



## Ukraine will 'aggressively' privatize and make 'seismic changes' in corporate governance



The Business Week is written and produced by James Brooke, Editor in Chief of the Ukraine Business Journal for and on behalf of UkraineInvest

**Ukraine will 'aggressively' privatize and make 'seismic changes' in corporate governance of state companies this year, Prime Minister Groyzman promised in an opinion essay in Tuesday's Wall Street Journal. Addressing foreign investors, he writes: "To catch up with the leading countries in our region, we need to grow twice as fast as the average—at least 5% to 7% per year...Ukraine has attractive investment opportunities in many industries such as agri-food, manufacturing, energy, transport and new technologies."**

### Agriculture >

**Drones monitor about 10% of Ukraine's farmland,** DroneUA co-founder Valery Yakovenko estimated recently at AgriTech in Ukraine and the World. At the conference, Oleg Bakhmatyuk, owner of Ukrlandfarming, told Interfax that he is experimenting with drones on his agroholding's land bank of 570,000 hectares. He said drone prices should go down, from \$1,000 today, to \$300 by 2023. When that happens, he said, drones will become common in farming.

**Ukraine was the fourth largest source of imported food for the EU last year, according to the European Commission.** The ranking was Brazil (EUR 11.8 billion), the USA (EUR 11.0 billion), Argentina (EUR 5.7 billion), and Ukraine (EUR 4.7 billion)

**The average cost of leasing private farmland rose 25% last year,** almost

twice the inflation rate of 13.7%, Maksym Martyniuk, first deputy minister of Agrarian Policy and Food reports. The cost of leasing state land went up 24%. The most expensive land was in Cherkasy and Poltava, where it cost about \$100 a hectare a year. The cheapest land was in Zakarpattia, a hilly, rocky region where a field can be rented for \$29 a hectare. In Mykolaiv and Kherson, southern regions with light rainfall, rents were also low – about \$31 a hectare.

**Ukraine produced 6.5% more sugar than one year ago,** Ukrtsukor, the producers association, reported Tuesday at the end of the nearly six month refining season. Working with sugar beets, 46 refineries produced 2.1 million tons of sugar. Three regions produced half the nation's sugar: Vinnytsia, Khmelnytsky and Ternopil. The top importers of Ukraine's sugar last year were: Sri Lanka, Turkey, Azerbaijan, Sudan and Libya.

**Orbis Asset Management of San Francisco intends to invest \$30 million** in Imperia-Agro, a KryvyiRih manufacturer and distributor of seeds, plant protection agents, and mineral fertilizers. YuryOtsbrik, founder and CEO of Imperia-Agro, said: "We intend to create a national leader in lending and financial services for the small and medium-sized farmer in Ukraine." From the US, Orbis CEO Vincent Ordonnyu said: «We believe that Ukraine today is the most attractive market for investment in the agricultural sector.»

**Crop receipts, a pre-harvest financial instrument** allowing farmers to use future harvests as collateral, will inject up to \$520 million in credit into Ukraine's small-scale farm sector through 2020, predicts the World Bank's International Finance Corporation. A pilot project for one tenth that amount used 200 crop receipts as collateral in eight regions in 2016 and 2017. IFC has worked with Ukraine's government to develop necessary legislation and to create a registry to track crop receipts easily and transparently. Switzerland's State Secretariat for Economic Affairs provides financial support for the project. Jason Pellmar, IFC's Ukraine head, says: "Our aim is to encourage more private investment to unlock [agricultural] potential, expanding access to finance for smaller farmers and fostering innovation in the farming sector."

## Banking & Finance >

**OPIC has signed a deal to insure \$250 million in fixed-rate bond securities issued in US capital markets** for a major Ukraine project. Because of this insurance, Moodys rates the bonds Aa2, well above the government of Ukraine's Caa2 rating. The money raised will go to building a Central Spent Fuel Storage Facility at the Chernobyl site. This storage facility will ultimately save Ukraine "hundreds of millions of dollars" now spent on storage in Russia, says Energoatom, Ukraine's nuclear power plant operator. Following Overseas Private Investment Corporation guidelines, the project will generate \$225 million of procurement of US-made goods and services. Holtec International of New Jersey, will supply storage casks, other equipment and training to the project over five years.

**Horizon Capital, the Kyiv-based private equity firm, has guided one of its investments**, Purcari Wineries PLC of Moldova, through an IPO on the Bucharest Stock Exchange. Investors oversubscribed the offering more than four times over.

Horizon reports: "As a result of this successful public launch, Horizon Capital, on behalf of its fund EEGF II, has sold a 40.9% stake in Purcari, realizing a 3.2 times gross cash-on-cash return on the sale of these shares." Horizon retains 22.7% stake in the winery, which has operations in Moldova and Romania.

**Privat Bank plans to increase lending to small businesses this year by two thirds** over last year, to \$178 million, the bank says in a press release. With more and more Ukrainians opening small businesses, the bank, Ukraine's largest, says that it added 76,000 new small business clients last year.

**After an IMF team spent last week here**, Resident Representative GoestaLjungman released a statement Monday: "It is now important that the authorities move expeditiously with parliamentary consideration of the draft law on the anticorruption court, while ensuring that the necessary amendments are adopted during the parliamentary process to make the approved law fully consistent with program commitments and the recommendations of the Venice Commission of the Council of Europe."

**Timothy Ash writes:** "I sense this anti-corruption legislation is the deal breaker for the IMF, and also for the Poroshenko Administration...It looks like the IMF program will remain off track for some time, and the Minister of Finance will have to decide whether it tries to come to market before then, to get some cash in the bank."

**Horizon Capital plans to invest \$100 to 200 million in Ukraine over the next five years**, Lenna Koszarny, founding partner and CEO of the private equity and venture capital firm, told the weekly Biznes. Horizon Capital manages four private equity funds, with more than \$700 million invested in Ukraine and Moldova.

**Prime Minister Groysman promised an international conference Tuesday that his**

**government will keep working with the IMF,** Ukrinform reports. He said: «We will continue to cooperate with the IMF. We will support macrofinancial stability, attract investment and increase exports.»

**Ukraine's state railway may seek to raise as much as \$1 billion on international debt markets** this year to refinance its loan portfolio and replace aging rolling stock and rail lines, the company's acting chief executive officer Yevhen Kravtsov tells Bloomberg. Ukrzaliznytsya plans to more than double capital investments this year, buying new locomotives and wagons for cargo and grain hoppers to replace older machinery.

**Danish Foreign Minister Anders Samuelsen announced in Kyiv on Wednesday €65 million in aid** to Ukraine under the Danish Neighborhood Program. Funding projects in human rights, democracy and sustainable economic growth, the Program is reserved for two countries, Ukraine and Georgia. On June 27, Copenhagen will host the second international conference on reforms in Ukraine. The first was held last year in London.

**Last year, nearly \$1 billion worth foreign aid projects** were implemented or agreed upon in Ukraine, reports the Economic Development and Trade Ministry. Of the 453 foreign aid projects that were implemented, the largest donors were the US -- \$370 million -- and the EU -- \$310 million.

## Business >

**Colt Canada, the main supplier of small arms to Canadian Forces, is chasing a deal that could see Ukraine order up to 100,000 rifles,** The Ottawa Citizen reports. In December, Canada's government changed Canada's arms export rules to allow the sale of automatic weapons and other small arms to Ukraine. In January, representatives of Colt travelled from their Kitchener, Ontario headquarters to Kyiv to discuss a sale. Ukraine is upgrading its

weapons to NATO standard. In September, Defense Minister Stepan Poltorak talked with Canadian Defense Minister Harjit Sajjan about Canada building an ammunition plant in Ukraine.

**The number of registered unemployed people dropped by 50,000 in January,** to 378,900, according to the State Statistics Service. Officially, the unemployment rate is 1.4% and there are 1 million job vacancies. With signs in the Kyiv metro offering Ecolines bus tickets to Poland for \$15, many unemployed people now travel to the EU for temporary jobs.

**Exports to Europe grew by 21%, outstripping Ukraine's global export increase of 16%,** Prime Minister Groysman reports. In a sharp turn around from earlier dependence on Russia, EU countries bought 40.5% of Ukraine's exports last year, or \$20 billion.

**The White House squarely blames Russia for last summer's "NotPetya" cyber attack on businesses.** The short statement reads: "In June 2017, the Russian military launched the most destructive and costly cyber-attack in history. The attack, dubbed "NotPetya," quickly spread worldwide, causing billions of dollars in damage across Europe, Asia, and the Americas. It was part of the Kremlin's ongoing effort to destabilize Ukraine and demonstrates ever more clearly Russia's involvement in the ongoing conflict. This was also a reckless and indiscriminate cyber-attack that will be met with international consequences."

**President Poroshenko is expected sign a new law on limited liability companies** that designed to modernize and streamline procedures for half a million companies, or about 43% of all business entities in Ukraine. The new law allows for debt to equity conversion, the practice of corporate deals, the use of corporate liability rights as collateral for loans, and introduces supervisory boards to Ukrainian private companies. Yulia Kovaliv, head of the Office of the National Investment Council, writes in the Kyiv Post: "Now there is less chance

for anybody to illegally gain control over companies, appropriate their assets or block operational activities if there is a dispute with one of the co-owners."

**Kyiv's hotel industry has bounced back strongly, with revenue per available room growing by 20% last year.** This was Europe's third highest growth rate, lower only than Bucharest at 21% and Lisbon at 22%. Kyiv's 50.9% occupancy rate is back to the pre-crisis level of 2013, Dennis Spitra, director of business development at STR Global, told the International Hospitality Conference in Kyiv on Saturday.

**Avangard, Ukraine's largest egg producer, plans to double egg exports by 2023,** Oleg Bakhmatyuk, the owner, tells Interfax-Ukraine. Over the last five years, the export portion of Avangard egg sales has grown from 18% to 40% today. Last year, the company added six more export destinations, including Hong Kong, more for a total more than 40.

**A Chinese company, Beijing Electric Power Automatic, is negotiating a joint venture** with VEEM-Metallavtoprom to produce electric buses in Stryi, one hour south of Lviv. Representatives of the Ukrainian company have visited China and last week the Chinese visited Lviv. Using Chinese designs, the buses would be produced at an existing factory, StryiAvto TDV, the news site zaxid.net reports.

**Smartphone usage by lifecell's 8 million SIM card users hit 68%** at the end of the year, the company reports. The Turkish-owned mobile operator, ranked three in Ukraine, saw its active subscriber base shrink by 13%. After recording a profit in 2016, it recorded a \$19 million loss last year.

**Calling for economic growth of 5%, Prime Minister Groysman told local TV that corrupt** officials who block businesses are "enemies of the state." Groysman, who has run businesses in his home city of Vinnytsia, said: «I regard all those who are trying to spoil business development opportunities the enemies of the state and

of our success. We need to fight for proper business conditions...We must protect those who create jobs and invest in the economy."

**About 65 Ukrainian producers attended Gulfood 2018,** an event in Dubai billed as "the world's largest annual food trade show." About half of the Ukrainians showed their products: "oil, flour, pasta, bread and flour products, sweets, cereals and legumes, seeds and nuts, grains, eggs, sauces and tomato paste, dairy and meat products, prepared foods and food additives," reports the press service of Ukraine's Economic Development and Trade Ministry. The other half came to find foreign partners and to learn about new markets, says Trade Representative Natalia Mykolska.

**Over 90% percent of cybersecurity chiefs at big companies in Ukraine plan to increase** spending to protect from hacker attacks, according to a survey conducted by Ernst & Young Global Ltd. Three quarters of the security chiefs said their company should increase spending on cyber protection by 50% or more.

**The first Israeli Ukrainian Innovation Expo will take place March 18-19 in Tel Aviv's** TASEConferenceCenter. The goal is to bring together entrepreneurs, innovators, angel investors, venture capitalists and many others involved in developing startups in Israel and Ukraine. The organizers are the Israeli-Ukrainian Alliance and theneo.vc, a venture capital fund focused on Ukrainian startups.

**President Petro Poroshenko has appointed PavloBukin, CEO of Ukrspecexport, to run Ukroboronprom,** the country's state run manufacturer of military hardware and weapons. At the same time, the President wrote on Facebook, Ukroboronprom will become Ukraine's first state-owned industrial association to be audited by an international audit firm. Last year, Ukroboronprom reported \$55 million in profit on \$1 billion in sales. To help cut corruption at the arms maker,

the Cabinet of Ministers appointed last month an American, Anthony Teter, to the Ukroboronprom supervisory board. A US Army veteran and former Director of Advanced Defense Research Projects Agency, Teter has implemented management projects in Ukraine's military industrial complex since 2016.

**Adjusted for inflation, retail sales in January were up almost 10%**, compared to January 2016, the State Statistics Service reports. Retail sales were \$2.5 billion. By region, the biggest increases were in: Zakarpattia -- 21.8%; Sumy -- 13.9%; Cherkassy -- 13.8%; Chernihiv -- 12.4%; Mykolaiv -- 12.1%; and Vinnytsya -- 12%. The lowest increase was in Rivne -- 3.6%. No region recorded a sales decrease.

**The average meat basket cost 40% more at the end of January**, compared to the same time one year ago, Alexei Doroshenko, director of the Ukrainian Association of Suppliers of Retail Chains, writes on his Facebook page. This price increase is almost triple January's year over year inflation rate of 14.1%. Reason include: reduced supply due to increased exports and great demand due to increased in salaries, pensions and remittances from workers in the EU.

## Commodities >

**Blocked from buying coal and coke from Ukraine's separatist controlled corner**, ArcelorMittal is buying these raw materials for steel production from Russia, Girish Sardana, the company's chief procurement officer, tells Metalurg news site. Despite delays with Ukrainian Railways supplying locomotives and wagons, the KryvyiRih mills were able to work at full capacity last year, hitting a record level of steel production -- 7 million tons.

## Energy >

**French company Suez Environment is to prepare financial models for projects to**

turn Ukrainian garbage into energy, Sergei Savchuk, chairman of the State Energy Efficiency agency said after meeting a company delegation in Kyiv. Suez has built large waste processing plants in Belgrade, Serbia and in Poznan, Poland. In Ukraine, biogas stations can sell electricity at an advantageous «green» tariff, currently 12.4 euro cents / kWh.

**French company Global EcoPower SA is to build a 20MW solar power station in Khoroshiv, Zhytomyr region**, according to Philippe Perret, a company director, and Igor Gundich, head of regional administration. Since December, Zhytomyr has announced three solar power investments, totalling 65MW and \$60 million.

**Germany and Poland diverged sharply Friday on Russia's Nord Stream 2** pipeline, a pipe to deliver Russian gas directly to the EU without going through Ukraine. German energy groups Uniper and Wintershall, Austria's OMV, Anglo-Dutch group Shell and France's Engie are investing in the 1,225 km pipeline.

**In 2020, when Russia's Nord Stream 2 is to be in full operation**, Ukraine must pump a minimum of 50 billion cubic meters a year to make enough money to maintain the massive east-west pipeline system, calculates Volodymyr Omelchenko, energy director at Razumkov Center, the Kyiv think tank. Last year, Ukraine only used 28 billion cubic meters. Naftogaz says that tariffs for natural gas transit through Ukraine in 2020 will be three to four times lower than tariffs of Nord Stream-2, Russia's Baltic route. Starting today, the Cabinet starts interviewing potential foreign partners for managing Ukraine's GTS, or gas transmission system. German Chancellor Angela Merkel said at a Berlin press conference: "We think this is an economic project. We are also for energy diversification. We also want Ukraine to continue to have transit gas traffic, but we believe Nord Stream poses no danger to diversification."



**“More than a dozen world-famous companies have declared their desire”** to participate in the modernization and management of Ukraine's massive, East-West gas transmission system, or GTS, President Poroshenko told reporters Saturday at the Munich Security Conference. Vice-Prime Minister Volodymyr Kishchak chairs a working group to select a foreign company partner to jointly operate the GTS with Naftogaz. The choice is to be made by this fall.

**Centrenerg, the state run power company, paid an average of \$100 per ton for the 410,000 tons of anthracite coal** it imported from the US last year, Oleg Kozemko, the company CEO, tells Reuters. After Ukraine decided to boycott coal from separatist-controlled mines, it signed a 700,000-ton supply deal with Xcoal of Pennsylvania. Kozemko said Centrenerg now is negotiating with Xcoal on supplies of bituminous coal, a poorer quality variety.

**Coal production in Ukraine was down 27.3% in January, compared to one year ago.** The drop represents almost entirely production from three mines in separatist areas that were counted last year: Sverdlovanskyi, Rovenyanskyi, and Komsomolets-Donbass. When those mines are excluded from statistics, the country's coal output in January was down by only 3.2% compared to January 2017.

**Over the next five years, Ukraine wants to cut gas consumption by five billion cubic meters, or 18%,** by expanding use of biomass, according to Serhiy Savchuk, head of Agency on Energy Efficiency. Over the last four years, Ukraine cuts gas consumption by six billion cubic meters. That was largely due to loss of population and heavy industry in the east and use of energy saving technology elsewhere. Now, to replace gas, the government promotes burning biomass – crop residues and bark and branches from logging operations.

**Last year, Ukraine paid Russia \$369 million for fuel** for its 15 nuclear power plants. At the same time Energoatom paid

Sweden \$164 million for essentially the same fuel. Ukraine is gradually reducing Russia's portion, from 69% last year to 45% this year, Energy Minister Igor Nasaluk said recently.

## Infrastructure >

**The EU will partially finance construction of the Gdansk-Odesa 'Go Highway,'** Infrastructure Minister Volodymyr Omelnyk said after meeting Tuesday in Kyiv with Henrik Holm, the European Commission's Director-General for Transport. Omelnyk said: «Today we have learned that one of the financial instruments of the European Union is ready to finance a part of Go Highway project to connect the Baltic Sea and the Black Sea.” Ukraine is spending \$140 million on the highway this year.

**Tenders for Ukraine's first modern toll roads** are to be launched by the end of this year, Infrastructure Minister Vladimir Omelnyk told reporters Tuesday. He said the most likely toll road candidates are: from Kyiv's ring road to Bila Tserkva, the first, highly congested 75 km stretch of the highway to Odesa; and Lviv to Krakovets, Ukraine's busiest border crossing with Poland.

**In April, Sinohydro Corp, a Chinese construction company will start work** building a 23 km concrete highway bypass around Zhytomyr, Infrastructure Minister Volodymyr Omelnyk reports. Construction of the four-lane, \$50 million highway will involve building four bridges and four interchanges. Road work will parallel – and in some cases overlap – the existing E-40 highway, the main road between Kyiv and Lviv.

## Privatization >

**Prykarpattia, a state-owned health resort in the Carpathian mountain town of Yaremche** is to be auctioned off on March 12, with an asking price of \$1.9 million. The buyer must reopen the resort within one year. A historic resort town, Yaremche is a one hour drive south of Ivano-Frankivsk.

## Real Estate >

**As consumer spending picks up, the warehouse market tightens around Kyiv,** responsible for about one third of spending in Ukraine. A survey by Pickard Real Estate & Asset Services reports: " The warehouse market around Kyiv has only less than 2% vacancy level currently, and even this space is under serious negotiations.... With brown field land sites still at historic lows and sites available and construction costs still low, now should be the time to invest in warehousing. Rent levels are sure to increase as will yields."

**A new shopping center is to be built in Lviv,** on a one hectare site next door to Aquapark Plyazh, 5 km southwest of Market Square, Zaxid.net news site reports. On the west side of Princess Olga Street, a busy divided boulevard, the location is near several other shopping complexes. Consumption is driven by the city's booming tourism and tech industry, both dollar-denominated.

**Kyiv's office vacancy rate dropped sharply last year, from 19.3% to 13.2%,** real estate consultancy JLL reports. Kyiv's vacancy rate now is below Moscow's 13.8% and Helsinki's 14.1%. Last year, 200,000 square meters of office space was rented, 11% more than in 2016. Net absorption was 22% higher than in 2016 and the highest in a decade. Although office rents did not move last year, JLL predicts they will go up 3 to 5% this year. Rents will be pushed by increasing demand, and a low level of new supply. This year, 40,000 square meters will enter the market, 10% less than last year.

## Science & IT >

**Eighteen Ukrainian information technology companies won** spots on the International Association of Outsourcing Professionals annual list of top tech firms, The Global Outsourcing 100. Marking a steady progression, the 18 are up from 13 last year, which were up from 10 in 2015.

**Ukrainian engines will power three**

**rockets into space this year,** Space Flight Now reports. In May and November, RD-181 engines from Dnipro's Yuzmash will launch Antares Orbital ATK satellite carrier rockets from NASA's Wallops Flight Facility in Virginia. In September, a Yuzmash RD-843 engine will launch the fourth stage of a Vega rocket, fired from the European Space Agency's space center in Kourou, French Guiana.

## Travel >

**Ukraine is drawing nearer to visa-free regime with South Korea,** Interior Minister Arsen Avakov posts on his Facebook page from Seoul. He wrote: «Do we need the visa-free regime with the 11th world economy? The question is rhetorical! I am very glad that we have managed to come close to an agreement on this issue.» A visa-free regime might prompt Ukraine International Airlines to start service from Kyiv Boryspil to Seoul Incheon.

**Ukraine's new visa on arrival policy for India and China resulted in a 40% increase in tourists** last year from these countries, Anton Taranenko, head of the Tourism for KyivCity, posted on his Facebook page. He said: "These countries are our priority in attracting tourists for 2018." To this end, Ukraine is starting an internet-based e-visa system. Also VHS Global visa centers in Delhi and Beijing can now issue Ukrainian visas for \$65.

**Tourism to Odesa Region jumped by 43% last year, to 5.7 million people,** Svitlana Shatalova, deputy head of Odesa regional administration, tells Ukrinform. To diversify tourism away from the Black Sea coast, Shatalova plans to establish a rural and ecological tourism center in Tarutyne, a district bordering Moldova, four hours by car from Odesa city.

## Transportation >

**Azerbaijan's SOCAR Energy Ukraine plans to launch five new facilities in Ukraine this year,** the company tell Azernews. After

doubling LPG sales last year, the company wants to install LPG dispensers at its 59 gas stations. The state company, a major provider of oil to Ukraine, wants to get in on Ukraine's aviation boom by selling aviation fuel. A SOCAR official said: "We see great prospects for development in Ukraine."

**When roadwork season starts next month**, the Infrastructure Ministry intends to start repairing 4,000 km of roads this year, according to Infrastructure Minister Volodymyr Omelyan. Including international aid, this year's road repair budget is a record \$2 billion.

**Trains to Russia were the most profitable lines for Ukraine's state railroad last year.** Kyiv-Moscow, with 11 cars and 77% occupancy, earned Ukrzaliznytsya the most - \$5.7 million. Odesa-Moscow, with 10 cars and 89% occupancy, came in second, earning \$3.6 million profit. In fifth place was Kyiv-St. Petersburg, with 11 cars, 65% occupancy and \$740,000 profit. Also profitable were: Khmelnytsky-Moscow, Lviv-Moscow, Kovel-Moscow, and Kharkiv-Moscow. Ukraine and Russia cut off air service in October 2015. Since then, nationalist politicians have called for ending train service. But Ukraine's railroad lost \$130 million last year on passengers a loss that was compensated by freight.

**Ryanair board member Juliusz Komorek confirmed Thursday that the discount airline will fly to Ukraine this fall.** «This is a real date. I hope this would happen,» he told Poland's Fly4free publication. Komorek, a Pole, said the flights would not be the same as announced last year, adding: «There will be some changes in this timetable. But the flights from Ukraine to Poland will be definitely launched.»

Separately, Minister of Infrastructure Vladimir Omelyan at a press conference in Kiev that there would not be a reduction in the number of Ryanair flights to Ukraine.

**By December, a train to the plane will take travellers from Kyiv's central rail station to Boryspil International Airport in 35 minutes,** Prime Minister Groysman promised after winning Cabinet Ministry approval Friday for the \$30 million project. At present, taxis also can make the 35 km ride in 35 minutes. But bottlenecks form unpredictably at the Dnipro River bridges. Designed to carry almost 3 million passengers a year, the train could replace 1,000 car and 30 bus trips per day.

**Traffic accidents killed 3,432 people and injured 38,109 last year.** Aiming to cut fatalities by half by 2020, the Infrastructure Ministry is spending \$75 million this year on a National Road Safety Program.

**UIA has taken delivery of the first of four Boeing 777-200ERs** that are to arrive by September. The long haul jets will be used on the airline's existing routes from Kyiv to New York, Bangkok and Beijing and on its new routes to Toronto and New Delhi. The jets seat 361 passengers and offer wifi.

**An 'Open Skies' agreement with the EU can only be signed after a Brexit,** Infrastructure Minister Omelyan wrote on Facebook after a meeting in Kyiv with visiting EU Transport officials. Open Skies, or a common aviation space between the EU and Ukraine, would enable Ukrainian and European airlines to operate freely in the airspace of the EU and Ukraine.