



HWC – Renewable Energy in Ukraine

Tax & Accounting Aspects

Ukraine - General Information



Area: 603 700 km²

- 5,70% of Europe, largest country within Europe
- 0,44% of the world area , 7,00% of area – water.

Borders:

- Poland, Romania, Slovakia, Hungary and Moldova in the west
- Belarus and Russia to the north and east
- Via Black Sea Bulgaria, Georgia and Turkey to the south.

Population: 44,09 Mio. (July 2018)

Location: Central-Eastern Europe

- 44°20' and 52°20' N
- 22°05' and 41°15' E.

Capital: Kyiv (Kiev)

Mega cities:

- Kyiv
- Kharkiv
- L'viv
- Dnipro
- Odessa.

Time zone:

- GMT+2 (UTC+2)
- Summer (DST) - EEST (UTC+3).



Why Set Up Your Business in Ukraine

Highly Educated Labor Force

Ranked 4th most educated country in the world, over 99.7% are literate and over 70% have a higher or secondary education with:

- >400 universities & higher education institutions
- >550K graduates annually
- Low Labor Costs

Strategic Location

- Only 2-3 hours flight from most places in Europe (300 euro)
- 1 hour/ 7 hours ahead of EU/ US (EST) – shared working hours as a plus
- Visa free for EU, US and a few other citizen (90 days within 180 days)

Legislation and progressive adaptation to European Standards

- *Electricity Market Law* effective from June 2017
- Plans to open the electricity market to international cross border trade and exchange
- Implementation of a catalogue of measures and some technical requirements facilitating the synchronization with European Power System
- Ukraine undertook to transpose the requirements of the *Third Energy Package*, a legislative package on oil and electricity in European Union, into its national legislation within the context of its membership of the energy community and association with the EU.



Why Set Up Your Business in Ukraine

Main Advantages

- Estimations says that Ukraine has the potential to increase its use of renewable energy tenfold, by the year 2030, and reduce its natural gas consumption by 15% over the same period
- The country has diverse reserves of raw material
- Huge volume of biomass
- High radiations
- Attractive Green Tariff system (FIT).

Main Disadvantages

- Construction permits are involved in very long and complicated procedures
- Facing political and economic instabilities
- High corruption
- Fiscal pressure on business
- Comparatively complex procedures of a business's registration and deregistration.



Ukraine – Solar Energy

Solar power in Ukraine is obtained from photovoltaics or solar thermal energy. Ukraine has one of the smallest markets in Europe, when it come to solar energy, in 2016 they have installed 432 MW (Mega Watts) compared to Germany that have over 40,000 MW. However Ukraine has one of the biggest solar parks in Europe “Perovo Solar Park” which has a capacity of 105 MW and has cost them 387 million euros .

Activ Solar has completed other solar projects in Ukraine such as the Ohotnikovo Solar Power station located in the Crimea region. It has the peak capacity of 82.65 MW and was completed in October 2011. The third largest solar power station in Ukraine was also built by Activ Solar, based in the Odessa Region called the “Priozernaya solar power station” finished in March 2013 with peak capacity of 54.8 MW.

In recent years legislation promoting renewable energy in the Ukraine such as the “Green Tariff Law” has encouraged the growth of the solar industry. The resulting feed in tariffs are among the highest in the world. For installations larger than 100kW capacity, the feed in tariff is 2.68 UAH per kWh, which is about 0.32 USD. It increases at peak times to 4.84 UAH per kWh, equivalent to 0.60 USD. For installations smaller than 100 kW the basic rate is the same however at peak times the feed in tariff is 4.63 UAH per kWh.

For this reason, most of investors are flying out to Ukraine to invest into renewable energy, as it gives the highest return on investments, and Ukraine doesn’t have that many competitors in that market.



Ukraine – Wind Energy

Twenty operating wind power plants (WPP) have generated 390 million KWh of electricity in the first five months of 2017.

Earlier in July, China's Tebian Electric Apparatus (TBEA) showed interest in constructing a 500 MW wind power plant in Mykolaiv Oblast. According to the press service of the Ministry of Energy, the company's pilot project passed all the necessary expertise in Ukraine. TBEA is a Chinese manufacturer of power transformers and other electrical equipment.

In the industry growth only 7.5 percent of the electricity generated in Ukraine comes from green sources, mainly from hydropower, according to Ukraine's Association of Renewable Energy. Growth could have expanded at a much higher rate if lawmakers had provided a more investor-friendly environment.

The market needs timely legislative decisions, less bureaucracy, rapid energy reforms and more powers for the industry's regulator,

Notwithstanding the unpredictability, industry players still express optimism and European banks, especially European Bank of Reconstruction and Development, or EBRD, and World Bank are willing to give loans.

Many new investors have entered Ukraine's local market to generate electricity from wind, sun, water, and biomass just in the past two years. Here are six market players who are leading the way: Eco Optima Ukraine's renewable power sector started in 2009, when the country introduced differentiated green tariffs on various types of power generation. The green tariffs are pegged to the euro, setting the price per kilowatt-hour in euro cents. The incentive promised fast return on investment.



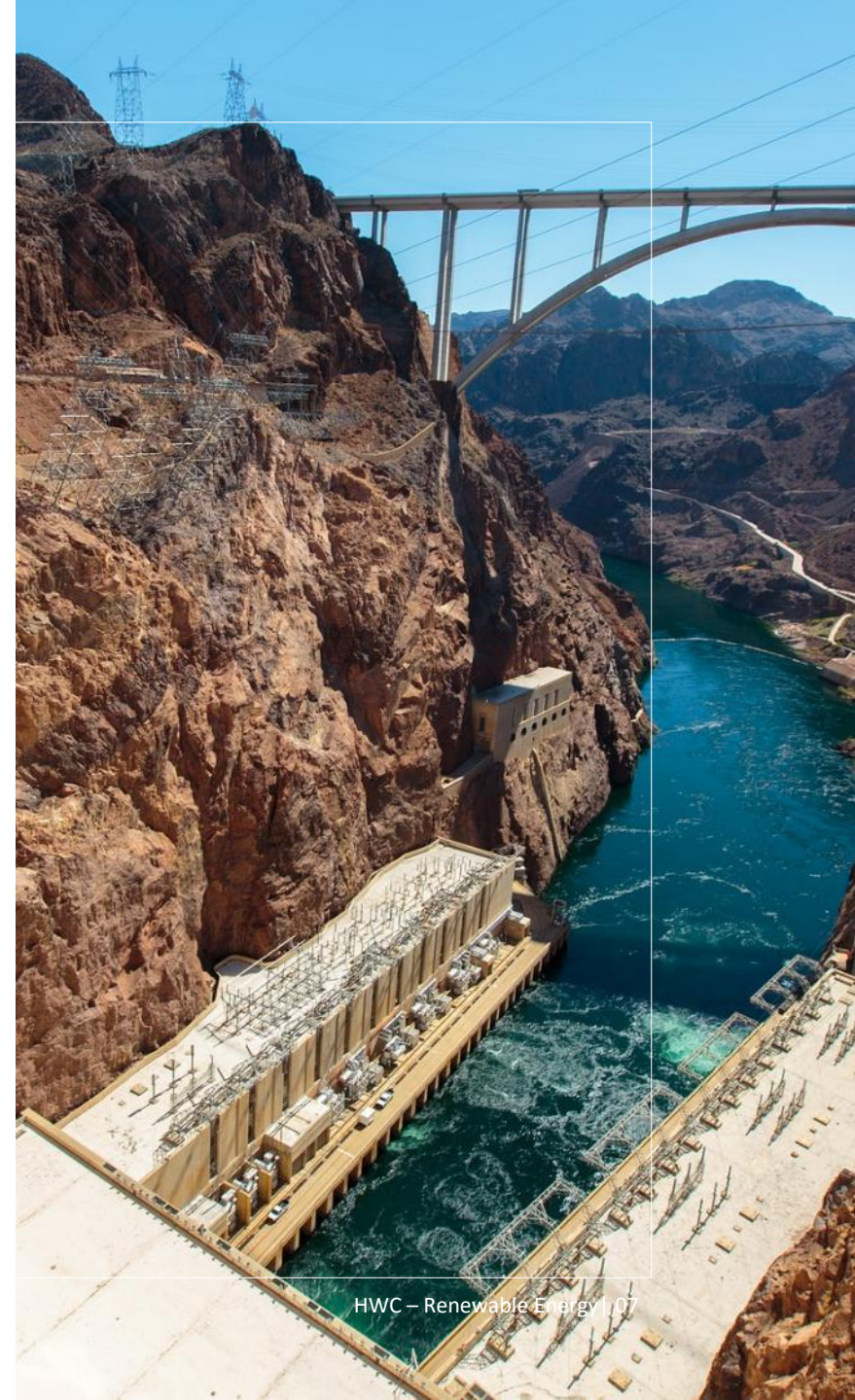
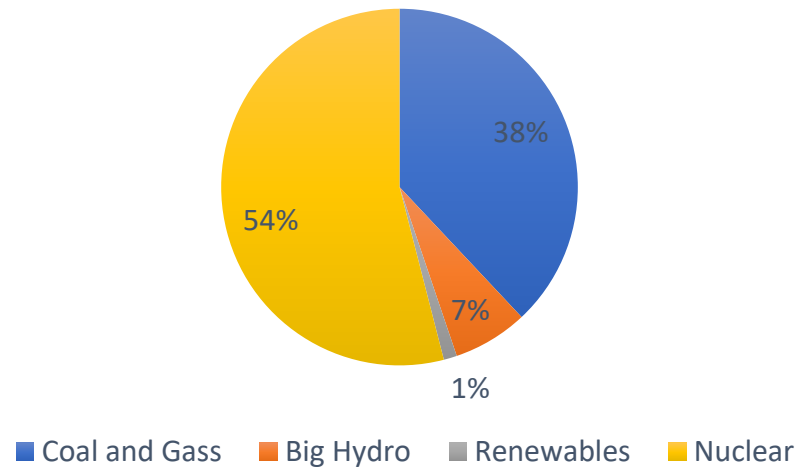
Ukraine – Hydro Energy

Ukraine's Ministry of Energy and Coal Industry issued a draft decree, on approval of the feasibility study, to build the Kakhovka 2 hydropower project, according to a ministry announcement on March 10.

The plant's exact cost, specific location and details of planned capacity were not mentioned in the announcement. But, locally published media reports indicate the new plant will cost about US\$505 million be completed in the next six years although no construction start date is immediately available.

Although Ukraine has the perfect setting for renewables — vast and windy fields, hillsides and a meandering Dnipro River — the country's alternative energy sector is still in its infancy.

Source of Energy Production 2016



Main Taxes in Ukraine

- **Corporate Profit Tax (CPT)**
 - Basic Rate - 18%;
 - Cap – n/a;
 - Reporting periods – calendar quarter, half year, three quarters, year
- **Value Added Tax (VAT)**
 - Cap - n/a;
 - Basic Rates - 0%; 7% and 20%;
 - Reporting period - calendar month
- **Personal Income Tax (PIT)**
 - Cap - n/a;
 - Basic Rates - 18%;
 - Reporting period - calendar quarter
- **Unified Social Security Contribution (USSC)**
 - Cap – up to 15 minimum salary (min. is UAH 3,723 per month, approx. EUR 124; cap in 2018 = UAH 55 845)
 - Basic Rates:
 - Employee – n/a
 - Employer – 22%.
 - Reporting period: calendar month
- **Military Tax**
 - Cap – Gross salary (including any benefits)
 - Basic Rates: employee - 1,5%
 - Reporting period: calendar quarter
- **Land Tax & Water Tax**
 - Settled land with an assessable value is taxed at 3% of the estimated value;
 - Unsettled land is taxed at up to 5% of the assessable value of the land;
 - Agricultural land is taxed at rates up to 1% of the estimated value.
 - Tax for special use of water is calculated on the actual amount used including losses in the water system. Tax depends on the type of water (ground or surface) and regions, and is to be paid as fixed fee per each 100 cub.m. consumed (from UAH 18.09 to UAH 112.77 per 100 cub.m.)



Green Tariff System (FIT)

One of the biggest incentives to start being an RES in Ukraine is the Green Tariff System (FIT). It's an Economic Policy created to accelerate and incentivize investments in renewable energy technologies through the mechanism based on the offer of a long-term contract to renewable energy producers in relationship to the cost of generation of each technology. It has been introduced in Ukraine in 2009, last time amended in 2017, with an end date in 2030. It's one of the highest FIT in the world which makes it very attractive in terms of investment opportunities. In this system is included a diminishing policy for future years in order to incentivize cost improving developments over time.

The following types of Renewable Energy Source (RES) are eligible for the Green Tariff: System:

- Solar Energy
- Wind Energy
- Hydro Energy
- Biomass/Biogas
- Geothermal energy.

Green tariffs apply to:

- Legal entities generating energy from all types of eligible RES (the RES Producers)
- Private households generating wind and solar energy with capacity not exceeding 30 kW
- Both new construction projects and existing renewable energy objects are eligible for green tariffs.

The amount of Green tariff is defined in each case by multiplying the retail consumer tariff of the second class of voltage by the green tariff coefficient that varies depending on type of RES, its commission date and some specific characteristics such as its power capacity

Type	Capacity kW	% Rates in Different Commission Date		
		2017 –2019	2020 –2024	2025 - 2029
Ground Solar Plant		15.02	13.52	12.01
Housetop Solar Plant		16.37	14.75	13.09
Wind Turbine	<600	5.82	5.17	4.52
	600-2000	6.79	6.03	5.28
	>2000	10.18	9.05	7.92
Hydro Plant	<200	17.45	15.72	13.95
	200 - 1000	13.95	12.55	11.15
	>1000	10.45	9.42	8.35
Biomass / Biogas		12.39	11.15	9.91
Geothermal		15.03	13.52	12.01
Household Solar Power Plant	<30	18.09	16.26	14.49
Household Wind Turbine Plant	<30	11.63	10.45	9.32

Use of local Equipment

The state provides actual bonuses added to the Green Tariff System to RES producers who use a certain amount of Equipment of Ukrainian origin for commissions up to 2024.

- Usage of Ukrainian equipment in the amount of at least 30 % generates a Green Tariff added premium in the amount of 5%
- Usage of Ukrainian equipment in the amount of at least 50 % generates a Green tariff added premium in the amount of 10 %.

All the equipment must be certified by a certificate issued by the Ukrainian Chamber of Commerce. The list of equipment qualified to participate in the green tariff system is defined by the Law of Ukraine No. 555-IV dated 20 February 2003 "On Alternative Energy Sources".



Responsibility of RES for Imbalances

Those RES Producers who are willing to offer their product under FIT must join the “Balancing Group” with the guaranteed buyer as its primary leader, responsible to the transmission system operator for the settlement of imbalances of such balancing groups.

To Settle imbalance (the difference between the actual and scheduled production) the producer must pay a cost that, from 2021, is going to be 10 % of Imbalance settlement to the guaranteed buyer. This share will increase by 10 % each year until it reaches 100 % in 2030 when Green Tariff expires. To make it possible the transmission system operator will sell the electricity on the “Balancing Market” which is going to be active from 2019.

However there are certain tolerance level of imbalance for which the responsibility do not apply. Those tolerance margins are:

- 10 % for Solar Power
- 20 % for Wind Power
- 5 % for Hydroelectric Power.

When the market share of the RES Producers will reach 5 % of the National Balance then tolerance level will be lowered by half for Solar and Wind Energy, and remain the same for Hydro.

The new Law improvement has no retroactive effect.



Power Purchase Agreements (PPA)

The PPA is a contract between a producer of Energy for renewable sources and the state authority responsible for energy 'Energoynok' which has a statutory obligation to purchase all the energy produced from the renewable sources at the Green Tariff System.

Starting from 2017 there have been amended significant changes to the template of PPA made by National Energy and Utilities Regulatory Commission (NEURC) in cooperation with the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC). The main changes are:

- PPA agreement is effective until 1 January 2030 (Previously it was executed yearly)
- Pre-PPA execution before the installation and commissioning of any plan given the condition that the supplier satisfy all the condition listed in the PPA template
- Extended list of force majeure situations
- More options to resolve potential dispute such as negotiations or international arbitrations.

All those changes will be effective starting from 1 July 2019.



Tax Benefits

Corporate Profit Tax:

The Ukrainian Tax Code states that corporate income is exempted from Corporate profit tax until 1 January 2021 given the condition that non taxed profits will be reinvested in the facilities development, credit repayments or increasing the production capacity.

Value Added Tax:

Ukrainian Tax Code presents some VAT Exemption to RES Companies who import certain type of equipment or resources designated to be used for renewable energy production. The following requirements must be satisfied in order to be eligible for tax benefits:

- The usage of imported material/equipment is for own production
- Similar equipment is not produced in Ukraine.

Land Tax:

Producer of renewable energy can benefit a 25% discount on land tax computed on applicable tax rules.



Reasons to work with HWC

- Strong and committed Team
- Team Member with experience in Big 4 or international/ global player
- We communicate with our clients and partners in English, German, Russian and Ukrainian
- Both HWC-Partner combine more than 30 years working experience in different leading positions in Ukraine
- German business attitudes
- Experience with Global Players and with SME/ Hidden Champions
- Modern and state of the art IT Infrastructure and Office
- Office next to Metro Minska (50 meter) and only 12 minutes to the very Center of Kyiv (Maidan)
- Well experienced in different business sectors e.g. IT, Agriculture, Oil & Gas, Energy, Heavy industry, Logistics, Machinery and Equipment, Engineering, Retail, Metal Industry, Services and others
- Allianz-insured.

Memberships/ Service Provider Listings



Our Services at a glance

Business Set Up Advice

Market Analysis & Research

Tax Compliance & Tax Advisory

Recruiting/ Executive Search

**Feasibility
Studies**

Business Planning

**Accounting Outsourcing &
Reporting**

HR & Payroll Solutions

Outstaffing

**Strategy
Consulting**

Interim Management
*(General Director/ CFO/
Chief Accountant)*

**Legal Address, Business Address
& Virtual Office**

Office Sublease

**Due Diligence
& Transaction Services**
(Finance/ Tax/ Technical)

Restructuring

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Making your business work – is what we do!