

At the end of 2010, The Bleyzer Foundation conducted its second survey of investor sentiment in Ukraine. Our respondents are members of the U.S.-Ukraine Business Council, who also participated in our survey in the first quarter of 2010. Because of the small size of this sample, the result of the survey should not be interpreted to represent the entire investor community in Ukraine. However, since most of the responses were received from foreign investors, this survey provides a valuable snapshot of investor attitudes and expectations, and allows us to track changes in investor confidence over the course of 2010.

The results are encouraging. Overall, the willingness of companies to invest both in Ukraine and in other countries has significantly improved thanks to more stable national and global economic and financial conditions. Indeed, a higher share of respondents plans to invest more in the future compared to the beginning of 2010 (see chart 1).

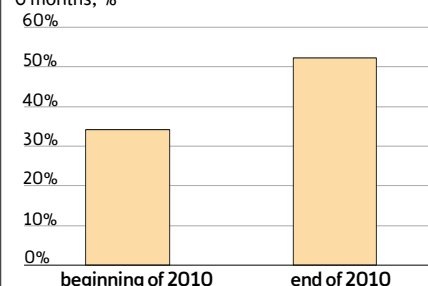
Our survey sheds some light on the sources of stronger business performance in 2010 compared to the economic downturn of 2009. In particular, we asked investors to comment on a set of business indicators relating to their companies, including production, sales, prices, costs, employment and wages. Companies also reported their expectations on the dynamics of these indicators in the first half of 2011 (see chart 2).

Overall, the second half of 2010 saw higher output growth thanks to stronger sales, including sales for exports. Somewhat slower growth of sales and output is expected in the first half of this year due to slower expansion of orders from new and existing customers. That said, capital spending and employment will continue to grow at about the same pace, which may imply that investors feel more confident about expanding production capacity. After all, the majority of respondents still believe that general business conditions and the investment outlook for Ukraine are getting better (see chart 3).

At the same time, many investors still find the business and investment environment in Ukraine quite challenging (see chart 4).

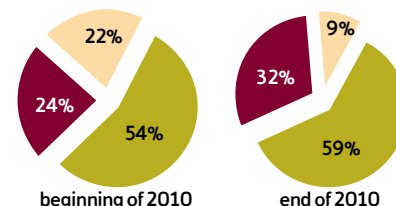
Finally, our survey points to a shift in investors' concerns. In particular, if at the beginning of 2010, macroeconomic stability and legal environment were top concerns for investors, at the end of 2010 corruption and business regulation emerged as major obstacles for the investment climate in Ukraine.

Chart 1. TBF Investor Sentiment Index investors planning to invest more within the next 6 months, %



The difference between the share of respondents planning to increase investments and the share of respondents planning to reduce investments. TBF Investor Sentiment Index is an average of two components:

Component 1. Six months from now your investments in Ukraine will be:



Component 2. Six months from now your investments in other countries will be:

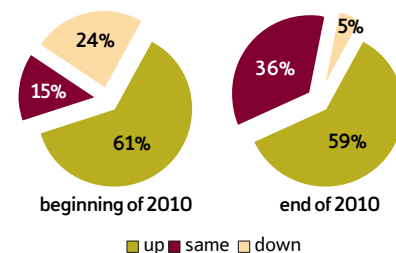


Chart 2. Company related business indicators difference between the share of investors reporting improvement and the share of respondents reporting worsening of the indicator, %

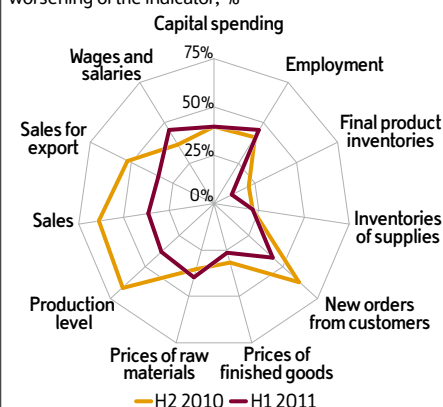


Chart 3. Business conditions and investment outlook difference between the share of investors reporting improvement and the share of respondents reporting worsening of the indicator, %

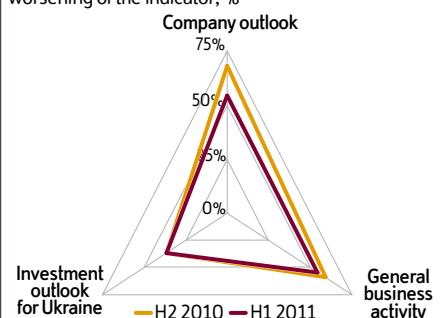


Chart 4. Business environment remains challenging respondents indicating that the factor is a binding and serious constraint on investment activity in Ukraine, %

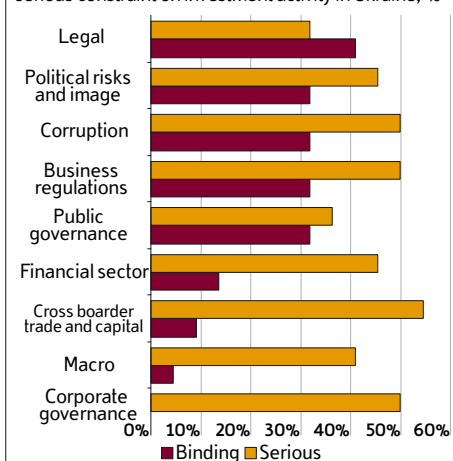
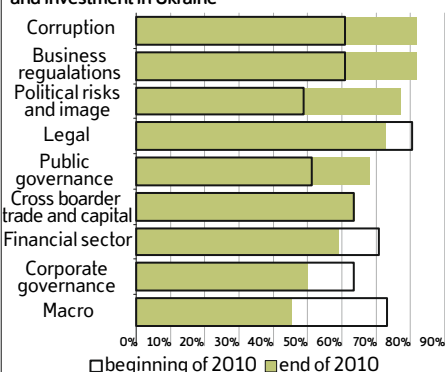


Chart 5. Major obstacles to the expansion of business and investment in Ukraine



The end of 2010 survey shows a combined percentage of respondents indicating that the factor is a binding and serious constraint. The beginning of 2010 survey shows a combined percentage of respondents indicating that the factor severity ranged from 1 to 5.