Decide with Confidence

D&B Country RiskLine Report

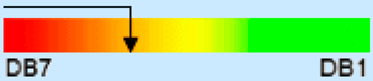
UKRAINE

Region : Eastern Europe

Edition : May 2012

D&B Country Risk Indicator

DB5d



This "DB" Rating Indicates:

High risk

Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

Trend

Deteriorating

The country's overall risk profile is deteriorating owing to adverse political, commercial, economic and/or external developments

The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	46.0m
Surface area (sq km):	603,700
Capital:	Kiev
Timezone:	GMT +02:00
Official language:	Ukrainian
Head of state:	President Viktor YANUKOVYCH
GDP (USD):	130.5bn
GDP per capita (USD):	2,872
Life expectancy (years):	68
Literacy (% of adult pop.):	99.7

Country Overview:

Situated to the north of the Black Sea, Ukraine is the second-largest country in Europe. It borders fellow former Soviet republics Belarus, Moldova and Russia, as well as EU members Hungary, Poland, Romania and Slovakia.

Ukraine gained independence with the collapse of the Soviet Union, of which it had been a constituent republic, in 1991. The political environment is characterised by deep socio-economic, cultural and political divisions. The government stability and progress on political and economic reform have been weak since gaining independence. Presidential elections in 2010 lead to a victory of the pro-Russian candidate Victor Yanukovych.

Commodity-based, low value-added products, in particular metals and petroleum products, dominate Ukraine's exports. Formerly known as the Soviet Union's bread basket (it produced one-quarter of the Soviet Union's total agricultural output), Ukraine is also among the world's largest grain exporters.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	CLC

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	CiA

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:	15-30 days

Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-2 months

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays:	1-3 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Trade & Commercial Environment

There is little relief in sight for Ukraine's stock of FX reserves, which the central bank continues to tap in order to maintain a quasi-fixed rate of UAH8:USD. Despite government hopes of a surge in FDI that could provide much-needed FX, prospects will remain clouded by the significant risk that the country will be forced into a disorderly devaluation of the hryvna, spooking potential investors. Meanwhile, the central bank has signalled its intention to further reduce the banks' required reserves ratio from 60% currently to zero by the end of the year in an effort to provide local liquidity and stimulate bank lending. According to National Bank of Ukraine board member Olena Shcherbakova, the Bank is switching priorities from disinflation to economic growth.

Export Credit Agencies

US Eximbank	Limited public and private sector cover available
Atradius	No cover available
ECGD	Full cover available
Euler Hermes UK	Restrictions will apply

Economic Indicators

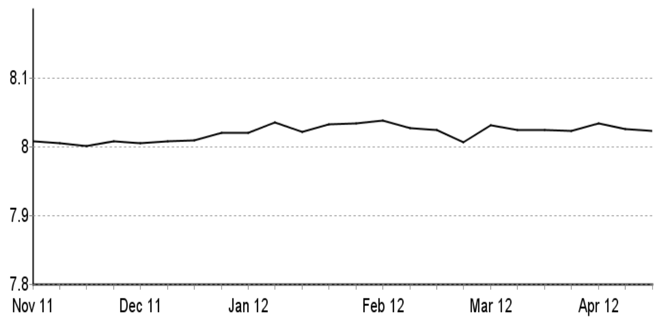
	2009	2010	2011	2012f	2013f
Real GDP growth, %	-14.8	4.2	5.2	3.8	5.5
Inflation, annual ave, %	15.9	9.4	8.0	7.0	6.2
Govt balance, % GDP	-14.0	-6.5	-5.5	-7.5	-5.0
Unemployment, %	8.8	8.1	8.5	8.6	8.4
C/A balance, % GDP	-1.5	-2.2	-5.9	-7.3	-6.7

Currency Information

Exchange Rates (London, 16 Apr 12)	
EUR	10.4955
GBP	12.7434
JPY*	9.9071
USD	8.0223
*(x 100)	

Local Currency

(Hryvna [UAH]: USD)

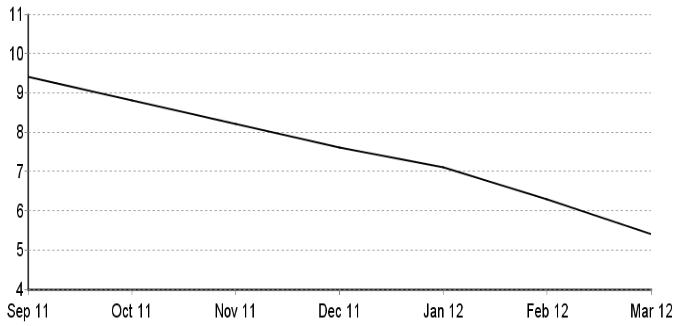


Local Currency (Hryvna [UAH]: USD)						
	Nov 11	**Dec 11**	**Jan 12**	**Feb 12**	**Mar 12**	**Apr 12**
Week 1	8.007	8.005	8.020	8.038	8.031	8.034
Week 2	8.005	8.008	8.035	8.027	8.024	8.025
Week 3	8.000	8.009	8.021	8.025	8.024	8.022
Week 4	8.008	8.020	8.032	8.006	8.023	
Week 5			8.034			

Industrial Production Growth

Industrial Production Growth

(% 12-month average)



Data Table						
Sep 11	**Oct 11**	**Nov 11**	**Dec 11**	**Jan 12**	**Feb 12**	**Mar 12**
9.4	8.8	8.2	7.6	7.1	6.3	5.4

Risk Factor

With little sign of any progress towards meeting the IMF's conditions for the resumption of concessional financing (particularly with regard to fiscal consolidation and reducing state subsidies on imported gas), Ukraine's government will be hoping to attract much needed foreign investment income to help bridge the funding gap in both the fiscal accounts and the balance of payments. Speaking at a conference in London in April, the head of Ukraine's State Property Fund, Alexander Pivovarsky, said that the government has identified around 4,100 state-owned enterprises (SOEs) that could potentially be privatised. Of these, approximately 4% have been designated as 'strategic' (in sectors such as defence, energy and agriculture), and their privatisation is prohibited; the authorities intend to retain a further 27% in state hands. Of the remaining almost 2,900 SOEs, some 1,320 (32% of the total number of SOEs) are already slated for privatisation, with the balance set to undergo rationalisation and reorganisation ahead of any possible sales or liquidations.

Most interest among potential investors will continue to centre on the country's extractive industries, and most particular on the gas and coal sectors. According to Pivovarsky, the authorities are planning to release 16 blocks of shares in gas distribution companies per month in each of May, June and July 2012. In doing this, the government hopes to build on the surge in FDI that was experienced in Q1 2012 (net FDI increased to USD832m in February, from USD481m in January). The strategy for the loss-making coal sector is expected to differ somewhat, in that the government intends to invite tenders from potential investors that will be awarded on the basis of the proposed level of future investment in the entities that are to be divested. Such companies could be sold for a nominal UAH1. To ensure compliance with the investment plans promised in successful tenders, contracts would therefore include cancellation and clawback clauses.

Government coffers could certainly benefit from bolstering with privatisation proceeds. D&B expects the general government deficit to increase to the equivalent of 7.5% of GDP this year, from 5.5% in 2011, owing in part to increased state spending ahead of the parliamentary elections set for October. At the same time, any influx of FX would be useful in replenishing the central bank's FX reserves, which have become seriously depleted owing to the Bank's efforts to defend the hryvna's semi-pegged exchange rate against the US dollar. In addition, the authorities must repay more than USD5.3bn in external debt in 2012, including USD3.0bn to the IMF. As a result, we expect FX reserves to fall to USD26.0bn this year, providing import cover of a scanty 3.3 months.

Glossary & Definitions

DEFINITIONS

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Usual Terms:

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Local Delays:

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F/X Bank Delays:

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C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:
Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:
The balance of government expenditure and receipts.

Real GDP growth, %:
GDP adjusted for inflation.

Inflation, %:
The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

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