

# Daily Insight

## Liquidity down; Yields down

MONDAY, 12 MAY, 2014

RESEARCH INSIGHT

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**UX Index (3 months to 12 May 2014)**

**Key market indicators (as of 8 May 2014)**

	Last	Daily chg (%)	YTD chg (%)
FX & MONEY RATES			
USD/UAH	11.6550	-1.23	+41.44
USD/UAH (1Y NDF)	14.1000	-1.40	+49.68
EUR/USD	1.3840	-0.56	+0.71
USD/RUB	35.0286	-1.21	+6.57
KievPRIME O/N (%)	5.95	+57bp	-185bp
KievPRIME 1M (%)	18.50	+37bp	+225bp

**BONDS: yields and spreads**

Ukraine VAT bond (%)	N/A	-8,900bp	-8,900bp
Ukraine 17, Eurobond (%)	13.10	-127bp	+354bp
Ukraine 22, Eurobond (%)	10.36	-39bp	+101bp
Ukraine 23, Eurobond (%)	9.97	-44bp	+93bp
Ukraine 5Y CDS	1,145bp	+37bp	+328bp

**EQUITIES**
**Stock market indices**

UX (Ukraine)	1,108.85	+1.07	+21.85
MSCI World	414.48	+0.19	+1.45
MSCI EM	1,008.85	+0.43	+0.61
RTS (Russia)	1,232.78	+5.40	-14.55
WIG-20 (Poland)	2,403.89	+0.61	+0.12
S&P 500 (USA)	1,878.48	+0.15	+1.63

**MOST ACTIVE: Top 3 stocks by value traded (US\$m)**

CEEN UK	0.21	63.2% of total <sup>1</sup>
BAVL UK	0.07	20.3%
DOEN UK	0.03	8.2%

**GAINERS: Top 3 stocks (in listed currency)**
**LOSERS: Top 3 stocks (in listed currency)**

Notes: Chg – percentage change, if not otherwise indicated;  
 [1] – total traded volume for stocks listed in Table 1, pp. 3;  
 green- or red-shaded box means gain or loss, respectively,  
 of the index or security.

Sources: Bloomberg, UX, Investment Capital Ukraine LLC.

# Economics: News & Comments

## Soviet-era holiday routine: Worst-case scenario avoided

It was widely feared that a string of Soviet-era grand holidays - May 1st and May 9th being May Day and Victory Day, respectively - would see a peak of pro-Kremlin activism by local residents loyal to Russia and Kremlin-sponsored military provocateurs. In the extreme, Kremlin could intervene under the pretext of increased violence allegedly against Russian speakers. Donetsk and Odessa violence that claimed the lives of many citizens, including pro-Russians, could be considered a pretext. However, the Russian army is still posted on the borders, despite Putin's remark to allay concerns from the West (albeit for just a few hours) that the Russian army will step back from the frontier. Over the weekend, NATO provided evidence that this remark was not sincere. Moreover, Putin's additional call to pro-Kremlin protesters in the occupied enclaves of the Donetsk and Luhansk oblasts to postpone their referendums on self-rule was also unreliable. These so-called referendums took place and their legitimacy is promising to be completely unreliable as Sunday's results of the referendum process indicates that Kiev's authorities have shown recent opinion poll results by a Western and highly trusted pollster that record that over 70% of Ukraine's citizens want a united country. All in all, the political situation remains shaky, albeit the prospects of presidential elections scheduled on May 25th are becoming more and more concrete and solid. Little could derail them.

Table 1. Ukrainian stocks (closing prices as of 8-May-2014)

Company	Bloomberg Ticker	Listing	Share price performance (% change)					Valuation (US\$)			Free float (FF) & Liquidity					P/E			EV/EBITDA			EV/Sales			Ratios		
			Last price	Daily	MoM	YTD	YoY	Last price	Market cap (m)	EV (m)	FF (%)	FF mkt cap (US\$m)	Last day turnover (US\$ 000)	3M avg. turnover (US\$ 000)	FF share traded (%)	FF turnover (days)	2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E	P/B (x)	Debt/ Assets (%)
ENERGY																											
Centrenerg	CEEN UK	Kiev, UX	6.07 UAH	+0.0	+2.0	+27.3	+48.5	0.52	192.2	246.6	21.7	41.7	206.7	128.4	0.36	275	9.6	5.2	7.6	0.4	3.8	3.3	0.3	0.4	0.3	0.9	12.2
Donbasenergo	DOEN UK	Kiev, UX	41.32 UAH	+0.0	-10.2	+49.8	+104.4	3.54	83.8	124.5	14.2	11.9	26.9	39.2	0.39	254	1.8	2.5	2.5	0.5	1.6	1.4	0.3	0.2	0.2	1.5	17.8
Zakhidenergo	ZAEN UK	Kiev, PFTS	133.00 UAH	+0.0	+6.4	+47.1	+63.2	11.40	145.8	123.0	5.0	7.3	0.1	3.7	0.02	4,602	2.9	N/A	N/A	0.8	N/A	N/A	0.1	N/A	N/A	3.3	0.0
METALLURGY																											
Alchevsky Meta...	ALMK UK	Kiev, UX	0.03 UAH	+0.0	-17.7	-17.6	-26.4	0.00	70.7	1,274.1	3.9	2.7	2.9	10.6	0.37	267	Neg.	N/A	N/A	N/A	N/A	N/A	1.0	N/A	N/A	N/A	64.5
Avdiyivsky Cok...	AVDK UK	Kiev, UX	2.97 UAH	+0.0	-15.8	+0.4	-1.2	0.25	49.7	46.6	4.0	2.0	2.8	15.4	0.81	123	Neg.	1.9	0.8	Neg.	0.6	0.4	0.1	0.1	0.0	0.1	0.0
Azovstal	AZST UK	Kiev, UX	0.69 UAH	+0.0	-10.1	+3.3	+19.3	0.06	249.4	242.2	4.1	10.2	3.7	12.1	0.11	895	Neg.	Neg.	N/A	Neg.	Neg.	N/A	0.1	0.1	N/A	0.2	0.0
Yasynivsky Cok...	YASK UK	Kiev, UX	0.64 UAH	+0.0	-6.9	+20.4	+11.9	0.05	15.0	16.2	9.0	1.3	12.6	1.6	0.16	638	Neg.	0.9	0.7	0.1	0.5	0.5	0.1	0.0	0.0	0.1	0.1
Yenakievo Steel	ENMZ UK	Kiev, UX	33.40 UAH	+0.0	-12.9	+4.3	+1.2	2.86	30.2	25.8	9.4	2.8	3.1	12.0	0.26	390	5.1	Neg.	N/A	Neg.	Neg.	N/A	0.0	0.0	N/A	0.8	0.0
TRANSPORTATION																											
KDM Shipping	KDM PW	Warsaw	10.99 PLN	+0.0	-16.1	-65.0	-70.0	3.62	33.7	17.7	10.9	3.7	0.2	2.2	0.01	12,019	2.7	N/A	N/A	1.2	N/A	N/A	0.6	N/A	N/A	0.6	8.3
FINANCIAL SERVICES																											
Forum Bank	FORM UK	Kiev, UX	0.40 UAH	+0.0	-38.4	-47.4	-33.3	0.03	20.4	N/A	5.5	1.1	0.2	0.8	0.10	963	Neg.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.2	18.6
Raiffeisen Ban...	BAVL UK	Kiev, UX	0.18 UAH	+0.0	+8.1	+62.9	+81.5	0.02	475.2	N/A	3.8	18.2	66.4	64.7	0.34	290	17.4	7.4	Neg.	N/A	N/A	N/A	N/A	N/A	N/A	0.8	28.3
Ukrsotsbank	USCB UK	Kiev, UX	0.16 UAH	+0.0	-4.7	-15.2	+32.4	0.01	247.3	N/A	4.5	11.1	1.4	4.2	0.03	3,504	Neg.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.3	30.9

Notes: mln - millions; FF - free float; n/a - not available; neg. - negative; a company name (the left column of the table) is shortened to fit the column and hence in some cases is not displayed in full; \*\*\* -- means that P/E ratio is above 10,000x.

Sources: Bloomberg, Investment Capital Ukraine LLC.

# Bonds: News & Comments

## Liquidity declines significantly

Broader banking sector liquidity fell last Thursday, the last business day last week in Ukraine, after two days of liquidity rising significantly. Broader banking sector liquidity fell UAH1.93bn to UAH41.43bn as banks' correspondent accounts with the NBU down UAH3.15bn to UAH29.71bn. Total local currency debt repayments scheduled for the next 30 days slid UAH0.29bn to UAH3.66bn, while total CDs outstanding rose UAH1.52bn to UAH8.06bn.

KyivPrime interest rates slightly rose last Thursday: the KyivPrime ON interest rate rose 57bp to 5.95% while the KyivPrime 1M interest rate rose 37bp to 18.50%.

**Investment implications:** Liquidity declined due to the absorption of funds by the NBU and some liquidity being spent on the FX market. Any time liquidity is at a high level, this remains high with the possibility of an increase as NBU absorptions decrease pressure on the FX market.

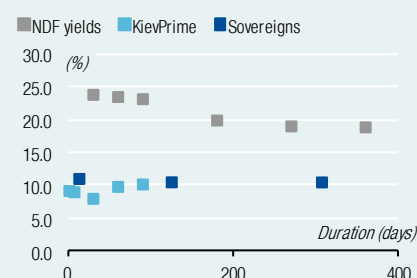
## Yields move insignificantly

Although yields of Ukrainian Eurobonds slightly declined last Thursday, they slightly rose last Friday, but not very significantly. Yields remained mostly above 10.0% and the yield curve of Ukrainian Eurobonds at the end of last week were in the range of 10.08-13.91%, as UKRAIN 6.875% '15 declined 364bp to 13.91%, UKRAIN 9.25% '17 declined 8bp to 13.01%, UKRAIN 7.95% '21 slid 12bp to 10.79%, and UKRAIN 7.80% '22 slid 5bp to 10.30%, while UKRAIN 7.50% '23 rose 12bp to 10.08%. The 5-year CDS slightly rose till last Friday to 1125bp.

**Investment implications:** Yields remain high and depend on the political situation in Ukraine. Last Friday's increase was mostly due to the instability in eastern Ukraine and on negative anticipations over the weekend. However, this weekend did not cause a new wave of instability and we anticipate that the situation will become more stable. Yields are expected to move down a bit this week.

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**Yield curve of the local bond market**  
(as of market close on 8 May 2014)



Sources: Bloomberg, Investment Capital Ukraine LLC.

## Bond market indicators (as of 8 May 2014)

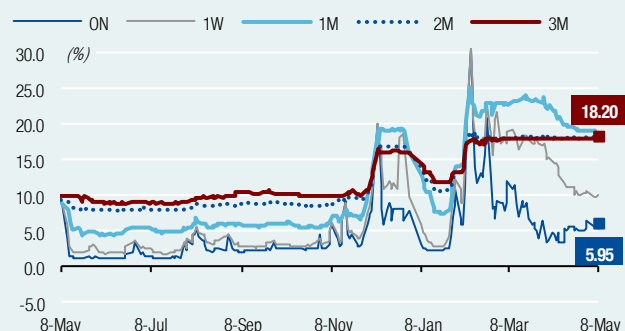
	Last	Daily	Weekly	MoM	YTD
		chg (%)	chg (%)	chg (%)	chg (%)
<b>MONEY MARKET KIEV PRIME RATES (%)</b>					
O/n	5.95	+57bp	-45bp	+145bp	-185bp
1wk	10.10	+10bp	-50bp	-440bp	+30bp
1m	18.50	+37bp	-70bp	-350bp	+225bp
2m	18.40	+27bp	+30bp	+2bp	+200bp
3m	18.20	+20bp	+16bp	+15bp	+220bp
<b>LIQUIDITY WIDE MEASUREMENT (UAHm)</b>					
CB acc's <sup>1</sup>	29,714	-9.59	-1.62	-6.60	-9.14
CDs <sup>2</sup>	13,559	+20.91	-13.75	-8.44	+792.0
Sovgns <sup>3</sup>	3,695	+0.00	+2.63	-28.14	+147.2
<b>Total</b>	<b>46,969</b>	<b>-1.69</b>	<b>-5.16</b>	<b>-9.26</b>	<b>+31.50</b>
<b>HOLDERS OF UAH SOVEREIGN BONDS (UAHm)</b>					
C.bank	174,811	+0.00	-0.22	+2.42	+20.68
Banks	86,705	+1.01	+0.37	-0.25	+8.15
Resid's <sup>4</sup>	10,745	+0.29	-0.38	-4.01	-13.32
Non-res <sup>5</sup>	16,183	+1.33	+1.79	+0.84	+38.33
<b>Total</b>	<b>288,445</b>	<b>+0.39</b>	<b>+0.07</b>	<b>+1.26</b>	<b>+15.79</b>
<b>NDF IMPLIED YIELDS (%)</b>					
3m	43.92	+547bp	+222bp	+28bp	+32bp
6m	25.98	+278bp	-194bp	+13bp	+13bp
9m	24.41	+137bp	-17bp	+980bp	+10bp
1yr	21.63	-21bp	-405bp	+799bp	+665bp
<b>LOCAL CURRENCY UAH SOVEREIGN BOND YIELDS (%)</b>					
Mar '13	N/A	-52ppt	+0bp	+0bp	+0bp
Jan '14	N/A	+320bp	+0bp	+0bp	-676bp
Aug '15 <sup>6</sup>	N/A	-89ppt	+0bp	+0bp	-89ppt
<b>EUROBONDS USD SOVEREIGN BOND YIELDS (%)</b>					
CDS 5yr	1,145	+37bp	-44bp	+145bp	+328bp
Jun '16	13.62	-215bp	-34bp	+279bp	+473bp
Jul '17	13.10	-127bp	+90bp	+244bp	+354bp
Sep '20	10.81	-94bp	+11bp	+111bp	+161bp
Sep '21	10.91	-65bp	+25bp	+113bp	+169bp
Sep '22	10.36	-39bp	+1bp	+79bp	+101bp
Feb '23	9.97	-44bp	-9bp	+73bp	+93bp

Notes: [1] banks' account balance at NBU; [2] certificates of deposits issued by NBU; [3] UAH sovereign bonds due next 30 days; [4] residents; [5] non-residents; [6] VAT bond.

Sources: Bloomberg, Investment Capital Ukraine LLC.

## Chart page: Local bond market & Eurobond markets

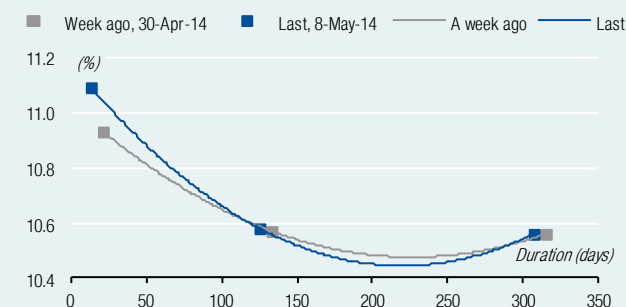
**Chart 1. Kiev Prime rates (%), last 12-month period**



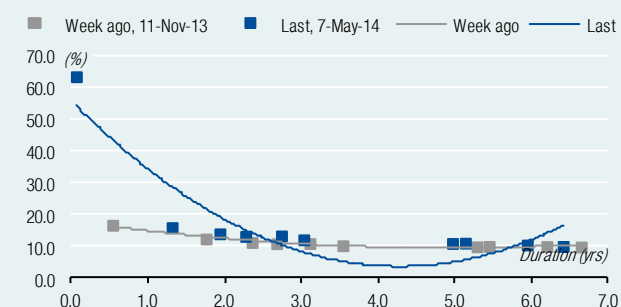
**Chart 2. UAH NDF implied yields (%), last 12-month period**



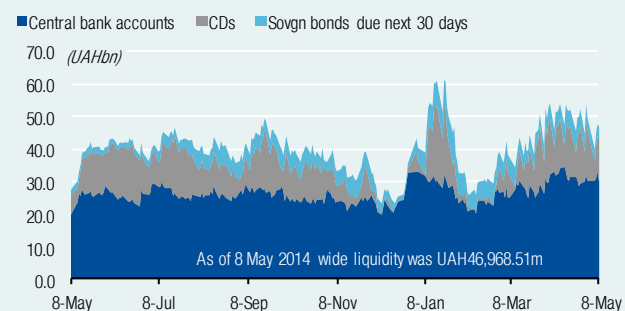
**Chart 3. UAH sovereign yield curve (%) as of 8 May 2014**



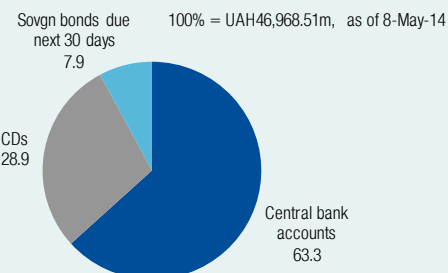
**Chart 4. USD sovereign yield curve (%) as of 8 May 2014**



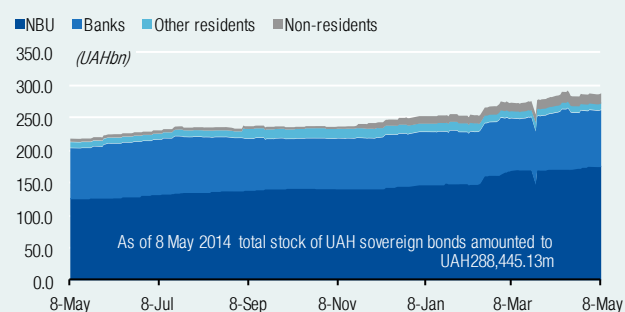
**Chart 5. Banking sector liquidity (UAHbn), last 12-month period**



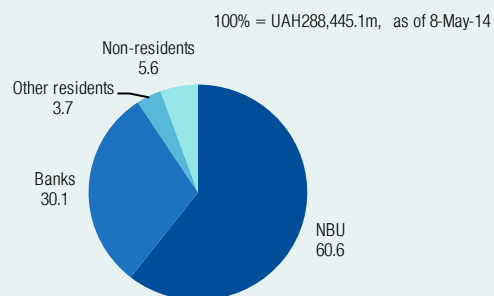
**Chart 6. Breakdown of liquidity pool (%) as of 8 May 2014**



**Chart 7. Holders of sovereign bonds (UAHbn), last 12 months**



**Chart 8. Domestic sovereign debt (%) as of 8 May 2014**



# FX: News & Comments

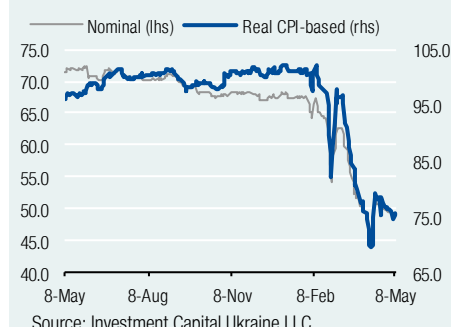
## The market sentiment remains weak for the UAH

The FX market pushed the hryvnia up as the market rate closed up 1.23% last Thursday on US\$0.26bn of turnover. Still, the sentiment remains weak for the UAH as creeping destabilization unfolds in the east. An attempt occurred a week ago in the city of Odessa which saw an emergency shake-up of the oblast's administration - from the governor to the police head - by central government in Kiev. The Donetsk and Luhansk oblast "referendums" complicate the general picture. The question remains over the authority of Kiev over these oblasts and whether they could be lost as Crimea was. With two weeks left until the presidential elections, the UAH-related key concern of the global FX market will be Russia. It may encounter a rising threat of more serious sanctions by the West if the Kremlin continues to threaten war on Ukraine. The RUB could become weaker because of this risk. Hence, this would push the UAH's real rate up if the local market FX rate remains unchanged.

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### ICU's UAH trade-weighted indices

(Last 12-month history to 12 May 2014)



### FX market indicators (as of 8 May 2014)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)

#### USD/UAH MARKET (HRYVNIA per US DOLLAR)

Spot mkt	11.6550	-1.23	+0.47	-1.44	+41.44
NBU avg	11.5938	-0.49	+1.69	-1.15	+42.24
Ttl vlm <sup>1</sup>	348.91	-11.57	-27.59	-24.51	-87.55
\$ volume <sup>2</sup>	264.43	-12.15	-23.45	-24.68	-88.04
NDF 3M	12.9250	+0.00	+0.98	+5.11	+52.33
NDF 6M	13.1500	+0.00	-0.38	+4.69	+49.77
NDF 1Y	14.1000	-1.40	-2.76	+5.51	+49.68

#### TRADE-WEIGHTED INDICES (TWIs, points)

UAH nom'l	48.792	+0.91	-1.16	+0.79	-27.76
UAH real CPI	75.230	+0.91	-1.16	+0.79	-25.57
UAH real PPI	104.209	+0.91	-1.16	+0.79	-24.91
USD nom'l	79.361	+0.28	-0.21	-0.49	-0.84

#### FX RATES OF KEY CURRENCIES THAT SHAPE UAH's TWIs

USD/RUB	35.0286	-1.21	-1.72	-1.82	+6.57
EUR/USD	1.3840	-0.56	-0.22	+0.31	+0.71
USD/CNY	6.2278	-0.01	-0.51	+0.50	+2.87
USD/PLN	3.0196	+0.04	-0.17	-0.06	-0.11
USD/TRY	2.0735	-0.89	-1.53	-1.08	-3.48
USD/BYR	10,015.00	+0.12	+0.25	+0.86	+4.98
USD/KZT	182.0500	+0.00	-0.01	-0.01	+18.01

#### OTHER MAJOR CURRENCIES

USD/JPY	101.6600	+0.19	-0.65	-0.15	-3.47
GBP/USD	1.6932	-0.28	+0.23	+1.10	+2.26
USD/CHF	0.8802	+0.66	+0.10	-0.35	-1.42
AUD/USD	0.9375	+0.37	+1.09	+0.16	+5.14
USD/CAD	1.0831	-0.46	-1.14	-0.84	+1.96
USD/BRL	2.2150	-0.08	-0.77	+0.61	-6.23
USD/KRW	1,022.76	+0.00	-1.02	-2.81	-2.58

#### COMMODITIES

Gold(\$/oz)	1,289.30	-1.72	+0.39	-1.48	+6.94
WTI crude <sup>3</sup>	100.26	+0.00	+0.84	-2.24	+1.87
Brent crd <sup>3</sup>	107.67	+0.34	+0.15	+0.85	-2.84
Urals crd <sup>3</sup>	N/A	+0.00	+0.00	+0.00	+0.00
TR/J CRB <sup>4</sup>	306.14	-0.28	-0.27	-0.60	+9.27

Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU website ([download history](#)) and Bloomberg (type: ALLX UTWI <GO>).

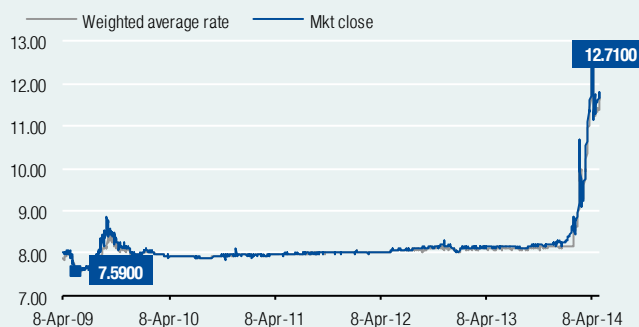
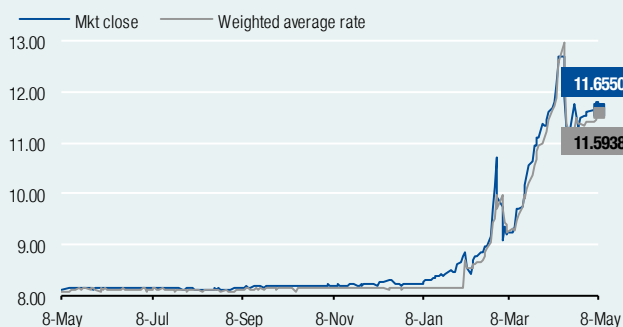
Section on FX market is continued on next page.

Notes: [1] trading volume in all foreign currencies (US\$m);  
[2] trading volume in the pair USD/UAH (US\$m);  
[3] crude oil price (USD per barrel); [4] the Thomson Reuters/Jefferies CRB Index. A green-/red-shaded box means gain or loss, respectively, of the investment into the asset.  
Currencies are gaining when their exchange rates strengthen versus USD.

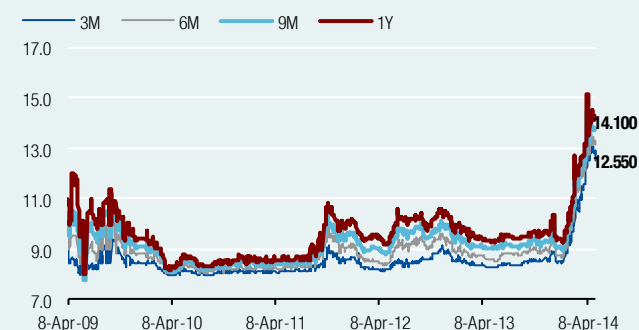
Sources: Bloomberg, Investment Capital Ukraine LLC.

## Chart page #1: Foreign-exchange market

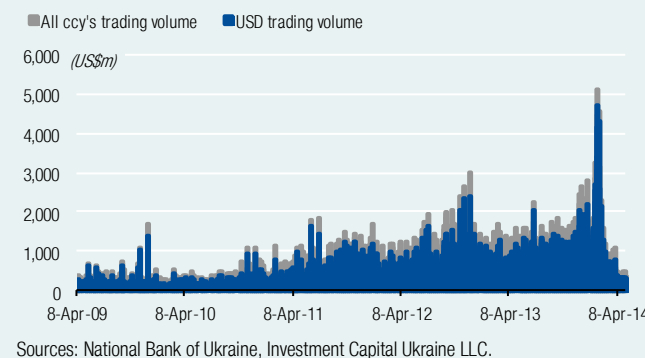
**Chart 9. Spot market rates USD/UAH: last 12-month and 5-year periods (UAH per USD, left and right respectively)**



**Chart 10. NDF market rates USD/UAH: last 12-month and 5-year periods (UAH per USD, left and right respectively)**



**Chart 11. Trading volume: last 12-month and 5-year periods (US\$m, left and right respectively)**



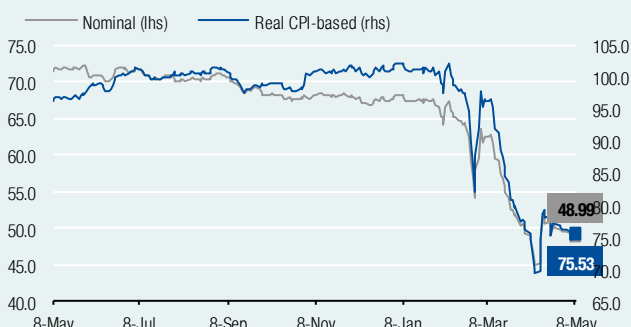
**Chart 12. 30D MA\* ratio of FX market turnover to merchandise trade: last 12m and 5yr periods (% , left and right respectively)**



## Chart page #2: ICU's UAH trade-weighted indices

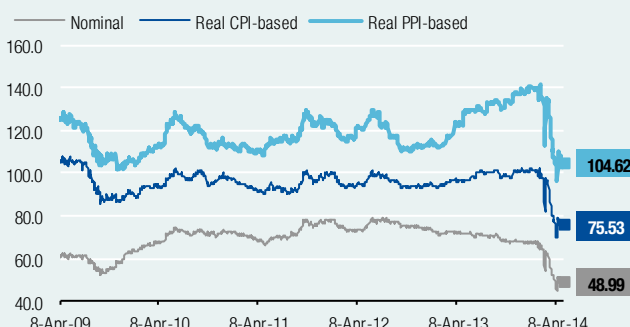
The following charts depict ICU's Ukrainian hryvnia trade-weighted indices which were calculated in accordance with methodology published in the [Quarterly Report "Keep the music playing"](#) dated 31 January 2013 and, then, updated, in the [Quarterly Report "Muddling through no more"](#) dated 14 August 2013.

**Chart 13. Nominal and CPI-based real TWIs of UAH, history of last 12-month period**



Note: The boxes indicate the last values of the depicted indicators.  
Source: Investment Capital Ukraine LLC.

**Chart 14. Nominal, CPI- and PPI-based TWIs of UAH, history of last 5-year period**



Note: The boxes indicate the last values of the depicted indicators.  
Source: Investment Capital Ukraine LLC.

**Chart 15. Deviation of UAH trade-weighted indices from their 5-year moving averages: last 12-month and 5-year periods (% , left and right respectively)**

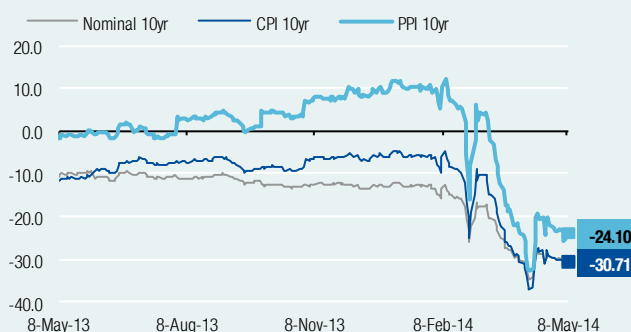


Note: The boxes indicate the last values of the depicted indicators.  
Source: Investment Capital Ukraine LLC.



Note: the boxes indicate the high and low values of CPI-based TWI.  
Source: Investment Capital Ukraine LLC.

**Chart 16. Deviation of UAH trade-weighted indices from their 10-year moving averages: last 12-month and 5-year periods (% , left and right respectively)**



Note: The boxes indicate the last values of the depicted indicators.  
Source: Investment Capital Ukraine LLC.



Note: the boxes indicate the high and low values of CPI-based TWI.  
Source: Investment Capital Ukraine LLC.



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# Disclosures

## ANALYST CERTIFICATION

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## EQUITY RATING DEFINITIONS

**Buy:** Forecasted 12-month total return greater than 20%

**Hold:** Forecasted 12-month total return 0% to 20%

**Sell:** Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.

## DEBT RATING DEFINITIONS

**Buy:** Forecasted 12-month total return significantly greater than that of relevant benchmark

**Hold:** Forecasted 12-month total return is in line with or modestly deviates from relevant benchmark

**Sell:** Forecasted 12-month total return significantly less than that of relevant benchmark



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