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Exploring potentials

When the Soviet Union dissolved in 1991, Ukraine was the most important economy after Russia. Now it is one of the fastest-growing in Europe.

While the world stock market indices continue to fluctuate, the Ukrainian stock market has stood firm, with the country recording spectacular growth in recent years. Despite its past political difficulties, Ukraine is now on the road to both E.U. and NATO integration, and recently became the WTO's 152nd member, bringing 15 years of negotiations and reforms to fruition.

As an investment destination, Ukraine offers a market of some 47 million consumers—the largest in Eastern Europe. It has a highly competent work force, an excellent location, and a wealth of natural resources, including 30 million hectares of fertile land and an abundance of coal, natural gas, iron ore, manganese, kaolin clay, rock salt, nickel, and titanium. It is the eighth largest steel producer in the world.

Kraft Foods, Coca-Cola, Hewlett Packard and Cargill are just some of the 500 names doing well there. "Two thirds of the total foreign direct investment were brought in during the last



Victor Yushchenko
President

three years, and during this time, we have recorded between 7% and 8% growth," says President Victor Yushchenko, who was re-elected last year in the country's widely observed elections. Both he and Prime Minister Yulia Tymoshenko, who heads the coalition Orange government, are determined to see Ukraine become a global player, and are looking forward to the opportunities WTO membership will

bring to consumers and producers. "Joining WTO is not a step that brings quick results, but one that gives us a great chance," Yushchenko says. "Experts believe it might increase our GDP growth by 1.5%, our general welfare by 3%, and growth in some sectors—such as agriculture—by 44%."

Meanwhile, Ukraine's accession to the E.U.—mooted to become a reality in 2015—is viewed with great optimism by



SigmaBleyzer, in the heart of central Kyiv. www.sigmableyzer.com

the populace. Vice-Prime Minister for European Affairs and International Integration Hryhoriy Nemyria says, "We have political stability—that is a fact—and we have a government that is willing to go forward with the necessary market reforms, towards privatization, moving closer to the E.U. in terms of standards and the legal approximations or the rules of the game known to others. There is also the huge potential of our natural resources and prospects in particular sectors."

Ukraine's business community has been very proactive in bringing the investment climate closer in line with international standards, and lobbying the government to break down the barriers that still exist. The European Business Association, established in 1999, represents the interests of about 750 European companies—national and international—investing in Ukraine, and offers its members a broad scope of services.

Anna Derevyanko, the EBA's executive director, believes success is more than possible with careful and efficient preparation. "Ukraine is underestimated and the demand for investment is not sufficient," she says. "Yet, despite land issues, the courts system, technical regulation, certain tax issues, and intellectual property rights protection, we can hardly believe the number of companies that have come here. Ukraine has a marvellous geopolitical situation, rich natural resources, rich soil, and high technologies as well.



Golden Gate Business

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Golden Gate Business, Ukraine's premier M&A advisory firm, has been at the forefront of Ukraine's M&A market completing more than 20 transactions over the past 7 years. We are committed to excellence and concentrate solely on the sectors and markets which we deeply understand. Our reputation stems from the quality of our people, the standing of our clients and the culture of integrity and intellectual rigor.

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Hryhoriy Nemyria
Vice-Prime Minister
for European Affairs

“It has all the potential to go fast and be successful in the global arena. I sincerely believe that.”

Such sentiments are echoed by Jorge Zukoski, president of the American Chamber of Commerce, who points to the upcoming Euro 2012 Football tournament as another major opportunity. “This will really promote the country, and prove Ukraine to be a reliable partner that can

implement a difficult and complex project in a very short space of time,” he says.

A booming banking sector

Ukraine’s banking sector is the best performer in the Ukrainian economy. Average total loan growth has been around 50% for the past seven years, and there have been a number of takeovers (17 deals worth U.S. \$2.8 billion in 2006, according to Mergers and Acquisitions Intelligence Group). Both western and Russian banks have been attracted by high profit margins and the potential for further development.

Ukraine’s two-tier banking system consists of the National Bank of Ukraine and around 170 commercial banks of various types and forms of ownership. The Association of Ukrainian Banks (AUB) is an independent entity whose members

represent 93% of the country’s total assets. Presided over by Olexandr Suhonyako, the AUB has done much to shape the banking system by acting as mediator between the national bank and the banks themselves. Suhonyako says: “The sector has been able to attract the best human potential by offering good salaries.”

Private equity and venture capital have been growing phenomenally, and while larger regional funds, from Russia and other Eastern European countries, are now exploring the terrain, entities such as Horizon Capital and SigmaBleyzer have been around since the beginning. The entry of international companies has done much to transform the economy, by implementing western business standards and improving the business climate.

A private equity fund manager that “originates and manages investments in mid-cap companies with outstanding growth and profit potential in Ukraine and Moldova,” Horizon is well-positioned to seek a superior rate of return on investments, due to its successful track record and experience in the region. Mark Iwashko, Horizon Capital’s co-managing partner, has noticed a dramatic change in the Ukraine’s business climate. “Businesses are increasingly unaffected by political barriers and political instability,” he notes. “If we look at local businesses, many of them have been flourishing, even if it looks a bit messy from the outside.”

SINCOME—Ukraine’s unknown No. 2

Established in 1994, Sincome Capital Group is one of the oldest investment companies in Ukraine. It is the second largest investment company in the country, providing services to both international and local clients.

The company played an active role in establishing Ukraine’s largest stock exchange, the PFTS, in 1996. Last year, Sincome’s market share accounted for 16.41%, with U.S. \$400 million under management.

Sincome’s team of experienced investment professionals has gained an outstanding reputation for its local expertise and comprehensive knowledge of the market and offers the following services and products:

- Securities Brokerage and Dealing
- Research and Consulting
- Corporate Finance and Investment Banking
- Private Equity
- Asset Management and Custodial Services

Sincome’s core areas of expertise include metals, utilities, food, banking, chemicals and real estate. “We are widespread and invest where our analysts predict future growth. This provides the greatest benefits for individual and institutional investors,” says Sincome chairman Yuriy Yakovenko. “The trust we have earned with our clients is the cornerstone of our mutual success.”

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Horizon first invested in the Western NIS Enterprise Fund (WNISEF), established by U.S. Congress in 1994 to support the country and develop its industry. "It was a period of hyperinflation and the beginning of privatization," Iwashko explains. "There was very poor legislation at the time and it was

"We took many risks in the mid-to-late Nineties."

a very difficult period for investments. We did many different things and took many risks in the mid-to-late Nineties."

The success of the WNISEF, however, led to the establishment of the Emerging Europe Growth Fund in 2006,



Michael Bleyzer
President and CEO
SigmaBleyzer

which had a U.S. \$25 million cornerstone investment by WNISEF, and additional capital provided by global institutional investors. "Now we invest in mid-size companies, primarily in the consumer and financial sectors, but also in the industrial sectors," Iwashko says. "We focus on growth opportunities in sectors that have been transformed, such as consumer-oriented businesses, food

products, media, financial institutions, banks, leasing companies, food packaging, and construction materials—companies that serve industries and have international potential. Food packaging, for example, has boomed in the last decade."

He goes on: "After the Orange revolution, the business community became much more confident in independent ownership and had a great interest in portfolio investors, hedge funds, etc. Furthermore, the owners of private companies realized how much capital they could raise on the capital market. Industries have been growing very rapidly ever since."

Consumer purchasing has also grown by more than 20% for the last five years, which has been driving a lot of industries. "The financial sector has been unleashed with all of these incoming western European banks, and asset growth is now more than 50% per year," says Iwashko. "So we see many sectors tied to the consumer's pocket, such as consumer goods, construction materials, furniture manufacturing, and machine building for domestic and export market."

Michael Bleyzer, president and CEO of SigmaBleyzer, left the former Soviet Union for Houston in 1978, joining Exxon shortly after and Ernst & Young after that. He returned in 1991,



Anna Derevyanko
Executive Director
EBA

Everything is possible with your mobile partner life:)



Tansu Yegen
CEO, life:)

Since life:) entered the Ukraine telecommunications market three years ago, the sector has changed dramatically. Total mobile revenue in 2007 amounted to around U.S. \$5 billion, and the country now has a penetration level of almost 120%. However, as Tansu Yegen, CEO of life:) explains, there is still great potential. "Forty percent of Sim cards are non-active. 'Real user' penetration is around 70% and multi-Sim card usage around 10%."

As the third largest mobile operator in the country, life:) now serves more than 10 million subscribers. It gained 5% of the market in 2007—bringing its market share up to 18% at end of Q2 2008—and recorded a staggering 100.9% growth in revenues. "Our dynamic growth is due to our orientation on long-term results and our partnership with local shareholder, SCM group, which makes us the only telco with Ukrainian roots," Yegen explains. "In terms of roll-out, in just three years we achieved what our competitors spent many years achieving."

A natural innovator, life:) was the first on the market to introduce EDGE—Enhanced Data rates for GSM Evolution—a digital mobile

phone technology that allows increased data transmission rates and reliability. Today, 60% of the current network's sites support EDGE. life:) offers tariffs and services for all segments of the Ukrainian society, and has built a powerful retail network; there are more than 450 life:) customer care centers and exclusive sales points operating in 165 cities.

"We have introduced a bright and lively brand, which enjoys a high level of awareness. This has been achieved by a proactive marketing strategy strongly targeted at community-building offers," says Yegen. "Lady life:), for example, allows women subscribers to earn points each time they use their phone, which can then be redeemed in the shops. We are constantly analyzing the experience of our customers with the aim of foreseeing their needs. We also cooperate with leading multinational companies, such as Microsoft, Adobe Systems, and Cisco."

life:) is happy to bring world-famous innovations to Ukraine, a country that has full potential and impressive economic growth. "The educational level of our citizens is extremely high and subscribers appreciate new technologies and widely use them," Yegen says. "I believe there are still between 8-10 million potential users here and we will continue to present our customers with innovative services and increase their level of experience with us."

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life:)
Everything is possible!

using his veteran business experience to begin investing in Ukraine. SigmaBleyzer and its unique business model was born—and a decade later, was one of the largest and most experienced equity investors in the region.

“We created a sustainable business model by combining the efforts of a private equity asset management firm, SigmaBleyzer, and a non-profit NGO foundation, which strictly looks at the economic development and how to best attract FDI to the country,” Bleyzer says. “This is why we have been successful, and why we have been around for such a long time. We are very optimistic for the future, not just in Ukraine but also in emerging markets in general.”

With offices in Kiev and Kharkiv, Ukraine, Sofia, Bucharest, and Astana, Kazakhstan—and a back office in Houston—SigmaBleyzer has the infrastructure to successfully manage portfolio companies. “Our strength lies in the perfect mixture of western expatriates and local professionals,” Bleyzer says.

Bleyzer spotted the potential in consumerism early on. “When I started 15 years ago, I said to myself that I was going to design extremely low risk investment solutions,” he says. “I might not be getting as much as everybody else, but when this thing turns, I’ll still be around and normally don’t lose money.”

ITT Investment Group, meanwhile, is a group of companies that provides a full spectrum of services and offers individual solutions to each client on the Ukrainian stock market. It multiplies clients’ and shareholders’ capital



www.ey.com/ukraine

through the use of extensive experience in asset management and private equity, realization of profitable projects, and with the professionalism and competence of its management team.

In the last five years, the company has gone through a massive transformation and now consists of ITT Invest, ITT Capital, ITT Management, and ITT Consult. It has approximately 600 million UAH under management, and a goal to have a billion. “We believe we can triple that figure within five years and sustain the pace,” says ITT’s president Oksana Markarova, adding that under the ITT brand, they can provide a client with any service they might need in Ukraine, whether they want to buy, sell, or restructure a company.

Around a third of ITT’s clients are international. “People view investment funds not only as a way to make money but also to preserve money,” Markarova, says. “Given the high risk of the funds, we cannot guarantee a return, but we are sure that a 20% return is a realistic figure. Thirty percent is the target.”

ITT has been one of Ukraine’s prime movers in corporate governance and is being audited by the International

Auditing Firm this year, which sends out a strong message of trust.

Meanwhile, Golden Gate Business focuses on privatization consulting and investment activity and has helped more than 100 state enterprises prepare for privatization, including energy distributor Luganskoblenerho and Lviv, the largest bus manufacturer in the CIS. A well-honed knowledge of domestic and foreign investors’ rationales and requirements has allowed the firm to provide advisory services to sellers and buyers within the context of privatization and private deals worth between U.S. \$25,000 and U.S. \$500,000.

“There are two cores to our business: M&A and building materials, particularly white clay,” says Anatole Klepatsky, CEO. “In 1995-1996, when the first full investors started to look at Ukraine, we began our M&A advisory service and have brought many big investors into the country. Our white clay market is also growing and should rise to 80% within three years. We own one of the biggest reserves of white clay in the country, and we own the distribution network, which



It's Morning in Emerging Europe

Horizon Capital is a leading private equity firm managing funds with aggregate capital of over \$500 million and investing in mid-cap companies in Ukraine and the region. For investors in Emerging Europe, Horizon Capital offers unparalleled regional knowledge, business networks, market leadership and outstanding growth and profit potential.

Learn more at www.horizoncapital.com.ua



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gives us a competitive advantage. We have big investment plans that will allow us to reach 35% of the market in three years and possibly make an IPO.”

Ernst & Young was one of the first international firms to establish a practice in Ukraine, in 1991, and has rung the changes over the years. Now with a team of 500 professionals, it continues to provide options and recommendations for clients, and reinforce the country's competitiveness. Alexei Kredisov, managing partner, says: “In the last two years, Ukraine has grown into a very attractive place for investments, and I am sure Euro 2012 will be a very convenient occasion for investors to participate in infrastructural developments. The potential this country has in terms of energy, agriculture, transportation routes, and so on is enormous.”

Ukraine also has a large middle class with real purchasing



**Mark Iwashko, Co-Managing Partner
Horizon Capital**

power, and, importantly, the skills needed for large-scale business development. Retail today is now one of the most interesting sectors of the economy, with all players developing well.

Supermarket giant Furshet sells and produces goods throughout Kiev, and its stores feature over 25,000 different products. “We have always been the leaders and we intend to stay that way for

many years,” says Igor Balenko, Furshet's chairman.

Finally, with the Euro 2012 sporting event looming, much work is being done to get the road, rail, and other transport infrastructures up to the standard required for such a large-scale sporting event. The Ministry of Transport and Communications will be spending seven times more than usual over the next four years to make sure the event is one Ukrainians can be proud of.

“There are 30 airports in Ukraine, but we need to interest serious companies to provide air services,” says Transport Minister Yosyp Vynskiy. “Boryspil Airport intends to multiply its capacity three-fold, and undergo radical changes from an organizational, financial, and investment standpoint. We are also constructing new subway systems in Donetsk and Dnipropetrovsk, and extending the underground infrastructure in Kharkiv and Kiev. As well, we are negotiating with an Italian company to have high-speed trains.”

And so, as it continues its progress toward an open market economy, Ukraine still needs to move decisively to complete important reforms, but the word from those already doing business there is that potential investors can trust that the process for tenders is open, transparent, and fair. ■



**Oksana Markarova
President, ITT
Investment Group**

The Ukraine bank that keeps on growing

The Ukrainian banking system is represented by 178 credit and finance institutions, whose assets amounted to U.S. \$722.6 billion as at July 1st 2008. Ukrainian banking is not homogeneous, and among such diversity, special attention is drawn to the banks aggressively aiming to increase their market share. That kind of strategy is vividly demonstrated by Ukrgasbank.

Over the last six months, the bank's net assets increased by 18%, the growth—typical across the system—being due to the boosted lending. According to the National Bank of Ukraine, overall loans issued by the Ukrainian banks in the first half of 2008 increased by 21.4%, while Ukrgasbank's loans portfolio grew by 28%. In the spate of the global credit squeeze, many Ukrainian banks have been suffering from a lack of funds required to at least keep up pace. Ukrgasbank, however, has taken advantage of its ability and mobility in resorting to domestic funding. It is this fact that guarantees stability in the present climate. Recently, Ukrgasbank has not only managed to preserve its retail lending market position—but also significantly strengthened it (the volume of retail loans increased 1.5 times in the last six months).

Despite the swift loan portfolio growth, the bank's policy is characterized by a well balanced and conservative credit risk approach. As a result, it has one of the best loan book quality indicators in the market, with 4.5% loan loss provision as a preventive buffer for its fast-growing portfolio.

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The leader in Ukrainian real estate

Developing markets will always be a good prospect for investors—but is it possible to enter such markets with the minimum of risk? It is, if you work with a local partner that can combine local knowledge and experience with the logic and methodologies of the business world.

Sharing experience in and knowledge of the market with investors is a principal strategy—and a guarantee of future success—for the FIM Group of Companies.

Established in the Nineties, after a long period of formation and development, FIM originally worked in the field of retail business, logistics, and transportation services. Since the day of its creation, however, it has cooperated with international companies, and today it is a financial investment and developers' group of companies with strong organizational and administrative structures, and numerous implemented projects.

Oksana Yelmanova, CEO, says: “Developing markets, especially Ukrainian ones, still have enormous potential in terms of investment returns and profitability prospects, but success lies in having an experienced partner on the ground. There are terms for development of business in Ukraine, and our team will help decide where to invest and how to develop and manage the property afterwards.”

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Nemiroff brand goes from strength to strength

The top name in Russia's vodka imports, and third in the world, Ukraine's premier drinks brand is shaking up the international spirits scene.

It's a sign of a good brand when you can sell your vodka to the Russians—and that's exactly what Ukraine's Nemiroff has achieved. Started in 1992, the Ukrainian drinks brand is taking the world by storm, now reaching 55 countries and counting.

Nemiroff is the oldest brand in Ukraine's new history, although the small town from which it takes its name (Nemirov) has been producing alcohol for more than 130 years. Armed with a team of foreign co-owners, Nemiroff aimed high from the start, exporting to both the U.S. and Russia by 2000, and notching up an average of seven new countries every year since.

Today, it is one of the world's fastest growing brands. "In the early Nineties, most companies in Ukraine had their production focused toward the local market, which was limiting their competitive possibilities," Aleksander Glus, president of Nemiroff Holding, explains. "Our brief, however, was always to create a brand that could compete on the world stage."

They did well. In 2003 and 2004, Nemiroff was voted Fastest Growing Spirits Brand by the U.K.'s Drinks International Millionaire's Club and was the first Ukrainian brand to enter the Vodka Top Three in 2006. That same

"The idea is that vodka can be tasty."

year, it was voted Number 2 by Sales Volume vodka brand according to Impact (U.S.) and International Wine and Spirits Record (U.K.)

Thanks to a great quality product, dynamic marketing, and creative promotions—which have involved everything from sponsoring boxing matches and TV shows, to fashion and pop events, to the promotion of Ukrainian films abroad—the company is now in third position after Absolut in the world, and Russia's premier spirits importer.

"One reason for our success is our ability to be innovative and to offer a consistent quality product," Glus says. "We



Alexander Glus
CEO
Nemiroff



Nemiroff Ukrainian Vodka Company's plant.

had a good base of products locally, but to captivate foreign markets, we had to create a unique product. That was our Honey Pepper vodka and it is now our flagship product. Every time we enter a new market, it is the first one we propose." Not bad for a line that was introduced ten years ago. Other products in the Nemiroff portfolio include Super Premium, High Premium (traditional and flavored), and Rye Honey, Birch and Cranberry vodkas—"the idea being that vodka can be tasty," Glus says.

Nemiroff recently launched an aggressive strategy to gain a larger share of the U.K. market. "The U.K. is a very exciting market and we have operated there for a long time," Glus explains. "Such markets are based on cocktail consumption, so we put together a number of events and parties and contacted the U.K. Bartenders' Association to develop four cocktails on our behalf. They were very successful."

With Nemiroff's two distilleries in the Ukraine producing 114,000 bottles per hour—using water from four company-owned artesian wells—demand is certainly high. A unique quality control system uses laser technology to engrave the date and time of production on each bottleneck and on the cap, giving added assurance to the customer.

Today, Nemiroff is the top-selling vodka in Russia and has been given no less than five awards by Russia's Prod Expo ratings, including two gold medals in 2008. Growing sales and brand awareness are proof of Nemiroff's success, while the prospect of further expansion into India and China means it could become the number one vodka brand in the world.

Nemiroff Ukrainian Vodka Company

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A new era for VEB

Now firmly established as the Russian Federation's development bank, Vnesheconombank continues to play a vital role in the country's modernization.

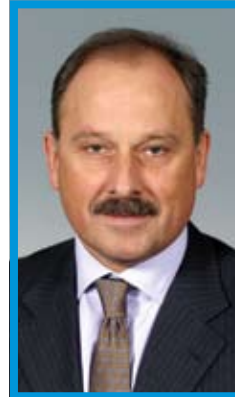
One of the oldest banks in the country, Vnesheconombank (VEB), has successfully functioned as a vehicle of the state economic policy for more than 80 years. During both peace and more challenging times, it has served to finance important industrial and energy infrastructure projects, and assist the state in its development goals.

When Vladimir Putin announced his intention to launch a development bank two years ago, VEB was therefore the natural choice as the institution to carry the idea forward. Vladimir Dmitriev, VEB's chairman, explains, "In recent years, our role in implementing the state structural reforms in the real economy has substantially increased. We have been attracting foreign loans and financing large-scale infrastructure projects. In implementing these projects the bank started to apply public-private partnerships (PPP) mechanisms."

A new bank started to function in June last year. It was agreed that the Bank for Development and Foreign Economic Affairs, to give it its full name, would continue to function under the globally known Vnesheconombank brand. "The fact that our bank has such a long and impeccable record is highly valued, and that is why our brand remains unchanged," Dmitriev says.

Positive reinforcement

The government's recent decision to increase the state's contribution to the bank's charter capital by 180 billion



Vladimir Dmitriev
Chairman, Vnesheconombank

"VEB will ensure sustainable economic growth, social stability, and enhance our citizens' living standards."

A strong performer

The bank has been recording impressive figures of late. In 2007, its loan portfolio grew by almost 23% to 198 billion rubles (U.S.\$8.1 billion), more than half of which were in long-term credits, which now account for 68% of VEB's loan portfolio. "In terms of growth, the bank is taking the lead in the volume of loans extended to non-financial enterprises and organizations, and gives high priority to financing long-term capital-intensive projects," Dmitriev says.

"The government is hoping that every ruble invested will attract the inflow of entrepreneur capital; that economy will overcome the resource-oriented focus, innovations will become the basis for economic growth and that by 2020, we will be included in the world's top five countries in terms of gross domestic product."

The bank will also implement investment projects designed to remove the infrastructure restrictions

"The fact that our bank has such a long and impeccable record is highly valued, and that is why our brand remains unchanged."

rubles (U.S.\$7.66 billion) was an important endorsement, Dmitriev notes. In the meantime, global agencies have been optimistic. Standard + Poor's gave the bank a long-term foreign currency rating of BBB-plus in March with a positive outlook, and Fitch gave it a long-term foreign currency default rating of BBB-plus, with a stable outlook.

The new-style VEB is now fully functional and will be a consolidating element in the structure of state development institutions designed to give a fresh impetus to investment activities. "Strategically, the bank's main goal is to stimulate and encourage the country's socio-economic development," says Dmitriev.

currently impeding economic growth, including the development of energy and transport infrastructure, housing and public utilities infrastructure, and tourism.

Better infrastructure vital for growth

Improved infrastructure is crucial if Russia is to compete effectively on the global market. Serious under-funding in the past 20 years or so means the country is now playing catch-up to European economies, especially in the more remote regions such as Siberia and the Far East.

Vnesheconombank's Supervisory Board has approved 16 major projects totalling U.S.\$16.2 billion. "In order to

achieve an economic breakthrough in the regions, we primarily need to invest in the construction of railroads, bridges, pipelines, electricity grids, and public utilities. Without sound investments, including foreign direct investment, 90% of the projects will remain on paper only," says Vladimir Dmitriev.

Regional development agreements are the cornerstone of the bank's investment policy. Dmitriev says, "The most important projects include a timber processing complex in the Boguchanskii region, which is part of the Nizhneye Priangarie Development program, Russia's largest PPP project to date.

Presently, a Center for PPP development has been set up within the bank's structure.

"Largely as a consequence of the investment program implementation, the bank's participation—totalling 41.4 billion rubles (U.S.\$1.77 billion)—in the densely forested region will be transformed into a successful timber economy. Such projects can qualitatively change the region's economy and speed up its growth.

"Also, we are helping to create a water supply system in the Rostov region in the South of Russia. The total cost of the project is 42.9 billion rubles (U.S.\$1.83 billion)." There is also a plan to build a cluster for the automobile industry in the Kaluzhskii region.

Other investment priorities embrace aircraft building, a rocket and space complex, nuclear energy, shipbuilding, and defense. "We will primarily engage in innovative projects within the above sectors," says Dmitriev. Apart from it, the bank participates in projects designed to enhance the efficiency of natural resource usage, protect the environment, and improve ecological situation.

Small and medium enterprise (SME) development is another of the bank's roles. The bank extends loans to those credit institutions and legal entities which directly finance SMEs. "By 2012, our credit portfolio designed to bolster SME development is to reach 42 billion rubles (U.S.\$1.8 billion)," says Dmitriev. "Moreover, we provide support for exports of industrial production and services, with a view, inter alia, of diversifying national exports," Dmitriev adds.

PPP—the way forward

The Supervisory Board has now approved a development strategy for 2008-2012. "In the next four years, our loan portfolio is to reach 850 billion rubles (U.S.\$35 billion), with PPP projects accounting for 30% of it," Dmitriev explains. "The share of investment provided by private



VEB - A tower of strength in the Russian Federation.

companies and other investors for each project will make up 70% of the total costs. So we can expect the flow of external capital in our projects to double" says Dmitriev.

"We will do everything to ensure that such considerable funds are used in the most effective way possible, and serve as an efficient mechanism for the diversification of the Russian economy and its switch over to an innovative way of development."

Presently, a Center for PPP development has been set up within the bank's structure. The Center is designed to engage in selecting infrastructure projects and help identify private investors for them. ■

Vnesheconombank

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POLAND

Moving closer towards its goal of becoming a democratic, market-oriented economy.



Having pursued economic liberalization since 1990, Poland is a success story among the transition economies. The Eastern European country, which joined NATO in 1999 and the E.U. in 2004, has received more than U.S. \$50 billion in direct foreign investment since 1990, and has been ranked seventh-best place in the world to invest by corporation presidents, according to last year's annual report by Ernst & Young.

As the leader of the new PO/PSL coalition government, which came to power in November 2007, Prime Minister Donald Tusk is determined to adopt the euro as swiftly as possible. In 2007, GDP grew an estimated 6.5%, based on rising private consumption, a jump in corporate investment, and E.U. fund inflows, but unemployment remains higher than the E.U. average, with inflation at 4.1%.

Warsaw, Poland's dynamic political and economic capital, is today a thriving metropolis, with big plans to become a major financial center for Central and Eastern Europe. The Warsaw Stock Exchange (WSE), founded in 1991, is now the largest in the region, with a capitalization of around €220 billion (U.S. \$283 billion) from both international and domestic companies—and growing. "The strength of the WSE comes mainly from domestic companies, even though the capitalization of the 25 foreign companies listed is more or less the same," Ludwik Sobolewski, president of WSE, explains.

WSE has been successful in attracting new issuers. In 2007, it was second in Europe in terms of the number of new listings on regulated markets, and, despite an unfavorable climate, has maintained that position in 2008. "WSE is a large, transparent market," says Sobolewski, "and this is being recognized by more and more companies, both domestic and foreign."

Indeed, the WSE is turning into an international marketplace. Foreign broker-dealers and investors are very active, and there are 19 remote members operating from various European locations. "The share of foreign investors in equity trading in the first half of 2008 exceeded 40%," says Sobolewski.

While many large and mid-size companies are listed, one of the market's main objectives has been to encourage more SMEs. "Last year, we launched an alternative, dedicated

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"WSE is increasingly seen as a large, transparent market."

market for small businesses called NewConnect, which offers smaller companies—even start-ups—an opportunity to raise capital," says Sobolewski. "It has more liberal requirements while still being transparent, secure, and professionally run." NewConnect has already proved successful, with well over 60 listings and €100 million (U.S. \$141 million) of capital raised during the past twelve months. "Some of these companies may transfer to the WSE Main List, showing how a listing can help in business development," Sobolewski says.

The government's ongoing privatization drive, occurring most imminently in the energy sector, will continue to boost market activity. In a referendum put to employees of a mining holding company last year, 52% voted in favor of privatization through the WSE, marking a significant change in mood. ■