- Unutilized funds in a VAT account can neither be reclaimed by a taxpayer nor used to pay taxes other than VAT;
- A buyer will be unable to recognize VAT credit based on a complaint against a supplier who has not provided a proper VAT invoice;
- VAT overpayment or VAT receivable accumulated as at 1 January 2015 will be disregarded for the purposes of VAT accounts.

Necessary steps and reforms



“The new VAT rules will affect all businesses directly or indirectly through cash outflow and/or changes in interaction with counterparties (the need to coordinate dates of accounting documents, payment schedules, etc.).

We recommend assessing the impact of the new rules on your business and, if necessary, amending business processes related to interaction with counterparties, internal control procedures, financial and tax accounting procedures, and financial plans.

Also, if the new system proves effective, it may provide sufficient funds for timely and full VAT refunds.”

Ivan Mustanien, Senior Manager, Tax & Law, EY Ukraine

NB! This information is based on the law in force as of 19 December 2014. Postponement, changes to or even cancellation of the VAT accounts system are possible. Please monitor how the law would develop and consult with your advisor.

CORPORATE INCOME TAX: PROBLEMS AND PROSPECTS FOR REFORM

From 2011 to 2014 the fiscal authorities issued

1 500¹

responses

30

generalized tax consultations

Since the adoption of the Tax Code the chapter dedicated to corporate income tax has changed seventeen times



Average time required to comply with the corporate income tax, hours per year



But even if the indicator is falling, it is still two to three times higher than the indicators for EU countries.

Current problems with the corporate income tax:

- The legislative regulation does not correspond to the substance of the corporate income tax, which in practice leads to double and even triple payment of the tax, without the possibility of using the available tax overpayment due to, among other things, the unclear status of overpayment;
- Ambiguous rules result in multiple interpretations of taxpayer rights and obligations. In practice, this leads to an abundance of tax clarifications on certain rules, issued so that the law can be enforced in a uniform manner. It also leads to tax disputes;
- Unstable corporate income tax legislation, which is a consequence of the ambiguity that has plagued the rules from the very beginning;
- Ambiguity of the mechanism for calculating and paying advance payments (including advance payment during dividend payment); a complicated procedure for distributing tax liabilities between branches; demands for the provision of an endless pile of original documents the formal flaws of which are used as the basis for tax disputes and additional tax assessments;
- The complexity in corporate income tax administration, caused by among other things the discrepancies between the corporate income tax return form and the Tax Code of Ukraine, leads to tax disputes.

1. As of November 03, 2014 726 responses of the tax authorities were effective and 806 were non-effective.

2. <http://www.doingbusiness.org/reports/thematic-reports/~media/GIAWB/Doing%20Business/Documents/Special-Reports/Paying-Taxes-2011.pdf>
<http://www.doingbusiness.org/reports/thematic-reports/~media/GIAWB/Doing%20Business/Documents/Special-Reports/Paying-Taxes-2012.pdf>

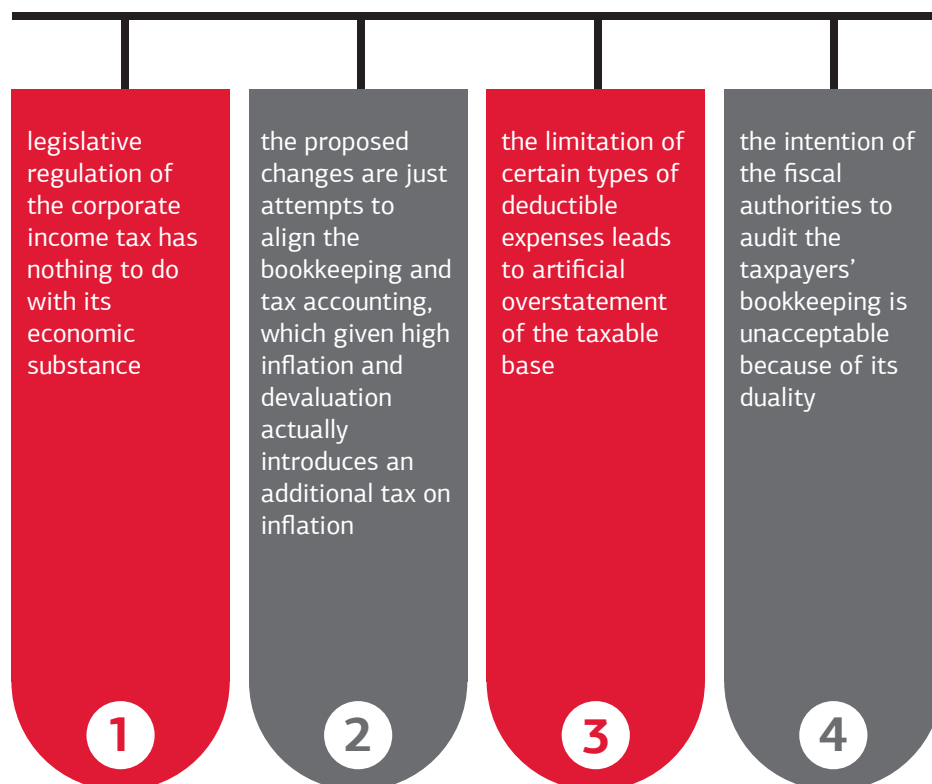
3. <http://www.doingbusiness.org/reports/thematic-reports/~media/GIAWB/Doing%20Business/Documents/Special-Reports/Paying-Taxes-2013.pdf>

4. <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Special-Reports/Paying-Taxes-2014.pdf>

Prospects for reform:

- ✚ Tax reform, including corporate income tax reform, to ensure Ukraine's economic growth is an essential task, but it must be effective, which requires significant changes to the existing rules.

Draft law No. 5079, as proposed by the Ministry of Finance of Ukraine, does not perform this task:



- ✚ An alternative and truly reformative option would be establishing rules for distributed profit taxation (the so-called tax on dividends). Under such a system distributed profit, not earned profit, is subject to taxation.

Estonia introduced a similar tax in January 2000. In addition, any investments by Estonian companies, including those made in other countries, are tax exempt. This stimulates growth, provides job-creation opportunities, and contributes to the overall growth of social welfare, as Estonia's experience shows.



"In this regard, the following approach might be useful for Ukraine:

For large enterprises there should be a tax on dividends, which provides for taxation of distributed profits. However, the transfer pricing rules are to be changed significantly to make them more simple and transparent. Among other things the mechanism for calculating arm's length prices should be simplified and applicable penalties reduced.

For medium-sized enterprises and small enterprises there should be an alternative: either to pay the tax on dividends, like large enterprises, or to start paying the single tax, established as a percentage of turnover."

Inna Taptunova, Senior of Counsel, WTS Tax Legal Consulting LLC



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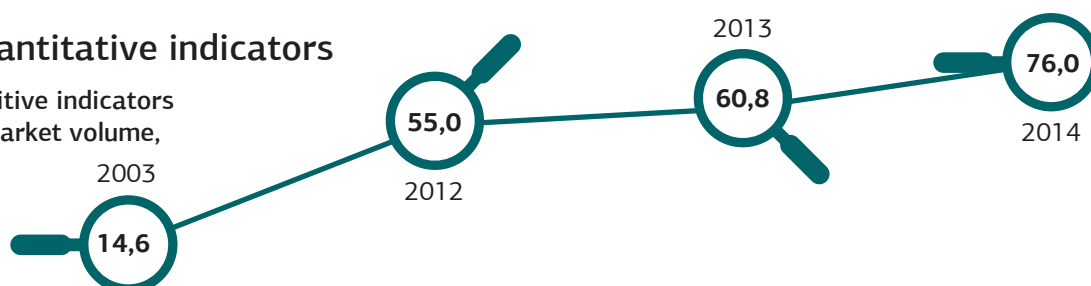
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MARKETING RESEARCH IN UKRAINE: PORTRAIT OF THE INDUSTRY 2014

Main quantitative indicators

Main quantitative indicators
Research market volume,
mln USD



The Ukrainian Marketing Association has been measuring the volume of the research market since 2003. At that point it amounted to USD 14.6 mln

The market as a whole has been showing steady growth, except for 2010 (when there was a market decline of 10%) UAM forecasted USD 76 mln in market turnover in 2014. However, an expert evaluation of the market looks much less optimistic — experts expect the market to fall by 15–20%

47 companies comprise the marketing research market and UMG has been among the top-three market leaders since 2003.

Main industry problems/challenges

One of the main problems of the market in 2014 was pricing

On the agency side there has been dumping among those who are trying to survive. Annual tender proposals suggest lower prices than have been standard. In each specific case (such as during each annual tender, for example) the suggested prices are even lower. This is possible only if an agency invests in the client's economy. Tactically it's profitable, but strategically it's completely wrong. It irreversibly destroys the market

On the client side we are seeing procurement departments that choose an agency solely according to price, often without regard to experience, knowledge of a client's business, or the quality of work in general

Necessary steps/reforms

1 Searching for inspiration — because, as Chuck Palahniuk said, "All the effort in the world doesn't matter if you're not inspired"

2 "Through the thorns to the stars" — staying positive in all situations. "Failure to success" stories like Michael Jordan's have to be kept in mind: "I've failed over and over and over again in my life. And that is why I succeeded"

3 Treating the research agency as a partner — "client-agency" cooperation at the highest level

4 And, of course, digital technologies, because the Internet in fact is changing our lives with increasing speed



"Marketing research is an incredibly interesting industry. On the one hand, our industry is a litmus test. Marketing research reacts first. Despite the fact that our company saw a slight increase, we can confirm that the market fell by approximately 15%–20%.

On the other hand, this is an industry that demands inspiration, because there always exists a challenge. How we respond to these challenges and find the inspiration to overcome them is the philosophers' stone of our business and the key to its future."

Nataliya Bukhalova, UMG



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