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Rating report

(under the contract # 08/PA, April 25, 2008, translation from Russian)

Rating of investment attractiveness on Expert Rating scale:	**uaA1** (High level of stability with neutral forecast)
Rating interpretation:	High level of investment attractiveness for expansion of enterprises of all sectors of economy. City economy rests on not enough diversified industrial basis. But city is good for expansion of branches directed on satisfaction of city population needs
Credit rating on national scale:	**uaAAA**
Rating interpretation:	Highest level of borrower's solvency in comparison with other Ukrainian borrowers and Debt Instruments
Date of rating assignment:	June 19, 2008
Near-term of actualization (confirmation):	On results of 2008 performance

Mariupol

70, Lenin prsp., Mariupol, 87500, Ukraine
(city council net address)

Date of city foundation:	1778
Retrospective of city renaming:	Pavlovsk — 1778–1779, Mariupol — 1779–1948, Zhdanov — 1948–1989, Mariupol – since January 13, 1989
Metropolitan Area:	243,9 sq.km
Government executive:	Yuriy Khotlubey
A person chargeable for public relations:	Roman Tolstykh, Mariupol City Council press service, +38(0629) 52-96-81
Telephone:	+38 (0629)33-22-40
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Public Internet resources:	http://www.0629.com.ua; http://www.promariupol.com
Web-site:	http://www.marsovet.org.ua

Economic and geographical characteristics: Mariupol city is located at 47°6'N and 37° 33'E on the south east of Ukraine along the northern coast of Azov Sea. City is borderd by Novoazovsk, Volodarsk and Pervomaisk districts of Donetsk region. Time zone is GMT 2:00 or 1:00 Moscow time.

1. General characteristic and retrospection of city development

1.a. Economic growth dynamics

Over the past 5 years the volume of industrial output realized by city industrial enterprises increased by 123.8%. As to the increase rate of industrial output the 2003 and 2007 years became record-breaking 19.8% and 6.3% respectively. It came from the history up to our days that industrial enterprises located in the city always have been of great value for a Ukraine's economics. Thus on results of 2007 year activity the share of industrial output of city's enterprises in Ukraine's GDP amounted to 5.58%. Having a pronounced lowering trend the city's GDP volume still remains substantial for national economy ranking the city in one row with Kyiv, Dnipropetrovsk and Donetsk.

Relying on results of 2008 fiscal year Expert rating forecasts the increase of industrial output by more than 6% and increase of its share in Ukraine's GDP up to 6-6.5%. The determining factor of this forecast is the growth of ferrous materials prices in world markets in May-June months by 30–35%. The considerable part of industrial output in Mariupol is being produced in ferrous metallurgy sector and allied industries.

City authorities succeed in keeping up very high level of population employment. Level of unemployment over the past 5 years has declined from 0.6% to 0.45% and in 2007 this level officially constituted 2.3%. Expert Rating also notes positive tendencies connected with demographic setting. During the last 5 years the Mariupol population size has decreased by 1.89% while on the Ukraine's average during the same period population has decreased by 3.4% according to Statistics State Committee data. The slowdown of the both rates of population decrease and lowering of unemployment among the able-bodied citizens furthers the formation of healthy demographic environment for further servicing the economic growth of the city. Positive demographic tendencies are also confirmed by the growth of the retail turnover by 242% over the past 5 years (table 1).

Table 1. Key indicators of Mariupol social and economic expansion, 2003–2007

Activitis	2007	2006	2005	2004	2003	Growth Rate in 2003–2007
Volume of realized industrial output, UAH mln	39,806.1	30,516.9	31,022.7	27,984.6	17,786.4	123.80
Annual growth of industrial production, %%	6.3	1.7	1.9	0.9	19.8	-
Share of Mariupol enterprises industrial output in national GDP, %%	5.58	5.61	7.03	8.11	6.65	-
Resident population (thousand people)	497.0	499.7	502.3	504.9	506.6	-1.89
Unemployment rate, %%	0.45	0.49	0.5	0.6	0.6	-
City budget revenue minus interbudget transfers, UAH thousand	714,637.4	541,876.9	440,169.9	339,437	370,334.4	92.97
Share of revenue from taxes in a budget total gain, %%	86.7	86.9	86.5	88.0	87.4	-
City budget and industrial output ratio, %%	1.80	1.78	1.42	1.21	2.08	-
Budgeted deficit/proficit, UAH thousand	53,275.3	19,939.7	35,048.4	4,477.6	44,615.5	19.41
Retail turnover , UAH mln	2,032.3	1,505.8	1,155.4	780.0	592.6	242.95
Back taxes, UAH thousand	469.3	447.4	530.9	1,024.5	2,324.6	-

*Source:*Mariupol city council data; Expert Rating calculations

Analysis of municipal finances makes it possible for Agency to draw a positive conclusion. Municipal budget (city's finances) is grounded on a sound taxation base. The amount of city budget revenue has increased by 92.7% during the last 5 years and approximately 85–90% of city's finances have been formed at the expense of tax proceeds. After the share of budget revenues in gross amount of industry production considerable lowering from 2.08 to 1.21% in 2004 this showing is steadily growing and by results of 2007 has reached 1.8%. The steady growth of amount of products by city's enterprises will increase the share of tax revenue in budget and in turn will promote a further growth of city budget's revenue.

Analysis of budget gap dynamics denotes the fall of stock-out level with respect to budget receipts nonmetering interbudget transfers from 12.05% in 2003 to 7.45% in 2007.This level can not be considered as crucial, as far as the budgetary process in Ukraine supports availability of critical constituent in city's budget. The common level of back taxes to budget in comparison with budget revenues was nonessential and could not have influence on city authorities' level of solvency.

1. b. Retrospective information on development of municipal economics

Mariupol city (Pavlovsk in XYI century) was founded in 1778. Mariupol was the first population aggregate in territory of Donetsk region to get a town status. Since the XYIII century till middle of the XIX century a number of small home-grown works including tanning, rendering, blacksmithing, cooperage and others had got development. Fish-factories had brought large interest to Mariupol merchants and bourgeois. Various kinds of construction materials from local feedstock had been manufactured by Mariupol brickyards, tileries, and chalky plants. By the end of XYIII-th century Mariupol turns to significant business center. The role of foreign trade had been growing. In 1800 first customs office and in 1809 first sea port administration had been founded. A rail service connecting Mariupol with central districts of Donbass(Donetsk coal field) region was opened in 1888. In 1889 first sea crafts entered new sea port. The city's location close in with Donetsk coal and Kerch iron ore as well as availability of convenient sea port created incentives for origination in town of a large-scale industry.

In 1896 Russian and foreign undertakers founded a Nikopol'-Mariupol' mining society which had built a metallurgical works 7 kilometers away from city. In 1897-1899 years Russkiy Providans Belgium Joint Stock Company had built the second metallurgical works for rails production. These two metallurgical works together became the biggest vendors of iron and steelrolling products and had occupied a significant specific weight in country's economics.

Under the Soviet Union these two works have been merged into one of the biggest in Ukraine metallurgical complex named after Illich (V.Lenin father's name). By the beginning of XXth century the following enterprises except above mentioned metallurgical works had been engaged in production output. They are: the agricultural engineering plant, ironworks, six tanning factories, 27 brickyards and tileries, macaroni factory and steam engine mill. In the late 1930 s a canning factory and a shipyard enriched this list.

In 1930 a decision was made to build in Mariupol 'Azovstal' metallurgical works. On August 11, 1933 the first blast furnace went into service in 'Azovstal' metallurgical works. Simultaneously the by-product coke plant and constructional ironworks had been under construction. In 1936 a tube-rolling mill named after Kujbyshev was put into operation. At present it is the biggest in Ukraine Azovmash engineering concern.

Economic development of the city had been attended by heavy growth of population size. By beginning of 1941 year the city's population size has grown to 241.1 thousands people. During the World War II the city had been significantly impaired. The majority of enterprises, railroad facilities, reservoir storages, water-supply network, drainage system, street railway, bridges and 32% of city's housing facilities had been damaged. In post-war period the municipal economy had been not only restored but multiplied their facilities. In 1958 on the basis of machine-building shops of Illich metallurgical plant the heavy engineering plant had been organized. The large rolling mills, pipe-welding shops, Martin furnaces and other industries had been constructed in the heavy engineering enterprises. New commercial and passenger berths were built in the sea port. A new Azov Sea Steamship Company was founded. During that period the port's freight turnover had increased substantially.

Thanks to high concentration of the industry Mariupol' enterprises act the main role in national economy development. City has passed through a rich industrial history and today it is a real "metallurgical capital" of Ukraine. Moreover city authorities assist the development of social infrastructure maintaining both the title of health-resort city and cultural center of Priazov area. Mariupol' is the only recognized center of Greece culture in Ukraine.

In 2008 city has celebrated its 230 anniversary.

2. Factors of investment attractiveness

2.a. Investment operation of active companies

The attraction and development of foreign assets mean much for city's development. Total amount of foreign direct investment (FDI) into city's economy as to January 1, 2008 made US$ 115.9 million (0.039% out of total amount all over Ukraine) or US$ 231.4 *per capita*. The given amount of FDI may be considered as negligible for the total amount of FDI in whole for Ukraine has made US$ 29.5 billion which means that FDI in city economics constituted just 0.39% of the national total. It should be taken into account that traditionally the liberal share of investments fell on metropolitan region which serves for non-residents as entrance into country. Nevertheless representatives of 22 countries had invested in Mariupol enterprises including Cyprus (67.4%), Virgin Islands (12.2%) and Spain (9.2%). Considerably less activity showed non-residents from USA (6.3%) and Russia (1.0%).

The obtained FDI was distributed to following sectors of economy:

- US$30 mln- estate property operations, leasing and engineering;
- US$ 67.6 mln-transportation and telecommunications;
- US$ 14.5mln-branches of industry.

Besides foreign investors prefer investing in food, beverage foods and tobacco goods making (US$ 6.9 mln), coke and petroleum refinery industries (US$ 5.3 mln).

It should be noted that beginning in January 1998 US$ 745.6 mln had been attracted within the frames of realization of investment projects in Azov free economic zone (FEZ) including US$ 245.6 mln in Q1 of 2008. The investment in FEZ came from Cyprus, Germany, USA and Hungary.

In 2007 the city's enterprises and organizations had developed UAH 3.5 bln of capital investments that accounts for 17.2% of total volume of capital investments in Donetsk region. The body (87.2%) represents investment in capital assets that is 15.8% more than in the same period of last year. The enterprises equity traditionally remains the main source for investing, 93.7% of capital investments were financed at the expense of own funds. Only UAH11.4 mln had been developed at the expense of municipal, regional and State budgets. Bank credits totaled UAH 144.3 mln or 4.1% in the investment structure.

Manufacturing still remains most attractive for investors where 77.0% out of total amount of capital investment in capital assets, 73.7% out of all investments fall on metallurgy and metal working enterprises. Among other kinds of economic activities the share of investments in trading made up 4.4%, in transport — 4.7%, in building — 3.8%, in real estate — 2.9% and in services sector — 4.7%.

The city enterprises not so actively use both borrowed current assets and assets from other external sources aimed for financing the capital assets modernization. This tendency decelerates the further development of city's economics and at the same time this tendency serving as a reflection of sufficiently conservative policy ensures relatively stable companies' performance in current term.

2. b. general factors impacting the investment attractiveness of the city

In the issue of carried analyses Agency exposed a line of tendencies strengthening the attractiveness of Mariupol's economics for strategic investors:

1. The city industry is represented by a diversified structure. Industrial production shows growth dynamics. The process of integration of small business enterprises and their transition to category of middle business became the main characteristic for industrial complex.
2. Beginning in 2001 industrial complex undergoes certain structural changes including the growth of the share of food processing and decrease in the share of volumes of production of other branches'.
3. The fuel-energy complex capacity is able to provide the city's demand in energy and transport infrastructure in turn meets the residents' and business' requirements in transport services.
4. Over a period of 5 years the financial performance of city enterprises is flattening out. Industrial enterprises almost have no arrears of wages; investment activity and housing are being intensified.
5. The housing problem solving is carrying out at the expense of private housing. However there is a tendency of attracting investors to housing in city which will give an opportunity to raise the level of provision of city's population with dwelling.
6. The infrastructure of small business maintenance is created in the city. A number of subjects of business activity are growing. The growth of the share of small business in both building and industrial sectors guarantees partial employment even under decline in jobs in large industrial enterprises.
7. The network of retail trade enterprises and public catering establishments is actively growing though their disposition through the city is uneven.

Agency also marks out a following line of factors ensuring attractiveness of city economics:

1) Favourable geographical location.

Mariupol is located in the south-east side of Donetsk region. Mariupol ranks 10th among Ukraine towns on population size and occupies one of the first places on production facilities density ensuring exclusive opportunities for implementation of business projects by foreign investors. Besides, the City of Mariupol comprises Sartana, Staryi Krym and Talakovka urban-type communities.

Highly developed rail communications, motor traffic and air service as well as Mariupol sea port opening access to Mediterranean, connect Mariupol with all economically developed regions of Ukraine, Russia and other foreign countries thus creating favorable conditions for business activity in city. Setting up a business in Mariupol investor obtains a direct access to a great number of customers from Europe, Asia, Africa and even North and South America. Now active enterprises display great activity in making full use of trade routes realizing trade relations with the Balkan Peninsula, Middle East, Africa, Central and South- East Asia countries.

2) Availability of infrastructure for maintenance of international relations.

Mariupol maintains longstanding and sound international and business relations with partners from more than hundred countries of the world. City economics comprises more than 150 branches enjoying high-powered production capabilities including metallurgy, machine building, chemical and food industries, agriculture and other export sectors.

Highly developed transport infrastructure reinforces the benefits of favourable business climate for international trade relations. An International airport, Mariupol Sea port provides trade relations with more than 132 countries of the world.

Operation of transport and trade infrastructure is maintained by enterprises from Azov free economic zone (FEZ). They carry out the service of freight in transit, repairing and rebuilding of sea crafts. In the all Ukraine market Mariupol ranks first as to foreign trade turnover which accounts for 40% of made in region production.

3) High-skill manpower.

Companies starting business in Mariupol score an advantage in access to the biggest in Donetsk region labour-market which accounts for about 200 thousand people. Both in Donetsk region and outside it Mariupol is famous for its multifunctional workers. Technicians from metallurgical works, machine building plants more than once had participated in construction of industrial projects in Asia, Africa, Central and East Europe.

There are three institutions of higher education (HEI) in Mariupol. Annually they graduate about 1 000 specialists. Mariupol ranks second in Donetsk region by amount of educational institutions. Educational system is adapted for mobile economic conditions taking into account the demands of both city's and region's developing economics. Moreover Mariupol is one of the prime R&D centers in Ukraine. 21 research organizations conduct research efforts.

4) Developed business infrastructure.

New investor will be provided by a wide variety of offices, working area and quarter. The major portion of working area is located in the territory of existing production complexes. Basically they are big shop floors, but there is a wide choice of multifunctional working area too.

5) Minerals and other natural resources.

The outskirts of Mariupol are rich in natural resources. Iron ore, vermiculite, diabase, fireclay and other minerals comprise the structure of Mariupol natural resources. Two deposits of granite and migmatite are being developed within the boundaries of city. The exploration and evaluation works of resources of carbohydrates, iron ore, fluorite, brown coal, ochre, semi-precious stones, basalt, copper and lead are going on in the city's outskirts. A gas deposit of 1 400 mln cub.m. capacity had been discovered in the South of Donetsk region. At the present time 15 potential gas deposits of 30 bln cub.m. capacity is under exploration. Mariupol holds 4 770 hectares of agricultural grounds 70% of which are in the agricultural turnover. Soil mainly represented by chernozem containing 6% of humus.

6) Investment special treatment.

Within the frames of Azov free economic zone (FEZ) and Mariupol territory of priority-driven development (TPDD) an investment special treatment is valid practically on the city's whole territory. FEZ and TPDD account for 40% of region's territory, 84% of region's population and 85% of region's productive potential. Beginning from the adoption of the Law 'On special economic zones and Investment special treatment in Donetsk region' a considerable experience of cooperation with investors had been accumulated by both city authorities and local business quarters. In pursuance of this Law was organized a Special economic zones and investment special treatment in Donetsk region Council entrusted to coordinate the interactions of local autonomous bodies and investors all over the territory of priority-driven development. Organization department on administering the investment special treatment is organized in Mariupol which has status of the territory of priority-driven development. Agency considers this fact to be the one of the success factors of Mariupol as territory of prospective development of international business. Agency considers the fact of prohibition in March 2005 the preferential terms for import to Azov free economic zone (FEZ) as well as preferential tax assessment. In praesenti Ukraine government is treating the possibility of benefits recovery.

7) Mighty industrial complex and agricultural sector.

Two large metallurgic complexes and one pipe rolling represent the ferrous metallurgy sector in city economics. Iron, steel and finished steel production capacity accounted for 10.5 mln tonnes, 13.0 mln tonnes and 7.98 mln tonnes respectively. The share of export production in total volume of foreign trade turnover accounted for 70%. The Mariupol metallurgic complexes' metal production is being exported to more than 50 countries.

Agency appreciates availability of developed agricultural sector in Mariupol municipal formation. The following main kinds of agricultural products are being produced in city's farms and enterprises: winter crops, sunflower seed, vegetables, pork, beef, poultry and fish. Municipal agricultural sector comprises 5 Co Ltd, 3 private enterprises and a number of agricultural divisions of large industrial enterprises. Basing on statistics data Agency states that in praesenti agricultural sector is very popular among foreign investors.

On Agency opinion the following lines of activity in Mariupol city are of a high investment potential:

- alternative sources of energy;
- exploration of natural gas fields;
- rendering of transportation and telecommunications services, hotel running business;
- banking, insurance and investment services;
- development of municipal sector.

3. Review of business environment

Mariupol belongs to the group of cities with high level of industrial development. The city industrial complex has a significant influence on the level and quality of city population life. Its share in national economics is very considerable.

The world-known Illich Mariupol Metallurgic Complex Inc and Azovstal Metallurgic Complex Inc demonstrate efficient use of Mariupol Sea Port for external markets entry. Machine building sector of Mariupol industry is represented by Azovmash concern which provides the major portion of Ukraine's demand in various types of machines and equipment. The enterprise enjoys the developed infrastructure sufficient for both self provision with raw materials and sales of integrated products.

There are 50 industrial enterprises of various forms of ownership in the city. The city industry is diversified and is characterized with dominance of heavy industry. The city's heavy industry share in region's scale accounts for 33.0%.

Nevertheless the ferrous metallurgy is still the key industry in the city. The share of metallurgy production in the city's total volume of industrial production accounts for 93.5% making Mariupol to depend on world metal-roll market situation. Currently in spite of considerable price growth on energy supply Agency positively estimates the prospective of metallurgic sector and is sure in economic growth of the given municipal formation and growth of population's profits will be ensured thanks to qualified policy of authorities, high level of people employment and favourable economic situation on ferrous metals market.

However the given price growth can be considered as market-determined that is why on the Agency opinion the main task of the city authorities during the period of 5-10 years is to ensure the diversification of the dependence of municipal finances and population on ferrous metallurgy by bringing down the level of its share in total volume of industrial production up to 50%. It can be achieved only by attraction to the city (region) of big strategic investors both foreign and from among home financial industrial groups. Step-by-step this task is already under realization. So, over the period of Ukraine independence the following enterprises have been organized: Azovelektrostal' JSC, Magma Ltd, Azov Oil Company, Marvey Ltd., Azovstroymaterialy, Komplekt JSC and others.

For more detailed analysis of the city business environment Agency has studied the statement of the affairs in the 20 biggest by number of employed workers enterprises in Mariupol. On Agency assessment the share of these enterprises in total volume of products sold accounts for 97.8% proving the representativeness of this extract. By the end of 2007 105 thousand workers or 40% of the total number of able-bodied citizens have worked at these 20 enterprises.

Illich Mariupol Metallurgical Complex was and remains to be the biggest employer in the city. By the end of 2007 Complex provided the employment to 54 320 people. The second biggest employer of the city is Azovstal Metallurgical Complex. It employs 22 659 people. The profits of 28% of able-bodied population depend on these two enterprises.

Table 2. The Mariupol city biggest industrial companies – employers*

Company	Branch	State registration code (ОКПО)	Number of employee as of January 1, 2008	Proceeds			Remuneration of labour and hardship allowance costs		
				2007	2006	Changes, %	2007	2006	Changes %
Illich Mariupol Metallurgical Complex	Metallurgy	00191129	54,320	18,845.6	15,107.7	24.7	1,888.1	1,790.3	5.5
Azovstal Metallurgical Complex	Metallurgy	00191158	22,659	21,668.6	15,165.5	42.9	883.8	885.6	-0.2
Mariupol Heavy Engineering Plant	Engineering	20355550	8,161	2,979.7	2,903.3	2.6	170.4	166.2	2.5
Azovobshchemash	Engineering	13504334	7,285	2,795.4	1,903.2	46.9	171.8	124.5	37.9
Mariupol Sea Port	Transport	01125755	4,323	629.6	537.2	17.2	180.3	146.9	22.8
Azovelektrostal	Metallurgy	25605170	2,218	714.9	503.7	41.9	70.8	39.9	77.6
Sudoremontny Zavod (shipyard)	Shipbuilding	32183383	1,480	n/d	n/d	n/d	n/d	n/d	n/d
Mariupol confectionery	Food industry	00382059	970	66.2	59.2	11.8	30.1	25.5	18.0
Mariupol bakery plant	Food industry	20390753	558	61.2	54.9	11.4	12.2	9.8	24.6
Termichesky Zavod	Engineering	20391907	429	145.1	252.6	-42.6	12.5	12.1	3.7
Marway Ltd	Chemistry , petrochemistry	25604035	390	n/d	n/d	n/d	n/d	n/d	n/d
Elektrobytpribor	Engineering	14312447	343	43.0	47.4	-9.4	7.1	6.9	2.8
MOEZ JSC	Metallurgy	00645211	333	39.9	27.6	44.4	10.1	7.8	29.4
Mariupol milling plant	Agricultural sector	31419401	264	12.3	14.8	-16.5	6.0	4.4	35.5
Kauchuk (caoutchouc)	Chemistry , petrochemistry	13507918	204	11.6	10.6	9.6	4.4	3.3	35.3
Magma Ltd.	Engineering	31577458	202	n/d	n/d	n/d	n/d	n/d	n/d
Azovstroymaterialy	Construction sector	00290541	188	32.1	28.0	14.7	8.5	7.8	9.7
Komplekt Ltd.	Construction sector	13532916	169	n/d	n/d	n/d	n/d	n/d	n/d
Azov oil company	Oil refining	30661021	149	n/d	n/d	n/d	n/d	n/d	n/d
Keramik	Construction sector	25324034	136	22.1	25.2	-12.3	4.2	3.2	28.8
Markograf	Construction sector	05394618	130	6.9	8.1	-14.3	2.9	2.8	3.0

Source: Mariupol city council, SPFU, SMIDA data; Expert Rating calculations.

Annotation: *— if indicator in table tagged as n\d(no information) it means that company either does not go public or does not publish its accountability.

Only three enterprises out of 20 have showed the lowering of earnings and only one has showed the decrease of remuneration of labour inputs. The first five enterprises by the number of employed workers demonstrate stable growth. In the Illich Mariupol Metallurgical Complex the remuneration of labour fund has increased in 2007 by 5.5%. All 20 enterprises form a balanced industrial base directed on maintenance of ferrous metallurgy enterprises interests.

That is why nowadays it is very important for Mariupol to develop the small and middle business (SMB). In the Donetsk region Mariupol city ranks second in the number of small businesses. Moreover it is very difficult for SMB:

1. To occupy the leading position in city economics.
2. To compete with big enterprises both in the labour market and in the issue of material security and financial provision.

The trade, food processing, rendering of service dominate in the structure of small business for these sectors of business vary from others thanks to the assets accelerated turnover.

The conducted analysis indicates the growth of the number of economic players alias payers of fixed tax and payers of single tax by 6.3% and 29.5% respectively.

The number of operating small business enterprises in 2006 accounted for 3507 units or 13.5% from the total amount of economic players in Donetsk region. Every 70 small business enterprises in Mariupol correspond with every 10 thousand of residents. This ratio is 25% more than regional average. Small business sector remains the main reserve of employment.

Over the past 5 years the number of single tax payers has increased by 104.3% and totaled 8.2 thousand people. By volume of employment it is equal with Mariupol Heavy Engineering Plant. The shopping capacity of the city has grown after the growth of retail turnover. Over the past 5 years it has grown by 67.9%. The growth of registered consumer markets confirms the growth of trade activity.

Small business brings to city budget about UAH 25 mln of earnings annually.Over the period of past years the positive changes in the structure of small business are intensifying. Alongside with the decline of small business share in retail and wholesale the growth of its share in industrial sectors, transportation and construction is expanding. This tendency can be considered as positive for it testifies to structure changes in SMB expansion. The restructuring of SMB for industrial sectors of economics enables city authorities to raise the level of diversification and remove the dependence of city budget from the ferrous metallurgy and allied fields (table 3).

Table 3. Key indicators of SMB expansion in 2003–2007

Indicators	2007	2006	2005	2004	2003	Growth rate
Total amount of small business enterprises	n/d	3,507	3,774	3,529	3,443	-
The amount of single tax payers	8,193	6,927	5,347	4,696	4,010	104.31
Approximate estimation of SMB share in total volume of city industrial production, %	n/d	2.0	2.0	2,0	1,8	-
Total amount of shopping capacity in retail trade, thousand sq. meters	158.3	129.5	109.8	106.0	94.3	67.87
Number of registered consumer markets	33	33	30	30	27	22.22

Source: Mariupol city council data; Expert Rating calculations

In spite of significant growth rate of employed in SMB the appraisal share of this sector in city economics hardly make 2.0%. However it should be taken into consideration that the results of this sector activity not always have correct reflection in state statistics. The role of SMB as a rule is always being understated by official statistics.

4. City's resident population and its well-being

Over the past 5 years the city population has declined. The more detailed analysis of demographic factor has resulted in following:

1. Over the past 5 years the rate of Mariupol city population size lessening is not so fast as the national average.
2. The able-bodied citizens' share in total number of city population has insignificantly grown over the past 5 years and accounts in praesenti 55%. City authorities manage to maintain almost full employment of able-bodied population.
3. The mean age of the average citizen is 41.9 years whereas on an average in Ukraine this indicator constitutes 39.4 years. It means that serious demographic shocks will not threaten Mariupol in the nearest 7–10 years.
4. The population loss due to natural causes is being compensated by positive migration. Every year more or less 1500 migrants move to Mariupol. Of course this process does not fully compensate the population loss due to natural causes but is bringing to stabilization of depopulation in long term.
5. Over the past 5 years the average level of wages has increased by 145.57%, the level of arrears of wages has declined threefold while the volume of social transfers has increased by 45.64% and in comparison with budget revenues it did not occur to be substantial.

Table 4. Key indicators of population and its well-being development in 2003-2007

Indicators	2007	2006	2005	2004	2003	Growth rate
De facto population, thous. people	496.0	499.6	502.1	504.6	506.6	-1.89%
Able-bodied population, thous. people	272.4	272.4	272.8	273.6	273.1	-0.26%
Level of unemployment, %	0.45%	0.49%	0.5%	0.6%	0.6%	-
Able-bodied population share in population real size	54.92%	54.52%	54.33%	54.22%	53.91%	-
Population at the age of 0–14, thous. people	57.2	58.1	59.4	61.5	71.2	-19.66%
Population at the age of 15–64, thous. people	342.2	347.8	352.1	355.8	357.2	-4.20%
Population at the of 65 plus, thous. people	93.9	90.3	87.2	83.8	74.8	25.53%
Mean age, years	41.9	41.6	41.3	41.0	40.7	2.95%
Annual growth rate of population, including:	-2,936	-2,460	-2,490	-2,063	-3,135	-
- migration	+1,129	+1,224	+1,793	+1,675	+1,103	-
- population natural increase/loss	-4,065	-3,684	-4,283	-3,738	-4,238	-
Average level of wages in the city, in UAH	1,837.44	1,538.72	1,306.96	969.35	748.22	145.57%
Level of arrears of wages, %	0.13%	0.11%	0.16%	0.24%	0.37%	-
Volume of social transfers, thous. hrivnya	6,446.7	4,429.7	3,723.9	4,637.0	4,426.4	45.64%

Source: Mariupol city council data; Expert Rating calculations

Analysis of city demographic situation and of both the social payments and average wages data on the whole indicates the more favourable social situation in the city compared with the Ukraine average. On Agency opinion the level of demand balance after the reasonable (critical) consumption is the key indicator denoting the real level of population well-being. Methodology of the demand balance determination had been worked out by Expert Rating in 2006 (see Ekspert Ukraina magazine, #49, December 18, 2006). The implementation experiment of given methodology had been integrated into methodology of assignment of individual ratings to cities.

Mariupol stably ranks second to Kyiv as to demand balance thus leaving behind such cities as Donetsk and Zaporizhzhia showed analysis by Expert Rating (table 5).

Table 5. A nominal amount of cash left in a household after subsistence consumption

City	01.01.2008	01.01.2007	01.01.2006	Growth rate, %
Kyiv	2,050.6	1,954.6	1,283.6	59.75
Mariupol	**1,695.4**	**1,690.3**	**933.8**	**81.56**
Kryviy Rih	1,453.5	1,353.9	530.4	174.04
Kremenchug	1,435.2	1,335.7	564.2	154.38
Zaporizhzhia	1,123.3	1,072.2	282.6	297.49
Poltava	1,114.1	1,042.0	384.2	189.98
Donetsk	1,034.0	921.5	486.3	112.63

Source: Expert Rating calculations

Such situation partly was provoked by high level of city population employment on big enterprises where the unofficial wages (the notorious “cash in an envelope”) are not being practiced. That is why the official average level of remuneration of labour in Mariupol is still higher than national average. However when appraising the population income distribution as to official and unofficial the specificity of budgetary process in Ukraine should be taken into account for the local budgets are being formed at the expense of income tax as well. So long as the official average salary is influencing the formation of city budget Agency, when studying the city economics, gives preference to official data understanding that employers in various regions of Ukraine have similar conditions for tax avoidance.

5. The infrastructure expansion

The state owned Mariupol Sea Port is the main object of water transport. The Port enjoys the opportunity to host the sea crafts of a 8 meters draught and 240 meters in length which shows it up to the best advantage among other ports on Azov Sea. Mariupol Port comprises the four largest ports in Ukraine. The Port’s operating conditions ensures the metals, coal, sulfur, clay, chemical fertilizers, petroleum, containers and others handing work. The volume of these works in 2007 made up 17,403.3 thousand tones. 2,608 sea crafts and 235,917 railcars have been handled in 2007.

The Mariupol rail junction functions as an interlink between Sea Port and state’s inner regions ensuring delivery of cargo in and out the city.

Mariupol airport by its technical equipment relates airports of international class and meets the world requirements. Its runway makes it possible for aircrafts of all types both to land and take off. An Illich-Avia airlines runs AN-140-100 and YAK-40 with cabins of better comfort.

Public transportation in Mariupol is carrying out by state owned Electricity-powered public transport company (EPPTC), Mariupol motor transport park and more than a hundred private companies and private entrepreneurs. The main volume of passenger transportation falls on 11 tram and 12 trolleybus routes. There are 70 shuttle bus routes in the city operated by EPPTC. 16 of them operate in a customary regime with granting benefits according to the current legislation.

45 automatic switching centers of state owned Ukrtelecom and Interquant, Telecom-Ukraina, Farlep, Data Express Velton Telecom common carriers render the telephone services. Mobile communication is being provided by DCC, MTC, Kyiv-Star, Bee-line, Velton Telecom, Life, U-tel operators. The quantity of mobile telephone subscribers constitutes 665 out of each one thousand people of city population. Provision by mobile communication of the citizens entitled to a benefit at the expense of municipal budgetary funds is one of the city government standing plans.

The Mariupol City Council pays much attention to maintenance and complete overhaul of roads, street lighting, arrangement of green spaces etc. City government annually lay out more than UAH 27 mln from municipal budget for these needs and this sum is constantly growing. At the expense of utility enterprises funds city is carrying out works on substitution and building of heat, water-supply and sewerage networks. Solving of the development of housing and communal services problem is being put into effect at the expense of attraction of investment funds. Implementation of investment programmes create favourable conditions for improvement of the economic performance of utility enterprises, reduction of fuel and energy consumption thus arranging comfort conditions for city residents.

Table 6

Key indicators of Mariupol infrastructure expansion in 2003-2007

Indicators	2007	2006	2005	2004	2003	Growth rate,%
Number of city transport units	-	-	-	-	-	-
- bus	491	479	465	461	442	11.09%
- fixed-run taxi	470	458	444	440	436	7.80%
- other types	178	175	177	208	229	-22.27%
Number of connected with landine telephony	101,648	99,508	95,834	87,296	85,029	19.55%
Number of mobile communication operators	7	7	6	x	x	-
Number of post offices	53	53	53	53	53	0.00%
Number of utilities	23	23	23	14	15	53.33%
Total number of employed workers in utilities	7,560	7,331	7,423	2,337	2,138	253.60%
Total number of banks	64	46	40	33	23	178.26%
Total number of insurance companies	18	21	19	16	17	5.88%

Source: Mariupol city council data; Expert Rating calculations

6. Municipal finances analyses

Municipal finances analyses give Agency an opportunity to draw following conclusions:

1. City authorities are keeping to exemplary budgetary discipline. Over the past 5 years except in 2004 city budget ends year profitable.

2. Profits share in budget gross revenue minus interbudget transfers constituted as a rule 80%, which means that city budget weakly depend on interbudget transfers and enjoy high level of autonomy.

3. High level of tax proceeds to budget has created a solid tax base for city budget income. Meanwhile starting from 2004 the city budget income and amount of sales of industrial products ratio is constantly increasing.

Table 7

Key indicators of Mariupol budget, 2003–2007, UAH thousand

Indicators	2007	2006	2005	2004	2003	Growth rate 2003-2007
Budget income, in total, UAH thousand	856,641.4	698,853.6	522,311.6	404,394.1	413,522.3	107.16%
Budget expenditures, in total	854,525.9	696,998.0	521,974.8	409,087.0	406,188.9	110.38%
Budget revenues and expenditures balance	2115.5	1855.6	336.8	-4692.9	7333.4	-71.15%
Budget proficit\deficit	0.25%	0.27%	0.06%	-1.15%	1.81%	-
Profits share in budget gross revenue minus interbudget transfers	83.42%	77.54%	84.27%	83.94%	89.56%	-
Budget income minus interbudget transfers	714,637.4	541,876.9	440,169.9	339,437	370,334.4	92.97%
Share of revenue from taxes in budget gross revenue	86.7%	86.9%	86.5%	88.0%	87.4%	-
Budget income and amount of sales of industrial products, ratio	1.80%	1.78%	1.42%	1.21%	2.08%	-

Source: Mariupol city budgets at 2003–2007; Expert Rating calculations

City authorities by Agency have pursued a rather conservative financial policy ensuring at the same time high level of confidence among potential creditors. Analyses of budget performance during the past five years gives Agency an opportunity to draw a conclusion that Mariupol deserves the **uaAAA** grade of solvency on national scale. At the same time city authority enjoying a big safety factor can more actively deploy loan resources in its activity including bank credits, bonded debts and others. Mariupol, on Agency estimation, can conduct a bonded debt up to UAH 50 mln not lowering the **uaAAA** rating grade.

7. Other factors

City authorities are undertaking system approach towards the city development working out and implementing long term plans for its further expansion. Such approach makes the city infrastructure expansion very predictable.

When estimating both the city investing attractiveness and city authorities' solvency Expert Rating Agency paid attention to ecological situation in the one of the biggest industrial centers of Ukraine. Agency did not order special ecological assessment but points out that according to State statistics the death rate in Mariupol does not significantly differ from the national average. Thus in the current term the Mariupol ecologic situation should not be considered as both critical and exerting material effect on population's size and its working ability.

Generalization of rating assessment

1 On June 19, 2008 Expert Rating's rating committee has delivered judgment to assign to Mariupol city a **uaA1** grade rating of investment attractiveness.

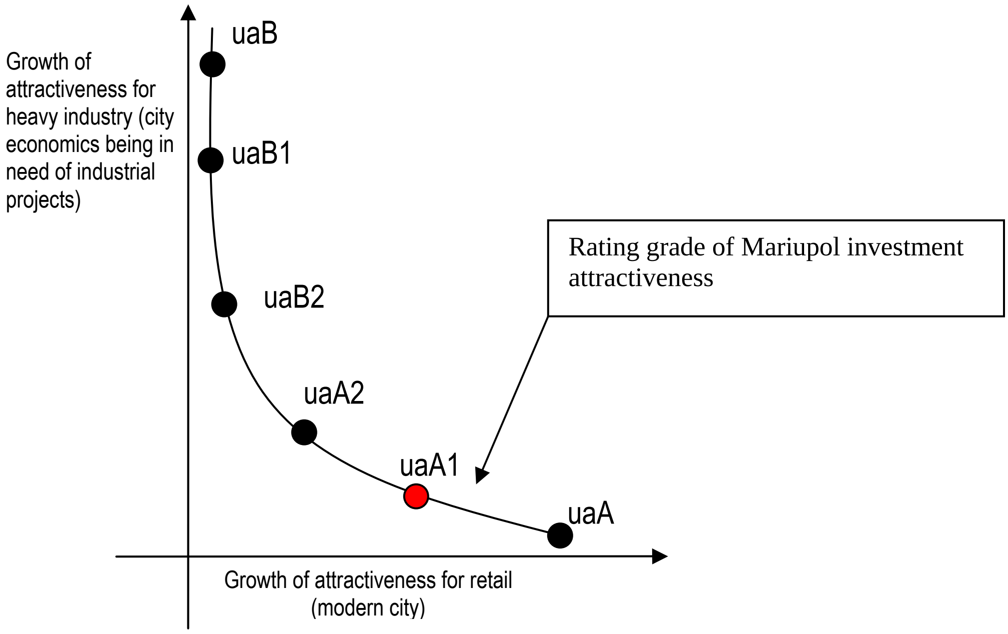

Рис. 1. Visualization of rating grade of Mariupol investment attractiveness

According to methodology of assessment of city's both investment attractiveness and solvency **uaA1** grade rating mark means ***High level of investment attractiveness for expansion of enterprises of the majority of sectors of economy. City economy rests on not enough diversified industrial basis. But city is good for expansion of branches directed on satisfaction of city population needs***. Mariupol City, on Agency analysts' opinion, enjoys the unique set of factors making the city a perfect place for business expansion. According to Agency estimation Mariupol by the level of investment attractiveness and stability of city finances ranks second after Kyiv- capital of Ukraine. Agency advices to entrepreneurs, interested in regional expansion of their business, to pay attention on Mariupol investment opportunities.

Alongside with the investment attractiveness rating Expert Rating Agency assigns Mariupol city a **uaAAA** grade credit rating on national scale. ***This grade is the highest level of borrower's solvency assessment***. According to Agency opinion the status of municipal finances makes it possible for city authorities to implement and maintain UAH 50 mln bond issue. This will enable authorities to expand the spectrum of municipal projects.

Summarizing factors which made it possible to assign the city high rating grade Agency consider it necessary to point out following factors:

1. Concentration of large industrial enterprises in city gives the city authorities an opportunity to maintain a high level of both employment-population ratio and official average salary.
2. Deceleration rate of population size lessening over the past 5 years in comparison with the national average under the simultaneous growth of population well-being.
3. The being of stable tax base which makes it possible to form and execute the deficit-free budget and simultaneously to favour the expansion of municipal infrastructure.
4. Availability of both developed transport and municipal infrastructure and beneficial geographical and economical location ensure the successful implementation of any investment project.
5. Professionalism and consistency of city finance, implementation of a rather conservative financial policy directed on expansion of municipal infrastructure.

In spite of positive estimation of Mariupol investment attractiveness and its solvency investors and creditors when making decision on investment should take into account the following risks:

1. The status of city finances may worsen in consequence of reason not dependent on city authorities. It may be instability of budget process in Ukraine, general economic recession all over Ukraine, natural and anthropogenic disasters, political instability and etc.
2. The economic growth in Mariupol can slow down in long-term perspective under the talking the ferrous metal-roll market down. The volume of products sold in city enterprises fully depend on ferrous metallurgy and allied industries. In the nearest perspective the given risk factor, on Agency opinion, will not prove itself. Nevertheless the absence of sectoral diversity is the single factor which did not make it possible for Agency to assign the Mariupol the highest level of investment attractiveness.

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Minutes of the meeting is attached

Annex A

Rating report use restrictions

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It is obligatory that Credit rating assigned to municipal formation has an equivalent on a national scale. Expert Rating Rating Agency uses the National scale confirmed by decision of the Ukraine Cabinet of Ministers, # 665, April 26, 2007.

In accordance with world practice Rating of City Investment Attractiveness is a product of solvency analysis carried out by Expert Rating. The rating scale is worked out by Expert Rating and is its property. Itemization of rating grades is given in table A.

Table A

Rating grades	Itemization of rating grade Значение рейтинговой оценки
uaA	High level of investment attractiveness for expansion of enterprises of all sectors of economy. City economics rests on well diversified industrial basis. City is good for expansion of branches directed on satisfaction of city population needs
uaA1	High level of investment attractiveness for expansion of enterprises of all sectors of economy. City economics rests on not enough diversified industrial basis. But city is good for expansion of branches directed on satisfaction of city population needs
uaA2	Good level of investment attractiveness but enterprises of certain branches will meet with difficulties in its development. City economics rests on bad diversified both by branches and business groups influence industrial base, but city is good for expansion of branches directed on satisfaction of city population needs
uaB2	Correct level of investment attractiveness. Retail enterprises will meet with difficulties in its development. City economics rests on industrial basis insufficient for backbone influence on city
uaB1	Modest level of investment attractiveness. Retail enterprises will meet with difficulties in its development. Idustrial basis does not effect the city economics. The level of city economics industrialization is sufficient, the surplus level of employment is being pegged. City needs large investment projects. City needs large investment projects
uaB	Critical level of investment attractiveness for retail sector enterprises. City economics has no stable economic basis. The level of city economics industrialization is unsufficient. The surplus level of employment is being pegged at the expence of budgetary funds. The low cost of resources will favour these projects