

Doing Business in Ukraine

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1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 70 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in the Ukraine has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and

subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at August 2008.

We look forward to helping you do business in the Ukraine.

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2. Business environment

Ukraine is an Eastern European country. It occupies a land area of 603,700 sq km, which makes it the second largest country in Europe. It neighbours Poland, Slovakia, Hungary, Moldova and Romania to the west, Russia to the east, Belarus to the north and the Black Sea to the south.

Ukraine proclaimed independence on 24 August 1991. On 1 December 1991, 90.3% of those who voted approved a referendum formalizing independence from the Soviet Union and Ukraine's independence was recognized officially by the international community.

The Head of Ukraine is the President, which is elected by voting for a five-year term.

Legislative power is exercised by the Verkhovna Rada, which comprises 450 deputies and is elected every four years.

The highest Executive body is the Cabinet of Ministers. The Cabinet of Ministers is nominated by the parliamentary majority and approved by the President.

Ukraine is comprised of 24 regions and the Autonomous Republic of Crimea.

The Constitution of Ukraine was adopted in June 1996. The powers of government are divided into three branches: legislative, executive and judicial.

Population

Ukraine's population amounts nearly 46.8 million people. The capital of Ukraine is Kyiv with 2.7 million people. More than two-thirds of the population lives in urban areas. Females constitute 54% of the population.

Language

The official language of Ukraine is Ukrainian. The majority of Ukrainian population speaks both Ukrainian and Russian. English is also used in business.

Unemployment

The official unemployment rate is between 7% and 9%.

3. Foreign investment

Ukrainian authorities regularly try to encourage foreign investment and the broader public is well disposed to foreign investment.

Investment permits are not required, but all enterprises must be established according to the form and procedure prescribed by Ukrainian law and registered with appropriate government agencies. Foreign investors are generally not required to seek special approval from authorities for foreign direct investments.

There are some restrictions for foreign investments in the publishing and broadcasting sectors, and foreigners are not allowed to participate in the manufacturing of weapons.

Foreign investments are not to be subject to nationalisation, expropriation, requisition, or any other measure of similar effect, except when this is in the public interest.

4. Setting up a Business

Establishing a legal entity in Ukraine involves registering with the local state registrar, the tax authorities, the statistics office, and various pension and social funds, as well as opening a bank account and other formalities.

From a foreign investor's perspective, the choice will tend to be either a LLC, a JSC, or in limited circumstances a representative office engaged in either commercial or non-commercial activities.

Limited liability companies

A limited liability company (LLC) does not have shares in a traditional sense. Participants in a LLC own a percentage in the company's capital, as specified in its Charter.

Participants of a LLC may transfer their participation in the company's capital to third parties (non-participants) only with the consent of all other participants.

A participant's personal creditors may demand to withdraw the participant's share in LLC assets to settle obligations, if the participant's other property is insufficient to satisfy the creditors' claims. LLC does not generally require a financial audit unless demanded by a participant holding greater than 10% of the capital.

Joint stock companies

A joint stock company (JSC) is a legal entity whose share capital is divided into a number of shares of equal nominal value. The liability of shareholders in a JSC is limited to the value of their capital contribution.

A JSC may be established as an "open" or "closed" JSC. Shares in an open JSC may be offered to the public, freely transferred, and may ultimately be traded on a stock exchange. Shares in a closed JSC are distributed initially between its founding shareholders. Existing shareholders in a closed JSC also have pre-emptive purchase rights for shares offered for sale by the other shareholders.

The minimum capital requirement for a JSC is the equivalent of 1,250 Ukrainian monthly minimum wages at the time when the JSC is formed.

Representative offices

A representative office is not a separate legal entity and operates in Ukraine on behalf of the foreign company it represents.

Representative office has to be registered with the Ministry of Economics of Ukraine, the Statistics Department, the tax authorities and pension and social funds. A representative office should also obtain the right to use a

seal from the Police department. Once the representative office is registered with the tax authorities and obtained a permit for a seal, it may open accounts in hryvnia and foreign currency in a Ukrainian bank.

Representative offices are subject to normal corporate income tax.

Non-commercial representative office is generally not subject to VAT.

5. Labour

Employment conditions in Ukraine are generally governed by the Labour Code. The Code still contains many socialist concepts, including a strong sense of the employee's right to work, and many protections for employees.

Employers can enter into individual labour contracts with employees, the terms of those agreements may not be worse than conditions guaranteed under the Labour Code.

Social security system

The social security system in Ukraine covers pensioners, workers and their dependants for work-related accidents, illness, retirement, death and disability benefits, sickness and maternity benefits, medical care, severance benefit, and for child and family allowances.

Obligatory contributions to Ukrainian social security and pension funds only apply if salary is paid through the payroll of a Ukrainian entity or the Ukraine representative office of a foreign entity. Voluntary contributions to the State Pension Fund, the Employment Insurance Fund and the Social Security Fund are also possible.

6. Taxation

In Ukraine all taxes are classified either as national or local. As a basic legal principle, taxes, their rates, tax collection procedures and tax incentives may be established only through the laws of Ukraine. National taxes such as Corporate Income Tax (CIT), Value Added Tax (VAT), Personal Income Tax (PIT), Customs Duties, and Excise Taxes account for the largest portion of budget revenues. Local authorities may also collect revenue from a number of local taxes, such as advertisement tax, community development tax, hotel tax, parking tax, recreation tax, and other taxes.

Taxation of the legal entities

Profit tax

Unitary tax (6 per cent + VAT; 10 per cent without VAT)

Land rate

Own transportation facilities tax

Value added tax (VAT)(20 per cent)

Excise duty

Duties and fees

Pension Fund

Social insurance Fund

Employment Fund

Other taxes:

State Tax

The local taxes (municipal tax, advertising tax, right on usage of local symbolics fee, etc.)

Environment contamination fee

Use of natural resources fee

Taxation of individuals

Income tax (according to the scales) or 20 per cent

Entrepreneur tax (for the businessman)

Own transportation facilities tax (depends on a volume of engine)

Duties

State Tax

Usage of natural resources fee

Fees to the Pension Fund, Fund of social insurance, Employment fund

Local taxes and fees

7. Accounting & reporting

On the 1st of January 2000 The Law on Accounting and Financial Reporting was passed. It introduced National Accounting Standards. The law states that these local standards should not contradict International Financial Reporting Standards (IFRS).

Ukrainian entities, as well as representative offices of foreign companies, must maintain accounting records and financial statements in accordance with National Accounting Standards. Financial statements are prepared for a calendar year and relevant interim periods, and must be prepared in Ukrainian UAH as the reporting currency. The financial statements include the balance sheet, income statement, cash flow statement, statement of changes in equity, and notes to financial statements.

Financial statements should be submitted to the founders or shareholders of a legal entity, labour collectives (if required), and the state statistics authorities and registrar.

Other government agencies (State Commission on Securities and Stock Exchange, NBU, State Commission on Regulation of Financial Services Markets in Ukraine) may prescribe additional requirements for entities under their jurisdiction.

The enterprise's owners or the managing director are responsible for organizing the accounting function and ensuring that all economic transactions are recorded in supporting documents, ledgers and financial statements.

JSCs, bonds issuers, banks, trusts, stock exchanges, investment funds and investment companies, credit unions, non-state pension funds, insurance companies and other financial institutions are required to publish their annual financial statements and consolidated financial statement in the periodical press or by distributing them in the form of individual printed editions.

8. UHY in Ukraine

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UHY Prostir Ltd has been established since 2003 and specialises in audit, outsourcing of accounting, tax and financial consulting. Clients include Atlas Ward Holdings, Schuko Ukraine, Tchibo Warshava ЧП. 3.о.о., HIAS Incorporated representative, Reckitt Benckiser Household, Healthcare Ukraine and others.

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