Coface Country Report

Ukraine

JULY 2009

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1. GENERAL INFORMATION

Ukraine is second to Russia as the largest country in Europe by area. It borders on Russia, Belarus, Poland, Slovakia, Hungary, Romania and Moldavia as well as the Black Sea. Ukraine gained independence in 1991 after the collapse of the Soviet Union, and has been a republic since 1 January 2006. The country is divided into 24 regions as well as the autonomous Crimean Republic and the special territories of Kiev and Sevastopol. Ukraine is a member of the WTO; it also cooperates with NATO and is part of the Eastern partnership with the EU.

Form of government	Parliamentary-presidential Republic		
Administrative organisation	24 regions		
Area	603,700 km²		
Population	47,600,000; density: 79 inhabitants / km²		
Official language	Ukrainian		
Local currency	1 Hryvnia (UAH) = 100 Kopeken		
Capital	Kiev (Kyiv) – 2.5 million inhabitants		
Major cities/population	Charkiv Dnepropetrovsk Odessa Donezk Saporischya Lvov Kryvy Rih Mykolayiv Mariupol Luhansk Makiyivka Winnyzya Simferopol Sevastopol	1,431,000 1,033,000 1,002,000 987,000 796,000 718,000 652,000 511,000 482,000 452,000 377,000 352,000 343,000 333,000	inhabitants inhabitants inhabitants inhabitants inhabitants inhabitants inhabitants inhabitants inhabitants inhabitants inhabitants inhabitants inhabitants inhabitants
Ethnic groups	77.8% Ukrainian, 17.3% Russian, 0.6% Belarusian, 0.5% Moldovan 0.5% Crimean Tatar, 0.4% Bulgarian, 0.3% Hungarian, 0.3% Romanian, 0.3% Polish, 0.2% Jewish, 1.8% other		
Religion	44% Ukrainian orthodox (Kiev and Moscow Patriarchates as well as others), 6% Catholic, 1.7% Ukrainian autocephalous orthodox, 38% other (Protestant, Jewish, etc.), 10.3% without religion		
Natural resources	Iron ore, coal, natural gas, oil, salt, timber, arable land		
Key sectors	Mining, metal processing, agriculture		
Membership in international organisations	IMF, UNO, World Bank, EBRD, close cooperation with the OECD and NATO, WTO		

2. ECONOMIC SITUATION

Country-Rating

Coface Rating
D
www.cofacerating.com

Ukraine was by far the strongest economy in the former Soviet Union after Russia. However, Ukraine inherited an economy that was dependent on heavy industry and outdated technology when it gained independence in December 1991. The country's ruling elite showed little interest in relinquishing its tight control over economic and bureaucratic power, and economic restructuring and modernisation efforts initially met with widespread resistance.

2.1 The Current Economic Environment

The economic situation in Ukraine can be classified as very difficult. Industrial production, one of the major drivers, has fallen significantly by more than 30% since the beginning of 2009. Although the banking system is under pressure, this has surprisingly not affected the labour market to date. Inflation is slowing after a sharp rise in 2008, but real wages have already dropped by 15% and the Hryvnia has lost substantial value. Loans are extremely difficult to obtain. The EURO 2012 soccer championships (when meeting the constraints till November 2009) as well as the renovation of the gas network and other necessary infrastructure measures could have a positive effect on investment activities. Membership in the WTO should provide support for further economic growth.

2.2 Economic Policies

In addition to a persistent widespread dependency on foreign energy sources, the country's main structural problems are an export sector that is focused on metals, delays in reorganising industrial production and an inefficient bureaucracy. The current situation has been aggravated by the global financial crisis and continuing internal political disputes. The country's financing requirements will increase in 2009, above all because of the high level of foreign debt. In particular, Naftogaz is heavily indebted and can hardly meet its payment obligations to Gazprom. A national bankruptcy is nevertheless unlikely. The government is working to maintain the stability of the currency. In addition, it recently sold CO2-emission certificates for more than USD 500 million and hopes to conclude further transactions in the future.

2.3 Business Locations

The service sector - especially software development – is concentrated above all in Kiev, Charkiv, Lvov, Dnepropetrovsk, Donetsk and Simferopol (Crimea). The iron ore sector is located near Kryvyi Rih, Dnepropetrovsk and Saporischschya. The Donetsk Basin is the centre of the mining industry.

2.4 Trading Partners

Ukrainian exports are focused on metals, energy, machinery, agricultural products and chemicals to Russia, Turkey and Italy. Imports, in particular machinery and fuels, come from Russia and Germany. The acquisition of Bank Aval by Raiffeisen International in mid-2005 made Austria one of the most important investor countries in Ukraine.

2.5 Economic Key Data

The following table indicates some key data of the economic development of Ukraine.

Key data (USD billions)	2004	2005	2006	2007	2008 (e)	2009 (f)
Economic growth (%)	12.1	2.7	7.3	7.6	2.1	-6.0
Inflation (%)	9.0	13.5	9.1	12.8	25.2	29.7
Public sector balance (%GDP)	-4.4	-2.3	-1.4	-2.0	-3.0[1)]	-4.5[1)]
Exports	33.4	35.0	38.9	49.8	67.3	44.1
Imports	29.7	36.2	44.1	60.4	83.6	51.0
Trade balance	3.7	-1.1	-5.2	-10.6	-16.3	-6.9
Current account balance	6.9	2.5	-1.6	-5.9	-12.0	0.0
Current account balance (%GDP)	10.6	2.9	-1.5	-4.2	-6.8	0.0
Foreign debt (%GDP)	47.2	46.0	50.6	59.9	56.4	80.3
Debt service (%Exports)	9.3	12.2	14.2	15.6	15.9	21.6
Foreign exchange reserves (in moths of imports)	3.0	5.0	4.7	5.0	3.7	4.4

(e) estimate

(f) forecast

Source: Coface.

1) Including costs for the recapitalisation of banks

Due to the currently strongly fluctuating exchange rates a monetary political forecast is not possible to be included in the Country Reports 2009. This overview should be included again 2010.

3. POLITICAL SITUATION

Ukraine is a semi-presidential, semi-parliamentary republic. The president is the head of state and is elected directly for a five-year term of office. However, a 2004 constitutional amendment has given the prime minister the most powerful position in the country. The parliament has one chamber, the Verkhovna Rada. Many of the representatives are affluent businesspeople. The council of ministers has served as the head of the executive branch since May 2008. Ukraine has a very large number of smaller political parties, which form alliances for the elections. The most important parties are the Party of the Regions headed by former premier Yanukovitsch and the block led by Julia Tymoschenko.

3.1 National

- President: Viktor Yuschtschenko
- Prime Minister: Julia Tymoschenko
- Form of government: Republic

The current government is formed by a coalition of pro-western parties headed by Viktor Yuschtschenko and Julia Tymoschenko. Tymoschenko was elected prime minister for the second time in 2007 by a narrow margin. However, the performance of the economy in recent years has shown that there seems to be little connection between political turmoil and economic success in Ukraine. Yuschtschenko dissolved the parliament in September 2008, but recalled it to meet the requirements for a USD 16.5 million bridge loan from the IMF. Relations with Russia are a major point of dispute because of their critical influence on the country's energy supplies. The next elections are scheduled for October 2009; they will be overshadowed by the current crisis and have the potential to trigger massive protests among the apprehensive population.

3.2 Ukraine and the EU

The geopolitical focus of Ukraine shifted from Russia and the CIS states to the European Union after the Orange Revolution, and accession became a long-term strategic goal. This decision will most likely facilitate economic reforms through the stabilisation of investor confidence and increase the country's attractiveness for foreign direct investment (FDI). The EU, however, has been hesitant to grant Ukraine prospects for full membership and is instead concentrating on the eastern partnership with Ukraine and five former Soviet republics which was established in March 2009. The EU granted Ukraine market economy status in December 2005, in part as a form of compensation. Ukraine plays a key role as an intermediary in the transportation of energy supplies to the EU, and this standing will lead the EU to invest nearly EUR 3 billion in Ukrainian gas lines over the coming years. The country has also moved closer to NATO, cooperating on a wide range of matters such as emergency situations, technical assistance, scientific studies and military and defence reforms.

The European Neighbourhood Policy has formed the general framework for relations between the EU and Ukraine since September 2004. In addition, an EU-Ukraine Action Plan was adopted on 21 February 2005 and defined key areas of reform. Negotiations are currently in progress on a new enhanced agreement that would create a free trade zone. This zone would extend beyond the current Generalised System of Preferences and Partnership and Co-operation Agreement, which is based on most favoured nation status. Negotiations on the free trade zone element of the agreement began in February 2008. The EU is the largest donor country to Ukraine, with assistance totalling more than EUR 1 billion since 1991. The support programmes include TACIS (civil society, regional subsidies, institutions, nuclear safety), the Fuel Gap programme, contributions to the Chernobyl Shelter Fund managed by the EURATOM and EBRD loans. Ukraine is scheduled to receive funds of EUR 494 million between 2007 and 2010 to support the reform process and implementation of the EU action plan. This amount will increase further as a result of the east partnership.

3.3 Agreements with Austria

- Agreement between the Republic of Austria and Ukraine for the promotion and mutual protection of investments (Federal Gazette BGBl. III 170/1997)
- Agreement between the Republic of Austria and the government of Ukraine to avoid double taxation and to prevent tax evasion in the area of taxes on income and assets (Federal Gazette BGBl. III 113/1999)
- Agreement between the Republic of Austria and the Cabinet of Ministers of Ukraine covering assistance and mutual cooperation on customs matters (Federal Gazette BGBl. III 194/2001)
- Agreement between the government of the Republic of Austria and the Cabinet of Ministers of Ukraine on the cross-border movement of persons in scheduled transportation services (Federal Gazette BGBl. III 224/2002)
- Agreement between the government of the Republic of Austria and the Cabinet of Ministers of Ukraine on the international transportation of persons in non-scheduled transportation services, including memorandum (Federal Gazette BGBl. III 271/2002)
- Agreement between the government of the Republic of Austria and the Cabinet of Ministers of Ukraine on cooperation in the area of science and technology (Federal Gazette BGBl. III 135/2004)

Two relevant laws govern commercial entities in Ukraine – the Civil Code (CC) and the Commercial Code (CommC). The CC is generally based on the principles of a market economy, while the CommC seems to represent the traditional concepts underlying a planned economy. These laws provide in part conflicting rules on the incorporation, operation and termination of business entities and (again only partly) supersede the Law on Business Associations, which was in force up to January 2004. Many relevant issues are still not clearly regulated and the contradictions and legal uncertainty caused by the new legal framework require decisive legislative action – businesses are often forced to choose between the two codes since compliance with both at the same time is not possible. However, the plans to remedy this situation remain largely unrealised to date – with the exception of the rules governing stock corporations, which were amended as of April 2009.

4.1 Corporate Law

Partnerships and corporations are considered legal entities under Ukrainian law. A special feature of Ukrainian law is the determination of the minimum capital requirement as a multiple of the minimum wage (since December 2008 UAH 605, approx. EUR 56.6 based on the exchange rate as of 06/2009). The limited liability company and stock company are the most common forms for business enterprises, but representations are also widely used. Ukrainian partnerships do not enjoy the same tax benefits as in Austria. Other company forms are not available to private persons and may only be founded in very specific areas of business. Therefore, they are of limited interest to investors.

The civil law code now allows stock companies and limited liability companies with a single shareholder, provided this shareholder is itself not a single shareholder company. The two laws now expressly allow for wholly owned subsidiaries in the form of a stock company or limited liability company.

Ukrainian companies are established through recording in the “standard register”, whose data is publicly accessible. Decisions on registration should theoretically be granted within three days, but normally take one to two weeks. Further registrations must be filed with the statistics authority, tax authority and pension funds.

Legal Business Entity	Ukrainian Name
Stock company (SC)	Vidkryte / zakryte aktsionerne tovazystvo
Limited liability company (LLC)	Tovarystvo z obmezhenoyu vidpovidalnistiu
Limited partnership	Komandytne tovarystvo
Partnership	Povne tovarystvo
Non-commercial partnership	No information available at the present time.
Sole proprietorship	Privatne pidpriemstvo
Subsidiary, Branch Office, Representation	Dochirnya kompaniya, Predstawnytstvo

Stock Company

A new law on stock corporations took effect on 30 April 2009. It differentiates between public and private stock companies and not – as the former law – between open and closed stock companies. Public stock companies must be listed on the stock exchange, and their financial statements must be prepared and audited in accordance with International Financial Reporting Standards. Private stock companies are not publicly traded and may not have more than 100 shareholders. Shares in public stock companies can be publicly traded, while shares in private stock companies may only be sold to the founding members or third parties with the consent of the founders. The former law gave shareholders in a closed stock company a pre-emptive right on the sale of shares, but it is doubtful whether this right will also apply under the new law as it is formulated in vague terms.

Both forms of stock company must have a supervisory board if there are more than ten shareholders. Share capital must equal a minimum of 1,250-times the minimum wage (UAH 605, approx. EUR 56.6 based on the exchange rate as of 06/2009). The new law also gives certain rights to minority shareholders. There is still no statutory minimum share value.

Limited Liability Company

Most regulations concerning Ukrainian LLCs are similar to Austrian law, in particular concerning the limitation of shareholder liability to the contribution. The minimum capital requirement is 100-times the minimum wage. At least 50% of each founder's contribution must be paid in prior to registration, and there are no exemptions to this obligation.

The creation of a limited partnership in which a limited liability company serves as the general partner is not expressly permitted by law, but is possible in practice. However, this form of company is not very attractive due to the lack of tax benefits for the limited partnership.

Limited Partnership

The regulation of limited partnerships is similar to the Austrian “Kommanditgesellschaft” with some partners carrying full liability and others only limited liability. Since both the partnership and the partners are subject to taxation, limited partnerships are not very common.

Partnership

The legal regulations governing partnerships in Ukraine are similar to Austria. All partners are jointly and severally liable for debts incurred by the partnership. Both the partnership and the partners remain fully taxable under Ukrainian law.

Non-commercial Partnership

This form of business organisation is not used very often for the above-mentioned reasons.

Sole Proprietorship

This form of business organisation is not used very often for the above-mentioned reasons.

Subsidiary, Branch Office, Representation

A wholly owned subsidiary does not issue shares and has no minimal capital requirement. It is not specifically regulated under Ukrainian law and offers greater flexibility upon founding. However, state authorities have more leeway in enforcement and the risk is higher that legal regulations may be applied arbitrarily. State authorities are reluctant to register a wholly owned subsidiary because of the controversial legal nature of this company form.

Ukrainian law allows for the establishment of branch offices without the specific use of this term. In Ukraine the term „branch“ is reserved for structural units of an enterprise that are not considered legal entities. It is therefore advisable not to use the term in order to avoid confusion. In the absence of a clear-cut definition for branch office, the representative office is the prevailing form in Ukraine. It requires registration and should generally be limited to representative functions such as marketing and market data collection.

4.2 Accounting and Annual Reports

The preparation of financial reports and accounts in accordance with international standards has not been common practice in the state sector up to this time. The enactment of the Law on Accounting and Financial Reporting on 1 January 2000 introduced national accounting regulations (NRA). These NRAs are not intended to conflict with international accounting standards (IAS/IFRS), but frequently do. Despite these changes, internal financial reporting and compliance systems are still not well developed in Ukraine.

The NRAs lack interpretative guidance and foster confusion on their proper application, e.g. concerning the concept of deferred taxes and accounting for subsidiaries and associates. While the NRAs correspond with most provisions of IAS/IFRS, they often fail to include important rules such as acceptable alternative procedures and specific disclosure requirements. Consequently, most subsidiaries use two accounting systems. International Financial Reporting Standards have been mandatory for stock companies since April 2009.

In accordance with NRA requirements, the financial statements for privately owned companies (except for representations of foreign companies) must be audited each year. These financial statements must include a balance sheet, income statement, cash flow statement, statement of changes in equity and notes. They must be prepared in Ukrainian language and currency.

4.3 Tax and Customs Law

Ukraine currently has 22 types of taxes, whereby the main levies are corporate income tax, VAT, personal income tax, the pension provision charge, excise tax, land tax, tax on owners of motor vehicles, import duties, stamp duties, environmental pollution duty, royalties for the extraction of oil, natural gas and gas condensate, radio and television duty and bank deposit insurance charge. In addition, 14 taxes are levied by local authorities. This list alone demonstrates the complexity of the Ukrainian tax system.

The tax authorities tend to conduct annual scheduled audits (notification period: 10 days) as well as unscheduled audits that do not require a court order, and are empowered to impose sanctions. The statute of limitations for tax liabilities is three consecutive years. Taxpayers may obtain non-binding advance assessments from the authorities, which provide an exemption from sanctions if they are cancelled or amended at a later date. The highest instance of appeal is the State Tax Administration of Ukraine.

Since August 2005, legal entities are automatically registered with the tax authorities when they are recorded in the “standard register”. This eliminates the need to file a separate registration for tax purposes.

Corporate Income Tax

A uniform tax rate of 25% applies to taxable profits earned by resident entities and permanent establishments of foreign companies. Dividend payments are subject to a withholding tax of 25%, which can be offset against future corporate income tax liability (an exception applies to new shares in cases where the ownership between shareholders remains unchanged as well as dividends paid to domestic investment funds). The payment of dividends to a non-resident business entity is subject to 15% withholding tax unless a double taxation treaty provides otherwise.

Income Tax

Ukrainian residents are taxable on their worldwide income, subject to the restrictions set forth in applicable double taxation treaties. Non-residents are subject to Ukrainian tax only on their Ukrainian source income (including income from an employer for work carried out in Ukraine).

A flat tax was applied through the end of 2006 at a rate of 13%, which was raised to 15% as of 1 January 2007. Income received by non-residents is subject to tax at twice the standard rate (i.e. 30%), with the exception of interest, royalty, dividends and salaries paid by a resident employer. Foreigners may also claim the lower rate, especially if their permanent residence is located in Ukraine. Only limited deductions are available.

Value-Added Tax

VAT was introduced in 1997 based on the principles of the Sixth EU Directive, and is closely linked to the corporate income tax system. VAT is charged to all residents and non-residents, including entities whose revenues exceeded UAH 300,000 (approx. EUR 28,052 based on the exchange rate as of 06/2009) in the previous 12 months and importers of goods. VAT is levied at 20% on domestic supplies of goods, services and imports. Frequent problems with VAT reimbursement have been reported.

The VAT exemption for contributions in kind to the capital of legal entities was abolished in March 2005. In contrast, the purchase of shares in an Ukrainian company is exempt from VAT.

Excise Duties

Excise tax is applied to certain goods imported into or produced in Ukraine. The list of taxed goods includes alcoholic beverages, beer, tobacco and tobacco products, cars, petrol and diesel fuel. The tax rates are set by separate laws, and range from 30% to 100%. Different excise taxes are charged on products made in Ukraine and products imported into Ukraine.

Real Estate Taxes

Income from the sale of real estate by natural persons has been exempt from taxation since 1 January 2007, in cases where the size of the property does not exceed 100 m^2. A rate of 1% applies to transactions above this level as well as 5% for any additional property sold.

Communal Taxes

There are a number of local taxes and duties in Ukraine. The tax rate depends on the type of land and its location. The highest land tax rate is currently found in Kiev, with UAH 0.63 per square metre (approx. EUR 0.06 based on the exchange rate as of 06/2009).

General Tax Incentives

There are no tax incentives in the traditional sense of the term. The new government has eliminated the special economic zones that existed before the revolution, but income and corporate taxes have been reduced to very low rates.

4.4 Litigation

A new law governing international civil matters took effect on 1 September 2005 and closed a gap in the legal system. This law provides for the recognition of foreign judgements on damages and foreign arbitration awards. Whether this law will be implemented in practice is questionable because Ukraine has only concluded a limited number of enforcement agreements, mostly with countries in the CIS region.

Civil Proceedings

Ukraine follows the civil law tradition, and has a four-level court system with special courts for commercial matters. The highest court is the Constitutional Court, which was established in October 1996. Civil disputes are handled by local district courts (approx. 800 nation-wide), regional appellate courts and the national Supreme Court. A Supreme Court of Special Jurisdiction acts as a cassation court against decisions by local district and appellate courts. There are 27 local commercial courts, among others in Kiev and Sevastopol.

While civil law suits can by very lengthy, commercial courts of the first instance tend to comply with the statutory requirement to decide within two months after a claim is filed. Appeals can last from two to six months. In general the filing fee is 1% of the disputed amount and a maximum of UAH 1,700 (approx. EUR 159 based on the exchange rate as of 06/2009).

Arbitration Proceedings

A law that took effect on 16 June 2004 provides for permanent (institutional) arbitral tribunals and ad hoc arbitral tribunals in Ukraine. The law does not apply to international commercial arbitration. An arbitration agreement can take the form of a clause in the contract or a separate written document. The arbitral award enables the common and commercial courts to issue enforcement orders.

Ukraine has signed the New York Convention of 1958, and therefore accepts and executes foreign arbitration awards. With regard to awards made in the territory of non-contracting states, Ukraine will apply the Convention only to the extent to which these states grant reciprocal treatment. This applies to Austria.

4.5 Insolvency

Insolvency Law

The main provisions of insolvency law are contained in the Commercial Code, the Code of Commercial Procedure of Ukraine and the Criminal Code of Ukraine. Legal proceedings in bankruptcy matters that involve non-resident creditors are generally regulated by the 1999 restructuring and bankruptcy law. Ukrainian legislation favours restructuring over liquidation. Bankruptcy proceedings can be initiated by both the creditor and the debtor. The competent court is the specialised (commercial) court at a venue depending on the location of the debtor. Litigation can be initiated by a court when the undisputed claims of a creditor (creditors) to a debtor exceed UAH 71,100 (approx. EUR 6,648 based on the exchange rate as of 06/2009). Although law dictates that a bankruptcy case should not take longer than seven months, proceedings normally last more than two years. Bankruptcy proceedings are not permitted by law for some companies, a fact that has been criticised by the EU.

The law distinguishes between reorganisation, which aims to re-establish the debtor's solvency, and liquidation, which terminates the business activities of the debtor. Reorganisation can include a moratorium on the repayment of creditor claims and the exclusion of financial sanctions against the debtor. It can also involve the restructuring of the company, reorientation of production, closing of unprofitable production units, deferred payment and/or instalments, liquidation of accounts receivable, disposal of part of the debtor's property, assumption of liability by an investor and/or the dismissal of employees. The maximum term for reorganisation proceedings is twelve months, with the possibility of extension for another six months. The court-appointed reorganisation manager takes on full responsibility for the management of the enterprise-debtor.

Insolvency Statistics

Due to the difficult economic environment the insolvency rate in Ukraine rose by 27.9% year-on-year in 2008. The increase in bankruptcies and liquidations resulted from the conclusion of proceedings that were presumably open for roughly three years. The largest number of insolvent companies by far is located in Kiev. The real estate and construction sectors were hardest hit by these developments. The insolvency rate equalled 0.1% in 2008 based on 1,230,000 registered companies.

The development of the insolvency rate in Ukraine is shown in the table “Insolvency Statistics for Central and Eastern Europe: January-December 2007 and 2008“.

Insolvencies Opened in Central and Eastern Europe
January - December 2007 and 2008

2008

	Bulgaria	Croatia	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania*	Serbia	Slovakia	Slovenia	Ukraine
(a) Judicial Compositions	n.a. 1.)	n.a. 1)	7	4	15	n.a. 2.)	n.a. 2.)	63	658	700	0	49	27
(b) Bankruptcies	169	131	3.059	244	11.515	1.250	928	348	13.825	2.906	266	383	597
(c) Bankruptcies revoked due to lack of assets	n.a. 1.)	276	477	240	n.a. 2.)	n.a. 2.)	n.a. 2.)	n.a. 2.)	n.a. 2.)	n.a.1	301	1	n.a. 2.)
(a)+(b)+(c) Total Insolvencies	169	407	3.543	488	11.530	1.250	928	411	14.483	3.606	567	433	624

2007

	Bulgaria	Croatia	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania*	Serbia	Slovakia	Slovenia	Ukraine
(a) Judicial Compositions	n.a. 1.)	n.a. 1.)	12	3	20	n.a. 2.)	n.a. 2.)	70	45	n.a. 3.)	0	63	24
(b) Bankruptcies	240	171	1.814	166	9.835	1.028	604	377	6.161	n.a. 3.)	225	402	464
(c) Bankruptcies revoked due to lack of assets	n.a. 1.)	281	676	158	n.a. 2.)	n.a. 2.)	n.a. 2.)	n.a. 2.)	209	n.a. 3.)	566	95	n.a. 2.)
(a)+(b)+(c) Total Insolvencies	240	452	2.502	327	9.855	1.028	604	447	6.415	0	791	560	488

1.) Not published in public sources
2.) Not published separately in public sources
3.) opening, no comparable data

Insolvency rates 2008

	Bulgaria	Croatia	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Serbia	Slovakia	Slovenia	Ukraine
Total number of active companies*	240.000	77.000	720.000	120.000	509.349	172.000	146.000	3.500.000	570.000	105.480	549.000	160.000	1.230.000
Insolvency rate	0,1%	0,5%	0,5%	0,4%	2,3%	0,7%	0,6%	0,01%	2,5%	3,4%	0,1%	0,3%	0,1%

**expert organisations' estimation, average*

Deviations (2007/2008)

	Bulgaria	Croatia	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Serbia	Slovakia	Slovenia	Ukraine
(a) Judicial Compositions	-	-	-42%	33%	-25%	-	-	-10%	1362%	-	-	-22%	13%
(b) Bankruptcies	-	-23%	69%	47%	17%	22%	54%	-8%	124%	-	18%	-5%	29%
(c) Bankruptcies revoked due to lack of assets	-	-2%	-29%	52%	-	-	-	-	-	-	-47%	-99%	-
(a)+(b)+(c) Total Insolvencies	-	-10%	42%	49%	17%	22%	54%	-8%	126%	-	-28%	-23%	28%

Note:

As the terminology and structure of insolvency procedures may vary from country to country, Coface Central Europe distinguishes between the following basic types of proceedings and uses the following terms when referring to insolvency proceedings in the markets covered:
Judicial composition proceedings: *This term refers to insolvency proceedings that are directed primarily to achieving debt relief for and the continuation of business by an insolvent enterprise.*
Bankruptcy proceedings: *This term refers to insolvency proceedings that are directed to achieve the orderly windup of an insolvent enterprise with the objective of liquidating or reorganising the business.*

Sources
Local authorities, Coface Central Europe and Coface Russia (ICON database)

4.6 Securities

A state registry was created in 2004 for the establishment, amendment and termination of encumbrances – including tax pledges and writs on movable property. This registry is administered by the Ministry of Justice. It should be noted that Ukrainian law does not provide for escrow accounts, and contractual arrangements for this purpose are therefore uncertain.

Mortgage

Mortgages must be registered and can be created by law, contract or order by a state or municipal body. The land code provides examples of encumbrances, including the prohibition to sell or otherwise dispose of the land, the prohibition to lease or sub-lease, a pre-emption right and the prohibition to change the use of the land. Although law as well as court and administrative practices relating to mortgages are not yet fully developed, an increase in mortgages is expected due to the rapid decrease in unused land and the introduction of the above-mentioned state registry. Under the current law only Ukrainian banks may conclude mortgages on Ukrainian real estate.

Pledge

Pledges must also be registered. However, the legal situation is not clearly defined and pledges are still not easy to secure. The foreclosure of certain pledges can still be difficult since extra-judicial enforcement, in particular the pledge of securities and bank accounts (including the revocability of payment orders), remains a problem. This can lead to complicated contracts as well as lengthy negotiations with the servicing bank and custodian.

Guarantee

There are no indications that guarantees represent a common form of security in Ukraine.

Assignment of Claims

There are no indications that the assignment of claims represents a common form of security in Ukraine.

Warrantee

According to the Commercial Code the principle of compliance with contractual obligations applies with full liability for any breaches. However, the extent of liability may be limited by the relevant contract.

4.7 Labour Law

The Ukrainian Labour Code is a relic from the Soviet era and therefore very friendly to employees. It provides statutory regulations on working time, overtime and holidays with working time being limited to 40 hours per week. The minimum monthly wage has equalled UAH 605 since 1 December 2008 (approx. EUR 56.6 based on the exchange rate as of 06/2009). The average salary amounted to UAH 1,806 in 2008 (approx. EUR 168.9 based on the exchange rate as of 06/2009).

Work Permits

Work permits are required for foreigners who are directly employed or assigned by foreign companies to work in Ukraine. This does not apply to staff in representations of foreign companies who are employed in other countries as well as non-Ukrainians who are registered as private entrepreneurs. A work permit is valid for up to one year, and there is an option for renewal. Work may only commence after the work permit is issued.

There are conflicts between corporate and labour law regarding the legal status of managers. Complex application procedures for a work permit generally prevent the appointment of a foreign CEO.

Termination of Contract

Employees are required to give two weeks' notice for the termination of employment. Employers can only terminate an employment contract for reasons defined by law and in compliance with a statutory notice period of two months. The minimum annual holiday is 24 calendar days. The regular retirement age is 55 years for women and 60 years for men.

Social Security Contributions

Statutory social security contributions apply only to salaries and wages paid by an Ukrainian entity (which for this purpose also includes representative offices). The employer contributions to various social security funds exceed 36% of an employee‘s gross income, but are capped at a maximum income of around UAH 10,000 per month (approx. EUR 935 based on the exchange rate as of 06/2009).

4.8 Acquisition of Real Estate

Since the land register system remains inefficient, the real estate market is still underdeveloped. However, the number of transactions is rising steadily with a focus on Kiev and the larger cities. Foreign nationals can acquire land for construction on the basis of a contract, through inheritance or when they already own a building on the site. Foreign legal entities can obtain title to land in settled areas in combination with the acquisition of property or for the construction of facilities related to the exercise of business activities in Ukraine. Outside settled areas, title can only be obtained through the purchase of property. Legal entities that are wholly owned by foreign persons or entities are not allowed to purchase real estate.

A purchase agreement must be concluded in writing and is subject to notarisation and state registration. It should be noted that the rezoning of agricultural land is practically impossible. A legal amendment dated 6 October 2004 introduced a moratorium on the purchase and sale of agricultural land up to 2007, which is de facto still in effect.

5. DOING BUSINESS IN UKRAINE

Fifteen years of negotiations by a working group culminated in WTO membership for Ukraine on 16 May 2008. The country has agreed to compliance with numerous obligations in the areas of taxes, commercial law, customs, trademark rights and the harmonisation of standards and norm systems. However, these commitments have not yet been met in full. Membership in the WTO should improve the general business climate and also facilitate the dismantling of numerous trade barriers for foreign companies. It should also stop the activities of the so-called raider groups, which plunder investments by foreign companies with the help of Ukrainian law. Ukraine's WTO membership has also opened new perspectives for the conclusion of a free trade agreement with the EU. Preparations are currently underway for this agreement, which could be realised in 2010.

Foreign direct investment in Ukraine was very limited up to 2005, but has increased substantially since that time. The Orange Revolution and the country's favourable geographical location at the gateway to Europe have led to growing interest on the part of investors. Foreign direct investment totalled USD 29 billion as of 1 January 2008. Ukraine still offers substantial opportunities for business development that should benefit foreign investors. However, per capita foreign investment is still low – most likely as the result of numerous delays in reforms as well as the repeated postponement of the privatisation programme since 2005 and the long-awaited opening of the country. Difficulties in the legal area (the issue of the raider groups), the political area (the representation of private interests in parliament and the protection of specific branches) and the administrative area (the granting of permits) work against the desired increase in the attractiveness of the country. Ukraine is facing a number of major events that are expected to support the expansion of foreign direct investment: a possible end to the moratorium on transactions with agricultural land and the development of activities in the food sector, the hosting of the European soccer championships in 2012 (when meeting the constraints till November 2009) and the renovation of transportation infrastructure. However, numerous investment projects were postponed in November 2008 because of the economic crisis.

5.1 Market entry

Corruption is widespread in Ukraine and the efforts of the state and above all the police have been largely unsuccessful to date. In 2004 the country ranked 16th on a listing of the most corrupt countries in the world, and by 2008 nevertheless had slipped to the 134th position.

Restrictions on Travel and Residence

The visa requirement for EU nationals was lifted as of 1 September 2005. Business visas are available for a maximum term of one year based on an official letter from the inviting company. Citizens of the EU, Canada, the USA and Japan are exempt from the requirement to provide an invitation letter.

Custom Duties and Trade Barriers

There are no trade restrictions on imports from the EU, with the exception of steel. However, many of the commitments made by the country in connection with the WTO membership – for example in the areas of taxes, commercial law and customs – have not been met to date. Negotiations with the EU over a free trade zone should result in improved access to the European market for Ukrainian products.

5.2 Conditions of Payment

Ukraine complies with various international regulations concerning international payments via checks, bills of exchange, letters of credit and collection arrangements. Irrevocable letters of credit are recommended for receiving payment for exports. Authorised Ukrainian commercial banks are members of SWIFT.

Payment Performance

Payment behaviour is satisfactory at the present time, but may weaken in the construction, automobile and electronics industries. The decline in the value of the UAH has had a negative effect on companies with foreign currency debt.

Instalments

No information is available at the present time.

Retention of Title

No information is available at the present time.

Financial System

The Ukrainian banking system has improved, but still lacks efficiency and reliability. There were 176 banks registered in the country in mid-2008, with more than one-third of bank capital currently owned by foreign investors. While opening a bank account is not difficult for foreign individuals, the opening of company accounts can be complicated. The Ukrainian banks are in a very difficult position at the present time because of the high level of foreign currency debt in private hands.

5.3 Collection Procedures

The fast transfer of outstanding receivables to local debt collection agencies is recommended. Coface Central Europe has an extensive network in the entire CEE region and cooperates with partners throughout the world.

The general statute of limitations is three years. Other terms apply to specific cases, such as one year for defective products under a purchase contract and contractual penalties for non-performance.

5.4 The Investment Climate for Foreigners

According to the 1996 Law on Regimes of Foreign Investment, investment is possible in any activity not prohibited by law and does not require government permission. However, a license is required for roughly 65 activities. In general, this law prohibits discrimination against foreign-owned businesses. A foreign investment is defined as involving a minimum of 10% of foreign capital.

Ukraine has concluded investment protection treaties with more than 50 countries, including Austria. It has also ratified the 1995 Convention on the Procedure for the Settlement of Investment Disputes between Governments and Foreign Entities and/or Individuals. Investors are given protection for a period of ten years against adverse changes to statutory investment guarantees and expropriation without compensation as well as compensation for losses due to official negligence, and have the right to repatriate their investments.

Foreign investors have been entitled to execute the following transactions since August 2005: direct transfers of foreign currency to the account of a resident person and transfers to the investment accounts of non-residents as well as conversion and transfer of foreign currency from an investment account and use of the Hryvnia equivalent for further direct investments to the account of the investment recipient. Investments can be made directly in a freely convertible currency. This rule abolished several licensing requirements of the National Bank of Ukraine (NBU). However, joint investments from a so-called investment account remain subject to NBU approval. In 2008 the rules were simplified and the procedure was accelerated. A license is no longer required for the import or export of cash.

5.5 Risk Assessment

In view of the dwindling supply of foreign financing as well as the banking crisis and decline in the global demand for steel, Ukraine is now in a deep recession. The metal industry alone is responsible for roughly one-fourth of industrial production and slightly more than 40% of exports. The operating climate for the retail trade has also deteriorated significantly (in addition to the sharp drop in metal prices, negotiations with Russia led to an increase in the price of imported gas). Ukrainian banks have accumulated an excessive volume of foreign debt in order to finance domestic lending, and this situation created serious difficulties with refinancing during October 2008. The country's sixth largest financial institution required federal support following the massive withdrawal of deposits. These events forced the central bank to implement measures that practically froze credits and deposits. Urgent assistance was also requested from the IMF, which granted a USD 16.4 billion loan in early November. This loan is coupled with numerous conditions, which include the flexibility of the exchange rate, the preventive recapitalisation of the banking system, the implementation of anti-inflationary measures and prudent budget policies. An unfavourable economic outlook and financial difficulties have placed the Ukrainian currency under substantial pressure: from mid-October to the end of November, the Hryvnia lost nearly 30% of its value in relation to the US Dollar. This devaluation has had a negative effect on companies with high levels of foreign currency debt. However, the current account should improve slightly during 2009. Declining consumption by private households and a lower level of investment should reduce imports and allow for a reduction of roughly 50% in the current account deficit.

Considering the uncertainties bearing on the exchange rate and the high levels of private debt denominated in foreign-currencies, the failure of a significant number of Ukrainian banks and companies will be unavoidable. The previously satisfactory payment behaviour of Ukrainian companies is deteriorating. There is a danger that the situation may weaken in the construction branch (which has been affected by the unfavourable development of the real estate market, above all in Kiev) and in the automobile and electronics industries (which are heavily dependent on consumer spending). Additionally, higher prices for imported natural gas have had a negative effect on profit margins and the competitive position of Ukrainian companies. The decline in the global demand for steel also weakens the metal industry.

6. CHECKLIST FOR BUSINESS OPERATIONS IN UKRAINE

The following table shall summarize relevant information for investors and exporters. It does not claim completeness.

Corporate law	■ Minimum capital requirement for SC: 1,250 x minimum wage ■ Minimum capital requirement for LLC: 100 x minimum wage
Taxes	■ Tax system not transparent and subject to frequent changes by government regulations ■ Corporate tax: 25% ■ VAT: 20% ■ Income tax: 15% (flat rate) ■ Advance tax of 25% on dividends payments ■ Withholding tax: 15% on dividends to a non-resident business entity ■ Double standard tax rate for income received by non-residents
Investments	■ No restrictions on business activities and business forms ■ No limit to the extent of foreign ownership ■ In general, government permission not required
Foreign exchange	■ Liberalised in 2005 ■ Free convertibility ■ License required for investment accounts
Labour law	■ Minimum wage UAH 605 per month (approx. EUR 56.6 based on exchange rate as of 06/2009) ■ Many regulations to protect employees ■ Work permits required before work start
Customs	■ Import VAT 20% ■ No restrictions on reimbursement of VAT to Ukrainian exporters, but administrative hurdles in execution ■ No restrictions for EU imports (except steel) ■ Free trade agreement with EU currently under negotiation ■ Recent WTO accession
Travel and residence	■ Visa regime (lifted as of 1.9.2005 for EU citizens)

7. OTHER USEFUL CONTACTS IN WEB

At the following organisations and their websites you will find additional information on Ukraine

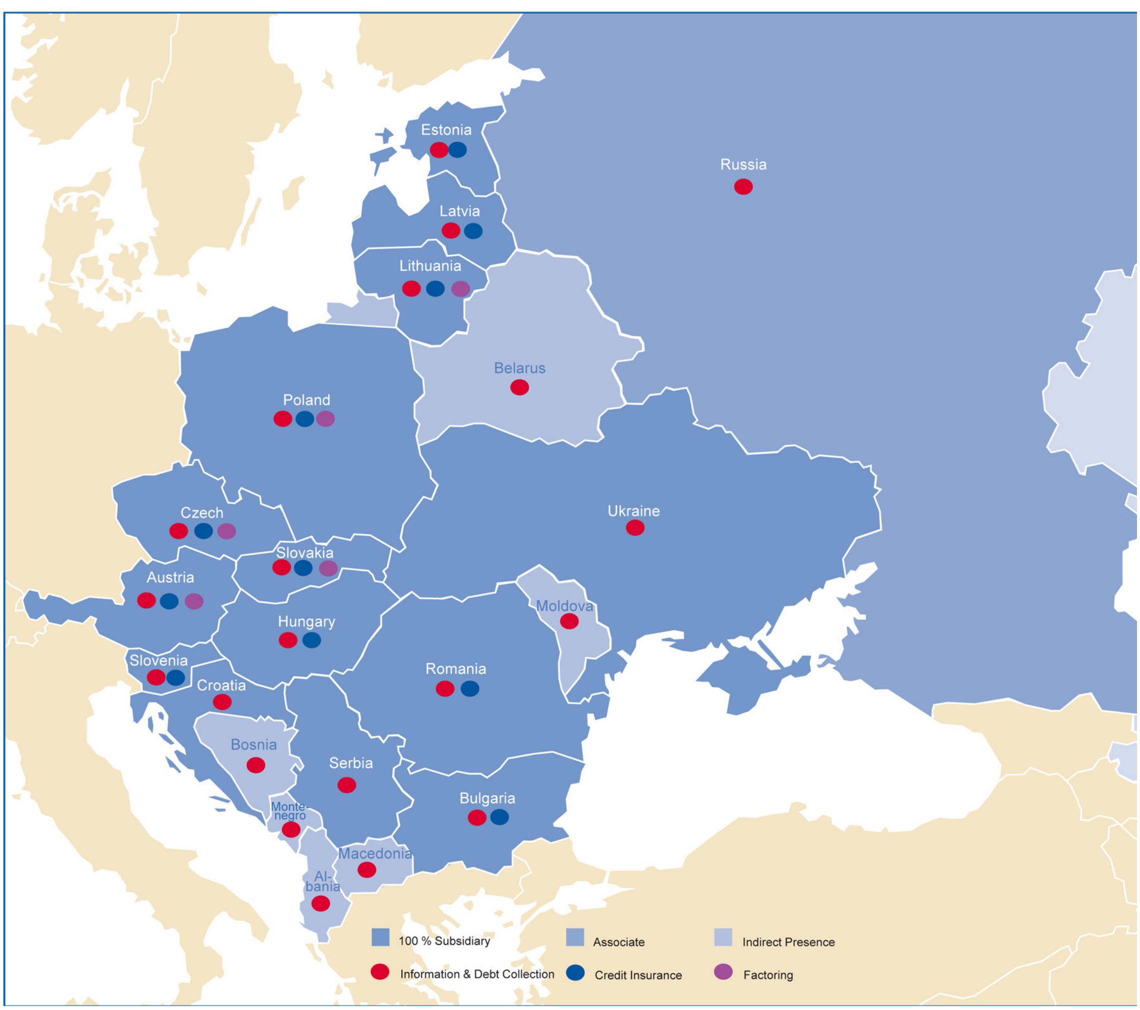
Ukrainian Embassy in Austria	http://www.ukremb.at
Austrian Embassy in Ukraine	http://www.aussenministerium.at
Austrain Federal Economic Chamber (local office)	http://www.wko.at
Delegation of the European Commission (only available in English)	http://www.delukr.cec.eu.int
Ukrainian Chamber of Commerce and Industry (only available in English)	http://www.ucci.org.ua
American Chamber of Commerce in Ukraine (only available in English)	http://www.amcham.ua
European Business Association (EBA) (only available in English)	http://www.eba.com.ua
National Bank of Ukraine (only available in English)	http://www.bank.gov.ua
Center for Economic Initiatives (only available in English)	http://www.ukrainebiz.com
Business Information Service for the Newly Independent States (only available in English)	http://www.bisnis.doc.gov
German Commerce Delegation Office in Ukraine	http://www.dihk.com.ua

8. THE COFACE OFFERING

Coface Austria – with its registered headquarters in Vienna and branch offices in Poland. Hungary. Lithuania. Latvia. Slovakia. Czech Republic. Romania and Bulgaria – has been the domestic market leader in credit insurance since its founding in 1954. In 1997 Coface Austria became a subsidiary of the French Coface and thereby an integral part of one of the three global players on the credit insurance market.

The sister company Coface Central Europe has been the market leader for business information in 13 Central-European countries for over 20 years. Additionally. collection services are offered throughout the entire region. Coface Central Europe is a joint venture between Coface (75%) and KSV1870 (25%). Vienna has served as the Coface Group head-quarters for Central and Eastern Europe since 2002. and the region now has a workforce of more than 700.

Our geographic presence and performance list



Risk Management from a Single Hand

Are you looking to increase the security of your business transactions? Coface Credit Insurance

Coface makes sure your business runs smoothly by helping you to prevent the loss of receivables. Our experts in countries throughout the world analyse the development of economies and companies. The well-known Coface rating systems provide an overview of the risks associated with deliveries and thereby stabilise the flow of goods and services – and if one of your customers becomes insolvent. Coface Austria will provide compensation for up to 80% of the insured receivables.

Size of customer (revenues in EUR)	Coface Smart	Coface Best	Coface Advanced	Coface Glob-alliance	Coface Capital-Goods	Coface Single Risk
XL: > 1 bill.				●		●
L: 50 mill. - 1 bill.		●		●	●	●
M: 5 - 50 mill.	●	●	●		●	
S: < 5 mill.	●	●	●			

Are you looking to stabilise your liquidity? Coface Factoring

Stable liquidity creates the necessary flexibility for entrepreneurial decisions. Coface factoring provides you with key support through the purchase of customer receivables and immediate payment for up to 90% of the outstanding balances. We also carry the risk of default for insured receivables. That helps you significantly reduce the risk of default and safeguard the success of your business over the long-term.

Are you looking to acquire state-of-the-art information? Coface Information

The credit standing of your customers and the reliability of your suppliers are decisive factors for long-term success. With its @rating company risk analysis. Coface introduced the first worldwide credit insurance rating system. The foundation of this information is a unique database with over 50 million data sets. It allows you to protect your business transactions at the click of a mouse and base your decisions on up-to-date facts and figures that are accessible at any time.

Are you looking to save time and money? Coface Collection

Fast collection improves liquidity and safeguards profits. Delayed payment for your services has a negative effect on your bank account and. in turn. on your financial power. Coface helps you to master this situation with its extensive know-how and an international collection network. Coface takes over the time consuming out-of-court collection measures. like expert collection services. court-ordered collection or filing in connection with bankruptcy proceedings – and you can concentrate on your business.

Internet

http://www.ahk.de
http://www.bankaustria.at
http://www.cofacecentraleurope.com
http://www.fifoost.org
http://www.trading-safely.com
http://www.wko.at

Print

- Der Fischer Weltalmanach 2009. Fischer Taschenbuch Verlag. Frankfurt am Main 2008
- Coface Handbook of Country Risk 2009. Coface and GMB Publishing Limited 2009

Impressum

Owner and Publisher: Coface Central Europe Holding AG. Stubenring 24. 1010 Vienna. Austria; Editor: Martina Dobringer; Editorial Office: Susanne Krönes; Content: Kathrin Blanck-Putz.

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