



STCU Building Situation

The current 5 year user agreement for the STCU Office Building located at 21 Kamenyariv Street will expire on 1st November 2007.

In March 2007 the Administration Department initiated the task of putting the wheels in motion to get the appropriate Government Parties to start looking at this issue and to ensure that they would take the necessary action to ensure both budgets and new user agreements would be discussed in good time before the expiry of the current user agreement to avoid any potential problems.

An official letter was sent to the Director General of GDIP (The State Public Enterprise General Direction of Kyiv Municipal State Administration for Serving Diplomatic Missions), with a copy sent to the Ministry of Education & Science in Ukraine.

We received a letter back from Mr. Ghurjiy of MES dated 29th May 2006 advising that the Landlord was intending to change his lease conditions with GDIP (Tenant) in accordance with the Cabinet of Minister resolution and that the Landlord had to provide the MES with information requested from him by a letter sent by MES on 15/05/06. The MES added that taking into consideration the STCU's request to extend the premises user contract the MES would try and meet the STCU's request and would keep us informed accordingly.

Since that time we have been in contact with the Landlord on an unofficial basis and he has been in constant contact with MES who are requiring him to provide market lease cost valuations for the building and many other administrative requirements.

We believe that he is very much wanting for STCU to remain within his building but his issue now is to negotiate a new rate with MES & GDIP. This has to be done directly with them. This will probably be a long drawn out process with both sides angling for the best deal. The MES does not wish to pay more than the current price of \$12 per square meter but obviously the market has changed. The Landlord has asked for \$28 psm so we think that the parties will agree on @ \$20 psm which will still probably be under the market.

We see that this issue will come to the forefront in the first half of 2007 and efforts will be required to ensure that an agreement is forthcoming and that budget provisions are made by the Ukrainian Government to ensure the continuation of the office building and working facilities. Whilst we have a written acknowledgement that the MES is working on the issue we cannot trust that actions are actually progressing and we cannot leave this issue to be pushed out of site.

Should the STCU not hear of any official developments on this issue by the beginning of January 2007 the STCU will in any event push the issue

Taking into account that renewal of the building lease/user agreements for the current STCU Headquarters building are under negotiation, there will be no budget expenditure on facility improvements and no major asset purchases for furniture/fixtures/office equipment planned for 2007.