

# Georgia, Ukraine won't be offered Membership Action Plans at Nato summit

Roman Olearchyk

in Kyiv

Neither Ukraine nor Georgia will be formally accepted as candidates for Nato's programme intended to prepare aspiring members for joining the military alliance at April's summit in Bucharest, despite a last-minute push by US President George W. Bush, according to sources close to Nato.

Instead, the Nato leadership will seek a formula to reaffirm support for Kyiv and Tbilisi's bids, while putting the divisive issue off and giving them more time to build up support amid member countries, the sources say. The delay will also avoid aggravating relations with Russia, which has made dire warnings about the consequences that would follow the

further eastward expansion of the military alliance.

"There is an effort to find a formula which will not say 'no' to Ukraine and Georgia, but will de facto put the decision off for later," says Ilko Kucheriv, a well-connected pro-Nato advocate in Ukraine who heads the Kyiv-based Democratic Initiatives Foundation.

The ministerial meeting of Nato countries in Brussels on March 6 ended without a consensus on these so-called Membership Action Plans (MAPs). However, the ministers of foreign affairs agreed to refrain from airing their differences in public and to seek



consensus at a follow-up meeting ahead of the April 2-4 summit. So the US president raised eyebrows with an announcement he would stop over in Kyiv on April 1 ahead of the Bucharest summit. The surprise visit is viewed as a last-ditch attempt to muster support for Kyiv and Tbilisi's bid to be accepted into a MAP.

However, the US' efforts have so far failed to convince key Western European alliance members, foremost among them France and Germany, to support **See page 13**

## Nordic Investment Bank leaves door open to Ignalina nuclear investment

Mike Collier

in Helsinki

The Nordic Investment Bank (NIB) is ready to throw its considerable financial weight behind the construction of a new nuclear power plant at Ignalina in Lithuania – if anyone bothers to ask. "We can finance the project when there is a project. We are following the situation as closely as we can," Gunnar Okk, vice-president of the multilateral financial institution, told bne on March 17.

Okk was referring to a plan by the three Baltic states and Poland to build a new nuclear power plant on the site of where an aging Soviet one exists now, but is set to be closed down by the end of 2009 as part of Lithuania's deal when it joined the EU. However, wrangling by the four partners has set back the start and finish date of the new plant, meaning the region faces a power shortage. As such, Lithuania is desperately appealing to the EU, so far unsuccessfully, to delay the shutdown of the old unit. **See page 8**

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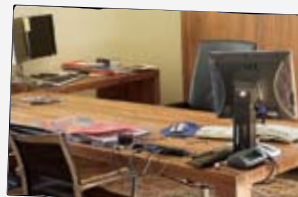
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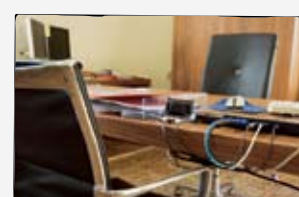
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## RUSSIA

### TNK-BP Moscow headquarters searched by police

Troika, Russia

Russian police have searched TNK-BP's Moscow office, looking for documents pertaining to a long running criminal investigation concerning SIDANCO, a vertically integrated Russian oil company that was merged into TNK-BP in 2003, a spokeswoman for the Internal Affairs Ministry Investigative Committee related yesterday. One preliminary assumption that could be made is that the search and investigation is a means of exerting pressure on Russian shareholders in the Russian-British JV to sell their stakes. However, this assumption seems presumptuous. An industry source said that the probe was an investigation of "suspected small-scale fraud rather than anything political", Reuters reports.

Meanwhile, RIA Novosti has specified that the general prosecutor's office had launched a probe into an alleged attempt of intentional bankruptcy at SIDANCO as early as April 1999.

We do not think that the investigation will be used as a political weapon against TNK-BP's Russian shareholders. The investigation really pertains to "old matters", and TNK-BP has cared a great deal about its goodwill since its creation. Moreover, the scale of possible infringements is most likely limited. In a recent statement, Russian shareholders (including Alfa Group, Access Industries and Renova Group) reiterated that the AAR consortium remains a long term investor in TNK-BP and has no plans to sell its stake. That said, Gazprom Neft CEO Alexander Dyukov said early this week in St Petersburg that neither his company nor Gazprom were in

# Green as camouflage for Kremlin's energy agenda

Graham Stack

in Berlin

Far from flooding the carbon trading market with hot air, Russia is posing as an environmental purist and using the green issue to push the Kremlin's energy agenda.

After vacillating for months, Russia's decision to sign off on the Kyoto Protocol in January made the international agreement that is supposed to regulate international emissions of gases harmful to the environment a real document.

One of the quirks of the document was the chance it gave Russia to sell lots of "hot air:" because the 5% reduction target for 2008-2012 took 1990 as its baseline, before Russia's post-Soviet industrial collapse, it handed Russia 300m tonnes of carbon emission indulgences to dispose of. Environmentalists and traders were waiting anxiously to see what Russia intended to do with the Kyoto lottery win. Would Russia swamp the nascent carbon trading market with cheap hot air, allowing European companies to ramp up emissions with impunity and turning Kyoto on its head?

They needn't have worried – the opposite seems to be true. After years of bureaucratic foot-dragging, Russia's paper-pushers have finally drawn up the regulatory framework for joint implementation – the system whereby companies from signatory countries can harvest carbon credits for own consumption or for trading by investing in carbon-reduction "joint implementation" projects in other signatory states.

And the big surprise: far from letting the lottery win go to their heads, Russian officials have outed themselves as environmental purists.

Vsevolod Gavrilov, head of the natural resources department in the economy ministry, announced at a press conference on March 13 that his department will process joint implementation projects – of which 60 have already been drawn up by investors – according to a rejection-based approach. "The most correct approach is forbidding everything, but allowing certain things to go forward. The worst approach is to approve everything, but say certain things are forbidden," Gavrilov said. "We are working according to a principle of rejection – we have no interest in creating the largest carbon emissions market. Our goal is to promote norms of ecological responsibility."

Many potential foreign investors hoping for a slice of carbon credit action in Russia were dismayed at his

words, although Gavrilov's statement was consistent with earlier assertions in January that, "the key goal is to attain ecological benefits both globally and locally here in Russia," rather than for Russia to earn big bucks.

Considering that the Russian government originally hemmed and hawed over signing up to Kyoto, leveraging a very strong bargaining position to secure EU consent to its WTO bid, is it really the case that Russian officials are now "greener than green" and intent on implementing the agreement for the sole good of the global environment? Or is Russian bureaucracy simply displaying its usual regulatory zeal? Or is there a more sophisticated Kremlin agenda for joint implementation, as for most everything else these days?

### Trailing Ukraine in carbon readiness

The proposed stringency regarding project approval follows a long period of foot-dragging by government over establishing the procedures for joint implementation – meaning that for potential investors, time is running out. "The window of opportunity is closing now that with 2008 the commitment phase of the Kyoto protocol has already started," says Maria Kovalenko, carbon trading analyst at pointcarbon. "Projects have to be completed before 2012, the emissions reduction target date. Newcomers should consider carefully whether there is sufficient time left."

"Ukraine established its procedures in 2006, and they already have one project up and running," she says. Not surprisingly, pointcarbon's CIS office is located in Kyiv and not Moscow. The Ukraine project, the Podolsky cement factory, consists of a €140m investment to replace wet cement production with dry technology. Ireland-based CRH Finance is providing the investment and will acquire the resulting carbon credits.

Konvalenko explains the Russian time lag with the detailed work that the government has performed in establishing procedures for project approval – a testimony to Gavrilov's professed purism. The very real complexity of the process is all down to the concept of "additionality:" joint implementation projects have to prove that the emissions reduction would not take place without the incentive of carbon credits, to cut down on freeloaders' distorting the carbon credit market. Needless to say, the bureaucratic effort in ascertaining this additionality is immense. Joint

talks with BP regarding the sale of the latter's share in the JV.

## **Abramovich accused of buying government land on the cheap** bne

Russia's most famous oligarch and best connected businessman in the country Roman Abramovich has been accused of buying state-owned land at below market prices, Prime Tass reports.

Abramovich together with other Russian businessmen bought a 49-year leases on 991 hectares of valuable forestland in the Moscow Region at low prices, Vedomosti reports.

The men bought the Eko Vest plot of 397 hectares for RUB24.39m, or RUB614 per acre, which is a fraction of the market rate.

Likewise president of the Russian Union of Industrialists and Entrepreneurs Alexander Shokhin bought a similar lease on 2 hectares near his house in the locality of Lesnaya Polyana for 153,562 rubles, or 768 rubles per acre. Shokhin told Vedomosti that he believed the price was fair because he would not use the land for commercial purposes.

## **Evrz/Raspadskeya: Merger off** UralSib, Russia

Evrz and Raspadskeya call off Yuzhkuzbassugol/Raspadskeya merger.

Evrz (EVR - Buy) and Raspadskeya (RASP - Buy) announced yesterday that they have decided to terminate merger talks between Yuzhkuzbassugol (YKU), a 100% coal mining subsidiary of Evraz, and Raspadskeya (RASP - Buy), Russia's second-largest coking coal producer (in which Evraz owns a 40% stake). Evraz originally announced plans to merge the two coal companies last June. Since that time, the completion of the deal has been postponed many times. In addition

implementation projects are both subject to approval at the national and UN level to guard against any softening of criteria leading to carbon credit inflation. Thus there is ample justification both for delays in establishing procedures and for future delays in approving projects. "Joint implementation is in itself a very slow process," says Kovalenko.

In Russia, the situation is made even more complex by the currently distorted incentives set by state-controlled prices for power and gas – controls that are about to be phased out. This means that rising domestic energy prices will anyway force companies to invest in improving energy efficiency, without any need for the additional incentive of selling carbon credits.

So the ministry, argues Astrid Moe of Norway's Fridtjof Nansen Institute, has a powerful argument for handling joint implementation strictly: to fence off "real" carbon reduction emissions from simple energy efficiency improvement stimulated by price rises. "I believe the Ministry of Economy wants to steer [joint implementation] into projects where new technology is needed and let the bulk of easy reductions be taken care of by price reforms, as well as emissions trading further on."

This is view is shared by Ingo Ramming, executive director of Carbon Trading and Finance, a joint venture established by Gazprombank and Dresdner Kleinwort. "This is a very important statement," argues Ramming, referring to Gavrillov, "coming against the background of controversies last year about projects in India and China where the additionality of projects was disputable. It seems the Russian authorities wanted to make quite sure about additionality. I would even say it was an important statement upholding the credibility of joint implementation in Russia.

This seems to back up eco-purist Gavrillov when he says, "unfortunately not all the investors are taking this opportunity the right way, some see it as a way to get a freebie without doing any work. We want to avoid these speculative projects."

## **Green as camouflage for energy agenda**

However, Gavrillov not only surprised potential investors by the stringency of his department's approach and his green purism, he also surprised them by naming Russian oil major Surgutneftegaz as a shining example of how to implement carbon emission reductions - by capturing the associated gas for power generation instead of simply flaring it.

This relativises Gavrillov's ecological credentials: since 2007 it has been established Kremlin policy to clamp down on flaring. President Vladimir Putin even mentioned the issue in his last state of the nation speech in April of 2007. Government ministries have started drawing up regulatory measures to encourage a shift towards utilizing associated gas. The Kremlin's

motivation is for cutting flaring is, however, not ecological, but to maximise Russia's energy clout. This raises the question of whether the tight bureaucratic supervision, combined with the small remaining window of opportunity for joint implementation projects, is not intended to channel Russia's carbon credit wealth towards strategic projects backed by the Kremlin.

The case of associated gas is one where Kremlin strategic goals and carbon emission goals coincide. However, a carbon-reducing classic – switching power generation from coal to gas – fundamentally contradicts Gazprom's ideas about how the Russian power sector should develop, and is thus likely to be a non-starter.

Gazprom is lobbying for exactly the opposite to happen: for an increase in the use of coal in Russia, to free up gas for more profitable exports. A planned rise in gas prices should stimulate this process. Gazprom has also just been given the go ahead to merge its considerable power generation assets with those of the SUEK coalmining concern, paving the way for increased use of coal domestically. According to Moe, this means that joint implementation



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to other reasons, our understanding is that the main stumbling block was the price of the deal and who would control the merged entity. The companies noted that at this stage they feel that Yuzhkuzbassugol and Raspadskaya would provide more value to the shareholders on a stand-alone basis. Evraz also announced that Gennady Kozovoi, CEO and core shareholder of Raspadskaya, has resigned as YKU's CEO. In our view, the news was generally expected, as the market had strong doubts about the deal going ahead. The news is initially slightly negative for Evraz and slightly positive for Raspadskaya.

## UKRAINE

### First signs of genco privatizations surface

Troika

The cabinet yesterday was to consider transferring the state's 60%+1 stakes in Dniproenergo, Donbasenergo, Centrenergo and Zakhidenergo to the National Energy Company to the State Property Fund to bring them one step closer to privatization. However, Prime Minister Yulia Tymoshenko postponed the issue until next week, citing the need for preliminary discussions

projects envisaging a coal-to-gas switch for Russia are unlikely to win approval, however impeccable their environmental credentials. Russian regulatory authorities have the power to simply delay project approval until time runs out for implementation. So Gazprom's preferences are likely to shape policy regarding carbon credits as it does in most other policy spheres as well. And all the more so for that Gazprom is hatching big carbon plans itself.

Phillip Dewhurst, head of PR at Gazprom's London subsidiary Gazprom Marketing and Trading, a vehicle for global carbon credit trading, calls Russia "the Saudi Arabia of carbon." Gazprom M&T has already made its debut on the world's carbon trading market, acquiring carbon credits by investing in a Brazilian bioethanol plant and selling to Japanese company Marubeni. According to Gazprom M&T, however, these deals were just testing the water. Gazprom's ultimate aim is to set up a scheme systematically bundling carbon credits with its own natural gas sales, marketing the package as "carbon-neutral gas." In this way, Gazprom can leverage Kyoto to expand market share in Europe, in particular facilitating direct access to industrial customers, one of its long-term strategic goals.

And Gazprom is not going to be short of carbon credits. According to Anna Korppoo also of the Fridtjof Nansen Institute, 52% of proposed joint implementation projects and 60% of proposed emission reductions in Russia involve refurbishing gas pipelines to reduce leakage. This means that Gazprom, monopoly owner of Russia's gas pipelines, will be the driving force behind joint implementation in Russia. Korppoo notes that gas pipeline projects involve a minimum of foreign actors, some of which are anyway Russian companies registered overseas.

In general, Korppoo notes revealing details about proposed joint implementation projects in Russia compared to Ukraine: an extreme concentration of the Russian projects in few hands, with only 17 foreign actors spread between 38 projects, compared to 15 foreign partners for a total of 15 projects in Ukraine.

These figures also point to joint implementation in Russia being nationalized to further the Kremlin's strategic goals – with restrictive bureaucratic means being used to channel credits to national champions, while maximizing their value by restricting supply to the market as a whole.

### Green fields for biofuel, blue skies for Sukhoi

It's hardly by chance that the same week Gavrilov outlined government policy on joint implementation, a trio of political heavyweights called on biofuel to become an important new string in Russia's energy bow. Russia currently has no bioethanol production, but the agriculture ministry estimates there are 20m hectares of idle arable land that could be brought back into use for biofuel production – supported by carbon credits.

No less than Vladimir Putin got the biofuel ball rolling. "Considering that the significance of biological fuel in the global energy sector is steadily growing, special attention will now be paid to countries that have enough arable land to ensure the necessary amounts. Certainly, Russia will occupy a special place among these countries. This is becoming no less important for us than the use of common national resources in the hydrocarbon sector," Putin said at a meeting with top officials of the State Duma on March 11, according to Interfax.

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with President Yushchenko. The good news for investors is that state aims to sell 60%+1 share, which, according to Ukrainian legislation, allows the buyer to form a quorum at AGM and thus gain control of the company.

The main intrigue here is Dniproenergo, as 60%+1 in the company is to be sold, though the cabinet does not recognize the legality of its merger with Donbas Fuel issue, which reduced the state's stake from 76% to 50%+1, while DTEK accumulated 44.28%. The deal currently faces two obstacles before it can be concluded: first, Dniproenergo's registrar, Ukrnaftogas, has refused to register the additional share issue; second, the Supreme Court is currently reviewing the legality of the merger.

**Rada speaker says Yushchenko and Tymoshenko now at loggerheads**  
bne

Verkhovna Rada Speaker Arseny Yatsenyuk has admitted in an interview President Viktor Yushchenko and Prime Minister Yulia Tymoshenko disagree on fundamental issues.

"The relations are difficult, it is no secret. The president cannot keep silent because Ukraine is not a private company. Current differences are on an ideological level. One side wants strategic action, another wants to be populist," he said in an interview with the *Izvestiya V Ukraine* newspaper published on March 19, as cited by Interfax.

"For instance, the gas price for Ukrainian consumers should be gradually increased. But the government is allowing this to happen because, it says, consumers are using the Ukrainian-produced gas. But why is that, is it drier? Moreover, a pensioner and a millionaire cannot pay the same for gas. This equalization is not favor of the poor," Yatsenyuk, a member of the Yushchenko-mear Our Ukraine-People's Self-Defence bloc, said.

Duma speaker Boris Gryzlov was even more direct, saying: "we should capture this market, and then we will dictate our terms not only on the sale of gas and oil, but also of biofuel. This is a realistic opportunity for us."

The day after Putin's call for action, Prime Minister Viktor Zubkov, attending a timber industry conference, announced a state programme to be launched with the goal of achieving 2m tonnes of biofuel production per year, including construction of some 30 biofuel plants. The timing of his announcement in front of timber industry representatives might indicate future utilization of timber waste for bioethanol production, something done in Soviet times – and

also chiming with Kremlin plans to increase added-value in the forestry industry.

The Kremlin carbon agenda is not limited to energy. At least one of the Kremlin's pet high-tech projects is also lining up to gain from the carbon credit bonanza: Russia's flagship civil aviation project, the Sukhoi Superjet, a state of the art medium-range passenger plane yet to go to serial production, boasts significantly lower carbon emission values than its competitors – making it eligible for carbon credits under Kyoto. As Maria Konvalenko of pointcarbon points out, "in Russia a lot of business is very close to politics, and sometimes it is simply the same." **bne**

FUNDS:

## Polar explorers in Ukraine

**Jason Corcoran**

in Moscow

UK-listed investment group Polar Capital is shutting its Moscow office in March after deciding to relocate its Eastern European operations to the Ukrainian capital Kyiv, citing a lack of quality deals in Russia and the growing attractiveness of Ukraine's economy.

"Russia is entering a period of sub-par returns compared to historical margins and some of the value had disappeared," Anton Khmelnski, Polar's Moscow-based director, told bne. "Ukraine is insulated from the credit fallout and there's no downside to its top-five stocks, which we won't be able to short. The underlining reason is that we simply need to be closer to our investments."

Polar, which runs traditional and hedge funds, has cut the Russian exposure of its \$220m Elbrus fund to 15% from 70% six months ago, and has sold down its holdings in blue-chips such as Russia's electricity monopoly UES and Golden Telecom. "There's a lot of good stuff still in Russia, but we are a boutique and we have more room to manoeuvre in smaller countries like Ukraine, which is about five years behind Russia," Khmelnski says.

### Contrarians

Polar's view on Russian stocks is at odds with Moscow's analyst community, who feel there could be 60% upside this year when the current sell-off ends. Russia's RTS index is down around 13% from the record high hit on December 12, after falling by as much as 20%. "A 20% fall from the high is regarded as a bear market for equities and, historically, in glo-

bal markets it is a level when buying resumes," says Chris Weafer, chief strategist at Moscow's UralSib.

However, Khmelnski believes that Ukraine will outpace Russia or any other place in a bull market and during a global slowdown because it's "cut off from the international capital markets." Ukraine's main stock exchange, the PFTS, grew last year 135.4% and is down by about 10% from the start of this year.

"The investment banks are all wrong because they are driven by other considerations. Just ask any banks in Europe which market has received most bank M&A activity, its Ukraine," explains Khmelnski. "The Russian top-down situation qualifies best, as I often say, as a macro-trap with little value bottom up. See the performance of IPOs - excess liquidity will fall to 15% and eventually to zero."

Khmelnski joined Polar Capital in April 2006 from Kazimir Partners, which was previously known as Brunswick Asset Management. He spent three years at Kazimir as head of equities. Prior to Brunswick, Khmelnski was at Swiss group Pictet Asset Management in London where he spent almost six years managing the Eastern European Trust, a \$100m exchange-listed company, which collected a number of awards for its performance and investment style. At the same time, he was also responsible for \$500m of equity investments in Emerging Europe and Pictet's global emerging market oil and gas sector. Khmelnski was born in Moscow, but grew up and received his education in Switzerland. A cerebral and quietly



"The government is going like this: by selling the remaining state property now we will finally lose control over strategic facilities but will find a source of filling the budget," Yatsenyuk said.

"All this will lead to a situation where the next cabinet of minister will start its morning by calling to oligarchs: "Will you give us gas today? And oil? And electricity?" he added, as cited by Interfax.

spoken man, he holds a Certificate in Financial Engineering from the FAME Foundation.

Khmelnitski says Polar will launch a new Ukrainian fund to invest \$500m in public and private companies at early stages and those launching IPOs. Four analysts are to be hired, in addition to the two fund managers transferring from Moscow. Polar has already taken stakes in Ukrainian insurance company Oranta and locally listed property developer Dragon Ukrainian Properties and Development fund. The fund also made money through a series of pre-flotation Ukrainian investments, taking stakes in companies shortly before they listed.

The new Kyiv operation will primarily focus on property, domestic food, pharmaceuticals, high-tech firms and insurance companies. "The property market is at the beginning of its cycle and there are a lot

of obvious opportunities in food, consumer goods and the beverage market," says Khmelnitski. "Accession to the WTO is a milestone event and will be key to this economy."

Polar joins Sweden's East Capital as one of the few foreign investors to set up in Ukraine. East Capital's Bering Ukraine fund has grown to \$304.68m and is up 180% since its inception. Investment banks are also being drawn to one of the best performing stock exchanges in the world last year. Credit Suisse opened a representative office in April, while Russia's Renaissance Capital has a full-service operation, competing with domestic market leaders Dragon Capital and Concorde. In November, Deutsche Bank said it was going to open an affiliated branch in Ukraine when the country joins the World Trade Organization. **bne**



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## Energy tops Lithuania-Czech cooperation

bne

Visiting Lithuanian Prime Minister Gediminas Kirkilas said that the same challenge of energy security and diversification links Lithuania and the Czech Republic closely, Xinhua reported.

During talks with his Czech counterpart Mirek Topolánek, Kirkilas said it is paramount that the two countries cooperate on energy. For example, the Ignalina power plant, established in the 1980s and the only nuclear plant in the Baltic region, topped the two leaders' meeting agenda. Kirkilas expressed concerns that his country could face a power shortage before a projected new plant goes into operation. Lithuania, Estonia, Latvia and Poland plan to build a new nuclear power plant at the eastern Lithuanian site of Ignalina to replace the original one, but delays means the new plant project won't be completed until perhaps 2025. Lithuania has been calling for an extension of the old Ignalina, a demand rejected by the EU.

**COMMENT:** Lithuania is making a last-ditch - almost certainly doomed - attempt to keep open its Ignalina nuclear power plant. Without it, the country says it faces power shortages and increased dependency on Russia.

## Hungary central banker says rate hike may be needed

bne

Vice governor of the central bank Ferenc Karvalits told Reuters that the NBH may need to hike interest rates if favourable inflation trends do not strengthen. "The wage dynamics of the past quarter, the service sector non-tradeable prices in the past few months showed favourable trends, if these trends accelerate we can return to the targeted 3% level of price stability..." Karvalits said on the sidelines of a news conference. "If these trends do not become robust then it is possible that (monetary) tightening

# Nordic Investment Bank leaves door open to Ignalina nuclear investment

At a presentation of its current strategy and investment priorities, NIB dropped a series of hints that it was ready and willing to play a key role in funding the new nuclear plant. That will come as a fillip to the politicians locked in a seemingly intractable series of wrangles over ownership and energy shares.

Not only is NIB ready to back "Ignalina II," but it may already have laid some of the groundwork for doing so. Lars Selenius, NIB's head of the region covering the Baltic states, told bne that NIB's investment in Lithuania is currently at a lower level than most NIB member countries, and identified as attractive projects involving cross-border transmission cables, power grid investment and electricity generation. Ignalina and its satellite projects would tick all of those boxes while raising NIB's investment in Lithuania markedly. "There is nothing in the project as such that would prevent us being involved," Selenius says. "If it would materialise in a form that would make sense, then of course we would be interested."

Selenius also provided a reminder that one of the first loans NIB ever issued was to help finance the huge Olkiluoto nuclear power facility in Finland. The bank's lending terms include a strong element of environmental monitoring, but it thinks of nuclear power has a positive role to play. "This is the only possibility to markedly cut CO2 emissions in cases where we can't replace those investments with other renewable technologies. It is hard to believe the world can face its future needs without nuclear power. We will finance such projects," says Gunnar Okk.

## Below the radar

NIB was established as an International Financial Institution in 1976 and is owned by Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden - the Baltic states having joined in 2005. Member countries subscribe authorised capital according to a distribution key based on their gross national income. The bank promotes sustainable growth of its member countries by providing long-term complementary financing, based on sound banking principles, to projects that strengthen competitiveness and enhance the environment.

NIB is not restricted to projects within member countries and is currently backing projects in Asia (including several in China), South America and Africa as well as its Nordic/Baltic heartland. It has provided co-financing on over 1,000 projects so far, but its constitution prevents it providing more than 50% of the capital for any individual project. Unlike other International Financial Institutions, NIB pays a dividend to its members (25m this year) and boasts best-pos-

sible ratings from Standard & Poor's and Moody's of 'AAA'/Aaa'. Nevertheless, its unusual supra-national status and understated Nordic character means it remains off the radar of many investors who might do well to follow its activities more closely.

NIB has just released its 2007 figures, which reveal the total amount of new loan agreements signed for the year totalled €2.2 bn. Loan disbursements in 2007 surged to an all-time high of €2.4bn, while the portfolio of loans outstanding and guarantees increased by 7% to €2.3bn. While NIB's core earnings increased €161m, profits fell to €69m due to the effect increased credit spreads and long-term interest rates had on the market. **bne**

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may be needed." The bank will hold its next rate setting meeting on March 31.

**No sign of Polish slowdown, GDP growth at around 6% in Jan-Mar**  
bne

Polish GDP growth should measure around 6% in Jan-Mar and the Finance Ministry maintains its forecast for 2008 at 5.5%, deputy Finance Minister Katarzyna Zajdel-Kurowska told reporters, PAP reported.

"Output data prove the economy is still doing fine, that it has strong and stable fundamentals, Zajdel-Kurowska said. "Of course, in the light of events on global markets, we must take into account economic slowdown."

"Right now, the data do not indicate slowdown, but the effects of global turmoil could be felt in next periods," she said. "Data prove Q1 is very good. we do not rule that the result will be better than forecasts. GDP in Q1 will amount to some 6%."

**Lithuania PM in Czech Republic to discuss energy security, seeks Ignalina ally**  
bne

Lithuanian Prime Minister Gediminas Kirkilas began a two-day visit to the Czech Republic to discuss problems of energy security, Itar-Tass said.

Experts say Kirkilas is looking for allies in its fight to keep open the Ignalina power plant, which under EU rules must be closed by 2009, but which Lithuania wants to keep open because it is worried about power shortages and having to rely on Russia.

The European Commission, however, is against an extension of the operation of the INPS. Vilnius is looking for allies and views the Czech Republic, which is in favour of expanding the use of nuclear

FUNDS:

## Parex Asset Management wins at home, looks to CIS markets

**Mike Collier**

in Riga

It may have passed unnoticed while the world's money markets wrestle with huge write-downs and bankruptcies, but in a quiet, air-conditioned office in the centre of Riga, Roberts Idelsons is calmly and confidently outlining a much more positive position for Parex Asset Management, which he heads.

Idelsons spoke to bne just a few hours after Parex signed an agreement in March with the First Latvian Closed Pension Fund (Pirmais Slegtais Pensiju Fonds) to put its expertise to work managing a financial portfolio for the fund. Nothing unusual in that – except that Parex will actually supply one of a pair of fund managers for the scheme, the other being supplied by existing portfolio manager Evli Securities. In effect, the two companies will be in competition, but working towards the single goal of generating growth and value for the fund.

First Latvian Closed Pension Fund is the only private pension fund in Latvia with employers as shareholders – namely telecommunications and energy giants Lattelecom and Latvenergo. It is also the largest plan of its kind, including 12,400 members, with around €40m accrued on their accounts. Small beer by international standards perhaps, but of real importance in a Baltic context where there is no long-established pension culture.

Though delighted to be chosen by the scheme's administrators, Idelsons is keen not to knock Parex's

new competitor. "Historically it has been managed to a high standard by Evli," he told bne. "It might seem a bit strange, but actually I think this is rather a good idea to have two bright, well-established companies working towards a single goal.

"Both managers will be looking for the best possible ways to get a return. Of course, we'll have to wait and see how it works out, but in general I tend to agree that this might generate better returns overall regardless of problems that might be encountered."

A tender for management of the First Latvian Pension Fund was announced back in November 2007 and Parex's win was based on several criteria, including market expertise, size of assets under management, team professionalism and the company's track record on the pension fund market in Latvia and in Europe.

### New markets

The win is just the latest success for Parex's highly individual growth model. With over €640m in assets under management, Parex Asset Management, a subsidiary of Parex Banka (which has assets exceeding €4.5bn), is the largest investment management company in Latvia. Parex offers investment management and advisory services to domestic and international retail, corporate and institutional clients.



Roberts Idelsons



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power, as a potential one. President Vaclav Klaus stated in December that he could not imagine the development of the country without a nuclear power industry.

**COMMENT:** Lithuania is making a last-ditch - almost certainly doomed - attempt to keep open its Ignalina nuclear power plant. Without it, the country says it faces power shortages and increased dependency on Russia.

### Czech retail sales in Jan rise 4.9% on yr Erste

Seasonally adjusted real retail sales (excl. automotive segment) rose 0,4% m/m and 4,9% y/y. Including automotive segment, seasonally adjusted retail sales decreased by 0,1% m/m while posting a growth of 5,1%. M/m decrease of overall retail sales is thus due to the decrease (by one percent) of retail sales in automotive segment which we think is to a good extent a seasonal effect (after a strong December growth of over 5% m/m). Seasonally unadjusted sales posted a y/y growth of 4,1% which was in line with market expectation (4%) and below ours (5%).

The highest contribution to the growth came from electronics, furniture and household goods - especially electronics is driven by falling prices (strong CZK) that stimulate demand. Frontloading of drugs purchases (which was one of the reasons behind stronger-than-expected GDP growth in Q4) in December '07 was probably behind the drop by 7,1% in sales of pharmaceutical goods in January. This will also have an impact on growth in Q1 of 2008.

We expect the growth to be around 4% this year, this being due to tax reform, higher inflation vis-vis nominal wage growth and cuts in social expenditures.

Through its subsidiaries and representation offices, Parex also operates in Lithuania, Estonia, Russia, Ukraine and Kazakhstan, and these new markets are where Idelsons sees real opportunities for future growth, to the extent that he is keen that Parex is not viewed so much as a Baltic bank as a financial institution covering a much wider geographical spread.

"It is important to understand that we are not about investing money in the Baltics. We don't have any products that specifically invest money in the Baltics. We are not a Baltic player and we don't want to position ourselves in the Baltic. We have fully licensed subsidiaries in Moscow and Kyiv as well as elsewhere. We see our business diversifying into new countries, especially in Ukraine where we are in a leading position with our open-ended mutual trust fund and we want to maintain and develop that position as the market grows."

"We have products investing in countries across Ukraine, Russia and Central Asia. We are more focused on these as target countries. Each one has a different dynamic, which is why we try to be as specific as possible." Work is being done to prepare a new Central Asian investment fund that could become Parex's first such product to be offered internationally, possibly in the UK, Switzerland and Germany.

Idelsons sees Ukraine as the "market of the moment," identifying it as being at a similar stage as the Baltic states when they moved out of Russia's shadow. With the Baltics having experienced the bursting of its "boom bubble," Ukraine and then Kazakhstan and Azerbaijan are likely to replace them as markets with the most rapid but still dependable growth. Georgia he sees as a slightly more complex situation, which is still being monitored.

To that end, Idelsons stresses that Parex has already been "on the ground" in the new markets for some considerable time, outlining a strategy in which intelligence is gathered and prospects are identified, sometimes for years before a fully-blown subsidiary is established.

"Usually we don't like to buy much - if you look at our offices, they have all pretty much grown organically. If you want to make an impression on local markets, you have to have local professionals - and that's something we do have," he says. "Many of the people who are on the ground in those countries have been on the ground for more than 10 years - for instance in Russia and Ukraine - so it is easy for us to understand the underlying rationale and gain a deeper understanding of the markets."

Such long-term strategic thinking and a belief in getting back to banking basics is the secret both of Parex Group's strong ratings (Moody's "Baa3", Fitch 'BB+', Capital Intelligence 'BBB') and its avoidance of problems associated with the US sub-prime crisis

and subsequent credit crunch. During the last few years when many of the bank's competitors in the Latvian market were pushing cheap consumer credit to all and sundry, Parex was concentrating more on promoting the old-fashioned virtue of saving amongst its account holders. That now looks like it was an exceptionally important piece of common sense in a market that's often fueled by hype.

"Yes, that was important from the very beginning," says Idelsons. "Unlike many of our competitors we are not part of any Scandinavian or other group. We are focused on making money, not about taking market share in retail loans."

One of the best advertisements for Parex's investment-led approach is the fact that Latvia's two richest individuals, Valery Kargin and Viktor Krasovitsky, were founders of Parex Banka, Idelsons believes. A recent exclusive deal to issue American Express cards in Latvia and Lithuania adds further clout to Parex's growing reputation as a safe pair of hands when some other banks are dropping the ball. **bn**

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**Delic: Serbia to be on Schengen list by end of year**  
bne

Serbia's Deputy Prime Minister Bozidar Delic has said he believes Serbia will be on the white Schengen visa list by the end of the year, FoNet reports.

This would enable Serbian citizens to travel without visas to countries that signed the Schengen agreement.

"The new, modern, biometric Serbian passport which opens the borders of the Schengen zone will be available to citizens by the end of May," the deputy prime minister said.

Delic said that negotiations regarding visa liberalization with the European Commission had begun in January, and added that he expected Serbia to receive a list of criteria from Brussels in the next few weeks that would have to be completed in order for Serbia to enter the white Schengen list.

"I am convinced that we will finish everything on time and without any problems," said the deputy prime minister.

**Global turmoil and local politics bring halt to Turkey's rate cuts**  
Oyak Securities

In today's MPC meeting, the CBT kept its O/N borrowing rate on hold, in line with our expectation and market consensus.

The committee convened with six members with the appointment of Abdullah Yavas. There is still one empty seat in the MPC. Meanwhile, the minimum number required for the meetings is five.

In the announcement, CBT underlined that there might be delay in reaching inflation target due to uncertainty regarding global food and energy prices, adding that squeeze in global credit markets might intensify downward pressure

## EGL seals deal to take Iranian gas for its Trans-Adriatic Pipeline

**Nicholas Watson**  
in Prague

Following on the heels of February's deal with StatoilHydro to build the Trans-Adriatic Pipeline (TAP), Swiss-based energy trading company EGL said Monday, March 17 it had sealed a long-term agreement with Tehran that will bring Iranian gas through the pipeline and into Europe for the first time. That assumes, of course, Iran finally starts developing its gas industry properly.

Under the terms of the 25-year gas procurement contract with Iranian Gas Export Company (Nigec), EGL plans to start taking Iranian gas from 2009. Larger gas volumes will follow in 2012 when the TAP project is expected to become operational, with gas deliveries from Nigec reaching as much as 5.5bn cubic metres/year (cm/y). That gas will help EGL fill its part of the TAP, whose initial capacity will be some 10bn cm/y. The rest of the gas will come from StatoilHydro through its 25.5% shareholding in the consortium developing the giant Shah Deniz gasfield in Azerbaijan.

EGL and StatoilHydro agreed in February to combine their resources to build the estimated €1.5bn gas pipeline, which will run 520 kilometres from the Greek city of Thessaloniki through Albanian territory and under the Adriatic Sea to connect with the national Italian pipeline grid near Brindisi, located on the heel of Italian boot. According to EGL, the Caspian and Iranian gas will reach Greek territory via an existing network of pipelines that run through Turkey. Greece and Turkey have built a gas interconnector pipeline that came online in November 2007.

TAP is one of several pipelines on the drawing board that the EU is looking to in order to help achieve its goal of maintaining the region's level of Russian gas imports at 25% of total consumption, partly by opening up a fourth supply corridor from the Caspian and Middle East. The EU-27's demand for gas is expected to rise by 50% by 2030 from today's 440bn cm/y.

Until now, Russia has somewhat run circles around the EU, signing bilateral energy deals with EU countries and marginalising the traditional transit countries like Ukraine and Poland with pipelines like the Nord Stream project, which will transport gas under the Baltic Sea. Gazprom says it hopes to export up to 250bn cm/y to Europe by 2020, including liquefied natural gas (LNG).

The EU's flagship project to bring Caspian and Middle Eastern gas to Europe is Nabucco - an ambi-

tious 3,300-km pipeline which would transport gas across Turkey, Bulgaria, Romania and Hungary to OMV's gas hub at Baumgarten, Austria. The feasibility of this project is open to question on several fronts, not least the inability to source sufficient gas to justify its development - something EGL believes it has solved with these deals with StatoilHydro and Iran.

**Persian problems**

The main problem with any deal involving Iran is not whether the country has enough gas - Iran has the second-largest such reserves in the world after Russia - but can it get it out of the ground in order to fulfill its export orders. The prospect of Iran and Iraq supplying gas to Europe, while an attractive idea in principle, is impractical except in the very long term: for years Iran has struggled to raise its

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on domestic economic activities. Thus, the demand conditions will continue to support medium term inflation outlook.

As might be recalled, on Monday we sent a note, revising down our rate cut expectation from 25 bps to "no change" due to especially rising political uncertainty on the domestic front, accompanied by worsening international credit conditions that are likely to result in a more conservative stance by the CBT. Although the announcement did not touch upon domestic political risk factors, we still believe that the local noise was effective in worsening the expectations of market players and thus it played a role in the decision. In a rising yield curve environment, another rate cut would have been contradictory with market dynamics.

In the new environment we will revise our interest rate expectations upwards for O/N and T-bill yields.

**ICG: Kosovo at risk of becoming "frozen conflict"**  
bne

Kosovo is threatened with the prospect of a long-term "frozen conflict," according to a recent report from the International Crisis Group.

"Although there has not been general violence, yesterday's riots were the first on a larger scale, while Belgrade's efforts to spread its power to Serb zones (in Kosovo) and the international community and Priština's inability to coordinate a counter-strategy suggest that long-term danger is becoming very realistic," says the ICG report.

The report goes on to say Serbia is applying "a sophisticated strategy to undermine the Kosovo state and bolster institutions in Serb zones, while the international community has no clear or coordinated response to it."

The organization calls on NATO, the EU, the UN and all in Kosovo to swiftly establish a counter-strategy in northern Kosovo.

gas production, beset by problems ranging from US sanctions to incompetent government administration. More than 60% of Iranian proven gas reserves have not been developed. Iran hardly exports any gas at all.

The woeful state of its gas industry was in evidence this winter when in late December, Turkmenistan stopped deliveries of around 23m cm/d of gas through the Korpezhe-Kurt Kui pipeline, which links Turkmenistan's southern gasfields with northeastern Iran, causing some Iranians to freeze to death in the bitterly cold winter where temperatures fell as low as -20°C. The Turkmenistani government said the shut-off was the result of technical problems with the pipeline. But its admission that repairs would take longer than normal because of Iran's failure to pay for some of the gas immediately prompted speculation that the government is following Russia's lead in holding energy-importing countries to ransom. A knock-on effect was that Iran couldn't meet its standing agreements to send gas to Turkey by pipeline, forcing Ankara to turn to Moscow, its primary supplier, for extra shipments.

At the same time, Iran has been promising what little gas it does and will produce to other buyers. In mid-July 2007, Ankara and Tehran signed a memorandum of understanding that would allow the transport of gas from Iran and Turkmenistan to Europe, through Turkey. It would also reportedly allow Turkey to invest \$3.5bn in developing Iran's enormous South Pars natural gas field in the Persian Gulf.

Even so, EGL remains confident its contract with Iran is sound. "We're pretty much confident that the Iranian side will keep their word on the contract," says a spokesman for EGL. "The first phase will be smaller than the 5.5bn cm/y, and there will be a considerable increase by the time TAP becomes operational with that plateau of 5.5bn cm/y."

The other big problem in dealing with Iran is legal. In late September, the US House of Representatives voted 397-16 in favour of a new bill that would make sanctions mandatory for any energy company investing more than \$20m in Iran. In mid-October, EU foreign ministers said they were considering what additional sanctions might be appropriate to support the UN process trying to rein in Iran's alleged nuclear ambitions.

However, EGL insists this contract is a gas procurement one and there is no investment per se coming from the Swiss firm. "EGL has sealed the contract in line with all EU and international law," the spokesman says. "We're not investing in Iran – it's a gas procurement contract for gas delivery at the Turkish border."

Indeed, EGL points out that the Swiss Federal Department of Foreign Affairs was present at the

signing ceremony of the contract – "a clear signal that we have done everything in line with the law. Its presence is a guarantee of that." **bne**

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### Armenia lifts state of emergency

bne

Armenia has lifted the state of emergency that has been in place in the capital Yerevan since the beginning of March.

Incumbent President Robert Kocharian declared a 20-day state of emergency in response to mass rallies and protests over the result of the February 20 presidential election. This saw Kocharian's favoured successor, Prime Minister Serge Sarkisian, receive 52.9% of the vote, thus securing him a first-round victory.

Levon Ter-Petrosian, Armenia's first post-Soviet president, received 21.5% of the vote, while Artur Baghdasarian, former speaker in the Armenian parliament, received 16.6%. Ter-Petrosian condemned the election process as rigged even before the results were declared. In the ensuing chaos, eight people were killed and over 200 wounded before the 20-day state of emergency was declared on March 1.

### Azerbaijan to build up defence industry

bne

Azerbaijan's president Ilham Aliyev said yesterday that the country was increasing its military budget and planned to launch its own defence industry.

President Aliyev told Interfax that as well as importing weapons, it had set up a domestic defence industry last year, and was planning to increase manufacturing capacity.

"The situation in which we have found ourselves and the occupation of our lands are, of course, pushing us to increasing our military expenditure, which is what we are doing," Aliyev said in an interview with Interfax.

## Georgia, Ukraine won't be offered Membership Action Plans at Nato summit

these bids. These countries are worried that such moves would strain already tense relations with Russia, which adamantly opposes Nato's further expansion to regions it views as falling within its own sphere of influence. Russia's outgoing president, Vladimir Putin, warned in February that Moscow could point missiles at Ukraine should its former Soviet ally join Nato and become a host for military bases.

"The Chancellor's Office has now apparently convinced [Chancellor Angela] Merkel herself to lead the opposition to Georgian and Ukrainian MAPs and coordinate with Russia to that end," says Vladimir Socor, a senior fellow with the right-wing think-tank The Jamestown Foundation. "Blocking those MAPs is now Berlin's bipartisan policy, in a manner that singularizes Germany from among all allies."

Domestic problems, such as Ukrainians' ambivalent attitude to Nato and chances that a parliamentary election in Georgia could lead to a major political shake-up, are also major points of concern for some Nato members, sources say. As a result, alliance members are working on a compromise that would keep the door open for Kyiv and Tbilisi, while stopping just short of giving them a MAP.

"Nato member governments are not ready to offer MAP to Ukraine and Georgia," says Stephen J. Flanagan, senior vice president and director of the International Security Program at the Washington DC-based Center for Strategic and International Studies. "There are doubts about the depth of support for Nato membership in Ukraine, uncertainty about political trends in Georgia, and concerns that the move would further strain relations with Russia. However, the US and others will want to be sure that this reluctance does not send a message that Moscow's confrontational diplomacy is successful. The allies will look for some concrete steps short of MAP to enhance dialogue with Ukraine and Georgia that would keep Nato's door open."

Kucheriv says it's the Russian factor that's the main problem. "If Russia did not make such a big issue out of this, then Ukraine and Georgia would have been accepted into the Nato MAP long ago," he says. **bne**

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## bne:deal

businessneweurope

### PepsiCo to acquire Lebedyansky, become No.1 on Russian Juice market

bne

US drinks giant PepsiCo announced Thursday, March 20, that it would pay \$1.4bn to acquire a 75.53% stake in Russia's largest juice maker Lebedyansky, excluding its baby food and mineral water businesses, ending months of rumours over the potential deal and landing PepsiCo with over 30% of Russia's lucrative juice market.

PepsiCo and its distribution partner, The Pepsi Bottling Group (PBG), will split the acquisition 75%/25%. The baby food and mineral water spin-offs and the consequent acquisition of the juice business are both expected to be completed in the third quarter of 2008, according to a Lebedyansky press release.

"This agreement provides us with a strong platform for continued expansion in one of the world's fastest growing juice markets and advances the global transformation of PepsiCo's product portfolio," said Michael White, PepsiCo International CEO and vice chairman of PepsiCo. Eric Foss, President & CEO of PBG, added: "Russia represents our biggest growth market."

The shares will be bought from Lebedyansky's four largest individual shareholders, listed by Russian business daily *Kommerstant* as State Duma member Nikolay Bortsov with 30%, his son and Lebedyansky chairman Yuri Bortsov with 25.1%, as well as board members Olga Belyavtseva with 18.4% and Dmitry Fadeev with 2%. Management will also reportedly sell a further 0.3%.

Unicredit commented: "We see the deal as a strong positive for the company [Lebedyansky]: shareholders will receive \$88/share plus stakes in the spun-off businesses, which we believe substantially exceeds the \$25/share implied by yesterday's closing price. We note that minority shareholders also have the possibility to participate in the deal."

Earlier in the week, PepsiCo and PBG, via their Russian joint venture PR Beverages, agreed to acquire 100% of Russian drinks maker Sobol-Aqua for an undisclosed price

in a deal expected to close in the second quarter of 2008. Sobol-Aqua includes a production facility in Novosibirsk and the acquisition is expected to accelerate PepsiCo's expansion in Siberia and Eastern Russia.

PepsiCo's stampede on Russia is expected to spark further consolidation of the soft drinks sector and local media promptly reported that the world's leading soft drinks maker Coca-Cola is in negotiations to acquire one of Russian dairy leader Wimm-Bil-Dann's (WBD) three juice plants in a bid to regain its leadership. The plant in question is reportedly the Ramenskoye facility near Moscow, which produces the J-7 brand.

Alfa Bank points out that based on EV/EBITDA multiples, WBD is a bargain compared with Lebedyansky and is bullish on WBD. Renaissance Capital, envisaging an alternative outcome, comments that WBD could fall victim to a price war between PepsiCo and Coca-Cola as the two foreign giants do battle to increase their market share by cutting prices.

Soviet Premier Nikita Khrushchev reportedly sampled Pepsi at an exhibition of American products in Moscow in 1959, and the company set up a bottling plant in Novorossiysk in 1974, becoming the first western branded consumer product in the country.

## bne:stocks

businessneweurope

### Asbis Enterprises first Russian company to delist from AIM Listing, move to Warsaw

bne

Russian IT firm Asbis Enterprises has become the first Russian company listed on London's Alternative Investment Market to delist its shares and move to the increasingly popular Warsaw Stock Exchange (WSE).

Some of the smaller Russian companies listed on AIM have been complaining that liquidity is thin post-float as they get swamped in the crowd of international companies on the LSE's junior exchange. The appeal of the WSE is they can be a bigger fish in a smaller pond.

#### Asbis listed on the WSE in October 2007.

"The company has decided to cancel its AIM listing in order to consolidate all liquidity to a single exchange," Asbis said in an application filed with the London exchange reports the Moscow Times.

Investors in London can still buy the shares thanks to the "European Passport" system that allows EU members access to each others exchanges.

Established in 1995, the Cyprus-based AS-BIS Group specializes in the distribution of IT components and peripherals and has operations spanning 23 countries. Asbis founder Sergei Kostevich controls 46.26 percent of the company through his KS Holdings. It was listed on AIM in October 2006, reported revenues of \$1.4 billion last year and had net profit growing 68.8 percent to \$18.7 million, reports the Moscow Times.

"The London market is very strong and better known, but it failed to deliver to us when it comes to liquidity," company spokesman Viktor Lukyanov told the paper by telephone from Belarus.

## bne:banker

businessneweurope

### Officials Embezzle from the state pension fund

bne

A criminal case was opened after officials working for the state pension fund (SPF) were accused of embezzling RUB43.5m from the fund, the Ministry of Internal Affairs said last week.

An investigation found that senior officials at the fund bought nine apartments in Moscow using money from the fund in 2004-2005. The title to the apartments was then transferred to the employees.

"It has been established that, in the period from 2004 to 2005, the Fund's management concluded nine contracts with the Moscow city construction investment programs department, on purchasing apartments at the expense of a state extra-budgetary fund designed for social development and capital construction," a Interior Ministry statement said.

"The Fund's management violated the law, which clearly stipulates that housing bought

at the state's expense can only be leased to Fund employees, while the title to it must be transferred to the Russian Federation and its operational management must be entrusted to the Pension Fund," the statement says.

The unnamed officials face between five to 10 years in prison and a fine of RUB1m if convicted. The abuse is not connected to the current administration of the fund and happened under the tenure of Nikolai Krets, who was dismissed in December 2004, the Pension Fund said.

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### TNK-BP Moscow headquarters searched by police

Troika, Russia

Russian police have searched TNK-BP's Moscow office, looking for documents pertaining to a long running criminal investigation concerning SIDANCO, a vertically integrated Russian oil company that was merged into TNK-BP in 2003, a spokeswoman for the Internal Affairs Ministry Investigative Committee related yesterday.

One preliminary assumption that could be made is that the search and investigation is a means of exerting pressure on Russian shareholders in the Russian-British JV to sell their stakes. However, this assumption seems presumptuous. An industry source said that the probe was an investigation of "suspected small scale fraud rather than anything political", Reuters reports.

Meanwhile, RIA Novosti has specified that the general prosecutor's office had launched a probe into an alleged attempt of intentional bankruptcy at SIDANCO as early as April 1999.

We do not think that the investigation will be used as a political weapon against TNK-BP's Russian shareholders. The investigation really pertains to "old matters", and TNK-BP has cared a great deal about its goodwill since its creation. Moreover, the

scale of possible infringements is most likely limited. In a recent statement, Russian shareholders (including Alfa Group, Access Industries and Renova Group) reiterated that the AAR consortium remains a long-term investor in TNK-BP and has no plans to sell its stake. That said, Gazprom Neft CEO Alexander Dyukov said early this week in St Petersburg that neither his company nor Gazprom were in talks with BP regarding the sale of the latter's share in the JV.

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