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THE PBN COMPANY is an international strategic communications, government relations and public affairs consultancy serving clients worldwide from offices in Washington, DC, London, Moscow, Kyiv, Riga, Almaty and Chisinau.

Monday, March 13, 2006

Volume 1 Issue 29

## PBN Staff Offers Sage Advice

ДЕЛОВОЙ  
ЭКОЛОГИЧЕСКИЙ  
ЖУРНАЛ



Russian Investment

Crisis Times



"Plan for the worst and hope it never happens." "Reputation management takes thought and initiative." An "investment case that is compelling, credible and well articulated... will almost certainly find enthusiastic investors." This is just a sampling of some of the advice offered by three senior PBN account managers in articles published recently.

Alexei Brevnov, Account Manager in PBN's Moscow office, provides an overview of risk management and crisis communications to Russian corporates just now starting to worry about the impact on their business of threats to economic, physical and information security. "Risk calculations and risk assessment are absolutely critical in business, as a crisis can at any time become a reality," he writes in the Russian magazine, Business Ecological.

Tom Blackwell, formerly with PBN's London office and now Vice President and Deputy Managing Director in PBN•Moscow, published an article in Russian Investment Review analyzing the recent trends in Russian companies turning to the financial markets with IPOs. "As appetite for exposure to Russian growth was nearly insatiable at times, the timing was just right for the long awaited boom. Particularly for new consumer plays, which satisfied both the

### Keeping Risk on a Leash

By Alexei Brevnov  
Account Manager, PBN•Moscow  
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### The Russian IPO Boom

By Tom Blackwell  
Vice President and Deputy Managing  
Director, PBN•Moscow  
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### Avian Flu Threat Tests Corporate Crisis Communications Preparation

By George Felcyn  
Senior Account Manager, PBN•DC  
[\[click here for full story\]](#)

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hunger for growth, and the desire to diversify away from more politically sensitive resource stocks," wrote Tom in his article called "The Russian IPO Boom."

Crisis Times asked PBN's George Felcyn, Senior Account Manager in the Washington DC office, to provide companies with advice on how to prepare for a potential global avian flu outbreak. George writes "...corporate managers often fail to appreciate the complexities and nuances of crisis communications until they find themselves thrown into the middle of it out of necessity... A good crisis communications strategy centers on knowing risks and exposures well ahead of time. It is pre-emptive reputation management."

In this issue of Access PBN, we have reprinted each of these articles. Not only are the articles themselves informative, they offer good insight into the excellent advice offered to PBN clients by account managers in all our offices — of whom we are all extremely proud.

Email the authors: [Alexei.Brevnov@pbnco.com](mailto:Alexei.Brevnov@pbnco.com), [Tom.Blackwell@pbnco.com](mailto:Tom.Blackwell@pbnco.com) and [George.Felcyn@pbnco.com](mailto:George.Felcyn@pbnco.com)

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## Keeping Risk on a Leash

*Wherever there is danger, there also lurks opportunity. Some share this philosophy, others don't. However, most people still believe in the "no risk, no gain" principle and think that without risk there is no profit. And business is no exception. Risk calculations and risk assessment are absolutely critical in business, as a crisis can at any time become a reality. The phrase "crisis management" has entered our everyday lives. But what does it really entail?*

As they develop and strengthen, Russian businesses are faced with continuous threats to their economic, physical and information security. As a result, they must create barriers in order to protect themselves from disruptions and accidents. Russian businesses continually strive to enhance the reliability of resource and product supplies. They must ensure there are no stagnation periods and operational losses. This, in short, is what crisis management is about.

### Communication is a delicate thing

We often forget that in day-to-day operations a company must not only be on the lookout for possible crises, it should also be ready to prevent them. Today, risk assessment is nothing new. Risk assessment, among other things, implies a plan of action to counter crisis situations. Moreover, detailed stage-by-stage scenarios need to be developed for every department. Crisis response can only be successful and cost-effective if the crisis plan is properly supported both technically and financially.

It's worth remembering the 200,000-ton oil spill in the Komi Republic in 1994. The oil lake generated nothing but silence on the part of the government. And the guilty parties kept their silence as well. However, the media got word and brought the disaster to the public's attention. How did the media find out? It turns out that a foreign satellite spotted the oil by chance. And thus began the scandal... Those who were to blame for the leak should have set up a

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**"Once it gets out, information is difficult to control. . . [The] management of a company is supposed to generate and manage information flows."**



**Alexei Brevnov**  
Senior Account  
Manager,  
PBN•Moscow

## Риск на поводке

**Р**иски неизбежны, и управление, ответственный бизнес-послание становится в условиях экстремальной, физической и информационной безопасности. (См. предыдущий выпуск) Как избежать потерь при этом? ...

**Общение – дело тонкое**  
Часть управления не так, что любой клиент в своей повседневной деятельности не только должен постоянно помнить о существующей возможности кризисной ситуации, но и быть готовым к ней. (См. предыдущий выпуск) ...

**Чтобы выйти из положения, надо идти в ногу**  
Александр Фабри

... (См. предыдущий выпуск) ...

**Взгляд вперед**  
Потребность в ...

communications plan for dealing with the key audiences: the media, federal and local authorities, and, of course, NGOs. Providing precise and timely information on ongoing events and actions should be the key principle behind such work. Immediate response should be provided to any request for information and supplementary information should be made available to all those involved.

Let me cite another recent example. When the Exxon Valdez tanker ran aground in Prudhoe Bay, Alaska, 39,000 tons of oil spilled into the sea. Exxon did not make its first official public statement until several days after the accident, and even then couldn't think of anything better to say than that they weren't involved. Meanwhile, local authorities and the NGOs were crying environmental disaster. Clearly, this did nothing for Exxon's image: the value of Exxon's stock fell \$3 billion. Such was the cost for not being prepared to confront an emergency with an immediate response and a thorough action plan. In the end, Exxon ended up paying another \$3 billion for cleanup efforts in the region, bringing its losses to \$6 billion.

A short while later an oil spill occurred off Orange County, California, and this time it was BP's oil. By that time both the federal and the local US authorities had adopted a special law that imposed severe punishment for environmental damage. BP's reaction however was quite different than Exxon's. Through an emergency action plan the company immediately took the responsibility for the accident and thus managed to avoid a strong blow to its reputation and enormous financial losses. BP's emergency action plan was based on an official corporate policy that confirmed the company's readiness to take the responsibility for handling the cleanup efforts in case of an oil spill. As a result, BP made the most of its capacities and worked effectively to handle the crisis. Clearly, such emergencies should not be hushed up. Someone will always manage to find out and word will spread. Once it gets out, information is difficult to control. Exxon's experience clearly demonstrates this. The authorities and the environmentalists found out about the incident, and while Exxon sat silently by, they made the information public and gave their assessment of the accident. Bad news travels fast, and once the bad news is out, there's no escape...

### **Be prepared!**

The unexpected is also inevitable. And although there is no way to prevent the inevitable, one can significantly mitigate the consequences. This is yet another reason why it is necessary to prepare an anti-crisis plan. This plan should first of all outline the actions that the company's front line needs to take. The managers in charge of crisis response should be identified in advance. In case of emergency, they should be authorized to work directly with target audiences

involved in the emergency. The target audiences include the media, government authorities, the public, the company's investors and shareholders, its business partners and consumers as well as public organizations. They will all closely follow the situation and the way the company behaves in the epicenter of the crisis. Each of them will need information that is tailored to their specific needs in terms of both the amount of data and its format. This is critical for ensuring a prudent resolution. For example, the first two hours following an incident are most crucial. One may not know what to do or what the next step will be, but it is important to recognize that something important has occurred, to convince the audience that the situation is under control, to express regret and to confirm that crisis measures are already being taken.

Clearly, it is better if the "guilty" company is the first and the only source of information. The Exxon representatives complained other institutions held the first press conferences following the Valdez spill, for example, the environmental organizations, which gave their own assessment of the situation. Exxon's management fell into a trap: they saw the TV programs about their tanker, lost their bearings and then lost their initiative. Yet, under these circumstances, it is the management of a company that is supposed to generate and manage information flows.

After an incident occurs, many entrepreneurs watch television, listen to the radio and read the papers, unconsciously absorbing the language, the logic and even the clichés used by the media. And this should be avoided, as adopting these elements from the media can make you hostage to the situation. Don't forget that everything is in your hands. Taking responsibility for an accident does not mean recognizing your fault. The crucial thing is how you respond and what measures you take to resolve a crisis. This will also serve as an indicator of how you will handle similar incidents in the future.

### **Learn how to save face**

Clearly, a crisis puts stress on both the management and the staff of a company. As a rule, they need to act immediately. The managers of companies who have had to deal with such emergencies in one way or another understand the importance of providing special training on crisis response measures for the whole team and for the key personnel. Such training helps to model a crisis, to identify the target audiences that need to be worked in the first place, to develop messages for these audiences, to prepare press releases with such messages, to prepare a plan of action well in advance. These measures minimize the negative consequences of the crisis for your company.

Involving professional consultants in order to gain control

over an emergency and to prepare for it can also be very effective. In some cases, positive changes can be seen right away. Let me remind you of a recent accident that left residents of Moscow and the Greater Moscow area without electricity. The management of Unified Energy Systems quickly came out with an official statement on the situation, thus gaining control over the information flow and, most importantly, ensuring the focus that suited Unified Energy Systems. They followed one of the key principles of crisis management: don't keep silent.

Another well-known example is that of the premium bottled water manufacturer Perrier. It once had to withdraw all of its products from the market for six days. What was wrong? An inspector for a municipal water production facility decided to test the quality of water in a reservoir. As a control sample, he used bottled water from Perrier. It turned out that that the Perrier water contained benzene. All Perrier products were immediately recalled. Many experts predicted the brand's market share would tumble. However, the company did not lose its head. Perrier experts determined how this had happened and subsequently developed a set of measures that would enable them to avoid such accidents in the future. This information was first sent to the experts that had negatively assessed the benzene incident. Thus, before the company made an official announcement to the press, all of the experts were well informed of Perrier's plans. The journalists who then approached the experts received either neutral or positive assessments. Again, this demonstrated that reputation management takes thought and initiative. Reputation management should be no less professional than managing any other activity of the company.

Email Alexei: [alexei.brevnov@pbnc.com](mailto:alexei.brevnov@pbnc.com)

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## The Russian IPO Boom

A few years ago, it became very fashionable in the international business community to talk about the imminent "Russian IPO boom." It was in fact rare to go a day without reading in the press about the latest Russian company declaring its intention to go public in the near future. But as time passed, and the boom showed no signs of appearing, one was left asking when this "near future" might be.

But in a pattern that resembles closely that of London buses, you wait interminably for one to come along, and then several come along at once. Thus began the Russian IPO boom. At one point, there was so much activity on the equity markets that even some of the most dedicated capital markets followers might have been caught unawares by some of the companies to go public. "Who is Khlyeb Altai?" (MICEX / RTS, March 2005), some asked.

### So what prompted this boom?

There are a number of factors which have probably contributed to the upsurge in the number of Russian companies looking to the markets. However, while the traditional goal of raising finance may have been a priority for some of the companies, attracting capital was, by all accounts, secondary for most of the issuers.

For some companies, the IPO served as an opportunity for the owners to cash in after building extremely successful and profitable businesses, which proved enticing to investors. Pyaterochka (LSE, May 2005) comes immediately to mind.

For other companies it was about gaining the heightened profile and status that come with a listing. Rambler (AIM, June 2005) pointed to this factor as one of the principal drivers behind its decision to list.

More controversially, there has been the suggestion that

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*"There is strong evidence to suggest that the wave of IPOs is going to continue well into the next year."*

**Tom Blackwell**  
Vice President and  
Deputy Managing Director,  
PBN•Moscow



IPOs

## The Russian IPO boom

Tom Blackwell, Vice President and Deputy Managing Director, The PBN Company

It was only a few years ago that it became very fashionable in the international business community to talk about the imminent "Russian IPO boom". It was in fact rare to go a day without reading in the press about the latest Russian company declaring its intention to go public in the near future. But as time passed, and the boom showed no signs of appearing, one was left asking when this "near future" might be.

But in a pattern that resembles closely that of London buses, you wait interminably for one to come along, and then several come along at once. Thus began the Russian IPO boom. At one point, there was so much activity on the equity markets that even some of the most dedicated capital markets followers might have been caught unawares by some of the companies to go public. "Who is Khlyeb Altai?" (MICEX / RTS, March 2005), some asked.

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some of the companies who decided to list — particularly those who listed abroad — did so in order to reduce political risk. The idea being that the existence of large foreign shareholders could make the Kremlin less likely to interfere.

There was one quite notable case in 2003 when the presence of foreign investors did not help. However, what most certainly didn't work for Yukos might have proved useful for other companies. Say, Vimpelcom (NYSE, November 1996).

And perhaps there is a sense that there is currently a window of opportunity for Russian companies to tap the financial markets. That is, before the uncertainties of the 2008 elections take over, and investors lose some of their appetite for Russian risk.

But probably one of the biggest drivers behind the IPOs is the simple fact that market conditions could not have been more favorable. With developed equity markets generally in decline, investors were forced to go further afield for attractive returns.

As appetite for exposure to Russian growth was nearly insatiable at times, the timing was just right for the long awaited boom. Particularly for new consumer plays, which satisfied both the hunger for growth and the desire to diversify away from the more politically sensitive resource stocks. Enter Pharmacy Chain 36.6 (MICEX, RTS, January 2003), then Kalina (MICEX, April 2004), then Sedmoi Kontinent (RTS, MICEX, November 2004) and numerous others, all of which offered investors an opportunity to play the growth story.

But while the demand was there, investors were conscious that these companies were coming at a price. As the IPO boom rolled on this year, some investors began to hold back, on the grounds that the pricing was perhaps getting ahead of itself. Certainly a number of companies were forced to accept prices at the lower end of — if not below — the expected range. Most recently Amtel-Vredestein (LSE, November 2005) placed its shares at \$11 — below the \$13-\$16 range previously expected.

#### **What is the preferred destination for Russian issuers?**

The question of which exchange to list on is one that has generated a lot of debate, and quite possibly more debate than is deserved. True, all exchanges have their own characteristics and features, but the difference is not as pronounced as some might suggest. And the dreaded Sarbanes Oxley is probably not as frightening as it is sometimes made out to be.

Nevertheless, plaudits must go to London for leading the charge. Russia has been the biggest source of foreign

listings on the London exchange this year, with its companies raising over \$4b, compared with \$1.3b in the previous 13 years since the fall of the Soviet Union.

But as restrictions on Russian companies looking to list abroad tighten, and as the domestic capital markets develop, the trend in favor of going abroad may reverse. After all, even now, the domestic markets certainly have something to offer. Irkut (RTS, MICEX, March 2004) may have taken some people by surprise when it managed to raise a more than respectable \$127m through its domestic listing.

### **So what next?**

There is strong evidence to suggest that the wave of IPOs is going to continue well into the next year. There is undoubtedly still a pool of emerging markets money out there. The next Russian companies to come to market, wherever they choose to list, will almost certainly find enthusiastic investors. Providing that the investment case is compelling, credible and well articulated, and that the price is right.

And Russian companies will not be alone in trying to tap into this emerging markets money. Ukraine's Ukrproduct and Cardinal Resources will definitely be joined by more of their compatriots from the consumer and resource sectors in the next 6-12 months. And who would have thought a year ago that the flotation of a relatively unknown Kazakh copper company would be such a resounding success? This will pave the way for more Kazakh resource companies to come to market in the coming months.

Looking ahead in 2006, the range and depth of Russian equity options is likely to expand considerably. Whatever investors are really hungry for, be it poultry, pork or pipeline infrastructure plays, 2006 should have something to offer.

### **How long can the boom last?**

Well, as Mr. Churchill might have said if he were here to witness this phenomenon, it is definitely not the end of the Russian IPO boom — in fact it's probably not even the beginning of the end. But with the 2008 elections lurking on the horizon, it could perhaps be the end of the beginning.

Email Tom: [Tom.Blackwell@pbnc.com](mailto:Tom.Blackwell@pbnc.com)



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## Avian Flu Threat Tests Corporate Crisis Communications Preparation

Regardless of what form the H5N1 virus takes — whether it continues to be a limited threat or makes the jump to a global pandemic — the hard lessons learned from previous crises apply today to private and public sector actors alike: plan for the worst and hope it never happens. As crisis situations from the Exxon Valdez oil spill and the Bhopal Union Carbide plant explosion to the recent Sago mine disaster have taught us, a company's reputation can be quickly defined by a cascade of events that unfold in a matter of minutes.

Unfortunately, corporate managers often fail to appreciate the complexities and nuances of crisis communications until they find themselves thrown into the middle of it out of necessity. At this point, they may well be handling a critical function without experience, practice, internal infrastructure, or even internal support. The financial costs of preparation — at which managers often balk — pale compared to the costs in lost business and reputation that their company may suffer as a result.

A good crisis communications strategy centers on knowing risks and exposures well ahead of time. It is pre-emptive reputation management. Once the media and rumor whirlpool start, there is no turning back; your stakeholders will be immediately affected. Those who are prepared if and when Avian Flu hits U.S. shores will have a tremendous advantage over competitors in maintaining the trust and confidence of customers, suppliers, employees and others.

In the event of an outbreak, the situation may well unfold in two fundamental phases colored by different dynamics: the first marked by uncertainty, as people scramble to overcome the challenge of piecing together an accurate picture of unfolding events; and a second, longer-term phase potentially marked by supply-chain and service disruptions, employee absences and marketplace

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*“A company’s reputation can be quickly defined by a cascade of events that unfold in a matter of minutes.”*



**George Felcyn**  
Senior Account  
Manager,  
PBN•DC

### Crisis Times

Avian Flu Threat Tests Corporate  
Crisis Communications Preparation



*“Regardless of what form the H5N1 virus takes — the hard lessons learned from previous crises apply today... plan for the worst and hope it never happens.” — George Felcyn*

By George Felcyn

Regardless of what form the H5N1 virus takes — whether it continues to be a limited threat or makes the jump to a global pandemic — the hard lessons learned from previous crises apply today to private and public sector actors alike. Plan for the worst and hope it never happens. As crisis situations from the Exxon Valdez oil spill and the Bhopal Union Carbide plant explosion to the recent Sago mine disaster have taught us, a

In the first stage, the primary objective will be to shape or define media and public information. Good internal communications will be key. Be certain that your organization knows well ahead of time what sources will be used to collect information (specific media outlets, government sources, etc.) and that your stakeholders know where to go, and what channels of communication will be used in the outbreak. This message must be...

uncertainty in which planning for the long term is the key.

In the first stage, the primary objective will be to shape order from amidst a chaotic information stream packed with rumor and half-truths. Good internal communication will be key: be certain that your organization knows well ahead of time what sources will be used to collect information (specific media outlets, government resources, etc.) and that your stakeholders know where to go and what channels of communication will be used for updates. This process may entail establishing a central clearinghouse for information, staffed with a core team that has conducted practice drills together, as well as establishing a hotline that employees can use for regular updates. This "command center" can be ramped up in stages as the crisis evolves to a 24/7 operation with full response capabilities to news media, government agencies and other stakeholders.

Once information becomes widely available and the scope of the crisis becomes clear, the initial stage of uncertainty will give way to longer-term challenges. At this juncture, the focus shifts to implementing your external communications plan in order to reassure your client-base of the health of your company and the availability of services and supplies, or to rapidly and accurately disseminate facts regarding any disruptions or hurdles that impact your organization's capabilities.

The consequences for companies that fail to plan for crisis situations can be devastating in terms of employee safety, the financial health of their employers, and a loss of reputation with stakeholders that packs corrosive long-term consequences. Effective crisis planning is a management function, and should involve every employee in the company. An organization's crisis plan is not just a document that sits on a manager's shelf and gathers dust; it is a plan in which every employee knows their role during a crisis as a result of regular drills and training.

Templates must be in place to help rapidly craft statements that incorporate previously agreed messages applicable to an array of circumstances, as well as spokespeople who are well versed regarding the roles they are expected to play. Effective messaging during a prolonged period of uncertainty will depend on streamlining the amount of work — and debate — that goes into releasing new information; sufficient preparation in this area is crucial. Equally important is the willingness and ability to constantly evaluate risk and exposures, which will change as the situation evolves. An unflinching assessment of your organization's greatest weaknesses is key to adapting the right public posture.

Effective contingency plans should also take into account the strong possibility that your organization may face severe

staffing shortages during the height of the pandemic. Absences could be caused by employees contracting the illness, staying home to care for family, or even from fear of leaving their homes. Staff should be familiar with the variety of functions fulfilled by colleagues and, ideally, trained to step in to help out — or even fill in — where needed. To the extent possible, a variety of cross-fertilization exercises among employees should be implemented to help build interdepartmental understanding. Finally, take steps to facilitate the ability of employees to telecommute to help minimize staffing disruptions should the crisis continue for a long period of time.

Even the fear of an outbreak of an Avian Flu pandemic could result in a potentially devastating loss of customers, revenue, and employee morale. Responsible planning and a well thought out crisis communications action plan can protect your company, your employees and your customers. How your company will fare in such a crisis depends on the steps you take now to prepare for the worst.

Email: [George.Felcyn@pbnc.com](mailto:George.Felcyn@pbnc.com)



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## News from PBN Worldwide

PBN's client news dominates our March announcements. Congratulations to all our clients for these accomplishments.

**We the People.** The Federal Reserve Bank of the United States issued a redesigned \$10 note to the public on March 2, 2006. The phrase "We the People" and images of the Statue of Liberty's torch are featured on the face of the new \$10 note.

Email Tanya: [Tanya.Bessmertnaya@pbnco.com](mailto:Tanya.Bessmertnaya@pbnco.com)

**Under One Roof.** The merger of the Russian brewery assets of Baltika Beverages Holding, a 50:50 joint venture of Scottish & Newcastle and Carlsberg, under the Baltika corporate umbrella was approved by shareholders in early March.

Email Sam: [Sam.Vanderlip@pbnco.com](mailto:Sam.Vanderlip@pbnco.com)

**Na zdorovje.** Diageo, one of the world's largest alcohol producers and the owner of the Smirnoff trademark, and A 1, an investment branch of the Alfa Group and the owner of the Smirnov Trading House, signed an agreement on the creation of a joint venture to promote, sell and distribute alcohol products in Russia.

Email Peter: [Peter.Necarsulmer@pbnco.com](mailto:Peter.Necarsulmer@pbnco.com)

**This Bud's for You.** Anheuser-Busch International, Inc. and Heineken Russia announced a licensing agreement that will allow Heineken to brew, sell and distribute Anheuser-Busch's flagship brand under the Bud trademark in Russia.

Email Paul: [Paul.Nathanson@pbnco.com](mailto:Paul.Nathanson@pbnco.com)

**Good Neighbors.** Mittal Steel purchased Ukraine's Kryvorizhstal Steel Plant last November. Since then, it has ramped up its investment program at the plant, raised salaries and introduced paid medical care for workers. Mittal

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DIAGEO



MITTAL

From the hardwon shareholder approval of a merger, to unique partnering agreements, to benchmark-setting corporate citizenship programs, PBN clients are creating news around the world.

is becoming a strong corporate citizen through its support of local sports clubs, children's camps and recreational facilities in the Kryviy Rih region.

Email Myron: [Myron.Wasylyk@pbnco.com](mailto:Myron.Wasylyk@pbnco.com)

**Music to our Ears.** PBN is providing *pro bono* PR support for the current U.S. Tour of the Russian National Orchestra, which kicked off at New York City's Lincoln Center. This year marks the orchestra's 15th anniversary and its seventh annual tour of the United States.

Email Tom: [Tom.Thomson@pbnco.com](mailto:Tom.Thomson@pbnco.com)

**The Boom Continues.** Trevor Barton, Managing Director of PBN•London, chaired the "Russian IPOs" conference on February 22. Held in London, the event was attended by more than 160 delegates.

Email Trevor: [Trevor.Barton@pbnco.com](mailto:Trevor.Barton@pbnco.com)



The first Russian orchestra ever to win a Grammy award, the RNO's CD of Prokofiev's *Peter and the Wolf* and Jean-Pascal Beintus' *Wolf Tracks* won in 2004 for Best Spoken Word Album for Children. The original English recording was narrated by former U.S. President Bill Clinton and renowned actress Sophia Loren, with an introduction by former Soviet President Mikhail Gorbachev.

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