UKRAINE

THE ONLY CONSTANT IS CHANGE

In recent years, Ukraine has seen a people's revolution, progressive new leadership and a staggering economic upswing that has drawn attention from the US and EU. What does the future hold?

In autumn 2004, the world watched as the post-Soviet nation of Ukraine gathered on frozen streets in mass demonstrations known as the Orange Revolution. For weeks, millions protested against mass election fraud triggered by a divisive election campaign and rallied behind candidate Viktor Yushchenko.

"I remember three years ago when you switched on any channel, you saw one massive block of news, which was managed from the president's seat," recalls Mr. Yushchenko. "It was not just misinforming the nation, but we were simply losing the chance to choose between the worst and the best."

Since Mr. Yushchenko swept to power, the Ukrainian political establishment has renewed a commitment to economic reform, democratic governance, and transparency. Infamous government-mandated censorship – known as *temniki* – ceased. Visa requirements for EU and US citizens were scrapped and annual tourist numbers swelled to 27 million. Budget revenues increased as businesses moved from the shadow economy. Over 5,000 regulatory procedures were enacted to European standards. Shady insider privatization deals were revised and sold to international bidders at market values.

Driven by steel, chemicals, and agricultural commodities, exports are increasing in value. Recently, the World Bank raised its outlook for GDP expansion in 2008 from 5.5% to 6%. The latest Global Competitiveness Report issued by the World Economic Forum ranked Ukraine alongside emerging market heavyweights Brazil, Vietnam, and the Philippines.

President Viktor Yushchenko

In May, Ukraine became the 152nd member of the World Trade Organization, heralding a new level of global economic integration. Foreign investors and Ukrainian companies are confident that this status will heighten investment prospects, strengthen intellectual property rights and spur needed capital for research and development initiatives.

While the Orange Revolution swept away a brand of post-Soviet authoritarianism, it created room for political dissent and gridlock. Three years ago, the government of erstwhile "orange" ally Prime Minister Yulia Tymoshenko collapsed, bringing Mr. Yushchenko's rival Viktor Yanukovych to power. After snap elections last year, Ms. Tymoshenko returned as Prime Minister – with a fragile coalition government hanging in the balance.

After Ms. Tymoshenko sided with her political opponents to curb presidential powers, Mr. Yushchenko withdrew his party from the coalition in September. While the Prime Minister seeks to build a new cabinet majority, Mr. Yushchenko may call fresh elections by mid-October if a new majority fails to coalesce.

But Mr. Yushchenko emphasizes that his country's ongoing political turmoil signals the growing pains of a young democracy. "I would say that honest elections are like lighting a torch for this country. I am convinced that we will continue to achieve great progress in the freedom of speech within a system of democratic values."

So far, partisan politics have not detracted the entry of international capital into banking, retail, real estate, and other sectors. In the first half of 2008, foreign direct investment jumped to $6.9 billion after the economy attracted a record $7.9 billion in 2007.

"When I came into this position, per capita investments were $91 and now it is $692," says Mr. Yushchenko. "It is still too small, but it is more than three years ago. The pace of its growth shows that right now we are attractive to foreign businesses, including American ones."

In 2006, the EU became Ukraine's largest trade and investment partner. Bilateral trade has doubled since 2003, topping €34.8 billion last year. Pipelines stretching across Ukrainian territory serve as arteries for vital oil and natural gas to Europe. During September's Ukraine-EU summit, an association agreement was signed, signaling deeper integration between Kiev and the 27-nation bloc. Both sides are accelerating efforts to ink a Free Trade Agreement.

Bordering an expanded EU, Western integration is an unwavering priority of the government. "Concerning external policy issues, our bilateral rapprochement and European integration is very important to us. During the last three years we managed to achieve great results in this respect. It resulted not only in qualitative changes in general, but a new qualitative policy as well," adds Mr. Yushchenko.

Both Brussels and Washington continue to support Kiev's Euro-Atlantic aspirations. Ukraine first outlined its priorities to join NATO in 1994 when it became a member of the alliance's Partnership for Peace program. Although NATO has not extended a coveted Membership Action Plan, the antechamber for joining, full integration is on the horizon.

"Talking about the Membership Action Plan, as a sovereign country we think that there is no better solution for our national sovereignty and our territorial integrity as the model of collective security. NATO integration is very important for Ukraine and this policy is not directed against anyone. However, our goal is to provide solid security for Ukraine, and it is natural that we count on the support of all our partners, including the US."

More work is to be done for the government to create more business-friendly legislation, nurture the development of capital markets, and tackle corruption – a hangover from the Soviet system. "One and a half years ago, six draft laws were issued on the fight against corruption. I addressed public organizations with an appeal to launch an effective national campaign against corruption. I am confident that we will do it. We are talking about these issues and we know our challenge." ■

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UKRAINE

US-UKRAINE BILATERAL RELATIONS

As strategic partners, the US and Ukraine have accelerated their relationship over the years as the two nations strive to closely cooperate on consolidating democracy and the rule of law, based on a mutual commitment to economic growth.

In March 2006, Congress extended permanent trade relations with Ukraine by repealing 32-year-old trade sanctions under the Jackson-Vanik amendment – a major step in accelerating commercial ties. Since Ukraine joined the World Trade Organization in May, the US looks forward to implementing a bilateral Trade and Investment Framework Agreement with Ukraine soon.

Early this spring, US Assistant Secretary of State Daniel Fried and First Deputy Minister of Foreign Affairs Volodymyr Khandogiy signed a landmark "Road Map" to deepen future bilateral priorities in security, market liberalization, and energy efficiency. The agreement outlined measures to streamline customs procedures, clarify property rights, and improve tax administration.

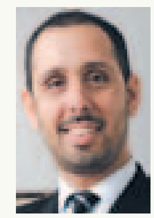
"You just can't ignore the fact that Ukraine remains an untapped market of 46 million in Europe," says Myron Wasylyk, Senior Vice President at PBN Company, an international consulting firm. "US investors are already in Russia, but they are looking at Ukraine."

For American companies, the compasses are already pointing eastward. In 2007, bilateral trade turnover topped $2.5 billion – a 50% increase since 2004.

Mr. Wasylyk advises companies to take advantage of opportunities presently unfolding. "It is much easier now to come into the market. Ukraine is an export-oriented market. Wages are competitive, the workforce is educated, people understand technology and science. Now is the time to invest."

'WE HAVE TRAVELED VERY FAR DOWN A POSITIVE ROAD OF REFORM'

Uniting leading companies from over 50 nations across the globe, the Chamber says the time to invest is now



Jorge Zukoski
President, the Chamber

"A lot of things need to be done: more reforms, political stability, corruption needs to be addressed. But at the end of the day, there are no other markets left in the world that are as dynamic and underdeveloped as Ukraine," states Jorge Zukoski, president of the American Chamber of Commerce (the Chamber) in Ukraine.

Mr. Zukoski says that the Chamber, as the first stop for many foreign investors moving into the country, has witnessed "a massive interest in Ukraine." And despite remaining obstacles, the country has made great strides in reforming its business environment. He says the time is ripe for investors.

"A lot of our members are solidifying their market position. The reason for this is that they understand the competitors are coming soon because everybody has started to realize where Ukraine is and that there are incredible opportunities here," says Mr. Zukoski.

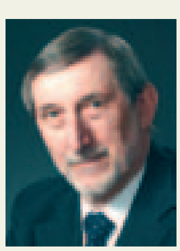
He admits that there are challenges ahead, saying that Ukraine still lacks the sufficient legislative and regulatory base to facilitate large-scale investment. Drawing on the expertise of its membership, mostly large multinationals, the Chamber is currently working on a new tax code, and lobbying for a framework that will allow a more mature market. Previously, it was instrumental in the introduction of a new land code, civil code and mortgage law and in Ukraine's World Trade Organization accession.

"As business people we like to see things move fast and to see things done yesterday. So sometimes we have to stop and ask: "Where were we and where are we today?" And when we compare, we have traveled very far down a positive road of reform," concludes the president.

DEEP WATER DRILLING EXPERTS FIRST TO EXPLORE UKRAINE'S BLACK SEA SHELF

With decades of proven offshore drilling experience in five African countries, US company Vanco Energy last year won the right to explore the potentially lucrative Prykerchenska area, setting a precedent for the company and the country

In October 2007, a subsidiary of Houston-based Vanco Energy Co. signed a landmark 30-year product sharing agreement (PSA) to explore offshore hydrocarbon resources in Ukraine's Black Sea. The move not only raised Ukraine's profile as an untapped source for oil and gas in Europe, but signaled the first deal of its kind.



Jim Bown
President of Vanco Prykerchenska Ltd.

The Black Sea area remains one of the last offshore hydrocarbon exploration frontiers in the world. With decades of proven offshore drilling experience in five African countries, Vanco beat out multinationals including Shell and ExxonMobil. "The Black Sea was never developed because of the lack of deepwater technology," recalls Jim Bown, President of Vanco Prykerchenska Ltd, operator of PSA. "Gene Van Dyke, owner of Vanco, spotted the opportunity, bought the seismic data and then brought Vanco here."

As a major importer of Russian oil and natural gas, Ukraine remains vulnerable to Moscow's tightening energy policies. To this end, President Viktor Yushchenko affirmed that Vanco's entry into Ukraine created the basis of a future national energy strategy and signaled a new phase for attracting foreign partners.

More than 2 billion barrels of oil could be discovered during Vanco's exploration activities, set to begin this year. If the independent company strikes hydrocarbons, it will launch its commercial development phase which could cost more than $15 billion. "Financing will not be a problem," says Dr. Bown. "Financiers round the world will be queuing up, waiting to invest in our project. What we have to do is prove that the hydrocarbons are there and can be produced."

Exploration projects, however, have faced their fair share of difficulties since Ukraine announced plans to initiate tenders to foreign companies in 2005. This spring, the government of Prime Minister Yulia Tymoshenko objected to Vanco's cooperation with its investment partners, revoking its license. After numerous attempts to meet with the government fell on deaf ears, Vanco was forced to turn to international arbitration, arguing that the government neglected to comply with its obligations under the PSA.

But Dr. Bown remains convinced that Vanco will open the first window of opportunity for foreign investors in Ukraine's deep water energy sector. "What is going on with us at the moment is temporary. Eventually, we will sit down with the government, solve all the problems that they see, and get back on track."

Given Ukraine's significant offshore potential, Dr. Bown remains bullish on future energy prospects. "The project is good for the country," he concludes. "It can move Ukraine substantially toward energy independence, if we are allowed to do it and do it properly. Ukraine's great potential remains undiminished." ■

EXPLORATION

-Vanco plans to explore the Prykerchenska Block, an offshore field south of the Crimean Peninsula in the Ukrainian Black Sea.

-Total area of the block is 5,000 square miles.

-Sea depth is up to 7,200 feet.

-From 2008-11, Vanco will launch its exploration phase beginning with initial investments of $200 million to conduct 1,158 square miles of 3D seismic surveys and drill two deepwater wells.

-From 2011-13, investments of $170 million will finance 386 square miles of seismic surveys and drill two further wells.

-From 2014-15, $150 million will finance the drilling of two more deepwater wells.

-Phase II: If Vanco strikes hydrocarbon resources, the project will move into the commercial production, development, and transportation phase.

-Projected total investments throughout the life of the project are likely to exceed $15 billion.

UKRAINE

STEEL PRODUCER BENEFITS FROM CONSTRUCTION BOOM

ArcelorMittal Kryviy Rih is a standout in the thriving steel production industry of Ukraine's industrial center

Nearly 130 years ago, the industrial age dawned in Kryviy Rih, and a tradition of metallurgy was born. But as the Ukrainian steel industry collapsed along with the Soviet Union during the turbulent 1990s, production decreased and state investment dried up in this city of 700,000.

But ArcelorMittal saw immense potential in the steelworks. In October 2005, the world's largest steel producer purchased 93% of the metallurgical complex in Kryviy Rih for a record $4.8 billion. The privatization marked Ukraine's first transparent auction and generated more revenue for government coffers than any other sell-off in the country's history.

Ukraine's world-class metallurgical institutes and abundant iron ore reserves – coupled with the know-how of a strategic foreign investor – has helped make ArcelorMittal Kryviy Rih the largest integrated steel plant in a country that ranks as the eighth top steelmaker on the planet.

ArcelorMittal brought its strong global financial position to make massive investments in Ukraine. Through a process of extensive consultation, it initiated a cultural change to boost productivity, efficiency – as well as environmental and safety practices. "We faced the challenge of winning the hearts of people at the plant as the new owner came," says ArcelorMittal Kryviy Rih CEO Jean Jouet. "Over time, apprehension changed to trust and openness, and we treasure our partnership with the workers and the unions."

Jean Jouet
CEO, ArcelorMittal Kryviy Rih

Bearing responsibility as the largest foreign investor in the country, ArcelorMittal realized its special role in contributing to the development of Ukraine. "We as a business are not just spectators," notes Mr. Jouet. "We also act by supporting internal changes in our company, as well as at the national level."

Proximity to high-growth emerging markets, coupled with access to rail and sea transport, has contributed to ArcelorMittal's unfolding success in Ukraine. Specializing in the manufacture of reinforcing steel bars and wire rods, 80% of ArcelorMittal Kryviy Rih's steel output is now exported to North Africa, the Middle East, Europe and beyond.

Investments in human resources and equipment upgrades helped expand not only regional market share, but also production levels. In 2007, the company churned out 8.1 million metric tons of steel, an increase of 7.1% from the previous year. Since the 2005 acquisition, the company has significantly boosted output in rolled steel, coke production and agglomerated iron ore.

Analysts expect a further strong steel market for this year, thanks to a sustained boom in the construction sector worldwide. Despite the recent surge in energy prices, Ukraine's steel industry is expected to remain profitable for ArcelorMittal Kryviy Rih. Last year, revenues climbed to $3.72 billion – 70% higher than in 2005 – and the company had profits of $751.7 million in 2007.

Looking to the future, Mr. Jouet outlines a $3 billion investment plan for technology upgrades by 2012 to diversify products, increase production and improve environmental performance. "In 2011 we expect a new sinter plant of 10 million ton capacity to be finished and start production. We are moving ahead with the construction of new converter shops, and new continuous casting machines."

While the plant currently produces long products such as rebar, the investment strategy will catapult ArcelorMittal Kryviy Rih into the flat product market. The company also aims to raise liquid steel output from 8 to 12 million tons annually. To tame soaring energy costs, ArcelorMittal plans to raise the bar on efficiency standards and acquire coal mines in Ukraine once the privatization process takes off.

"There are great market opportunities in Ukraine and in the region," he concludes. "Ukraine is a big country, with huge infrastructure that needs improvement. Domestic steel consumption is only a fraction of that in Western countries and it is bound to rise. We see the next 10 to 20 years as a tremendous opportunity for growth of the local steel business and this holds true for many other sectors."

ECONOMIC REVIVAL LED BY CONSTRUCTION INDUSTRY

From insfrastructure to hotels to residential buildings, Ukraine's construction sector has a full workload

On the horizon of Kiev, cranes line the horizon amongst the glittering gold-domed cathedrals. Architects, construction firms and real estate developers are drawing on a new canvas of Ukraine, but with brick, mortar and steel. Outside the capital, residential and retail buildings are blossoming around Ukraine's largest urban centers.

The construction and real estate development sector is now a vital part of Ukraine's ongoing economic revival. Since 2003, construction work on new buildings, roads and other infrastructure projects increased by at least 9.9% annually. According to Minister of Regional Development and Construction Vasyl Kuybida, construction works will grow 7% by year's end, depending on investment inflows.

Yet the market continues to be grossly undersupplied. Sky-high demand for retail, office, and warehouse space has drastically increased the price of rent. In Kiev, the average cost of one square foot has ballooned to $234. The average annual price growth rate in the prestigious Pechersky District of the capital since 2004 has registered 48.1%.

The Kiev city government has unveiled a plan to renovate industrial areas on the capital's outskirts, while offering fresh opportunities for international investors in commercial and residential buildings, offices, and hotels.

After Ukraine triumphantly won the bid to co-host the 2012 UEFA European Football Championship, government officials announced that local investors were ready to invest up to $7 billion for construction projects in airports, roads, hotels and other infrastructure in Lviv, Dnipropetrovsk, Odessa, and Donetsk.

Retail developers are banking upon immense opportunities. According to the State Statistics Committee, total retail sales jumped to nearly $36.9 billion in 2007, a year-on-year growth of 30%. On the back of healthy economic growth fueled by consumption, per capita disposable incomes grew 23% in 2007, and have continued to climb throughout this year.

INCREASED PER CAPITA DISPOSABLE INCOME HAS CREATED A BOOM IN THE CONSTRUCTION INDUSTRY

The global credit crunch has created new challenges for Ukrainian real estate development and construction companies. Efforts by the National Bank of Ukraine to fight inflation have reduced the availability of credit for smaller construction companies to carry out development projects. Costs for building materials have been ratcheted, hurting bottom lines.

Despite the difficulties, construction organizations carried out $5.7 billion in contracted work in the first half of 2008 – only a small decrease from the double-digit growth witnessed in the same period corresponding with last year.

A changing skyline: Contracters have already completed $5.7 billion in construction projects in the first half of 2008, with more on the horizon

Compared to the saturated markets of Central and western Europe, Ukraine offers vast opportunities. As demand for quality residential and office space outstrips current supply, the sector remains effervescent. Ukraine guarantees unparalleled returns for investors, who channeled $500 million into the commercial real estate market alone last year.

Recently, the emergence of real estate funds and other structured investment instruments have allowed foreign investors to quickly adapt to the nuances of the market. To help raise capital, leading Ukrainian development companies have launched initial public offerings abroad.

Foreign entrants have cemented cooperation with local market leaders, forming a symbiosis and spawning new relationships. While international companies bring capital to Ukraine, domestic champions help to navigate through Ukraine's often complex legal framework. As foreign investors take advantage of lucrative opportunities that unfold, Ukrainian companies continue to reshape the skyline of their cities, ever-upward. ■

STOLYTSYA CREATES A COMPLETE RESIDENTIAL EXPERIENCE

The integrated construction and finance company has changed Ukraine's perception of urban planning

In the 1980s, the Obolon district of Kiev was a typical Soviet microdistrict: drab apartment blocks with few trees. But in 1995, architect Valentin Isak had a vision: to transform the centrally located tenements into a prestigious, modern residential community. "We raised it to a very high level and now people want to live there," Mr. Isak recalls. "We do not just build residential houses; rather, we create integrated developments with schools, cafés, restaurants, shops, fitness-centers and everything people need for a comfortable life. We prefer to create residential districts."

As President of construction firm Stolytsya, Mr. Isak and his staff of 3,000 quality-driven professionals have built over 10 million square feet of apartments in the past decade. The company unites 32 different organizations to deliver the next generation of quality living spaces on Ukrainian soil.

"At first we were performing project planning, but later I understood that if I wanted to realize my vision, we would have to expand our construction portfolio," says Mr. Isak. These prospects were solidified in November 2003, when Stolytsya was reorganized as the result of merging two Kiev construction firms that specialize in residential buildings. As a result of the merger, Stolytsya quickly became one of the largest construction companies in Ukraine as well as a market leader in terms of revenues and homes delivered.

Valentin Isak
President, Stolytsya Corporation

Stolytsya is currently building a 33-acre trade and entertainment complex in Kiev, featuring full-scale amenities, including an ice rink and sports attractions. Additionally, the firm is putting the finishing touches on a 150,000 square feet business center in the Obolon district, a move that hopes to attract a host of new commercial opportunities outside of Kiev's congested center.

Stolytsya has pursued profitable opportunities that exist outside of the capital, in cities such as Chernihiv, Vinnytsia, and Poltava. For this reason, the company is active in seven other cities across Ukraine. In September, the company launched a 133-acre "city within a city" in the southern city of Mykolaiv – a concept unprecedented for this region.

By 2010, over 530 families will call the building complex home, firmly establishing the development as one of the most important projects in Mykolaiv in recent years. In this regard, Mr. Isak is aware of the vital social role it plays in the domestic economy, and the harmonization of real estate, economic development, and creativity.

"Architecture is an art. It is not just my job, but also my hobby. That is why my motivation is in my desire to create, to make something new, wonderful and useful. Everything is still ahead for the company's prospects," Mr. Isak states.

Over time, Stolytsya has evolved into a vertically integrated company that is active from the project planning stage to sales to working with investment partners. The company's insurance wing, launched in 2003, provides added protection for its clients. Registered in 2004, Stolytsya's commercial bank offers a full spectrum of financial operations for clients and investors. Additionally, Stolytsya established an asset management company and corporate investment trust in 2006.

Stolytsya is open for international cooperation for its full range of commercial activities. It has set up a joint venture with a Slovenian company, signed a contract for a cement plant construction with Mexican partners and currently works with an American financial group. "Our cooperation with foreign companies obtains all the necessary units for providing the whole work cycle from project planning of the house to commissioning to the investor," adds the company's president.

While Stolytsya works in banking and finance, insurance financial groups and manufacturing enterprises, it has carved out a niche in the sphere of Ukrainian real estate development. "Our company performs complex development and there are very few companies operating in the same sphere," says Mr. Isak. "Most construction organizations construct separate facilities, while we build whole districts and infrastructure. In this regard, we are unique in the market."

UKRAINE

UKOGROUP LEADS CONSTRUCTION MARKET WITH EXPERTISE

The construction giant has big plans for the future, from business and retail space to independent residential communities

Anatoliy Voytsekhovskyi is thinking big for his project development and commercial construction company Ukogroup. "In three years time, we will be carrying out 100 projects, investing $400-500 million or more."

A leader in project development and commercial construction, Ukogroup has focused on the creation of retail and office centers in Kiev and on the Crimean peninsula. After founding the construction firm Ukogroup in 1998, Mr. Voytsekhovskyi has overseen the growth of his company into a holding group of 36 member enterprises fulfilling specific niches and demands for the Ukrainian real estate and construction market.

Today, Ukogroup operates in land allocation, construction, "turnkey" installation, development, and management. The company draws its base of expertise in land-fitting, documentary support for land allocations, and working with legal bodies. The group of companies also works with entities to attract credit and investment.

Since its establishment, Ukogroup has occupied a leading position in Ukraine's construction market. Employing a staff of over 3,000 professionals, the past decade of intensive work has allowed Ukogroup to become one of Ukraine's top companies in the rapidly growing construction field.

"We've occupied the leading position in the construction market and we are going to expand our business throughout Ukraine," says Mr. Voytsekhovskyi. "We employ people governed by their ideas, who want to leave something great and meaningful behind them in the construction sector. Every day, we are in a fair competitive battle through professionalism, experience, working ability and knowledge of local market mechanisms."

Anatoliy Voytsekhovskyi
General Director

The latest signature of Ukogroup's portfolio of 27 projects is the Halytskyi residential and office complex, located in the central part of the capital. Spanning over 55,000 square feet, the development is characterized as "business-class housing," emphasizing high-quality and comfort.

Mega-City is Ukogroup's development of 668,000 square feet of residential and commercial space for offices, living, shopping and entertainment facilities – strategically located in an area of Kiev with high potential for business activity.

Another project underway is an office-apartment-hotel complex between Kiev's center and Boryspil International Airport. Through 2012, Ukogroup will erect a high-rise complex of several buildings covering 2.9 acres with floor space of 958,000 square feet. "It is one of the first projects for which we would like to invite investors to join. We are already performing enablement works on the site," says the General Director.

"Our team consists of project developers and builders who have built large industrial and residential facilities for years. Our managerial personnel consists of highly qualified specialists from the whole of Ukraine."

Ukogroup plans to reach into other regions of Ukraine and eventually the international market. "We are financing part of the amount for our initiatives, but we invite foreign investors to provide financial support for our projects. We have interesting projects that allow us to develop the city and allow our European partners to make some money, too. Presently, we are holding consultations with companies and investment groups from western Europe, and we are ready to meet potential American and European colleagues who would like to start their businesses in Ukraine."

Since consolidating its efforts in the commercial market, Ukogroup plans to construct manufacturing complexes and technoparks to boost investment prospects. "We need a total of $2 billion for all of our plans, and at the same time we are working out some new projects," says Mr. Voytsekhovskyi. "We can realize future projects because we work in construction works, not only in development."

"We will not be performing any other business but construction and developing activity, and we will do our best to achieve high results and become a company of global reputation," Mr. Voytsekhovskyi concludes. "We've achieved rather high results and we feel proud of our success."

BURGEONING RETAIL MARKET ON THE RISE

Opportunities abound in retail real estate development

"We have only exploited 10 percent of Ukraine's potential," says Alexander Feldman, Honorary President of AVEC & Co (Avec), one of the largest private enterprises of Kharkov lying in eastern Ukraine. Entrepreneur-turned-philanthropist Feldman is speaking of the unimaginable potential that Ukraine's markets can offer to foreign investors. "People who believe in Ukraine and come first will have the largest possibilities and the greatest benefits." According to Alexei Chernyshov, member of Avec's supervisory board, "Ukraine has made the choice to be integrated into Europe, supported by Europe itself. It is in the center of eastern Europe and everybody sees the forecast for the political and economic impact."

Alexander Feldman
Honorary President of Avec

Nevertheless, Ukraine is still struggling with market deficiencies, which, according to Mr. Feldman, are artificial and temporary. "Ukraine's economy and democracy are very young. Regulations may not as yet measure up to international standards. We want to improve laws, to adapt them better and make them clearer for the investor. We understand that without an open and transparent economy there can be no investment in any country." People sometimes forget that Ukraine is just over 15 years old and still struggling with the legacy left behind by the Soviet Union.

An eagle-eyed entrepreneur who established Kharkov's very first private commercial enterprise back in 1987 is carving out a niche in Ukraine's real estate market. While many local developers rushed into residential construction, Avec is one step ahead of the competition. With rental yields reaching as high as $14 per square foot in Kiev, Ukraine's commercial real estate sector is one of the most lucrative areas attracting foreign capital. Avec has established a strong grip on Kharkov's commercial real estate and is expanding nationally. The company is the proud owner of Barabashovo Mall, currently Europe's largest retail and wholesale park. Mr. Chernyshov explains, "Kiev is an outstanding place for commercial real estate development but neighboring towns are rapidly expanding and there is so much potential that it will take another decade to develop. We are just at the starting point compared with our European neighbors."

Avec's Ave Plaza **will be a retail haven in Kharkov – just one of Avec's plans to bring shopping mall culture to Ukraine**

Given this unprecedented demand and its near-20 year experience with a number of successful projects in the commercial sector, Avec decided to launch a new 'neighborhood shopping center' business plan that will see the construction of 11 new, smaller-scale malls this year. Avec's strategy is to establish a nationwide presence in all major cities of Ukraine. However, a weakness of the market that developers in the country have to contend with is an immature financial sector. "The main problem is the lack of civilized debt financing, this is where international partners can assist us," says Mr. Chernyshov. Given Ukraine's bureaucratic nature, where the average project requires over 200 signatures, this proves that many foreign investors find it almost impossible to function independently. The company has already established a partnership with a New York-based investor, giving the joint venture a unique opportunity to enter one of Ukraine's most profitable sectors. "The bottom line is that there is big potential. We have good relations with the local retailers and bankers. The potential of Ukraine is more than Ukrainians can absorb. We have already started several joint ventures with foreign companies and we think this is the only way to bring more competence and experience. This can make the country grow."

SKYSCRAPERS ARE THE NEXT STEP

Construction firm Osnova-Solsif aims high with new projects

Demand for tall buildings over 650 feet requires advanced technology and expertise. In October 1994, the construction firm Osnova-Solsif was born from a Ukrainian construction firm and French foundation along with underground engineering specialists Soletanche Bachy Group to meet these challenges. Offering turnkey solutions to clients, Osnova-Solsif implements some of the most complex construction projects in industrial construction, civil engineering, and residential buildings.

Yuriy Karpenko
General Director, Osnova-Solsif

Having mastered underground construction and hydrotechnical engineering methods, Osnova-Solsif is a market leader in high rise construction, actively engaged in the design foundations of all types of buildings, structures and equipment. The company was the first in Ukraine to apply advanced pile-driving technology to make deep foundation work more accessible – a necessary element to construct skyscrapers.

Based on its solid record of cooperation with foreign companies, Osnova-Solsif is also seeking to expand commercial ties abroad. "We are ready to cooperate with companies that construct tall buildings and offer scientific solutions," says Yuriy Karpenko, the firm's General Director. "We are one of the countries with the biggest volume of steel production, but we are lagging behind a lot in its recycling. We are very interested in quick connections for armatures and other solutions."

To achieve the leading position in new areas and strengthen its pre-eminent market position, the joint venture plans to expand its horizons. "We are looking to start business in road construction as it is one of the big undeveloped sectors in Ukraine, one attractive for foreign businesses," says Mr. Karpenko. "Ultimately, we will sustain the same tempo of commercial real estate construction, but ports, airports and roads need to be developed."

ACCOMMODATING KIEV'S INFLUX OF INVESTORS

REDI Capital targets the new companies setting up shop in the Ukrainian capital, providing executive office space

The face of Ukraine's capital is transforming daily with a flurry of construction projects. Having the foresight early in the game, Kazakhstan's REDI Capital entered the Ukrainian real estate market in 2005, expanding on an already well-established portfolio of luxury multi-function complexes.

"We decided to start operating like an investment company in Ukraine," says Daulet Nurzhanov, Chairman of the Board of Directors. "Our strategy is outlined for the next ten years, a good perspective for companies working in the region. We focus on sustainable profitability, not speculation." Indeed, REDI Capital maintains its reputation by not taking on projects below an IRR of 30% and has introduced international standards in risk and project management and auditing (by Ernst & Young).

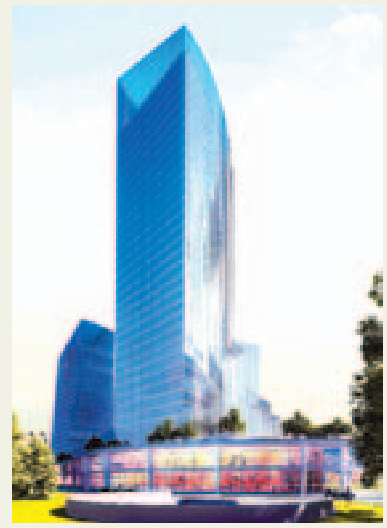
Daulet Nurzhanov
Chairman

Today, REDI Capital serves as a one-stop shop, developing each project from the ground-up – everything from land purchase to sales. Its projects in Ukraine represent only part of the company's 10.7 million square feet of real estate investments in Kazakhstan, Russia and Vietnam. Mr. Nurzhanov views his company's portfolio as "rentable art," reflecting a driving motive for creativity and building quality.

Responding to the tight demand for professional office space in Kiev, REDI Capital constructed the 1.5 million-square foot Continent multifuncional complex on the landmark Kikvidze Street that includes offices, commercial space and restaurants. Its latest showcase of style, the Alpine residential complex, features accoutrements such as a Japanese-style garden.

The company is also introducing a 300,000-square foot English-style business park called the "International Community Center" – offices and showrooms – near Boryspil International Airport.

For these projects, REDI Capital enlisted global consultancy firm Knight Frank, DTZ, Frankfurt-based John Seifert Architects, and UK architects Aukett Fitzroy Robinson to bring an iconic, aesthetic touch to its Ukrainian properties.



The Continent multifunctional complex

REDI Capital is positioning itself as an investment vehicle through its Real Estate Rent Fund, an ideal entry tool for foreign investors looking to enter Ukraine's burgeoning realty market. Set to launch next year, the fund will allow investors to enter the nation's lucrative real estate sector with the help of a trusted local partner to receive stable returns on their investments. "The regional market is difficult from the judicial prospective and also in terms of objects financing and sales," explains Mr. Nurzhanov. "We established the Rent Fund because it provides a more stable profitability rate and it is the most secure one nowadays."

Striving to speak the language of international investment, REDI Capital is also ready to work with US companies that can attract capital in terms of value. "We have many projects which can be initiated and we are still looking for investors," notes Mr. Nurzhanov. "The CIS market is not new to us and by now we can be considered as a local partner ourselves. We feel like locals here," he adds.

"We are ready for cooperation not only in Ukraine but in the whole CIS," says Mr. Nurzhanov. "We analyze each project very carefully, which is an advantage for our partners. I believe we can reach a great symbiosis." ■

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CONSTRUCTION ON PAR WITH EUROPEAN STANDARDS

And expectations too, says head of premier firm

In Ukraine, it takes about five years for a new shopping mall to pay itself off. The global average, according to Oleg Zhyvitsky, General Director of Ukrainian construction firm Solstroy, is between seven and nine years, evidence, he points out, of the high return on investment the country now offers. And in Ukraine today, they are building some pretty large shopping centers.

Oleg Zhyvitsky
General Director of Solstroy

The heavyweight in super malls, Canada's West Edmonton Mall, rings in at over 55,000 square feet, spanning the equivalent of 48 city blocks. In Ukraine, Mr. Zhyvitsky states, the average size of newly projected commercial centers is between 2-3 million square feet. The general contractor for many of these new behemoths in leisure and retail is Solstroy, which is planning to boost this segment of its business by 30% per year.

Foreign partners are welcome. Mr. Zhyvitsky says that the one thing slowing down the economy are the remnants of bureaucratic processes that have yet to be streamlined and eliminated by the government. The Ukrainian construction sector boasts skilled developers and a flourishing building materials industry, both of which are on par with international standards. Until the red tape is eliminated then, comments Mr. Zhyvitsky, a local partner such as Solstroy is a wise choice for foreign companies wanting to take advantage of the country's strong growth.

СОЛСТРОЙ

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A PROVEN TRACK RECORD OF SUCCESS

Targeting a growing middle class, this real estate operator provides comprehensive and affordable housing solutions

Dneprovskiy Krug, one of Ukraine's biggest real estate developers, knows what its customers need. The Kiev-based company is involved in every step of the market, from construction through to mortgage lending, so buyers can be sure they're getting a quality product at a fair price.

Sergey Rosstalniy
Chairman of Dneprovskiy's Board

Dneprovskiy has targeted a market, middle-class housing, that is set to grow as Ukraine's economy expands and creates more jobs and new wealth. Many of the country's people still live in substandard, Soviet-era housing, and they're getting ready to trade up.

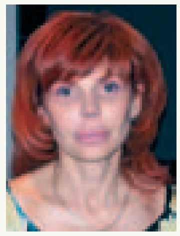
"We provide economy-class buildings," said Sergey Rosstalniy, Chairman of Dneprovskiy's board. "About 80% of our people are not well-off. We think this will change. That is why we naturally provide housing and real estate that these people want and can pay for even with the help of a mortgage."

The company has a proven track record of successful development. In 2006 and 2007, Dneprovskiy put up a total of about 860,000 square feet of housing and about 54,000 square feet of commercial space, including shops and offices. This year the developer expects to complete 322,000 square feet of housing, and its staff is in the last stages of getting new plots in and around Kiev for more construction.

"As a company operating in this market, we are ready to sit down at the negotiating table and explain the rules of the game of the Ukrainian market, provide our professional skills and come to a mutually beneficial conclusion in terms of financing specific stages of construction," says Mr. Rosstalniy.

A NEW UKRAINIAN QUALITY

With its strategy,"A New Ukrainian Quality", Atem offers various goods already well-known in the Ukrainian market.



Tamila Kuzmenko
Director, Atem

In its 10 years of operation, the enterprise has become one of the strongest manufacturers of two-component plastic caps for bottles in CIS countries, producing three billion caps a year. In 2001, the company expanded its assortment of plastic products to plastic pre-forms, and a year ago it started producing plastic cups as well.

Atem's packaging and brand-name materials are produced for such companies as Coca-Cola, Pepsi and Obolon.

In 2003, Atem entered the construction materials market of ceramic tile production, with a capacity of 65,600ft^2 of tile per year.

The tile producer is one of the most modern in Europe and has been named Best Ukrainian Ceramic Tile Manufacturer by the Association of Producers, Exporters & Importers of Ceramic Products.

Tamila Kuzmenko, Atem's Director, initiates dynamic development and entrepreneurship of the Ukrainian company. "We try to diversify investments to develop Atem's high-quality products, keep a wonderful reputation and sustain growth."

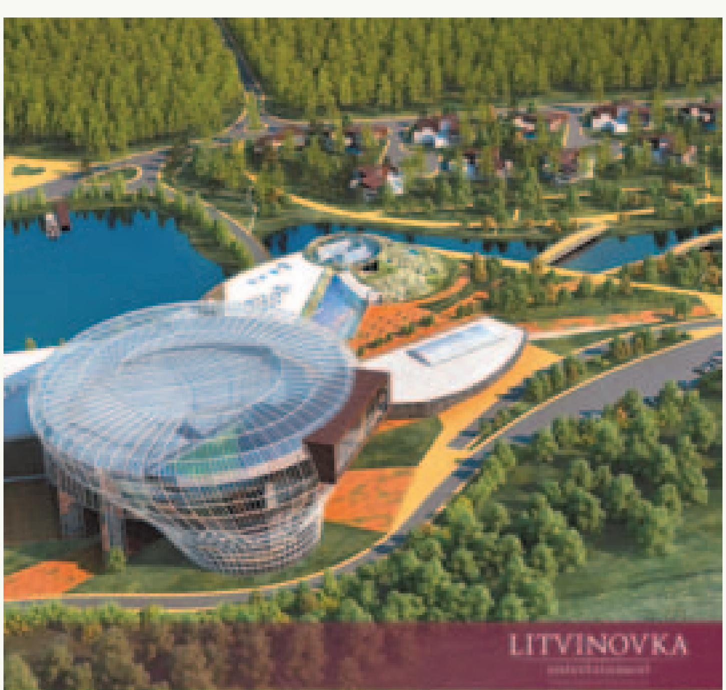
MODERN PROJECTS SEEK INVESTORS

Euroholding Invest is a Ukrainian company that designs and implements substantial real estate projects. Its main project is LITVINOVKA entertainment, the first fully integrated resort in Ukraine with sport, business and entertainment facilities. Another important project is a multi-storey office center in the heart of Kiev, providing office space for leading national and international companies.

"The government devotes special attention to foreign investments, protecting them with a number of laws," emphasizes Euroholding Invest owner Vadym Bukhkalov.

EURO HOLDING INVEST

www.euroholding.com.ua



FROM SUPERMARKETS TO A SUPER NATIONWIDE BRAND

Furshet expands, revolutionizes Ukraine's retail market

Igor Balenko
Supervisory Board Chairman, Furshet

When the first Furshet supermarket opened its doors a decade ago in Kiev's Podil district, it featured a modest shopping area of 4,000 square feet. Today, the chain has mushroomed into a network of 100 supermarkets across the country offering a wide selection of food products and housewares – 85% of which are Ukrainian made.

Furshet quickly won customer appreciation to become Ukraine's second largest supermarket group. Without stepping foot in a store, customers can place orders online and Furshet will deliver products to their door. Taking a cue from American supermarkets, Furshet now sells classic items popular among Ukrainian customers under its own brand labels at competitive prices.

THE FURSHET BRAND HAS EXPANDED FROM SUPERMARKETS TO INCLUDE DRUGSTORES, CHILDREN'S CLOTHING SHOPS AND THREE-STAR HOTELS

In 2007, French retail giant Auchan purchased 20% of Furshet through a joint venture deal in a move to enter the lucrative Ukrainian retail market by joining forces with a reliable local partner. "Auchan operates in hypermarkets and we do supermarkets," says Igor Balenko, Supervisory Board Chairman of Furshet. "A good combination of knowledge of the local market and global experience provides such a great opportunity for our two networks. We get to know the technology and opportunities they have gained with their global experience of expansion abroad."

In December, the European Bank for Reconstruction and Development earmarked a $90 million loan to help accelerate the regional expansion to over 100 stores across Ukraine and Moldova. "Furshet has its own objectives and we are certain to attract funds from abroad," says the company's chairman. "Currently we are leading a lot of negotiations with many proposals already received where we choose only the most interesting ones."

Furshet has also moved forward with a strategy to diversify its activities and enter niche markets. Today, its total shopping area equals 1.48 million square feet. The network's net sales for 2007 totaled $697 million, reflecting growth of 45% compared with the previous year. The company expects to reach over $1 billion in 2008, thus 46% growth. After establishing itself as a leader in supermarkets across Ukraine, Igor Balenko launched the Vita Lux network of drugstores and Baby Boom children's clothing outlets.

Igor Balenko, founder of Furshet is also tackling Ukraine's problem of affordable, quality hotels by introducing 7 Days, a nationwide chain of three-star hotels. So far, two hotels have been opened in the western Ukrainian tourist meccas of Kamyanets-Podilskyi and Kiev. Catering to business travelers and holidaymakers looking to find an alternative to pricey accommodations, the venture is developing over 1,950 rooms in the Crimean Peninsula, Kiev, Lviv, and other cities. Special attention will be paid to Kiev and Lviv. Plans include the construction of four additional hotels to accommodate the arrival of millions of soccer fans for the 2012 UEFA European Championship.

Mr. Balenko affirms that Furshet's market expertise, local knowledge, retail network, and real estate development prospects signal immense opportunities for cooperation with international companies. "This direction gives an ideal opportunity to cooperate with foreign investors. We will be operating in commercial real estate, trade, office, and logistics space to fill this infrastructure deficit."

As supermarket culture develops nationwide, Mr. Balenko promises that there is plenty of room for continued growth in his industry and for his company. "Our slogan is 'earn, economize', so we are looking for all kinds of opportunities and technology to achieve a level of profitability. Each person's purchasing power has gone up as well, so there is great potential in Ukraine because the retail business is expanding not only in quantity but also in quality."

BANKING SECTOR EMERGES FROM GROWING PAINS

Ukrainian banks see growth despite the current economic slump thanks to citizens' increased expendable income

With wallets full of more disposable income, Ukraine's budding consumer culture has stirred a demand for more credit and insurance services. Still underbanked by Western standards, Ukraine has attracted attention from international players.

Since 2004, market capitalization of the banking industry has quadrupled, while the value of foreign takeovers has surpassed $3 billion. European majors have purchased Ukrainian medium and small-tier banks – often several times over book value. As a result, foreign financial institutions now represent 30% of the banking market based on net assets – having tripled in over four years.

A rapid-fire series of consolidations began in 2005, when Austria's Raiffeisen Zentralbank Group shelled out a record $1 billion for Aval Bank, Ukraine's second largest. In the past year alone, Stockholm-based SEB, Bank of Cyprus, Greece's Piraeus Bank and Israel's Hapoalim continued the buying spree. Late in 2007, global investment giant Goldman Sachs bought an undisclosed stake in Dragon Capital, Ukraine's largest securities broker.

The National Bank of Ukraine has seen rapid development in recent years

By Western standards, the financial sector is still underdeveloped and there is plenty of appetite for acquisitions. Of the 178 banking institutions, the top 20 control 70% of market share. Foreign players are in prime positions to channel capital into smaller banks, strengthening their hold on the East European market. Buyouts of second-tier banks fit well with foreign strategies to create stronger nationwide networks.

"Consolidation of small banks will continue because not all of them are able to fulfill capital adequacy requirements and sustain pricing competition with major financial institutions," says Viktor Leonidov, Chairman of Kreditprombank. "Unity among medium banks will be mainly caused by a fight for clients and the decrease of operational profitability. I presume that large banks will follow the way of further growth and universal approach, while medium and small ones will either enlarge and join larger banks, or specialize in particular clients or operations."

Meanwhile, the European Bank for Reconstruction and Development remains the largest financial investor in Ukraine. As of July, it has earmarked $3.5 billion for the development of domestic capital markets and small and medium-sized private businesses with the help of local banks.

The entry of foreign capital has brought a new level of transparency to the banking industry as Ukrainian financial institutions embrace international accounting standards. Financial institutions are shifting strategies to meet the growing demands of consumers, creating structural changes in the economy and offering new products.

Consumers are starting to insure their personal property and purchase life insurance premiums. A 2004 law mandates that all drivers must have third-party motor liability, signaling future growth potential. Laws also enforce licensing requirements for insurance activities and set

RODOVID BANK'S GROWTH SPURT

According to Rodovid Bank CEO Denis Gorbunenko, Ukraine's banks are one of the main reasons that the country's economy has been thriving in recent years. "We finance industries that are creating the tremendous GDP growth in the sector." Rodovid Bank knows expansion. It's the growth leader in the market, skyrocketing from Ukraine's 98th-largest bank to its 18th in terms of assets. 2004 brought new management that aims to invest in the niche markets that other banks may overlook. Rodovid Bank offers total transparency, and recently appointed a new independent director to its board who is in charge of improving corporate governance. This transparency is combined with a highly professional, young and dynamic workforce that is a source of personal pride for Mr. Gorbunenko. "We take a different look at the market, and the team behind the bank is very important."

Denis Gorbunenko
CEO
Rodovid Bank

Nationally, the bank is off to a good start with local market domination. "Each region of Ukraine is specialized in something and contributes its part to the country's GDP," says Mr. Gorbunenko, "We are covering all these regions with our branches and services." Rodovid Bank has 150 branches in operation and plans to open 80 more during 2008.

Now Rodovid Bank is ready to compete with international institutions in Ukraine due to its flexibility and market outlook. Rodovid Bank has partner relations with US companies – around 15% of the bank's shareholders are US-based – and several US banks have participated in syndicated loans. "Foreign investors can track their progress in Ukraine. This is the kind of market that gives you the chance to see results instantly," enthuses Mr. Gorbunenko, "Ukraine is full of opportunities."

RODOVID BANK

www.rodovidbank.com

THE BEST IN CONSTRUCTION FINANCING

The motto "Success in Excellence" means Kreditprombank adopts a client-oriented strategy. Three years ago, the bank developed a European model of mortgaging to help customers navigate Ukraine's financial and legal framework. A construction financing fund offers mortgage solutions for residential construction projects. The bank is cooperating with international institutions to arrange financing for projects in SMEs, energy efficiency and exports. In July, the European Bank for Reconstruction and Development earmarked $70 million. In 2007, the bank's main growth indicators increased 2.7 times, signaling potential. "Corporate and retail investment business development provides powerful synergism to serve clients on a modern level," says Chairman V.D. Leonidov.

Viktor D. Leonidov
Chairman
Kreditprombank

DOMESTIC BANK WITH GLOBAL REACH

Bank Khreschatyk is the only Ukrainian bank with extensive experience working in international financial markets in issuing Eurobonds for municipal governments in Ukraine. It is attracting investors from the US and other developed nations, leading Chairman Dmytro Grydzhuk to call the banking sector of Ukraine "firm and stable, with strong professional participants." Grydzhuk's goal is to raise Khreschatyk's share in the market to 4% in all kinds of business activities this year. "The attraction of a strategic investor now can become very important for the future dynamic development of the bank."

BANK KHRESCHATYK
Trustworthy Bank

www.xcitybank.com.ua

minimum thresholds for insurance companies, boosting accountability and creating transparency.

While deposits in commercial banks climbed to $55 billion in 2007, the current global liquidity crisis and spiraling inflation have put pressure on Ukrainians who may be less inclined to funnel extra income into a savings account.

Government policies and financial institutions are working to navigate through the credit squeeze and increase confidence. "Ukrainian regulators have become more sophisticated," says Jorge Zukoski of the American Chamber of Commerce. "We have been working diligently with them about how the insurance and banking market should be regulated and providing expertise necessary to finish the job."

INSURANCE MARKET SET TO BOOM

Today a number of global companies, including American AIG Life and European industry leaders like Axa, Alliance, General and Uniqua, are moving into the Ukrainian insurance market, intent on cashing in on the initial take-off of a sector that currently has only a 3% penetration rate.

Oleg V. Spilka
Chairman of Supervisory Board

The potential of the market is vast. Spain's Agro Seguro has calculated the agricultural insurance market alone at $10 billion, of which only $70 to $100 million has been raised to date. Roughly 40% of this belongs to Ukraine-based Oranta, which experienced 70% overall growth last year, reflecting a 25% growth in the insurance sector as a whole.

Oleg Spilka, Chairman of Oranta's supervisory board, highlights another indicator of the market's potential. "The market is just in the initial stage," he affirms. "In motor liability, for example, only 20% to 25% of the vehicles in our country are insured. The potential here is not in the volume of the market so much as in the fact that you can obtain 11 million vehicle owners as customers at once."

As Ukraine's oldest insurance company (Oranta was founded as the state insurance company, Gosstrah, in 1921), Oranta has been instrumental in deepening the country's market in both client base and product range. Privatized in 2003, it quadrupled in size between 2004 and 2006. Today, Oranta boasts nearly 800 offices throughout Ukraine with 3,000 employees and 7,000 insurance agents. Its more than 50 products have netted the company a 12.5% share of the real market.

Mr. Spilka says Oranta is now in the process of adopting international standards in preparation for an IPO within the next three years. He adds, "At the same time, we are going to be developing services like medical clinics and our own service stations. Within the next three years, we will open 25 high-level private clinics throughout the country."

PZU UKRAINE INSURANCE GROUP

High corporate standards help shape the Ukrainian market

Growing at a rate of 20%, the Ukrainian insurance market is capturing the attention of foreign companies looking to expand eastward. After entering Ukraine 15 years ago from its native Poland, PZU Group soon created a nationwide sales network offering comprehensive insurance and financial services. As the region's largest and most profitable insurance company, PZU brought its corporate standards and expertise to Ukraine. Reorganization and injection of management know-how was followed by new services and dynamic asset growth. PZU's strategy is to maintain profitability and a regional market share of 18%. In June 2007, shareholders confirmed a $4.7 billion expansion strategy for Ukraine and Russia.

Maciej Szyszko
Vice President/CFO

"We have ambitions to be the key player during the inevitable process of consolidation," says Maciej Szyszko, Vice President of PZU Ukraine. "It means our customers will get the most advanced coverage at a reasonable price, effortlessly, everywhere in Ukraine."

MAKING GOOD BUSINESSES BETTER

Horizon Capital boosts mid-caps, reaps high rewards

Ukraine is a large, underdeveloped market with 46 million people and enormous growth upside. Horizon Capital, a U.S.-based private equity fund manager, has brought its knowledge and expertise to this market to help promising companies get the capital and the guidance they need to grow ahead of the competition.

Natalie A. Jaresko
Co-Managing Partner of Horizon Capital

"It's hands-on hard work with these companies," says Natalie Jaresko, Co-Managing Partner in Ukraine, highlighting Horizon's large local staff located in the country. "You need to understand the market and the risks. It's not something you can fly in and out of London and accomplish."

Horizon specializes in midcap companies in fast-growing sectors that can benefit from an investment of $10 million to $30 million. The fund then typically spends three to five years preparing the companies for resale, by establishing market leadership, improving profitability, getting their books in order and installing international accounting and governance standards that other international buyers insist on.

Horizon has a successful track record with companies that were "misdeveloped," – as Ms. Jaresko puts it – during the years of communist control over the country. A recent example is the sale of Shostka, a cheese maker with a well-known brand and a well developed distribution network in Ukraine, which sold for six times cash-on-cash. The buyer, Fromagerie Bel S.A. of France, purchased not only a high-quality manufacturer and market reputation, it was also able to use a top-notch retail network it can continue to build on, Ms. Jaresko says.

VENTURE CAPITAL IS BOOMING

The head of Euroventures explains his company's success

Where do you see venture capital in Ukraine?

We see ourselves on the frontier. On the one side is Russia; on the other all our other neighbors are Europeans. As Western companies keep acquiring, swallowing, and incorporating markets, naturally the next is going to be Ukraine.

Leslie Hawrylyshyn
Co-Managing Partner of Euroventures

How has Euroventures performed over the last decade?

Our first fund was 26 million in 1998, one of the 115 original regional funds of the EBRD. I believe we had the second or third best performing fund that EBRD has ever had on the CEE market, with a net IRR of 33% and three times money. We manage three funds worth a total of $160 million with similar return expectations. In 2009 we will be back on the market to raise our next fund. We are aiming at $200 million to $300 million.

What strategies have led to your successes?

We work backwards. We study acquisition patterns of Western companies expanding to Ukraine. Subsequently, we try to identify local companies that we believe can become acquisition targets within three or four years. Our companies generally grow at 40% to 45% per annum. When we achieve this, we get additional satisfaction because we are contributing to the country's economy.

What challenges have you faced?

Keeping up with the pace. There is tremendous growth all over the place. Our country is moving very quickly. If you start with a business plan, you know that by the time the plan is produced it is already outdated. We are only 15 years young, so there are going to be ups and downs, but there is still massive room for capital.

FINDING A NICHE AND DOMINATING AN INDUSTRY: NEMIROFF VODKA COMPANY

Nemiroff Vodka Company's wide variety of flavors have captured worldwide interest

By focusing on one type of spirit, Nemiroff Vodka Company has perfected its recipe for success in eastern Europe and beyond

"A glass for the vodka, for the beer a mug, and for the table, cheerful company" is a familiar toast resounded at Ukrainian festive gatherings. Tapping into traditions established 136 years ago, Nemiroff vodka is among the world's fastest-growing brands. Today, it is enjoyed by vodkaphiles in 55 countries around the globe.

As Ukraine's number one vodka exporter in the past eight years, Nemiroff Vodka Company has carved a niche in the international market by using its recipe of tradition, quality, and innovation. Nemiroff managed to craft an international brand amidst strong competition in the East European spirits market by focusing on one product – vodka.

The company's most recent chapter began in 1992 when Stepan Glus, director of a formerly state-run distillery, revitalized the vodka production business in Nemyriv, a town of 10,000 in central Ukraine. Despite the risks during an uncertain time in Ukraine's young economy, Nemiroff attracted Western capital and quickly organized distribution channels – the first step to future success.

Alexandr Glus
Chairman and CEO, Nemiroff Vodka

Traditionally, vodka – or *horilka* in Ukrainian – graces tables as a clear spirit. While Nemiroff produces a line of citrus-flavored and super-premium vodkas not unfamiliar to American tipplers, the birch bud, rye and honey-pepper flavors have won over eastern European palates.

"All the recipes of flavored vodka were concocted by my father," says Alexsandr Glus, CEO and Chairman of the Board. "Before that, nobody in the world had ever combined such incompatible ingredients as honey and hot chili pepper. Thanks to this unique combination we created a national drink, which has become Nemiroff's international calling card."

After taking over the family business, Mr. Glus transformed Nemiroff into an upstart in the fiercely competitive spirits market, garnering the recognition of connoisseurs worldwide. In 2006, company shareholders analyzed the state of the market and decided to streamline the whole company. "We gathered all the companies into one holding according to all norms and standards," explains Mr. Glus. "Further, we reorganized all the business processes, accounting, and management practices in a unified way so that the company corresponds to the current competitors and market trends."

Soon after entering the Russian market in 2003, UK beverage research firm Drinks International ranked Nemiroff the world's fastest-growing alcohol brand two years in a row.

After mastering the Ukrainian market, establishing a strong foothold in Russia, and launching sales in Poland, Mr. Glus has set his sights on capturing a chunk of the US drinks segment. "In 1999, we were among the first post-Soviet companies to enter the US market and hold a strong position there. While it is a great honor for all huge global alcohol producers to gain a foothold in America, a completely different promotion strategy should be applied than in East Europe."

Mr. Glus asserts that Nemiroff will continue to represent more than a regional vodka producer, but a flagship Ukrainian brand abroad and an ambassador for a country reconstructing its national image. "It is very important to mention that we can already observe changes in the international perception of Ukraine. These tendencies will have a positive impact on relationships with European business representatives."

For these reasons, the Nemiroff logo is displayed proudly at US and European sporting events, fashion shows, film and music festivals. Together with boxing champions Vitali and Wladimir Klitschko, the company sponsors a program to refurbish gyms across Ukraine to promote physical fitness.

Nemiroff's brand reputation is growing in tandem with its output, which reached 82 million liters of alcoholic beverages in 2007. "My main objective and the goal of all the shareholders is to make a number one brand," says Mr. Glus. "And I think that we will achieve it in the near future. Our brand has great potential."

ROYAL ENDORSEMENTS, GOVERNMENT CONTROL AND FAMILY VALUES HAVE ALL PLAYED A ROLE IN NEMIROFF'S HISTORY

Nemiroff Vodka's unique 136-year legacy sets it apart from other brands in the ultra-competitive spirits market

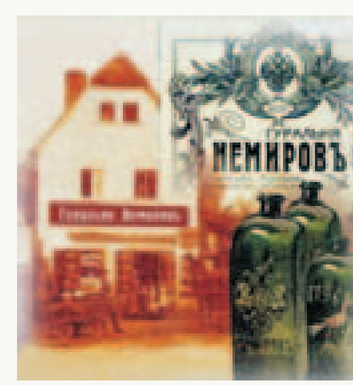
The history of Nemiroff stretches back to 1872 when nobleman Grigoriy Stroganov founded a *guralnya* – or "spirit factory" in the town of Nemyriv, located in the heart of Ukraine's historic Podillya region. Quickly becoming the town's main source of revenue, the distillery's fame grew throughout the Russian Empire. Thanks to the business efforts of Count Stroganov's daughter Princess Maria Shcherbatova, Nemiroff could be enjoyed in St. Petersburg, Moscow, and other European cities.

A decree of the USSR Council of People's Commissars put the plant under state control in 1920. Despite all odds, the distillery in Nemyriv maintained its renown as a high-quality vodka producer for years to come.

Once Ukraine drew its first breath of independence, distillery director Stepan Glus pursued his dream to revitalize the famed vodka producer. In 1992, Mr. Glus founded Nemiroff Vodka Company – the first private enterprise with foreign investment in the Ukrainian spirits industry. Riding out the waves of financial turmoil and risk of the 1990s, Mr. Glus thrived and helped create Ukraine's most successful vodka brand by batching new recipes and forming a distribution network in Ukraine's largest cities.

By 1997, the Nemiroff brand took form as the company gradually modernized equipment, expanded production capacity, launched new products, and captured new markets. The young company with strong historical roots soon became the largest alcohol producer in Ukraine.

Nemiroff preserves many of the unique distilling methods handed down over generations. Some of the items bought a century ago, such as riveted alcohol vats, are still in use today to keep true to high-quality. Four artesian wells in Nemyriv supply the water source for the production line, a key ingredient believed to be the formula for the brand's appeal.



Nemiroff Vodka's rich history dates back to 1872 and has endured through independence

"There are many brands in the market without any historical background, but the distillation traditions in our region are hundreds of years old and our employees are professionals in their third or fourth generation," notes Alexsandr Glus, CEO of Nemiroff.