

Identifier	Created	Classification	Origin
08KYIV2294	2008-11-21 14:48:00	CONFIDENTIAL	Embassy Kyiv

Cable title: **UKRAINE: FIRTASH USES CRISIS TO EXPAND INTO BANKING**

Tags: [EFIN](#) [EREL](#) [ETRD](#) [PGOV](#) [PREL](#) [XH](#) [UP](#)

 [how-to read a cable](#)

[Show metadata](#)

CONFIDENTIAL KYIV 002294

SENSITIVE

SIPDIS

DEPT FOR EUR, EUR/UMB, EEB/OMA
TREASURY PASS TO TTORGERSON

EO 12958 DECL: 11/21/2018

TAGS [EFIN](#), [EREL](#), [ETRD](#), [PGOV](#), [PREL](#), [XH](#), [UP](#)

SUBJECT: UKRAINE: FIRTASH USES CRISIS TO EXPAND INTO BANKING

REF: A. A) KYIV 02080 B. B) KYIV 02207

Classified By: Acting Economic Counselor William Klein for reasons 1.4 (b) and (d)

1. (C) Summary. Dmitry Firtash, one of Ukraine's most wealthy and notorious oligarchs, plans to buy a controlling stake in Nadra Bank, Ukraine's seventh largest bank. The acquisition of Nadra, which will join Firtash's international holding company (Group DF) when the deal is final, would be Firtash's first foray into Ukraine's banking sector. The purchase of Nadra Bank continues a recent trend on Firtash's part to diversify his asset base beyond Ukraine's politically risky energy sector. He may also hope to use Nadra to service Group DF subsidiaries, or he may simply see the bank as a financial investment, bought on the cheap in a time of crisis, that can be sold once economic conditions improve. Before establishing himself as a billionaire gas trader in the late 1990s, Firtash managed a failing food processing company. He later broke into the gas trade and established himself as an intermediary through connections to key Ukrainian officials and reportedly to Russian organized crime figure Semyon Mogilevich. As co-owner of gas intermediary RosUkrEnerg (RUE), Firtash is widely believed to be serving as a front man for far broader interests. In the case of Nadra, Firtash is sufficiently cash-rich to finance the purchase on his own, but the suspicion remains that in his major business dealings he remains at least politically indebted to the forces that helped him rise so quickly. End Summary.

Despite Crisis, Firtash Moves Into Banking

2. (C) Firtash's international holding company Group Dmitry Firtash, or Group DF, in early November announced intentions to acquire a controlling stake in Nadra Bank, marking Firtash's first bank acquisition. The National Bank of Ukraine (NBU) propped up Nadra with a UAH 3.6 billion (\$609 million) loan after a run on its deposits ostensibly caused a liquidity crisis at the bank. Various explanations as to the cause of Nadra's problems have circulated in the media, but an Embassy contact told us on November 17 that Nadra Bank did not actually have any liquidity problems until its competitors began spreading rumors about Nadra's financial stability. In any case, a liquidity crunch at Nadra ensued and the NBU pressured Nadra to sell a controlling stake of its shares. No final terms of the Group DF deal have been concluded -- it is scheduled to be completed within the next few weeks -- but Group DF reportedly could pay as little as \$50 million for an 86.7 percent stake in Nadra. According to one Nadra Bank stakeholder, Nadra Bank could have been sold for UAH 21.3 billion (\$4.23 billion) before Ukraine's recent financial problems began.

3. (SBU) Nadra is the second Ukrainian bank after Prominvestbank (Ref B) to change hands in the weeks since the financial crisis erupted in Ukraine. In both cases, stakeholders in the banks and many other market participants claim that the runs on the banks were orchestrated. In addition, in both cases cash-rich Ukrainian business interests with no significant banking holdings got the NBU nod to take a controlling stake in the bank (brothers and Party of Regions deputies Sergei and Andriy Kluyev are universally assumed to have bought Prominvestbank, although they have yet to openly acknowledge the purchase.) While many market commentators question whether such investors are ideally suited to introduce the management and banking know-how that the banks need to restructure in difficult times, it is acknowledged that the NBU

did not have much choice if it wanted to sell the banks quickly. Other banks, both foreign and domestic, are struggling with their own problems, and foreign banks in particular would have needed far more time to conduct a thorough due diligence. Many of our banking contacts also criticize what they say is the non-transparent manner in which the NBU sold off the two banks.

4. (SBU) Group DF's CEO, Robert Shelter-Jones, has said that Nadra Bank complements Group DF's strategy to diversify its asset base and that Group DF's businesses probably will become important Nadra Bank customers. Nadra Bank could also help Firtash develop his Ukrainian businesses. Although Nadra mainly is geared toward retail business, it could be restructured to service corporate clients, such as Group DF's current subsidiaries, according to some experts. Others, however, contend that because Nadra specializes in servicing small clients, Group DF is unlikely to use Nadra for Group DF subsidiaries. It is also possible that Firtash sees Nadra Bank as a pure financial investment, bought on the cheap at a time of crisis in the hope of reselling it once conditions in Ukraine's banking sector improve.

What Exactly is Group DF?

5. (C) Established in June 2007, Group DF is an international holding company comprising energy, chemicals, real estate, and construction firms in Eastern and Central Europe. Combined revenues of Group DF's subsidiaries in 2006 totaled \$4.6 billion. The most infamous of Group DF's assets is RosUkrEnergo (RUE), the non-transparent natural gas intermediary that handles gas transactions for Russia and Ukraine. Gas intermediaries, such as RUE and its predecessors EuralTransGas (ETG) and Itera, have benefited well-connected businessmen such as Firtash and have not always served an obvious economic purpose. (Note: In 2002, ETG was established with four employees in a Hungarian village. ETG that same year replaced Itera and secured exclusive rights to supply Turkmen gas to Ukraine, reportedly clearing \$760 million in profits in 2003; Firtash later claimed to be ETG's founder. RUE replaced ETG and reportedly generated more than \$7 billion in 2006. End note.)

6. (C) Gazprom owns 50 percent of RUE, while Firtash and fellow Ukrainian businessman Ivan Fursin -- through Group DF company Centragas Holding AG -- control 45 and 5 percent stakes, respectively. Ukrainian media have reported, however, that Semyon Mogilevich, a Russian organized crime (ROC) figure wanted by the FBI and currently in custody in Russia, has long been linked to Firtash's business activities.

Firtash's Ascent, the Mogilevich Connection

7. (C) The Ukrainian media have reported widely on how Firtash got his start in energy through a network of personal connections to some of the biggest players in Ukraine's gas sector. These included Ihor Bakay, founder and former Chairman of Naftohaz Ukrainy, Yuriy Boyko, the Party of Regions deputy and former Fuel and Energy Minister, and Oleksandr Volkov, a former Prime Minister and Kuchma advisor. Before entering the gas trade business Firtash with his spouse reportedly owned a canned food company called KMIL. By the end of the 1990s KMIL was in deep financial trouble. Firtash subsequently broke into the gas trade business as a barter schemes between Ukraine and Turkmenistan increased when Ukraine did not have sufficient foreign exchange to pay for its gas imports. Firtash's firms delivered food products to Central Asian suppliers and received gas in return. They subsequently sold the gas on Ukraine's domestic market for domestic currency, or through other, often complex barter schemes.

8. (SBU) This barter business established Firtash as a gas trader, and the subsequent growth in the business brought to light his reported ties with Mogilevich. The two have been linked through ostensible joint holdings in off-shore vehicles, and through mutual personal relationships. In May 2000, for example, Firtash's KMIL received a license to sell natural gas at unregulated prices. A company called Highrock Holding Ltd was registered in Cyprus in 2001 to facilitate this business. Firtash and his spouse together reportedly owned 33 percent of Highrock. About 34 percent of Highrock was owned by a firm called Agatheas Trading Ltd. Semyon Mogilevich's ex-wife, Galina Telesh, reportedly was the director of Agatheas Trading from 2001 to 2003. Firtash in 2003 became the director of Agatheas Trading. In addition, Firtash and Mogilevich also have shared the same lawyer, Zeev Gordon, also known as Vladimir Averbukh, to represent their business and personal interests. Moreover, Ukrainian media report that former Hungarian Minister of Culture Andras Knopp XXXXXXXXXXXX became business partners with the Firtashes when Dmitry Firtash periodically resided in Germany during the 1990s. Knopp reportedly is the managing director of EuralTransGas.

Group DF's Assets, Besides RUE

9. (C) After establishing a presence in Ukraine's non-transparent gas trade, Firtash and his associates began acquiring assets outside of Ukraine's energy sector. Group DF probably recognized that while the gas intermediary business is very lucrative, the need for diversification in Ukraine is key, given that the political risks involved are very high. Prime Minister Yuliya Tymoshenko, for example, has called for the elimination of all gas middlemen and Gazprom Press Secretary Sergei Kuprianov on November 17 said that Gazprom next year would supply gas to Ukraine directly, suggesting gas intermediaries could be on their way out.

10. (C) In Ukraine's chemicals sector, Group DF subsidiary OstChem Holding AG owns a little less than half of Crimean Titan, one of Europe's largest titanium dioxide producers that has distributors throughout the world, including Iran,

Russia, Belarus, Kazakhstan, and the U.S. OstChem this year has struggled with the Ukrainian State Property Fund -- the owner of the controlling stake in Crimean Titan -- for management control. In August, however, OstChem on Crimean Titan's behalf successfully secured a 31 million euro (\$45.7 million) loan from Commerzbank (with a guarantee from the German state export insurance agency) to build a new sulfuric acid plant. Firtash also reportedly owns the Kyiv Basketball Club and television channels K1, K2, and Megaspport; his real estate assets in central Kyiv alone include the Arena business complex and the Mandarin shopping center, both high-end commercial objects in prime locations.

11. (C) Comment. Like other Ukrainian oligarchs, Firtash's holdings are doubtless suffering from the severe economic downturn. The purchase of Nadra Bank, however, indicates that he remains sufficiently cash rich to expand in spite of Ukraine's economic and financial troubles. The extent to which Kyiv powerbrokers or underworld figures benefit from Firtash's business empire is unclear, but Embassy interlocutors have told us that Party of Regions recently has turned to close Firtash associates, instead of Ukrainian oligarch and Regions deputy Rinat Akhmetov, to finance Regions' political campaigns (Ref A). Given Firtash's swift ascent from failing canned foods company manager to multi-billionaire dollar gas magnate, he might still be beholden to the forces that helped him rise so quickly. End comment. TAYLOR

Website pages 