

# US-UKRAINE COOPERATION IN THE HI-TECH AREA

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NEWSLETTER

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## Dear Friends:

The year 2002 was marked with several important achievements in science and technology cooperation between the United States and Ukraine. Supplementing efforts on the inter-governmental level resulted in the decision to extend the term of validity of the bilateral Agreement on Science and Technology Cooperation. Many important developments were exhibited by the private sector, such as the creation of the Ukrainian-American Center for Technology Commercialization, launching of the U.S.-Ukraine Digital Alliance, and new projects within the U.S. Government-funded Initiatives for Proliferation Prevention Program.

Nowadays Ukraine is rapidly developing economy and one of the best growths prospects in Eastern Europe. Supported by increased industrial and agricultural production, structural reforms and domestic consumption, Ukraine's GDP grew 5.8% in 2000 and remarkable 9% in 2001. With this growth rate in 2001 and inflation at 6%, Ukraine was one of the fastest growing economies in Europe. Analysts predict around 5% overall GDP growth for the year 2002.

During the period when Ukraine had been a part of the Soviet Union the bulk of Soviet industrial and scientific potential was located in Ukraine. The very first Soviet computer was developed and built in Kyiv. Ukrainian scientists and researchers made a number of breakthroughs in mathematics, physics, chemistry, space engineering and applied materials development. Ukraine is a producer of the biggest cargo plane in the world "Mriya" and one of the best brands among space launchers "Zenith". Ukraine has the fourth largest number of the certified IT specialists in the world and has more students per 10 thousand of the population than Japan or Great Britain.

From the first days since regaining its independence in 1991, Ukraine has been looking for capitalization of its past experience to gain new exposure of the latest scientific achievements and open itself up as a partner for implementing technology intensive projects. The Government of Ukraine encourages companies from all over the world to establish relations with Ukrainian firms, research and development institutions and governmental agencies. Only through personal contacts, trial projects and further real cooperation the true potential of the Ukrainian high-tech can be explored. Such factors as well-educated labor force, comparatively stable political environment, excellent geographical location and growing market economy will become keystones for Ukraine's transition into fully developed European-class economy.

Last year, the Embassy of Ukraine hosted the first annual US-Ukraine conference "Information Technologies in the Global Economy". This event became a platform for the introduction into the enormous potential of Ukraine in the fields of technology and science. Upon initiative of two American companies - E.C.Data and Eurosoft - the US-Ukraine Digital Alliance was created as a body within the US-Ukraine Business Council. Through this mechanism as well as on the bilateral basis US firms will find tremendous opportunities in developing business on highly professional level both in research, production and commerce in the Ukrainian high-tech industry.

**Kostyantyn GRYSHCENKO,**  
Ambassador of Ukraine

### **U.S.-Ukraine Center For Technology Commercialization Is Opened**

Recognizing the great commercialization potential of Ukrainian technologies market, the Ukrainian venture company AVentures and PHLburg Technologies from Philadelphia, a company for technology commercialization, established the U.S.-Ukraine Center for Technology Commercialization on November 14, 2002. The Center's mission is to unlock the innovative potential of Ukrainian scientific and technical achievements by matching them with the requests from large Western companies.

The Center's goal is to assist in solving problems of commercialization of unclaimed Ukrainian technologies, insufficient financing for new scientific projects, lack of information in the West concerning Ukrainian technology market, inadequate financing for the development of laboratory science to commercial application, worldwide patent registration and project management. The Center is focused on new and unique technologies with great potential for commercial application in the world markets. The main criteria for selecting of projects are effectiveness in solving a customer problem and its possibility to be patented. The Center opens for business with more than 30 specific requests from the largest Western companies. The list includes pharmaceutical producers, automobile manufactures, consumer goods



manufactures, telecom equipment manufactures etc. The Center uses "market pull" strategies for promotion of technologies and establishing mutual cooperation between multinational industrial corporations and Ukrainian scientists and technology developers. This method similar to the American manner of technology commercialization process but has been adapted to the realities of the Eastern European market. By searching for specific technologies according to the demands of its customers, American and international industrial companies, the Center will be able to reduce the number of unclaimed projects. The Center doesn't need any advanced payment from the developers and covers all expenses concerning the commercialization of the technologies, which is very important for Ukrainian talented scientists under current conditions

of insufficient financing of the Ukrainian scientific sphere. The Center will have 4 offices and will quickly build up to 7 offices in major Ukrainian cities. Leveraging its 8-years experience of investing in hi-tech market in Ukraine, AVentures will assist the Center in building long-term relationships within Ukraine's scientific institutions. On its part, PHLburg Technologies Company, which has 10-years successful experience of technology commercialization in Russia, will help in the estimation of commercial perspective of technologies and their future commercialization. The Center provides an excellent opportunity for numerous perspective developers in Ukraine to commercialize their technologies and to get funds for new projects in the future. As a result, Technologies commercialization will help Ukrainian scientists to get close to the real demands of the global market

### **Ukraine To Develop Biopharmaceuticals In Living Plants For Regional Needs In Pact With US's Large Scale Biology Corp. And Germany's Icon Genetics AG**

In a move likely to be viewed as extremely progressive by the global pharmaceutical industry, the Government of Ukraine is seeking to reduce the overall cost and development time of commercial drug manufacture by aligning the nation's future health planning with new plant-based biopharmaceutical technologies. On November 5, 2002 an officially approved letter of intent with two foreign biotechnology companies was signed to enable domestic development of plant-derived biopharmaceuticals for eventual sale in the Commonwealth of Independent States. Supported by the Ukraine Government, Large Scale Biology Corporation of Vacaville, California, USA (LSBC) and Icon Genetics AG of Munich, Germany would work with Ukrainian scientists to produce specific biologics (therapeutic proteins or vaccines) in living plants with the aid of LSBC and Icon proprietary technologies. In the future, participation may be expanded to include one or more Ukrainian pharmaceutical companies.

Icon's transgenic plant technology would be used by Ukrainian scientists to develop the plants producing the pharmaceutical proteins, while LSBC's downstream processing technology and biomanufacturing expertise would be used for commercial-scale pharmaceutical-grade production. "Icon Genetics will further strengthen our intensive

collaboration with LSBC, the world leader in plant-based production of pharmaceutical proteins," said Yuri Gleba, PhD, CEO of Icon.

For LSBC, an exclusively U.S.-based company with facilities in California, Maryland and Kentucky, this international pharmaceutical development deal follows an announcement made in July of a plant-based vaccine development collaboration with South Africa's University of Cape Town to address AIDS and cervical cancer. "This joint effort with Ukraine further demonstrates the breadth of international opportunities in biotechnology today and the strength of LSBC in addressing global biopharmaceutical demands," said Robert L. Erwin, CEO of LSBC.

"This deal underscores growing global awareness of LSBC's unique technologies and their commercial applications," said John D. Fowler, president of LSBC. "Faster, cheaper, safe and effective drugs for human beings are our mutual goal."

### **Sea Launch Delivers PanAmSat's Galaxy IIC to Orbit**

A Sea Launch rocket successfully launched on June 15, 2002 PanAmSat's Galaxy IIC satellite into orbit. Marking Sea Launch's seventh successful mission, the three-stage rocket lifted off at 3:39:30 P.M. PDT from the Odyssey Launch Platform, positioned on the Equator.



Built by Boeing Satellite Systems, the 10,692 lb. (4850 kg) 702 model spacecraft is designed for a 15 year lifespan in geostationary orbit. The satellite will provide Internet, video, audio and data services to the United States and Latin America.

"The launch of Galaxy IIC commemorates the second time Sea Launch has successfully placed a PanAmSat satellite in orbit," said Jim Maser, president of Sea Launch. "Our international team has recognized PanAmSat's continued confidence in our launch

performance and we look forward to working with them again in the near future."

The Zenit-3SL vehicle lifted off from the Odyssey Launch Platform on schedule from the equatorial launch site at 154 degrees West Longitude. All systems performed nominally throughout the flight. The Block DM upper stage separated from the spacecraft about 1,385 miles above the Indian Ocean, 61 minutes after liftoff. Operators acquired a signal from Galaxy IIC from a ground station in Western Australia. Galaxy IIC will have a final position in geostationary orbit at 95 degrees West Longitude.

PanAmSat is a leading provider of global video and data broadcasting services via satellite. The company builds, owns and operates networks that deliver entertainment and information to cable television systems, TV broadcast affiliates, direct-to-home TV operators, telecommunications companies and corporations. Based in Wilton, Conn., PanAmSat has one of the world's largest commercial geostationary satellite networks.

Sea Launch Company, LLC, based in Long Beach, Calif., provides reliable, cost-effective, heavy lift launch services for commercial satellite customers. The international members include Boeing (U.S.), Kvaerner (Norway), RSC Energia (Russia) and SDO Yuzhnoye / PO Yuzhmash (Ukraine). Established in 1995, Sea Launch has a current backlog of 17 firm launch contracts. As the world's only services provider launching from the Equator, Sea Launch offers the optimal starting point for spacecraft heading to geostationary orbit.

### **Programming Success**

Spurred by the hope of winning fat contracts from Western clients, dozens of new information-technology outsourcing ventures, including many with foreign founders, have sprung up throughout Ukraine in recent months. To meet their software needs, Western firms are looking to regions of the world that can offer an educated, talented workforce willing to work for considerably less money than their colleagues in the United States, Germany or Britain.

Ukraine's abundance of qualified IT specialists and the lower cost of labor here make it a competitive location for so-called "offshore programming" firms. Around 20 companies have started such operations in recent months. Some have only two or three on their payroll while others employ dozens.

Frogwares Ukraine is the software-development arm of Dublin-based Frogwares Ireland Ltd. Established in Kyiv last fall, the company is one example of the offshore model. Frogwares Ukraine Director Pascal Ensenat, a French national, said that his company is focusing on partnerships with big software-development companies in Ireland and France. "Western clients can save at least 50 percent by outsourcing their work to countries like Ukraine," Ensenat said. He said that the company's 11 local programmers are currently working on around 30 projects, for clients like AGS Soft, a French IT group, and Air France.

U.S. native Andy Verich set up KIT Group LLC (kit-group.com) with a staff of six programmers and a number of subcontractors late last year in Kharkiv, a city he describes as the Silicon Valley of Eastern Europe. "The KIT Group began as an idea when I worked as an independent consultant to locate CAD [computer automated design] specialists in Kharkiv for a British architectural company," Verich said. "After successfully proving the feasibility of providing outsourcing services in Ukraine, I decided to expand the business."

In Soviet times, Kharkiv was a major center of education and technology. When the Soviet Union collapsed, many residents were left looking for other opportunities. The area's computer specialists, however, have been sheltered from much of the economic downturn, and are busy working for Western clients via programming companies. Verich and others like him are now tapping that talent, bringing more conventional outsourcing businesses to the Kharkiv area. "We have access to a vast pool of diverse IT talent at very low cost," Verich said.

KIT has established partnerships with Wisconsin-based IProspect.com LLC and Technology Architects, Inc. "These two companies act as our front office for marketing and selling our services in the U.S.," Verich said, adding that plans to expand representative offices and partnerships are in the works. New IT-outsourcing firms are joining a handful of pioneers like Kharkiv-based Telesens KSCL Ukraine and Lviv-based Softserve, both of which have been in business for over three years and work for U.S. and other Western clients.

The interest in Ukrainian programmers has even reached as far as Hollywood. Atlantic Group, a Kyiv-based media holding company, recently sold a controlling stake in Digital Design and Marketing, its programming, design and animation production

company, to Los Angeles-based DBA Media. DBA Media is headed by former actor and producer Dave Thomas, famous for his role as Canadian Doug McKenzie in the American film "Strange Brew."

"Ukraine has a great asset in its programming, design and animation skills," Thomas was quoted as saying in a news release. The combination of plentiful, inexpensive labor, relatively low overhead and modest start-up costs means that offshore-programming firms are easy to establish and very profitable when Western contracts start to appear.

Ukraine was not the first country to experience a boom in offshore programming. India has long served as a source of inexpensive, high-quality programmers. But increased demand in the West coupled with tighter corporate budgets appears to be turning attention to Eastern Europe.

### **Custom Software Developer Validio Relies On Talent From Ukraine**

Validio Software Inc. of Bellevue, California was born eight years ago in Ukraine. Initially, David Margolius, the company's president and chief executive agreed - in exchange for the expertise of the Ukrainian software engineers, the company's first team of software developers, to invest \$20,000 of his own money and find companies that might want Validio to design Web pages or online software for them.



Validio was founded on that original agreement, with Margolius working out of his Bellevue home and the developers continuing to work in Ukraine. The custom software development company soon found customers in Europe and elsewhere, and began growing from a small operation to a company that now

has 74 employees and a 4,000-square-foot office in a downtown Bellevue office building.

The majority of the company's 68 software developers are still based in the Ukrainian city of Kharkiv, where the company was founded. Since 1998, Validio has added 14 employees in Bellevue and worked with several local companies, ranging from Adobe Systems Inc. and DataChannel Inc. to Corum Group Ltd. and Diagnostic Ultrasound Corp. Several of the company's Bellevue developers and project managers came from Validio's Ukrainian location.

Those local companies have helped Validio build a reputation for on-time delivery of custom software and brought the company larger and more sophisticated clients, said Margolius. "They develop a lot of stuff quickly and at a fairly low cost," said Gerald McMorrow, founder and CEO of Bothell-based Diagnostic Ultrasound, which is working with Validio to design a new Windows-based company database to be launched later this year. "They do a really good job and I think their developers are pretty smart."

The company cites its Web-based customer database for Bellevue-based mergers-and-acquisitions company Corum Group as one of its major achievements. Validio dedicated about 15 developers to the project for more than a year. "The mergers-and-acquisitions business is a relationship business," said Bill Montgomery, senior vice president of the Corum Group, who works out of the company's Portland, Ore., office. "(Validio) built a database that keeps track of our prospective customers and the companies that we target on their behalf." The database Validio completed for the company in August has made the Corum Group more efficient, Montgomery added, by shifting people who used to retype e-mails into various databases to more productive uses.

The company has increased its revenues from \$1.33 million four years ago to about \$2.8 million in 2000. Validio was listed as one of the Business Journal's fastest-growing private companies in 2001, with an annual growth rate of 116 percent. Last year, the company's revenues dropped to about \$2.7 million, following the collapse of the technology sector. But, unlike many software companies, Validio has not had to lay off any employees in the past year. Today, the company maintains seven or eight graphic designers in Ukraine, but has shifted its focus more toward custom software development to make up for the loss of much of its graphic design business.

### **Lohika Systems Announces \$1.25 Million Equity Financing For Outsourced Software Services Company**

Lohika Systems, Inc., a company established by a group of Silicon Valley entrepreneurs with close ties to Ukraine, announced last year that it has completed its Series A Round of equity financing from a premier group of private investors, raising a total of \$1.25 million. The funding will be used to expand the company's sales, customer service, and development operations in the United States and Europe. Lohika provides high quality, cost-effective outsourced software development, integration and maintenance services to the higher-education and utilities markets in the United States at significantly lower prices than internal IT staffs or other outsourcing vendors. Lohika has established a software development center in Lviv, Ukraine and is already generating revenue from a select group of customers in California.

Lohika was co-founded by Nataliya Riabokon, Volodymyr Riabokon and Lonhyn Jasinskyj. Nataliya, Lohika's Chief Executive Officer, has several years of business experience with Ernst & Young. She is a native of Boryslav, Ukraine and was the first woman from Ukraine to graduate with a MBA degree from Stanford Business School, the most selective business school in the world. Volodymyr, Lohika's President and Chief Operating Officer, has eight years of investment-banking and business-development experience with JP Morgan Chase, International Finance Corporation, and NHK. Lonhyn, Lohika's Chief Technical Officer, has sixteen years of software-development and management experience with a variety of companies in California, including NASA.

Lohika's outsourcing services combine high-level on-site project management in the U.S. with a large pool of highly skilled, cost-effective professional programming talent in Ukraine. Ukraine is home to several major software development centers and is now successfully competing with India for outsourced information-technology services. "Ukrainian programmers usually have advanced degrees, a solid knowledge of a variety of computer technologies, and extensive experience in complex projects in the military and scientific fields," said Gene Shklar, a member of Lohika's Board of Directors. "The company is well-positioned to spearhead the early trend to take advantage of this rich pool of programming talent in Ukraine."

External members of Lohika's Board of Directors include Gene Shklar, a founding employee and former executive of Keynote Systems and Siebel Systems; Adrian Slywotzky, Vice President and member of the Board of Directors of Mercer Management Consulting, a global strategy consulting firm (one of the Marsh and McLennan Companies), and the author of several books on business strategy, profitability and competition; and Lore Harp McGovern, a Silicon Valley entrepreneur, active international venture investor, director of numerous startups and Director of the McGovern Institute for Brain Research at the Massachusetts Institute of Technology.

### **Ukraine International Spreads Its Wings With Discover the World Marketing**

Ukraine International Airlines is expanding its sales and marketing with the U.S.-based Discover the World Marketing, the world's largest travel trade representation company, into the following new markets: Argentina, Brazil, China, Hong Kong, Japan, Southern Africa (Botswana, Lesotho, Namibia, South Africa, and Zimbabwe) and United Arab Emirates beginning this month.



"Discover will focus on developing new business to Kiev for Ukraine International through its extensive network of western European gateway cities," said Derek Shanks, president of Discover the World Marketing. "Our success in generating revenue for the carrier throughout Scandinavia, where Ukraine International operates online routes from Copenhagen and Helsinki to Kiev, led the airline to look for new sales opportunities using our global network."

"Ukraine International is delighted to be developing its relationship with Discover the World Marketing," said Yuri Miroshnikov, senior vice president of Ukraine International Airlines (UAI). "With its global network and expertise, coupled with the UIA product, we have a great recipe for generating revenue from 11 new markets."

Established in 1981 and celebrating 21 years in business, Discover the World Marketing has 82 offices in 52 countries. Headquartered in Scottsdale, Ariz., Discover has grown to be the world's largest travel representation company with annual client revenues approaching half a billion dollars. The company represents nearly 40 major travel corporations with cumulative client revenue production of more than \$5 billion since its inception.

On Nov. 25, 2002, Ukraine International Airlines celebrated its 10th anniversary and on Sept. 27, it flew its second millionth passenger. UIA's fleet of seven Boeing 737s operates from Kiev, the capital of Ukraine, to 14 Western European cities, offering 89 flights a week and 42 flights a week from five cities in the Ukraine. UIA is a member of IATA and IATA clearinghouse.

### **Ener1, Inc. Unit To Participate In The Department Of Energy Project For New Lithium Metal Secondary Batteries**

Ener1 Battery Company, a wholly owned subsidiary of Ener1, Inc. ([www.ener1.com](http://www.ener1.com)), has been notified by the primary grant recipient, Pacific Northwest National Laboratory (PNNL), that the U.S. Department of Energy has just approved a joint project involving PNNL, Yuzhnoye State Design Office (Ukraine), Ukrainian State Chemical Technology University and Ener1 Battery Company. Ener1 Battery's Director of Research and Development, Elena Shembel, Dr. Sci. will be the principal technical lead on the new project, which will involve research, development, prototyping and production of new lithium-metal secondary batteries with polymer electrolytes and cathodes based on metal oxides. DOE is providing \$798,000 in funding in two equal annual funding installments.

The funding will be shared among PNNL, State Design Office Yuzhnoye and Ukraine State Chemical Technology University. Ener1, Inc. will make matching "in-kind" contributions of its scientists' time, laboratory and production equipment usage and various other costs associated with the project. The results of the project are expected to enhance Ener1 Battery's R&D position, as well as its U.S. and overseas production and raw material capabilities as the company prepares to commence prototype production at its new \$20 million plant in Ft. Lauderdale, Florida.

Dr. Peter Novak, Chief Technology Officer for Ener1 Group (Ener1, Inc.'s parent company) commented, "This project award is indicative of Ener1 Battery's significant technical contributions to the continuing development of the important new lithium metal battery technologies. We expect the project to provide further validation of the commercial value of these technologies to us as an emerging company in this field, as well as the importance of our many pending patents in this area."

Larry Light, President & CEO of Ener1, Inc. added, "This new project award comes at an excellent time, as we are planning to begin operations at our new battery production and laboratory facility. The investment that DOE is making in lithium metal battery technology will effectively give us more 'bang for the buck' for our own continuing R&D work, as we refine our advanced electrochemistry and production methods and processes for lithium metal batteries going forward."

Among members of the Ener1, Inc. Board of Directors, there are Dr. Bary W. Wilson and Ronald N. Stewart. Dr. Wilson was recently named CEO of Vector Energy Corporation a wholly-owned subsidiary of Ener1, Inc. parent company, Ener1 Group. Prior to joining Vector Energy, Dr. Wilson was with the U.S. Department of Energy's, Pacific Northwest National Laboratory. During that time, he worked with Ener1 on several battery-related projects under the DOE's Initiatives for Proliferation Prevention (IPP) program. Dr. Wilson, has published over 100 technical papers, holds several patents, and is recognized internationally for his research into the effects of electromagnetic fields on the neuroendocrine system. Ronald Stewart joined Ener1 in April 2002 as General Counsel. Prior to joining Ener1, Mr. Stewart was engaged in private law practice where he counseled clients primarily in mergers and acquisitions and corporate and securities matters. Prior to private practice, Mr. Stewart was with the General Counsel's Office of ICF Kaiser International, Inc., an international consulting, engineering and construction firm. Previously, Mr. Stewart was a financial and securities analyst for a major commercial bank. He is a member of the Florida and District of Columbia Bars.

The focus of Ener1 R&D is to improve lithium power sources by concentrating on the development of a cathode material with better characteristics while overcoming the disadvantages of existing anode materials, and emphasizing the importance and effects

of electrolyte selection. Above all, the safety concerns of lithium technology are addressed.

The three revolutionary electrochemical systems developed by the Ukrainian Ener1 specialists: (1) The Ener1 Lithium-metal system consists of Lithium metal, a non-aqueous electrolyte and a multiphase oxide composition. The system is designed for use in primary and secondary batteries; (2) The Ener1 Lithium Polymer system differs from the above in that a liquid electrolyte is integrated in the cathode matrix polymer composition, significantly improving cycling ability, shelf life, and battery safety (3) The Ener1 Lithium-ion system is a revolutionary achievement in battery technology, now in the research and development stage.

Ener1 is currently enabling the production of its patented lithium metal technology, and will use this technology to produce a rechargeable primary battery; the multi charge primary battery (MCP) - with conventional primary battery characteristics and the advantage of secondary usability. The MCP is, integrating high energy storage capacity with the advantage of rechargeability and opening doors to new technical and commercial possibilities. The R&D road to achieving this technology was based on the development of a new Cathode Material.

### **Nobody Does It Better: Ukrainian Skills Valued in Outsourcing**

Ukrainian businesses occupy a unique place in the world, their eastern border touches Russia, and Eastern Europe is their western border neighbour. The nation has suffered drastic economic downturns since it declared independence in 1991. Still, market processes are going on, and the nation is marching forward towards its strategic goals of economic reform and integration into the EU. Analysts recognize that the future of Ukraine as an independent, democratic nation is of strategic importance to Europe, the U.S. and Russia.

American dollars are already being spent in Ukraine - in dealing with an intense IT skills shortage, the U.S. has become the world's leading consumer of so-called "offshore" software development and application maintenance.

Andrew Pleshch, outsourcing projects manager at Softline Company in Kiev believes there is a natural affinity between Americans and Europeans that is becoming an important motivation for outsourcing projects to Ukraine as well as Russia and Israel, rather

than India. He also believes that "most of the stars from India are now in the U.S." and that Ukrainian teams are "much more ready to implement time- and money-critical projects quickly and with high-quality resources."

About 80% of Softline's customers are local companies seeking to improve both their business and technological levels. But Pleshch describes his company as "ready to 'eat' very serious work, especially full-featured B2C and B2B solutions for Western service providers and end users." The outsourcer is a winner of the years 2000-2002 Ukrainian software contest, recognizing Softline's development suite Megapolis and its modifications.

Softline, an ISO 9000/9001 certified independent software vendor and IT projects integrator, provides turnkey solutions for private sector companies and governments.

Services include consulting, system re-engineering, end-user training and software installation. Besides B2B and B2C solutions like Internet brokerage and marketplaces, the company's project development expertise is in financial and operational management, billing and workflow systems.

Volia Software is an international trade name of Softline company which is a member of CCIA (the U.S. Computer & Communications Industry Association).

Economic trends and evidence of a strong Western presence in the business world of Ukraine demonstrate that this nation is more than simply on the radar screens of Western businesses. Forecasts project Ukraine to be e-Commerce and e-Business boom area, once the current hurdles are overcome. Outsourcing clearly has a favorable future influence on both internal and external markets.

**Please check the Embassy website at [www.ukraineinfo.us](http://www.ukraineinfo.us) for extensive information**

Embassy of Ukraine  
3350 M St. NW  
Washington, D.C. 20007  
tel. (202) 333 0606,  
fax (202) 333 0817  
infolook@aol.com

