

# news2biz UKRAINE

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**Here to stay: Lviv is the place where Danish business community has planted its flag in the ground.** Picture: news2biz **COVERAGE ON LVIV: PAGES 2,3,6,7,10,13,14**

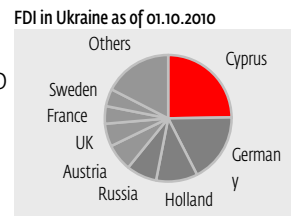
## Where have all the Danish businesses gone? Gone to Lviv every one.

To put together this special publication, news2biz UKRAINE visited Lviv to take a close look at the activities of the local Danish business community. The editor met with several of the 43 Danish firms now operating in the region and learned what gives them the competitive edge.

## More to come: cooperative Lviv attracts investors

The Danish Business Association is about to sign a memorandum of cooperation with Lviv governmental and tax authorities. DBA is determined to invite more Danish investors to the region, but would like to see the cumbersome red tape go. **PAGE 13**

### Money moves via Cyprus



Source: State Statistics Committee of Ukraine

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**Investors need an established network to operate in Ukraine.**

Lars Vestbjerg of Danish Business Association **PAGE 14**

## Norwegian IT consultancy Itera to open new centers

Itera will open two new operation centers in Ukraine and expand the one in Kyiv. Kyiv will remain the front office, while other locations must provide cost efficiency that clients are so keenly looking for these days. **PAGE 9**

## Komodor logistics park nearly full now

Komodor logistics park near Kyiv is about to sign up two new tenants, which will bring the park's occupancy rate to 90%. Successfully expanding tenants are also expected to bring joy to the happy host. **PAGE 12**

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**REGIONS****Lviv: Danish haven in Ukraine**

Some 1,000 years ago, it was the Baltic and Black Sea and the Dnieper River that played the pivotal role in the development of international trade in Eastern Europe. The so-called Trade Route from the Varangians to the Greeks allowed Scandinavian traders to not only establish a direct prosperous trade with Kyivan Rus' and Byzantium, but also prompted some of them to settle in the territory of the present-day Ukraine.

Today, it is Trans-European transport corridors and international air services that connect people throughout the continent. So it is no wonder that Lviv, the largest city of Western Ukraine located just 70 km off the EU border and featuring an own international airport and well-developed transport and logistics infrastructure, has given home to a large Danish business society throughout the past decade.

**Danes the Pioneers**

"Danes were among the first foreign businessmen, who saw the true value of our region's geographical location back in the 1990s," says Nazar Bychyshyn, director of the Lviv-based garment factory of Danish **HRT** (see page 15), explaining the high number of Danish companies operating in the region. "They have proved to be true business pioneers – vigorous and

venturesome – and have been turning Lviv into a Danish haven in Ukraine since then."

"Eight years ago, there were just five Danish companies operating in Lviv. Now, our association unites 43 firms in the region and is about to expand further to the neighbouring Ivano-Frankivsk, Ternopil and Volyn regions," says Lars Vestbjerg, chairman of the board of the Lviv-based **Danish Business Association** (DBA, see page 13 for more details), to news2biz.

**Thank you Lars!**

The conversation took place shortly before Christmas in the Lviv office of SIKA Footwear Ltd (see the story below) managed by Lars Vestbjerg.

He had kindly invited the Ukrainian editor to Lviv to meet him and the local Danes and the invitation was gratefully accepted.

So this issue is mainly about Lviv and its hospitable Danish residents, their successes and problems.



**news2biz editor: It was a fruitful trip despite the frost.** Photo: news2biz

**MANUFACTURING****SHOEMAKING****SIKA safety shoes: from Jutland to Galicia and... back to Europe**

Lars Vestbjerg came to Lviv back in March 2003 to manage **SIKA Footwear Ltd**, a daughter company of **SIKA Footwear A/S**, the family-owned manufacturer of working and safety shoes founded in the Danish town of Herning as early as 1870.

"SIKA manufactured its footwear in Estonia from 1997 to 2006, but in the course of time it turned out to be too expensive to operate in Estonia and the company decided to outsource elsewhere," he explains.

**Looking for lower costs**

"To be competitive you are supposed to have lower production costs, i.e. cheaper labour force and logistics, so we acquired the premises of a former electronic factory in Lviv to start production here," the general manager of SIKA Footwear Ltd goes on.

In 2002, when SIKA started relocating its production from Estonia to Ukraine, the Lviv-based workshop had only 28 employees and was capable of producing just around 25,000 pairs of shoes and clogs a year.

"At that time, we had to get permissions for almost everything: to reconstruct our facilities, to use the building for footwear

manufacturing, to start production, etc.," Lars Vestbjerg recollects. "In addition, it was a problem to refund VAT."

**Common problems**

As it took him almost a year to tackle all those problems, he realised that all the locally-based Danish businesses had the same problems and it would be reasonable for them to unite and put the consolidated pressure on the local authorities.

Still, as he was proposed to head the Kyiv-based **European Business Association (EBA)**, the idea of forming DBA was to wait for better days.



**The production of SIKA, moved from Estonia to Ukraine in 2002.**

Photo: news2biz

In 2007, SIKA's Lviv production facilities reached its historical maximum output of 208,000 pairs and the shoe producer relocated the remaining production orders from its subcontractors in Estonia to Ukraine.

SIKA's strategy for the following year saw Ukraine as not only the production site, but also a possible

sales market. As the limited production area halted the output growth, the company was going to start building a new factory on a suitable land plot. However, the global recession started the very same year.

In 2009, SIKA's production volume decreased by approximately 8% because of the downturn, but the following year the shoe producer managed to quickly recover and reach the 2008 level.

"We have succeeded, because our down time for developing new models is rather short," Lars Vestbjerg explains. "We introduce five-six new models each year and they are very well sold."

"In addition, we are pretty flexible in terms of the production quantity and are always ready to meet our clients' needs," he states. "Finally, we know the system here [in Ukraine] and can minimise our expenses even though everything has significantly grown in price since our arrival."

### Fact

# 75

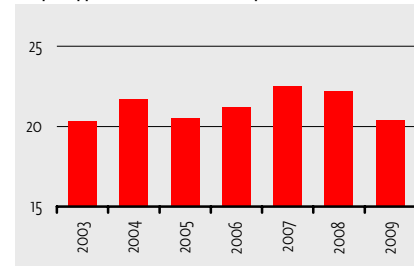
people are currently employed by SIKA in Ukraine.

Today, SIKA is one of the strongest companies in Western Ukraine employing 75 people and supplying its products to a wide range of sectors (medical treatment,

hotels and restaurants, food production and agriculture, building and construction, metal processing, transport etc) in Scandinavia, Germany, France and Benelux.

### If the shoe fits...

Output of footwear in Ukraine, mln pairs



Source: State Statistics Committee of Ukraine

"We would also like to see our shoes and clogs sold locally, as well as in Russia, one day," Lars Vestbjerg says. "Hopefully, these industrial markets will expand enough to show strong demand for our products."

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### FURNITURE PRODUCTION

## Ambiente's Ukrainian-made sofas demanded in Europe and Russia alike

Unlike SIKA (see the story above), **Ambiente Furniture**, the sofa manufacturer based in the village of Kolodentsi some 30km north of Lviv, halves its export deliveries between the western and eastern markets.

"50% of our products are delivered to Europe, mainly to Scandinavia, through our parent company **Actona**," says Denis McNally, general director of Ambiente Furniture, to news2biz. "On the other hand, we have also been long cooperating with **IKEA**, who sells our sofas under its brand and at very competitive prices in Russia."



**Denis McNally: IKEA sells our sofas under its brand in Russia.** Photo: news2biz

According to him, Ambiente Furniture was originally founded by two Danes, who had previously taken a shot at business in Slovakia.

In May 2005, they acquired a cattle farm and rented 10 ha of land in the village of Kolodentsi near Lviv. It took them about half a year to complete all the formalities, design the would-be factory's project and start the renovation of the acquired premises. In May 2006, the factory was officially launched.

Having invested some EUR 3m in the project, in April 2008 the founders sold, however, the factory

to Actona, the Danish company selling more than 2m chairs, 342,000 dining tables, 475,000 sofas and 260,000 office chairs each year.

### Growing demand

Taking advantage of its strong financial potential, Actona started investing in improving Ambiente's production efficiency and quality. As the factory extended its upholstery, cover and model range and reduced delivery time, it resulted in a growing demand for its products.

So Actona increased Ambiente's production area by 50% to 6,500 sq.m and doubled its production capacity to 11,000 seats per month in just one year. The company's staff grew from 70 employees in 2006 to 280 in 2009.

Ukraine is much closer to our European and Russian customers than China, while the production costs in the two countries are comparable.

Denis McNally, general director of Ambiente Furniture

"Apart from Ambiente in Ukraine, Actona has two upholstery factories in China, **Actona Sofa Corporation**, which started as a joint venture in 2005 and is fully owned by Actona

since March 2007, and **Actona Seating Ltd**, which was acquired in August 2009," says Denis McNally.



**Actona has increased production space of Ambiente.** Photo: Actona

As the latter has the production area of 50,000 sq.m and 600 employees, it is meant to produce the bulk of Actona's product range (corresponding to 400 containers per month at its full capacity), while the former with 16,000 sq.m and around 400 people is to focus on manufacturing some cheaper models (about 22,000 seats every month).

"The sofas produced in China are delivered directly to Actona's customers in Europe, the USA and Australia, as well as to the warehouses in Denmark, the United Kingdom and China," general director of Ambiente comments. "However, Ukraine is much closer to our European and Russian customers than China, while the production costs in the two countries are comparable."

#### Fact

# 4x

increase was posted by Ambiente in terms of staff.

"There is a certain extent of red tape in Ukraine as there is everywhere, but the only really serious problem we are facing here now is the VAT reimbursement," he emphasises. "Everything else can be managed in this country."

"As far as the Ukrainian sofa market is concerned, it is very fragmented and local players do not welcome newcomers. If you want to enter this market, you have to partner a large retailer, such as JYSK, for instance, who has been dramatically expanding its local presence lately," Denis McNally points out.

We have talked to

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## FINANCE

### CAPITAL EXPANSION Piraeus Bank strengthens grip at home, in Ukraine

In December last year, **Piraeus Bank**, one of the largest Greek lenders with a strong presence in Southern and Eastern Europe, decided to increase its equity capital by EUR 800m to strengthen its market positions both domestically and in the operating countries.

Earlier that year, Ukraine's **Piraeus Bank ICB**, which is part of **Piraeus Bank Group**, increased its authorised capital by UAH 232m to UAH 742m.

Ilias Milis, Piraeus Bank Group's deputy managing director for inter-

national relations, tells news2biz about the aim of the move, his company's strategy in Ukraine and other relevant and interesting things.

#### ► What was the reason of expanding the authorised capital of your Ukrainian subsidiary?

The main reason that led to the strategic decision of increasing Piraeus Bank ICB's authorised capital was to further improve the quality of our portfolio and to strengthen the positioning of Piraeus Bank in the local market.

The financial indicators show that Ukraine is slowly but steadily moving towards achieving the critical mass required to drive the market back to growth and expansion, and via the capital increase, Piraeus Bank will be ready to support the growth by financing healthy businesses.

#### ► What is Piraeus Bank's general development strategy with respect to Ukraine?

Our main focus is to provide our customers – corporate customers and individuals – with innovative banking products and services of high quality as we do in all the countries where Piraeus Bank operates.

One of the key areas that we will focus in the near future will be the enhancement of the e-banking services.

Towards this direction Piraeus Bank ICB will be investing in the

latest technology available, in an effort to provide its customers with the best service available as well as to reduce operational costs.

#### ► What is, in your opinion, the current state of the Ukrainian banking system and what are its future prospects?

Currently the Ukrainian banking system shows clear signs of stability. The liquidity issues that the banking system faced in the recent past seem for the worst part to be over, and optimism is returning to the markets.

Hopefully, this optimism will be reflected in the real market conditions as well and it will allow the business to grow further.



**Ilias Milis: Piraeus Bank will be ready to finance healthy businesses.** Photo: Piraeus Bank

#### ► Do you believe that the bank consolidation is one of the most promising trends of the Ukrainian market and will Piraeus Bank be one day prepared to merge or acquire another lender?

The Ukrainian banking market currently consists of a large number of banks that in the after-crisis era will look for ways to strengthen their position in the local market, either by entering into strategic alliances or by mergers & acquisitions.

The fact that few large players enjoy the lion's share of the market will force smaller players to invent ways that will allow them to diversify their positioning by offering flexibility and better customer services.

Piraeus Bank constantly monitors and evaluates local markets in an effort to identify early on the opportunities that will facilitate in achieving its goals in the local market.

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Established in 1916, Piraeus Bank went through a period of state-ownership and management (1975-1991) before it was privatised in December 1991. Since then, it has continuously grown in size and activities combining its organic growth with taking over other lenders.

### Expansion launched

By June 2000, the Bank became one of the three largest private banks in Greece and in early 2005 started its expansion in Southeastern Europe and Eastern Mediterranean markets.

In 2007, Piraeus Bank Group expanded its international presence in Ukraine by acquiring the Interna-

tional **Commerce Bank** (renamed into Piraeus Bank ICB).

At the end of September 2010, Piraeus Bank Group had an international network of 10 banks, 21 companies and 882 branches (361 in Greece and 521 abroad) and employed a total of 13,414 people.

### Fact

# 54

**branches have been opened in Ukraine by Piraeus Bank.**

As of 30 September 2010, the bank's total assets were EUR 57.559bn, equity capital amounted to EUR 3.362bn, the clients' deposits, repos and retail bonds issued made up EUR 30.027bn, net loans reached EUR 37.960bn.

Piraeus Bank ICB has 54 branches in Ukraine and covers the country's 14 regions, providing a full range of banking services to individuals, small and medium-sized enterprises and corporate clients.

As of 30 September 2010 the bank's assets were UAH 3.483bn, equity capital reached UAH 762.904m, the clients' deposits stood at UAH 842.223m, credit and investment portfolio made up UAH 2.372bn.

We have talked to

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### NEW INVESTOR

## BNP Paribas sells 15% in UkrSibbank to EBRD

Having consolidated 99.99% in **UkrSibbank**, Ukraine's fifth largest bank in terms of assets, France's **BNP Paribas Group** has sold a 15% stake in its Ukrainian asset to the **European Bank for Reconstruction and Development** (EBRD) for USD 82m.

The deal is part of the strategic partnership agreement completed by the parties on the back of the recent increase of UkrSibbank's capital by USD 382m.



**Anton Usov: We have our own know-how.** Photo: EBRD

According to the agreement, EBRD is going to provide a financial package of around USD 220m to UkrSibbank, consisting of a ten-year USD 140m subordinated loan and a purchase of 15% of UkrSibbank's shares.

The transaction has already been approved by the EBRD Board of

Directors and is due to be finalised in Q1 2011, subject to necessary legal and regulatory approvals.

"This is going to be our first equity investment into a major Ukrainian bank with a diverse client base," says Anton Usov, EBRD's principal adviser in Ukraine, to news2biz.

### Moving on to bigger fish

Earlier EBRD used to acquire stake in smaller domestic lenders, such as **Kredobank**, **Megabank** and **ProCreditBank**, as the major Ukrainian banks were not, according to him, interested in EBRD's presence.

However, as BNP Paribas has bought out UkrSibbank's stake from its former partners (24.5% from Ernest Galiyev in 2009 and 18.6% from Oleksandr Yaroslavsky in early December 2010), EBRD's long-term experience in operating on the Ukrainian market coupled with western business standards may now be of good use to UkrSibbank's new French managers.

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**This is going to be our first equity investment into a major Ukrainian bank with a diverse client base.**

Anton Usov, EBRD's principal adviser in Ukraine

It is expected that the new investor will not only provide the bank with the necessary resources, expertise, technical assistance and access to its international network, but will also be able to develop UkrSibbank's corporate management and new business directions.

"We have our own know-how, which we would like to introduce in the fields of trade financing, real sector crediting and energy financing," says Anton Usov.

#### **EBRD: largest investor**

► EBRD is the largest financial investor in Ukraine. As of 1 December 2010, it had committed over USD 5.7bn through 208 projects, including more than USD 1bn of capital and debt funding provided to the banking sector since the beginning of the financial crisis.

► Owned by 61 countries and two intergovernmental institutions, EBRD supports the development of market economies and democracies in countries from Central Europe to Central Asia.

What is more, EBRD's entrance in UkrSibbank's stake will help BNP Paribas decrease its expenses linked with the acquisition of the remaining interest in UkrSibbank.

UkrSibbank was set up on June 18, 1990. As of 1 November 2010, its net assets stood at UAH 44bn, equity capital at UAH 4.72bn, loan and investment portfolio at UAH

33.17bn, corporate customers' funds at UAH 8.18bn and individuals' funds at UAH 12.27bn.

The bank's regional network currently numbers around 750 branches and outlets throughout Ukraine.

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## **FOOD & AGRICULTURE**

### **MEAT PRODUCTION**

#### **Largest Danish investor in Lviv region to buy new farm**

As the European meat industry is breaking new ground in Eastern Europe, the Danish-owned pig producer **Halychyna Zahid** has become one of the two largest Danish investors in the Lviv region.

"We have invested around EUR 30m in the reconstructions and re-equipment of our Ukrainian farm over the past five years," says Ole Jorgensen, general manager of Halychyna Zahid, to news2biz, adding that his company may purchase another farm in Ukraine in some three or four years.

#### **Doubling capacity**

According to him, Halychyna Zahid has been backed by two funds, the Danish **Investment Fund for Central and Eastern Europe (IØ)** and the **Nordic Environment Finance Corporation (NEFCO)** established by the five Nordic countries.

Halychyna Zahid started its activity in Ukraine in 2006, when it acquired a 417 ha farm, including 47 ha of the production area inside fence, in the village of Kavsko, some 70 km southwest of Lviv.

"Since that time, we have almost doubled the farm's annual capacity to 100,000 heads," the general manager states, "and are now going to add some 3,200 ha of production area."



**Halychyna-Zahid has invested EUR 30m in the reconstruction of its Ukrainian farm.** Photo: Halychyna-Zahid

Operating at its full capacity since 2008, the enterprise sells Landrace, Yorkshire and Duroc youngsters (weighing 20-25 kg each), as well as fattens up porkers.

The farm features state-of-the-art production technologies and equipment, has its own feed mill and a laboratory for analysing ready-made food or ingredients.

"While Ukraine imports pig meat from Europe, we produce the very same meat of the highest European quality for the Ukrainian market," Ole Jorgensen declares proudly.

In his opinion, the Ukrainian agrarian sector needs governmental support for its steady development.

"The government is supposed to boost domestic food producers, just like it is done in Russia. Instead, the Ukrainian authorities cannot find a long-awaited solution to the VAT reimbursement and other pressing problems," he emphasises.

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### **SPO**

#### **MHP attracts USD 165m through SPO**

Yuriy Kosiuk, the principal shareholder and CEO of **Myronivka Hliboproduct (MHP)**, Ukraine's largest poultry and major grain producer, has sold his 10% stake in the company in the course of its SPO held in December last year on the London Stock Exchange (LSE).

Before the transaction he controlled some 75% of MHP's shares, with the remaining 25% free-floated on the LSE.

"We are very pleased to have successfully completed this placement, which has increased our public float by almost 50% and should provide for an increase in the trading liquidity of our GDRs," Yuriy Kosiuk is quoted as saying by MHP's press release.

MHP's strategic goal is to expand its annual chicken meat production from 350,000 to over 550,000 tonnes by 2015. To achieve this, the

company is going to build **Vinnitsia Broiler**, the poultry plant to be launched in the town of Ladyzhyn (Vinnitsia region) in four stages by 2018.

#### Fact

# 35%

increase in revenues was posted by MHP in the first 9 months of 2010.

As each of the plant's phases is capable of producing 110,000 tonnes of chicken meat per annum, it is planned that MHP will be able to increase its current annual production of 350,000 tonnes to exceed 550,000 tonnes, once the plant's first two stages have been put into operation in 2014.



**MHP will produce over 550,000 tonnes of chicken meat a year.**

Photo: Sven Arbet/Äripäev

In an attempt to saturate the growing internal demand for maize

and sunflower, as well as to increase its grain export volumes, MHP declared its readiness to expand the land bank to 300,000 ha by the end of 2010 and up to 400,000 ha by 2013.

In November last year, MHP acquired three farms in the Khmelnytsky region with the total land bank of 12,000 ha. In October 2010, the company purchased yet another grain producer in the same region, who used to control more than 11,000 ha of land (see news2biz UKRAINE no. 4, page 5)

MHP unites a total of 20 enterprises producing poultry, beef and sausages, grain, potato and vegetable oil.

During the first nine months of the last year, MHP increased its gross revenues by 35% year-on-year to USD 676m, while its net profit grew by 54% to USD 158m.

## PROPERTY & CONSTRUCTION

### INFRASTRUCTURE

#### Lviv region: an ever-lasting construction boom?

As one of Ukraine's four host cities of the forthcoming UEFA Euro 2012, Lviv has been experiencing a true construction boom. Although the European football tournament is scheduled to start in June 2012, all the largest infrastructure development projects being carried out in

Lviv and the region shall be completed already this year.

According to Volodymyr Gubitsky, vice chairman of the Lviv state regional administration in charge of the Euro 2012 preparations, the November-December 2011 period shall see the launch of Lviv's new stadium and airport terminal, as well as putting into operation 156 km of new and reconstructed motorways.



**The new stadium in Lviv will have a seating capacity for 33,400 spectators.** Picture: Euro 2012 News

The works' budget exceeds UAH 7.3bn this year alone. Still the invested funds are likely to pay back rather soon. By the estimate of SigmaBleyzer, one of Eastern Europe's leading private equity fund managers, the volume of foreign direct investment in Ukraine is expected to grow from USD 4.5bn in 2010 to USD 7bn this year, mainly due to the Euro 2012 projects.

Lviv's current preparations may not end with the Euro 2012 though. The point is that the Ukrainian president Viktor Yanukovich seems to be obsessed with the idea of stag-

ing winter Olympic Games 2022 in the mountainous Lviv region.

In December last year, Viktor Yanukovich met Jacques Rogge, the president of the International Olympic Committee (IOC), and declared ambitions to develop the necessary infrastructure in Lviv and the Carpathian Mountains irrespective of the IOC decision on the place of the 2022 Olympic Games.

#### Olympic dream

"We are dreaming of hosting the Olympic Games in Lviv. However, no matter the result of Lviv's qualifying, the works we have planned will be accomplished and the infrastructure to be developed in the Carpathian Mountains will be in use for the Olympic movement," he said.

From his part, Jacques Rogge noticed Lviv's potential and noted that the Ukrainian authorities had five years ahead to get prepared to the qualification (to be held in 2015).

### BUILDING MATERIALS

#### EBRD enters Ukraine's Lafarge, assets in Lviv rgn

The European Bank for Reconstruction and Development (EBRD) is prepared to pay EUR 100m for a stake in the Ukrainian subsidiary of the French building material producer Lafarge SA.

According to EBRD principal adviser Anton Usov, a relevant framework agreement was endorsed on 14 December 2010 in Paris.

It is expected that the Ukrainian subsidiary will not only develop its excising quarry and distribution businesses in Ukraine, but will also serve as a platform for the future expansion (through both new acquisitions and green-field projects) into other East European markets, such as Russia, Belarus, Serbia and others.

Earlier EBRD reported about the planned creation of the holding company named **Lafarge Aggregates Eastern Europe**, in which it would acquire a minority stake (with the entire project estimated at EUR 300m).

### Lafarge SA: feeling the recession bite

Lafarge SA's 2009/2008 performance and improvement indicators, in millions of EUR

	2009	2008
<b>Sales</b>	<b>15,884</b>	<b>19,033</b>
<b>Operating income</b>	<b>2,477</b>	<b>3,542</b>
<b>Free cash flow</b>	<b>2,834</b>	<b>2,113</b>
<b>Net debt</b>	<b>13,795</b>	<b>16,884</b>
<b>Net income group share</b>	<b>736</b>	<b>1,598</b>
<b>Net earnings per share</b>	<b>2.77</b>	<b>7.19</b>
<b>Net dividend</b>	<b>2.00</b>	<b>2.00</b>

Source: Lafarge SA

Having entered the Ukrainian market in 1999, now Lafarge is represented in the country by the following three enterprises: **Mykolaiv Cement Plant** in the Lviv region (annual capacity of 1.4m tonnes), **Lafarge Road-Metal Ukraine** (two quarries with the total capacity of 4.6m tones) and **Lafarge Gypsum Ukraine** (capable of producing 15m

sq.m of gypsum board a year) in the Donetsk region. There is also a frozen project, **Bukovina Building Materials** (aimed to explore sand and gravel fields in the Chernivtsi region).

## RETAIL & SERVICE

### FAST FOOD MARKET Burger King vs. local market king?

Ukraine's fast-food market seems to have recovered from the economic recession, which has somewhat changed its trends though.

It is a strong and undersaturated demand that remains unchanged and attracts new players. Catching the trend, Burger King may be soon ready to enter the market.

### Market king

In late December last year, **McDonald's Ukraine** opened its first restaurant in the country's south-eastern industrial city of Mariupol, having invested around USD 1.5m in the project.

With its floor space exceeding 490 sq.m, the new restaurant is situated on the ground floor of the Ukraina shopping mall in the centre of half-a-million strong Mariupol.

"This is our 70th fast-food outlet in Ukraine," says McDonald's Ukraine's PR director Mikhail Shuranov to news2biz. "Earlier in 2010, we opened a new food court in Kyiv's Sky Mall shopping mall."

The Golden Arches opened its first restaurant in Ukraine back in May 1997, being the first international fast-food operator to have appreciated the huge potential of the almost 50-million European market (see news2biz UKRAINE no.1, page 8).



**McDonald's opened its 70th restaurant in Ukraine.** Photo: McDonald's

Since then, the company has invested more than USD 100m of own funds in the development of its nation-wide network and indisputable dominance on the Ukrainian fast food market.

### New players

The advance of McDonald's brought the fast-food culture into Ukraine and catalysed the birth of a handful of locally-owned fast-food chains.

However, the global downturn screened out the least professional players, while McDonald's was forced to change its tactics after 2008 and shift emphasis from launching new sites to revamping the existing ones.

As a result, the market supply shrank substantially, while the demand for inexpensive fast-food, already undersaturated, was rapidly growing.

That could not last forever and the Ukrainian market saw the arrival of the world's leading pizza deliverer **Domino's Pizza** in October last year (see news2biz UKRAINE no. 4, page 8).

Rather symptomatically, before coming to Ukraine, Domino's had firmly established its presence on the neighbouring Russian market, the pattern to be likely followed by other global fast-food chains. At least, the US-based Burger King Corp. seems to be the first in this imaginable line.

### Burger King

Having appeared on the Russian market just in early 2010, **Burger King Corp.**, the world's second largest fast-food chain, has, according to its Russian subsidiary director Yana Pesotskaya, already found one more franchise partner in the country and is going to double the number of its Russian outlets.

In the meantime, Burger King Corp. has also been negotiating its arrival in Ukraine. According to Vitaliy Boyko, director of the **Ukrainian Trade Guild (UTG)**, his company has been in talks with Burger King Corp., **Galleries Lafayette**, **Harvey Nichols**, **New Yorker**, **Starbucks**, **Decathlon**, **H&M**, **Armani Cafe**, **Nordsee** and other



international operators over the possible lease of floor spaces (totally 30%) in the Kyiv-based **Ocean Plaza** (131,000 sq.m of GLA).

## // We have identified Ukraine as a potential market for the expansion of the Burger King brand.

Andrea Ungereit-Hantl, Burger King Corp.'s communications & public affairs manager for Central Europe

"In the course of normal business, Burger King Corp. continuously reviews its worldwide restaurant portfolio and makes strategic decisions regarding expansion of the brand based on many factors, including possible development opportunities, market conditions, restaurant profitability, consumer research and overall brand presence," says Andrea Ungereit-Hantl, Burger King Corp.'s communications & public affairs manager for Central Europe, to news2biz, when answering the question of her company's possible arrival in Ukraine.

"Based on these criteria, we have identified Ukraine as a potential market for the expansion of the Burger King brand and we are currently evaluating the opportunity in more detail."

Founded in Miami, Florida in 1954, today the Burger King system operates approximately 12,000 restaurants in all the US states and in 73 countries and U.S. territories worldwide.

Approximately 90% of Burger King restaurants are owned and operated by independent franchisees, many of them family-owned operations that have been in business for decades.

In 2008, Fortune magazine ranked Burger King Corp. among America's 1,000 largest corporations and Ad Week named it one of the top three industry-changing advertisers within the last three decades and it was recently recognized by Interbrand on its top 100 Best Global Brands list.

### Deemed to expand

According to Mikhail Shuranov, Ukraine's fast-food market will certainly keep growing, as the present-day supply barely meets half of the existing demand.

Ukraine's and specifically Kyiv's growth potential (at least 180 restaurants more) is often compared with that of Moscow. Indeed, the Russian capital's fast-food industry has been rapidly developing in the recent years.

The annual growth is estimated by Russian experts at 15-25% and even 30% for 2010, when Moscow's fast-food market was entered by Burger King Corp. and **Dunkin Donuts**, the transnational giants loo-

king for new market on the back of the sales recession in the USA and Europe.

According to some experts, the full saturation of the Russian and Ukrainian fast-food market is not expected earlier than 2012, but if people's incomes grow, the full saturation will keep running away.

#### We have talked to

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## IT & MEDIA

### IT EXPANSION

#### Itera to launch two new operation centres in 2011

The listed Norwegian IT consultancy **Itera ASA** has great plans for Ukraine in 2011. The company, which is present with one back-office operation in Kyiv with app 50 staff, will open two new operation centres and expand the one in Kyiv.



**Anders H. Lier: We expect to open up in Lviv in Q2.** Photo: Itera

"We expect to open up in Lviv in Q2 and in another location in Ukraine in Q4 2011," says Anders H. Lier, CEO of Itera Consulting, to news2biz. "The second location has not been decided yet, but we are aiming at somewhere in the Eastern part of Ukraine."

## // Kyiv will be a high-end operations and front office, whereas the focus in Lviv and the third Ukrainian location will be cost efficient production.

Anders H. Lier, CEO of Itera Consulting

According to Mr Lier, the new operation centre will have a staff of 100-150 per centre and the staff number in Kyiv will be in the 50 to 100 range.

"Kyiv will be a high-end operations and front office, whereas the focus in Lviv and the third Ukrainian location will be cost efficient production," says Mr Lier.

The motivation for finding other locations in Ukraine besides the capital is cost pressure from clients.

"We feel a continuous pressure on costs and we have to match that. We expect to have 30%-50% lower cost outside Kyiv when looking at both staff and location costs." Also it

is a question of availability of qualified IT people.

Itera just won an IT management contract for the Norwegian insurer **Skuld** from another Norwegian IT house. The contract is worth NOK 25m, but even though this forms a significant part of Itera's 2009 turnover of just above NOK 400m, it will not have any direct consequences for the Ukrainian operation.

### Always on the move

"No, not as such. However, we are continuously, due to the cost-cutting pressure from clients, looking over our business and moving standardised processes to our back office location," says Mr Lier.

Itera, which in addition to Norway also has operations in Sweden and Denmark, turned over NOK 412m and made a profit of NOK 21m in 2009; with 370 staff.

The Itera group is made up of the companies **Itera Consulting, Itera Networks, Itera Gazette, Cicero Consulting** and **Compendia**.

The Ukrainian operation serve as back office functions for the entire group and the head of the Ukrainian operations, Igor Mendzebrovski is VP Global Outsourcing at Itera ASA.

We have talked to

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### WIND TURBINE

## Mita-Teknik in Ukraine: from R&D to sales?

With all Lviv's advantages, it is the city's educated and well-trained people that are its true virtue and greatest treasure. As the two universities based in Lviv foster highly-qualified engineers and designers, the city became the site of the first research and development division established by **Mita-Teknik**, the Danish developer of wind turbine control systems, outside its home country in 2003.

"While during 2006-2007 the Danish company set up similar subsidiaries in India and China, the Ukrainian branch remains its largest overseas R&D division," says its managing director, Rostyslav Nakonechnyy, to news2biz.

### Awards to be proud of

"In late November 2010, Mita-Teknik won a prestigious national award in Denmark – Ernst & Young's Entrepreneur of the Year 2010 – and was named the best Danish growth company on the export markets," he continues. "Here, in Lviv, we are very proud to have contributed to achieving this success."

According to him, Lviv is also likely to host Mita-Teknik's sales office, once the company decides to launch one in the post-Soviet countries.

"This would be a logical choice, since Mita-Teknik already has its subdivision in Lviv and Ukrainians

are not only skilled and competitive, but also ambitious and proactive," Rostyslav Nakonechnyy says. "Finally, we all speak Russian in addition to Ukrainian and English."



**Rostyslav Nakonechnyy: Ukrainians are not only skilled, but also ambitious.** Photo: news2biz

If everything goes according to the plan, the sales office may, in his opinion, be opened already in a couple of years.

"Lately, there have been much talk in Ukraine about the forthcoming start of industrial production of wind turbines in the country. Hopefully, it will have finally started by that time," he believes.

As far as the other post-Soviet states are concerned, Russia's Far East, Belarus and Georgia seem to be the most promising markets, according to him.

So far Mita-Teknik has had its sales offices in the USA, Germany, Italy and Spain, i.e. the leading global manufacturers of wind turbines. However, the company is

set to widen its products' application area.

"While continuing to develop wind turbines controllers, we are also planning to apply our technology to other industries. Thus Mita-Teknik has recently manufactured a control system for a combined heating electric station in Denmark," Rostyslav Nakonechnyy states.

"As we develop complete control concepts for single machines, plants and remote surveillances, our projects are rather resource-intensive. So we have been heavily impacted by the global crisis," he recollects. "During the six months following the 2008 downturn, 90% of the orders we had got hung up. Back then we realised that contracts are not always performed."

### Fact

# 15-20%

revenue growth is expected by Mita-Teknik in the coming years.

Still, Mita-Teknik managed to promptly adjust its business to the new economic agenda and emerge from the crisis with a healthy result. According to its annual accounts, the company ended 2009/2010 with a slightly higher activity than in 2007/2008.

Even though the gross profit decreased from DKK 274m in 2008/2009 to DKK 117m in

2009/2010, Mita-Teknik closed the financial year with profits after tax of DKK 37m. The company has no interest-bearing debt and the available funds are satisfactory.

For the coming years, Mita-Teknik hopes to grow by 15-20% a year as a result of an increased activity level expected in the wind industry.

Started up in an Aarhus' garage back in 1969, Mita-Teknik is today the market leader in manufacturing wind turbine control systems. The company has around 230 employees worldwide, while its export share is close to 100%.

We have talked to

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## TRANSPORT & LOGISTICS

### EXPRESS TRAINS

#### Ukraine buys 10 Hyundai electric trains for Euro 2012

Ukraine's infrastructure ministry has signed a contract with **Hyundai Corporation** for the purchase of 10 interregional electric trains, which are meant to secure the high-speed communication between Kyiv, Lviv, Kharkiv and Donetsk, the four Ukrainian cities to host the UEFA Euro 2012.

Under the contract, 85% of the deal's entire amount (USD 260m) will be covered by the 4.5% 10-year credit of the Republic of Korea's **Export and Import Bank** against

guarantees of the Ukrainian government. The remaining funds will be provided by the Ukrainian national railway operator **UkrZaliznytsia**.

#### Passenger numbers to peak

Since the passenger transportations in Ukraine are, according to the country's infrastructure minister Boris Kolesnikov, expected to reach its peak during the UEFA Euro 2012, the first six contracted trains (for 400 passengers each) will be delivered to Ukraine before the football tournament and the remaining four after it.

As the new trains are capable of making 160 km/h, they are supposed to substantially reduce the existing travel times. Thus it is planned that the Kyiv-Lviv route will be covered within 4.5 hours, Kyiv-Kharkiv – 3.5 hours, Kyiv-Donetsk – 5.5 hours and Kharkiv-Donetsk within just about 2 hours.

Fact

# 400

passengers will be carried by each of the new trains purchased for UEFA Euro 2012.

Today, Ukraine's fastest passenger trains connecting the capital of Kyiv with some of the largest regional centres, such as Kharkiv and Dnipropetrovsk, can reach the maximum speed of 140

km/h, while the rest of the trains are not capable of producing velocity higher than 120 km/h.

In terms of average speed, the new trains are supposed to maintain 120 km/h compared with 100 km/h for the regional expresses and just around 40-50 km/h for all the other passengers trains.

Last year, UkrZaliznytsia made a test run of the so-called Western Express aimed to link Kyiv and Lviv (see news2biz UKRAINE no. 1, page 12) and was planning to launch it first within the preparation of the country's railway infrastructure for UEFA Euro 2012.

As the high-speed train operation requires using special locomotives and rolling stock, the Ukrainian infrastructure ministry and Hyundai Corporation have agreed to launch, in the course of time, a joint production of dual-system locomotives in Ukraine.

### UPTURN IN LOGISTICS

#### Komodor to sign two major leases, fill 90% of space

Partly Finnish owned **Komodor** logistics park just outside Kyiv is about to sign up two new tenants which would increase the rented-out space ratio from 2/3 to 90% of the park's 69,000 sq.m lettable area.

"Yes, we see an increasing interest in the services provided by Komodor. We hope to close the deals shortly, and one of them is a very large one," says Risto Hiekka, CEO of Finland's **Vicus Capital Advisors**,

one of Komodor's three owners, to news2biz.

Before Christmas, Komodor signed up another tenant, Ukrainian **Nova Linia**, one of the country's biggest construction materials and home-improvement supermarket chains. The lease for 5,430 sqm will enter into force from February 2011.

Mr Hiekka adds that Komodor is happy to have Nova Linia on as a client, especially since the company is expanding so rapidly.



**Risto Hiekka: We see an increasing interest in the services provided by Komodor.** Photo: viro.org

Founded in 2000, Nova Linia operates 17 DIY stores across the country. Nova Linia's fast growth will continue as in September 2010 the company secured financing from IFC, a member of the World Bank Group, to build three new hypermarkets – in Kyiv, Donetsk and Feo-

dosiya on the Crimea – an investment worth USD 50m. Nova Linia has been a tenant at Komodor since March 2009.

In September 2010 Komodor signed a 11,380 sqm lease agreement with the Ukrainian electronics retailer **Eldorado** (see news2biz UKRAINE no 5 page 11). In addition to Nova Linia and Eldorado, Komodor's tenants include Germany-headquartered **CENTOS Central Logistics** and Ukraine-based **Lux Logistic Service**.

#### Fact

# 32

kilometres west of Kyiv is where one finds Komodor Logistics Park.

Komodor Logistics Park, situated 32 kilometres west of Kyiv on important E-40/M-06 highway, has been fully operational since November 2008 and is considered to be among Ukraine's largest and most sophisticated logistics facilities with a total warehouse floor area of 59,530 sqm. Built to the Class A modern warehouse standards, Komodor also features 3,650 sqm of office and 5,770 sqm of mezzanine space.

In addition to Vicus, Komodor is owned by Czech **PPF Real Estate** and London and Hong Kong based **Cube Capital Limited**.

We have talked to

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## ENERGY & ENVIRONMENT

### GAS EXPLORATION

#### PKN Orlen to seek hydrocarbon reserves in Ukraine

Poland's leading oil firm **PKN Orlen** and the Ukrainian Ministry of the Environment have signed an agreement on cooperation in exploration and production of hydrocarbons in Ukraine.

In accordance with the agreement, Orlen will be able either to work under new licenses or to jointly develop hydrocarbon reserves already appraised by its Ukrainian partners.

#### Analyses will tell

"Our experts are currently carrying out detailed analyses, which will determine the final shape of PKN Orlen's future operations in Ukraine. Besides our own aspirations, the latter will depend also on local conditions, legal framework, and offers submitted by the Ukrainian side. We are interested in both new licenses as well as pre-appraised projects," Orlen's Joanna Puskar tells news2biz.

Under the co-operation agreement, Orlen and its Ukrainian partners are to jointly conduct exploration and production projects, related to both conventional deposits and shale gas. A decision on any equity involvement will be preceded by and based on in-depth analyses and ex-

pert opinions prepared by partners under the agreement.

"Due to confidentiality agreements we cannot disclose the names of our potential partners at this point. The same goes for the estimated value of our investments in the country – it is too early for that."

PKN Orlen is currently engaged - through its subsidiary **Orlen Upstream** - in four exploration and production projects: in the Latvian section of the Baltic Sea shelf, where it is cooperating with **Kuwait Energy Company**, in the vicinity of Sieraków (60km northwest of Poznan), where it is operating jointly with **PGNiG**, and in the Lublin region, where it is carrying out another two projects individually.

The company holds a total of seven licenses, under which it is appraising conventional deposits with gas-condensate potential, as well as unconventional deposits, primarily shale gas. The work is currently at a stage of initial exploration and preparations for drilling, which Orlen Upstream has scheduled for next year.

#### Rowing upstream

"Our entry to Ukraine is in line with PKN Orlen's upstream segment development guidelines," says Joanna Puskar. "The reserves are located in Eastern Europe and there are prospects for expansion of the product portfolio. We have established relations and signed agreements with a

local partner, which should facilitate further analytical work."

Orlen seeks to catch up with its main competitors in the region, Hungary's **MOL** and Austria's **OMV**, which chose to develop their upstream capabilities a few years ago.

Apart from exploration projects, Orlen is to invest in power generation. By the end of 2011 the company is to choose partners and general contractors for a gas-fired power plant in Wloclawek and select a location for another investment of this type.

**Ukraine is endowed with significant resources of crude oil and natural gas. Three petroleum basins have been identified in its territory:**

- ▶ **Dnieper-Donets Basin (Poltavsky Basin), where the in-place unappraised resources, as estimated by international experts, amount to 150m tonnes of oil and 850 bn cb.m of gas.**
- ▶ **North Carpathian Basin (covering also parts of Poland) is the oldest petroleum basin in operation.**
- ▶ **Black and Azov Sea Basin, which comprises both onshore and offshore areas lying within the boundaries of Ukraine. So far, it is the least explored of the Ukrainian petroleum basins.**

In order to finance its new undertakings, Orlen is to sell its chemical subsidiary **Anwil** and its stake in the mobile operator **Polkomtel**. By the end of February, the company is

to decide whether to sell also its Lithuanian business Orlen Lietuva, which Orlen's CEO Jacek Krawiec referred to as a "bad, flawed, unnecessary investment" at a recent meeting with journalists.

"We paid USD 2.8bn for the Lithuanian refinery and invested another USD 0.7bn into the business. In order to get a satisfactory return, the plant should be earning PLN 1bn a year, but there is no way to achieve such a result," Krawiec added.

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## SHALE GAS

### Ukraine may see industrial shale gas production soon

Ukraine has Europe's largest reserves of shale gas, according to **Nadra Ukrainy**, the country's state-run company in charge of geological survey. They are concentrated mainly in the western part of Ukraine, the Lviv and Volyn regions, close to the border with Poland, whose own reserves are estimated at 1.36tn cub.m of shale gas or half the total EU reserves.

The industrial production of shale gas may not only put an end to Ukraine's dependence on the gas imported from Russia, but also dramatically change the situation on the global markets.

To start the industrial production, the country will have to

enlist the support of large international players.

According to the information revealed at the Toronto Stock Exchange (TSE), the TSE-listed **East West Petroleum Corporation** (EWP, Canada), which explores oil fields in western Romania, has agreed with **Kuwait Energy Company** to jointly explore the Ukrainian depths.

### Foreign interest

After the information release, the share price of EWP, which possesses necessary exploration technologies, has reportedly gone up by 5.5%.

That was not the first time that foreign companies showed their interest in coming to Ukraine though. In June 2010, Poland's **Kulczyk Oil** completed the acquisition of 70% in the Ukrainian gas explorer **KUB-Gas**.

Earlier last year, the UK-registered **Cadogan Petroleum** announced the purchase of the Canadian **Momentum Energy**, which used to possess licences for the gas exploration in the Lviv region.

As his country borders both Poland and Ukraine and also depends on the gas supplies from Russia, in early 2010, the Belarusian president Aleksandr Lukashenko requested the Belarusian prospectors to find shale gas in the country.

The industrial production of shale gas in Europe may seriously affect Russia's monopoly in the segment of oil and gas supplies to the continent.

## ECONOMY & POLITICS

### BUSINESS ASSOCIATIONS

#### Danish businessmen to help Lviv authorities attract FDI

The **Danish Business Association** (DBA) uniting Danish companies operating in Western Ukraine (see page 2) is planning to sign a memorandum of cooperation with the governmental and tax authorities of the Lviv region on 21 January 2011.

In October 2010, DBA signed a similar document with the Lviv City Council (see news2biz UKRAINE no. 4, page 14), but now the association is, according to its head Lars Vestbjerg, about to go further and delegate its highly-experienced (with at least eighth years of work in Ukraine each) representatives into a dedicated working group to be formed under the new agreement in order to advise the local officials on attracting foreign investment.



**If investors do not have an already established network, it will be difficult for them to operate in Ukraine.**

Lars Vestbjerg, head of the Danish Business Association

"They are interested in the growing foreign investment, especially now, before the coming

UEFA EURO 2012," says Lars Vestbjerg explaining the local bureaucrats' stance to news2biz. "Otherwise they will be replaced."



**Lars Vestbjerg: DBA plans to sign a memorandum of cooperation with Lviv region's authorities.** Photo: news2biz

"I proposed the Lviv authorities to set up a single window six years ago, when heading the European Business Association in Ukraine," he recalls.

"If they manage to facilitate the entrance of foreign investors into Ukraine, establish a green corridor on the border, etc., this will definitely improve the investment climate."

### Inviting colleagues

"We are going to invite more Danish companies to Ukraine through our association and I know several firms, chiefly from the IT sector and metal processing, which are prepared to come here already now," the DBA head reveals. "However, there are

some bureaucratic barriers, such as the protracted VAT reimbursement, which hamper their arrival."

### Strategy of Lviv Oblast till 2015

#### Four strategic goals:

- ▶ 1. Lviv oblast is a region of sustainable economic and entrepreneurial development.
- ▶ 2. Lviv oblast is a gateway of Ukraine into the EU.
- ▶ 3. Lviv oblast is a region of highly qualified people, innovation potential and technologically advanced companies.
- ▶ 4. Lviv oblast is a region of clean and attractive natural environment, culture, tourism and recreation.

Source: Investment portal of Lviv region

DBA was founded in January last year and is aimed to give full support to the Danish businesses operating locally in their relations with the governmental bodies.

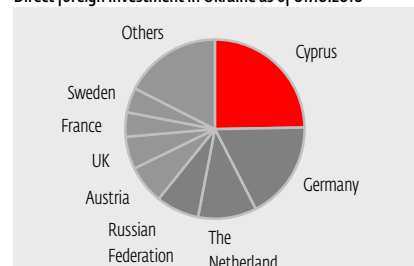
### Lobby is a must!

"Networking, lobbying and communicating is a need in a country like Ukraine," the DBA head affirms. "If investors do not have an already established network, it will be difficult for them to operate in Ukraine."

He believes that despite all the available problems and the heavy impact of the global economic crisis experienced by the country, Ukraine remains interesting to investors.

### Cyprus, Germany invest the most

Direct foreign investment in Ukraine as of 01.10.2010



Source: State Statistics Committee of Ukraine

We have talked to

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### OUTSOURCING European outsourcing: Ukraine vs China

China is the globally renowned workshop of the world. However, as it specialises in the large volume production, this gives Ukraine a unique chance to conquer the niche of short-series manufacturing on the European continent, believes Nazar Bychyshyn, director of the Lviv-based knitted textile garment factory of **Helge Rasmussen Textiles** (HRT), the Danish manufacturer of private-label products.

### Any quantity welcome

"China's major markets, the USA and the EU, are thousands of miles away from the world's workshop. It is super-large ocean-going container ships that deliver China-made products to their customers, so small batch manufacturing is simply

impossible for the China-based exporters," says Nazar Bychyshyn, who has also happened to work for **Ambiente Furniture** (see page 3) and the Lviv-based Danish-Ukrainian **J&L Consulting**, to news2biz.

"On the contrary, Ukraine borders the EU and the local manufacturers are able to export their products in any ordered quantity," he goes on. "Our factory can, for instance, manufacture and deliver to our European clients 100 models of this or that product ranging from 50 to 1,500 pieces each, while it is just unimaginable for a Chinese exporter."



### Nazar Bychyshyn: Ukraine has a chance to conquer the niche of short-series manufacturing.

Photo: news2biz

According to Nazar Bychyshyn, it takes his company just a couple of months to fully switch to a new production cycle compared to half a year necessary for a Chinese counterpart.

So in his opinion, Ukraine's key competitive edges are its low labour costs and advantageous geographical location, which allows local producers to maintain low lead time and flexible export policy.

"This is especially the case for the Lviv region, which is located in the country's western part and has traditionally, since Soviet times, been a large centre of light industry," he says.

### Ukraine borders the EU and the local manufacturers are able to export their products in any ordered quantity.

Nazar Bychyshyn, director of the textile garment factory of Helge Rasmussen Textiles

"Now, the Lviv-based producers are recovering after the first wave of the global economic crisis that severely hit Ukraine and are gaining momentum in their development again," Nazar claims.

"Throughout the past five years, 2010 has proved to be the best year for HRT in terms of production volumes, even though our volume of orders dropped by 20% and our staff shrank from 350 to 170 during the crisis," he states.

According to him, the devaluation of the Ukrainian national currency – one of the

consequences of the global recession – has proved to be of use for the Ukraine-based exporters.

### Lid on costs

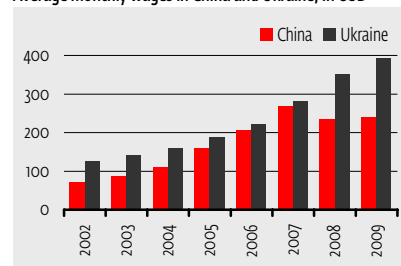
"Since our expenses have not grown locally and the production value has decreased, the financial result has improved," he explains.

Founded as an Ikast-based family-owned business back in 1935, Helge Rasmussen Textiles (HRT) came to Lviv in 2003.

The company turned a non-residential building of 5,500 sq.m into a factory capable of manufacturing 1.5m pieces of children's clothes a year, 95% of which are delivered to well-known European private labels, such as **Bestseller, C&A, Molo, Name JT** and others.

### Ukraine vs China: wages running away

Average monthly wages in China and Ukraine, in USD



Sources: ukrstat.gov.ua, stats.gov.cn

The factory has cutting, embroidery, sewing, controlling, packing and designing capacities. All the necessary fabrics are imported from Poland, Turkey, Italy and the

Far East, while the accessories are bought in the Far East, Europe and increasingly inside Ukraine to keep prices competitive.

Placement prints are produced at one of HRT's close partners... a Danish-owned company also placed in Lviv.

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### EVENTS

#### Ukraine 2010: key developments

The past year was seen by many people in Ukraine as a year of hopes. The crisis-ridden economy showed first signs of recovery. The presidential elections were expected to put an end to a long-lasting cold war in the corridors of power.

The newly elected president has indeed put an end to the "domestic calamity" in the country's highest offices. Having consolidated an immense power, Viktor Yanukovich has at the same time assumed an immense responsibility for the political and economic situation in the country.

#### No dreamland

The latter has in the meantime remained far from ideal. While promising an economic breakthrough, tax holidays for the small business and the general "improvement of the life already today", the new government has

seemingly strived to do just the opposite...

There were a lot of various events in Ukraine last year. The most important ones were the following:

- ▶ **21 April:** Ukrainian and Russian presidents agreed to prolong the presence of the Russian navy in Sevastopol, Crimea for the 25 years following 28 May 2017. In exchange, Russia consented to shave the gas price for Ukraine by 30%. The Ukrainian opposition failed to obstruct the move in parliament.
- ▶ **1 August:** the government advanced the gas price for households by 50% despite the April agreements.
- ▶ **27 October:** Ukraine and Russia agreed to set up joint ventures in the aircraft building and nuclear energy industries. While intending to establish a similar structure in the gas sector, the two sides have failed to come to terms so far.
- ▶ **18 November:** a New Tax Code passed. The controversial document provoked street protests held from 22 November to 3 December. The businessmen and self-employed people, who came to Kyiv from all over Ukraine, made the president veto the Tax Code.
- ▶ **2 December:** a new version of the Tax Code passed.
- ▶ **3 December:** the protesters' tent camp in downtown Kyiv was dismantled by the police.
- ▶ **9 December:** the president launched an administrative reform. While the number of ministries was

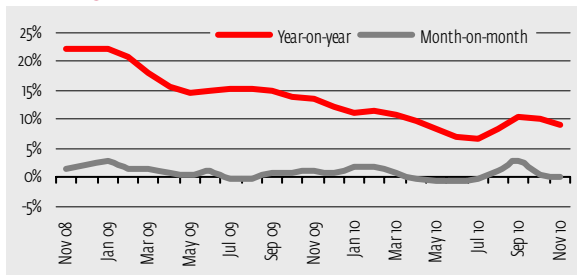
reduced, their top officials simply reshuffled.

- ▶ **15 December:** the Prosecutor General's office brought an action against former prime minister Yulia Tymoshenko, accusing her of misusing state funds. The latter responded blaming the incumbent president for persecuting his political opponents.
- ▶ **23 December:** a new chairman of the National Bank of Ukraine was appointed. The banker is dubbed "The Yanukovich family's personal cashier".
- ▶ **30 December:** the State Budget for 2011 was published in the press. It envisages a deficit of UAH 38.84bn, 28.2% less than the year before.

### HAPPY NEW YEAR!

## KEY FIGURES

### INFLATION



Source: National Bank of Ukraine

### PRODUCER PRICE INDEX

On monthly basis	May '10	Jun '10	Jul '10	Aug '10	Sep '10	Oct '10	Nov '10
100 = previous month	104.4	99.5	99.8	100.9	100.1	102.4	99.7
100 = same month prev year	127.9	125.5	124.4	123.3	119.2	119.8	118.9
Year	2003	2004	2005	2006	2007	2008	2009
100 = previous year	107.6	120.5	116.7	109.6	119.5	135.5	106.5

Note: Producer prices are prices of industrial goods excluding VAT and other taxes.

Source: State Statistics Committee of Ukraine

### INDUSTRIAL OUTPUT INDEX

On monthly basis	May '10	Jun '10	Jul '10	Aug '10	Sep '10	Oct '10	Nov '10
100 = previous month	97.6	99.5	102.9	101.5	102.9	104.8	97.8
100 = same month prev year	112.7	108.9	106.4	109.2	110.2	110.2	109.9
Year	2003	2004	2005	2006	2007	2008	2009
100 = previous year	115.8	112.5	103.1	106.2	107.6	94.8	78.1

Source: State Statistics Committee of Ukraine

### RETAIL TRADE

at current prices	Aug 2010	Sep 2010	Oct 2010	Nov 2010
Turnover in UAH m	48,788	47,110	51,682	47,744
Index 100 = previous month	101.7	98.4	102.2	97.5
Index 100 = same month prev year	109.7	110.4	110.7	117.8
Year	2006	2007	2008	2009
Turnover in UAH m	129,952	178,233	246,903	230,955
Index 100 = previous year	137.8	137.2	138.5	93.5

### GROSS WAGES

column A: average monthly wages in UAH; column B: indexed average wages, 100=2005

Sector	Q1 2010		Q2 2010		Q3 2010	
	A	B	A	B	A	B
Industrial production	2,312	287	2,519	313	2,682	333
Finance	4,247	527	4,545	564	4,727	586
Construction	1,433	178	1,689	210	1,915	238
Public administration	2,336	290	2,707	336	2,975	369
Real estate activities	2,169	269	2,367	294	2,525	313
Hotels and restaurants	1,330	165	1,460	181	1,518	188
Transport, communications	2,534	314	2,661	330	2,889	358
<b>National average</b>	<b>1,993</b>	<b>247</b>	<b>2,227</b>	<b>276</b>	<b>2,332</b>	<b>289</b>

Note: Wage accruals per pay-roll; Source: State Statistics Committee of Ukraine

### CONSUMER PRICE INDEX

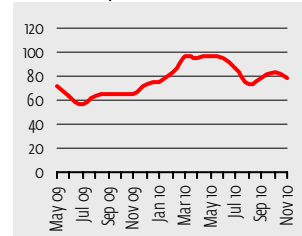
column A: 100 = current 12 months; column B: 100 = previous month

Sector	Aug '10		Sep '10		Oct '10		Nov '10	
	A	B	A	B	A	B	A	B
Food, non-alcohol	108.8	99.9	113.2	104.4	113.0	100.5	111.4	100.1
Alcohol, tobacco	117.2	103.7	121.8	105.5	122.1	101.6	122.1	101.1
Clothing, footwear	103.3	100.0	103.1	100.4	102.6	100.7	102.3	100.4
Housing, water, fuels	116.8	109.6	116.6	100.2	114.1	100.4	113.7	100.5
Transport	106.4	100.3	103.1	99.6	103.4	100.0	103.3	100.7
Communications	91.8	99.9	91.4	99.8	91.1	99.6	91.1	99.9
<b>Gross CPI</b>	<b>108.3</b>	<b>101.2</b>	<b>110.5</b>	<b>102.9</b>	<b>110.1</b>	<b>100.5</b>	<b>109.2</b>	<b>100.3</b>

Source: State Statistics Committee of Ukraine

### SENTIMENT INDICATORS

Consumer confidence index



Note: threshold of optimism = 100. Source: GfK Ukraine, International Centre for Policy Studies.

Business outlook index

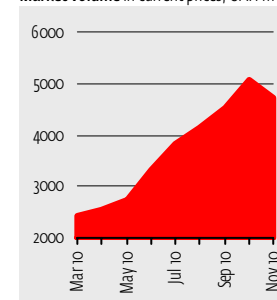
Q3 2010	115.4
Q2 2010	121.8
Q1 2010	115.6
Q4 2009	104.4

Note: National Bank of Ukraine has conducted a business outlook survey for a longer period of time, but publishes the index only since the end of 2009. Source: National Bank of Ukraine

### CONSTRUCTION PRICE INDEX

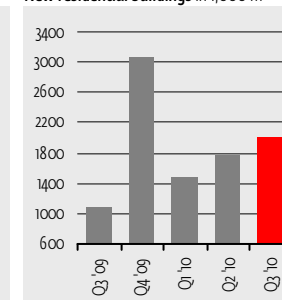
On monthly basis	May '10	Jun '10	Jul '10	Aug '10	Sep '10	Oct '10	Nov '10
100 = previous month	101.9	101.3	101.8	100.7	100.9	103.2	101.1
100 = same month prev year	115.8	117.0	118.7	118.4	117.6	118.6	118.3
Year	2003	2004	2005	2006	2007	2008	2009
100 = previous year		120.2	125.6	123.5	123.1	135.3	111.3

Market volume in current prices, UAH m



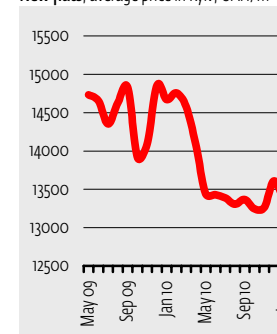
Source: State Statistics Committee of Ukraine

New residential buildings in 1,000 m²



### REAL ESTATE PRICES

New flats, average price in Kyiv, UAH/m²



Commercial, average rent price in Kyiv, USD/m²; period 27 Dec 2010 - 3 Jan 2011

Centre	
- office	21.63
- retail space	36.89
Right coast (without centre)	
- office	14.74
- retail space	23.55
Left coast	
- office	14.25
- retail space	22.51

Number of transactions on secondary market

	Mar '10	Apr '10	May '10	Jun '10	Jul '10	Aug '10	Sep '10	Oct '10
Kyiv	345	350	378	321	376	390	407	389

Source: realt.ua, Blagovest Real Estate Agency



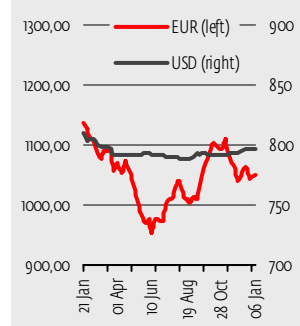
## CURRENCY

### National Bank average rates

as of 6 January 2011, change 9 Dec 2010

100 USD	795.9000	↑
100 EUR	1051.6227	↑
100 GBP	1239.6825	↓
100 DKK	141.1063	↑
100 SEK	117.7695	↑
100 NOK	135.0052	↑
1,000 JPY	96.7276	↑
100 LVL	1488.9178	↑
100 LTL	304.5710	↑
10 RUB	2.6224	↑

### 100 USD/EUR against UAH



Source: National Bank of Ukraine

## CREDIT

### The banks' net lending in UAH bn, loan stock by the end of period

Type of loan	Q3 '09	Q4 '09	Q1 '10	Q2 '10	Q3 '10
- to private companies	457.52	462.21	453.58	463.28	488.24
- to households	252.33	241.31	229.34	221.32	218.76
- to others	15.76	15.25	14.76	13.48	14.65
<b>Total</b>	<b>725.61</b>	<b>718.77</b>	<b>697.68</b>	<b>698.08</b>	<b>721.65</b>

Source: National Bank of Ukraine

## TRADE

### Ukrainian exports and imports according to commodity groups

	EXPORTS in USD bn						IMPORTS in USD bn					
	Jan-Oct 2010	Share	Jan-Oct 2009	Share	2009	Share	Jan-Oct 2010	Share	Jan-Oct 2009	Share	2009	Share
Non-precious metals, metal products	14.145	34.5	10.477	33.1	12.824	32.3%	3.254	6.8	2.190	6.1	2.681	5.9%
Mineral products	5.453	13.3	2.975	9.4	3.891	9.8%	16.749	35.0	12.137	33.8	15.675	34.5%
Machinery	4.551	11.1	3.893	12.3	5.003	12.6%	6.317	13.2	4.955	13.8	6.270	13.8%
Agricultural food products	7.585	18.5	7.533	23.8	9.529	24.0%	4.498	9.4	3.914	10.9	4.952	10.9%
Chemical products	2.747	6.7	2.026	6.4	2.501	6.3%	5.073	10.6	4.165	11.6	5.316	11.7%
Light industry products	0.902	2.2	0.855	2.7	1.032	2.6%	2.153	4.5	1.508	4.2	1.817	4%
Wood, wood products	1.435	3.5	1.203	3.8	1.469	3.7%	1.627	3.4	1.329	3.7	1.636	3.6%
Other goods	4.182	10.2	2.690	8.5	3.454	8.7%	8.183	17.1	5.709	15.9	7.088	15.6%
<b>TOTAL</b>	<b>41.0</b>	<b>100%</b>	<b>31.7</b>	<b>100%</b>	<b>39.7</b>	<b>100%</b>	<b>47.9</b>	<b>100%</b>	<b>35.9</b>	<b>100%</b>	<b>45.4</b>	<b>100%</b>

Source: State Statistics Committee of Ukraine

## INTEREST RATES

### Average weighted annual interest rates on credits

Recipient, currency	Jun 10	Jul 10	Aug 10	Sep 10	Oct 10	Nov 10
Companies, UAH	14.82%	13.90%	12.95%	13.62%	13.84%	13.20%
Companies, USD	11.26%	10.43%	9.71%	10.33%	9.58%	10.11%
Households, UAH	25.30%	24.61%	28.10%	27.48%	26.63%	25.93%
Households, USD	13.59%	11.39%	13.77%	10.69%	9.90%	11.17%

### Kiev Inter Bank Offered Rate (KIEVPrime) as of 30 December 2010

Overnight	1 week	1 month	3 months
10.75%	10.63%	10.75%	8.25%

Source: National Bank of Ukraine, Bloomberg

## MONEY SUPPLY

in UAH m	Jul '10	Aug '10	Sep '10	Oct '10	Nov '10
Monetary base	223,819	220,384	216,727	221,581	215,713
<b>M1</b>	<b>269,281</b>	<b>271,303</b>	<b>275,424</b>	<b>277,682</b>	<b>276,374</b>
Currency outside banks	175,080	175,103	174,814	175,226	173,332
<b>M2</b>	<b>550,096</b>	<b>555,327</b>	<b>567,747</b>	<b>574,946</b>	<b>572,660</b>
- Time deposits	280,815	284,025	292,323	297,264	296,286
<b>M3</b>	<b>550,941</b>	<b>556,176</b>	<b>568,810</b>	<b>576,046</b>	<b>574,070</b>
- Net foreign assets EUR bn	78,438	90,010	114,789	107,673	105,972

**Monetary base:** Ukrainian currency emitted by the central bank and money on accounts held with it. **M1=** currency outside banks + demand deposits **M2=** M1+ time deposits (Inc in foreign currencies) Source: National Bank of Ukraine

## STOCK EXCHANGE

### PFTS Ukraine Stock Exchange

main list	Price	Change	Change
in alphabetic order	5 Jan	8 Dec	end of '09
↑ Alchevskiy Metalurg, Kom	0.23	+28%	+64%
→ Azovstal	2.99	+8%	+12%
↑ Avdiievskiy Koksochim Zav	15.00	-1%	+25%
↑ Centrenergo	15.02	+2%	+58%
↓ Dniproenergo	-	-	-
Donbasenergo	-	-	-
↓ Enakiievskiy Metalurginiy Zav	188.33	+12%	+12%
↓ Interpipe Nizhnodniprovskiy	8.17	+1%	-11%
→ JSCB Ukrsofsbank	0.56	0%	+60%
Krukiivskiy Carriage Works	36.49	-2%	-
Mariupol Heavy Machineb.	10.82	-45%	-
↑ Motor Sich Jsc	3030.0	+16%	+84%
Poltava Gok	43.18	-1%	+57%
↓ Raiffeisen Bank Aval	0.40	0%	+60%
Stirol Concern	-	-	-
Sumske Nvo Im. Frunze	-	-	-
↑ Zakhidenergo	-	-	-
↑ Uknafta	594.18	+51%	+252%
↑ Ukrtelecom	0.55	-13%	+20%
Yasynivskiy Koksochimichniy Z	4.52	+17%	+35%

Note: PFTS index 100= 1 October 1997

Source: PFTS

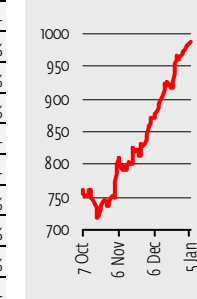
### PFTS index

**987.80**

Change 8 Dec +12% ↑  
Change end of '09 +72% ↑

### PFTS closing index

the last three months



### Ukraine's eight largest markets for trade of goods, ranked according to Jan-Oct 2010 in USD bn

EXPORT				IMPORT							
No	Country	Jan-Oct 2010	Share	2009	Share	No	Country	Jan-Oct 2010	Share	2009	Share
1	Russia	10.742	26.2	8.495	21.4%	1	Russia	17.563	36.7	13.236	29.1%
2	Turkey	2.378	5.8	2.127	5.4%	2	China	3.685	7.7	2.734	6.0%
3	Italy	1.924	4.7	1.228	3.1%	3	Germany	3.637	7.6	3.852	8.5%
4	Belarus	1.476	3.6	1.259	3.2%	4	Poland	2.249	4.7	2.170	4.8%
5	Poland	1.394	3.4	1.213	3.1%	5	Belarus	2.010	4.2	1.693	3.7%
6	Germany	1.230	3.0	1.248	3.1%	6	USA	1.388	2.9	1.286	2.8%
7	India	1.066	2.6	1.152	2.9%	7	Italy	1.053	2.2	1.140	2.5%
8	China	1.025	2.5	1.434	3.6%	8	Hungary	0.957	2.0	0.678	1.5%

**GDP**

at current prices

Period	Real growth year on year	GDP in UAH m current prices	GDP per capita in UAH	Current account in % of GDP
Q3 2010	3.4%	303,705	-	-
Q2 2010	5.9%	262,365	-	1.3%
Q1 2010	4.9%	218,125	-	-0.7%
Q4 2009	-6.8%	261,730	-	-
Q3 2009	-16.0%	251,263	-	-
2009	-15.1%	914,720	19,862	-1.5%
2008	2.3%	948,056	20,495	-7.0%

Source: State Statistics Committee of Ukraine, National Bank of Ukraine

**CURRENT ACCOUNT**

in USD m	2007	2008	2009	Oct 2010	Nov 2010
Trade balance	-10,572	-16,091	-4,655	-1,317	-956
Services, net	2,420	1,741	2,633	235	324
Direct investments, net	9,218	9,903	4,654	466	725
Current account balance	-5,272	-12,763	1,801	-907	-508

Source: National Bank of Ukraine

**FOREIGN DIRECT INVESTMENT**

in USD m

On quarterly basis	Q2 '09	Q3 '09	Q4 '10	Q1 '10	Q2 '10	Q3 '10
in Ukraine	1,439.1	625.9	1,435.2	-19.4	394.7	2,109.8
Ukrainian DI abroad	1.8	-35.6	32.1	569.9	-29.0	87.1
Year	2004	2005	2006	2007	2008	2009
in Ukraine	2,252.6	7,843.0	4,717.3	7,935.4	6,073.7	4,410.4
Ukrainian DI abroad	32.6	20.9	23.8	5,953.3	6.5	20.2

Source: State Statistics Committee of Ukraine

**KEY ECONOMIC DATA FORECAST**

Indicator	2010		2011		2012
	IMF	Swedbank	IMF	Swedbank	Swedbank
GDP change	3.7%	3.5%	4.5%	4.5%	4.8%
Consumer prices (inflation)	9.8%	18%	10.8%	9%	9.3%
CA balance, % of GDP	-0.4%	-0.5%	-1.3%	-1.5%	-2.1%

Sources: IMF, Swedbank

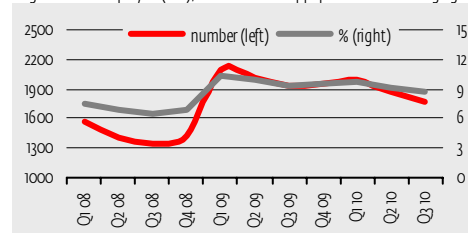
**COUNTRY RATING**

Agency	rating	outlook
Fitch Ratings	B	stable
Standard & Poor's	B+	stable
Moody's Investor Service	B1	stable

Source: Investment agencies

**UNEMPLOYMENT**

Registered unemployed (ILO), in '000 and % of population in working age



Source: State Statistics Committee of Ukraine

**GENERAL INFORMATION**

Population: 45,700,395

Currency: Hryvnia (UAH)

In power: President Viktor Yanukovich. Most seats in parliament Party of Regions (34%, PM Mykola Azarov), Block of Y. Tymoshenko (31%). Elections: 2012 parliamentary, 2015 presidential

**Most important tax rates**

Income tax: individual 15%, corporate 25%

VAT: 20%

Social tax: up to 35%

**REGIONAL DATA**

Ukraine's regions	Output		Monthly wages (UAH)		Unemployment		New dwellings	
	Jan-Nov 2010 *	Jan-Nov 2010**	Amount	Index*	Jan-Sep 2010***	%	'000 m <sup>2</sup>	% to '08
Autonomous Republic of Crimea	111.2	99.4	1,966	117.0	59.1	6.7	387.3	93.2
Cherkasy	117.9	107.6	1,817	120.3	62.9	10.8	144.8	88.7
Chernigiv	99.8	86.9	1,689	116.4	54.5	11.6	104.8	51.5
Chernivtsi	108.7	103.3	1,744	116.5	35.2	9.9	164.8	45.2
Dnipropetrovsk	117.2	101.4	2,345	120.9	116.6	7.5	170.4	38.9
Donetsk	113.5	100.3	2,510	120.2	188.5	9.3	173.0	39.6
Ivano-Frankivsk	95.3	100.1	1,901	117.9	47.4	8.7	380.6	73.7
Kharkiv	106.3	86.0	2,029	114.3	96.4	7.6	427.5	192.0
Kherson	98.9	103.6	1,703	116.6	47.5	9.6	75.2	32.7
Khmelnitsky	104.4	97.8	1,756	117.4	54.1	9.4	266.1	86.3
Kirovograd	112.2	103.6	1,795	118.7	43.5	10.0	66.5	51.8
Kyiv (Kiev)	108.2	97.4	2,252	115.0	59.2	7.9	680.1	58.4
Lugansk	105.6	90.2	2,239	121.1	78.0	7.7	35.1	14.1
Lviv	100.5	95.6	1,914	116.6	92.2	8.3	391.6	50.2
Mykolajiv	108.4	101.0	2,091	117.9	48.4	9.0	86.2	53.6
Odesa	105.4	108.4	2,014	115.9	65.0	6.3	537.2	63.4
Poltava	114.6	92.6	2,064	121.0	68.6	10.3	155.5	59.5
Rivne	131.3	101.8	1,924	121.6	60.5	12.4	98.3	56.9
Sumy	91.2	91.7	1,841	117.2	58.2	11.5	138.6	69.7
Ternopil	102.3	93.6	1,627	117.2	50.8	11.3	146.2	48.0
Vinnitsia	105.9	100.9	1,757	118.1	76.4	11.0	171.5	47.4
Volyn	125.7	101.5	1,664	118.2	40.1	9.1	138.7	71.1
Zakarpattia	141.8	96.2	1,809	118.1	52.5	9.5	169.2	43.0
Zaporizhzhia	106.9	101.6	2,156	118.4	64.7	7.9	101.2	46.6
Zhytomyr	109.1	101.4	1,755	119.5	60.8	10.9	88.8	35.9
<b>National average</b>	<b>110.6</b>	<b>98.7</b>	<b>2,205</b>	<b>117.5</b>	<b>1,722.3</b>	<b>8.7</b>	<b>6,399.6</b>	<b>61.0</b>

\* Index 100 = same period of the previous year. \*\* Data refer to enterprises with 10 and more employees; preliminary data.

\*\*\* ILO, working age

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