



Focus
Ukraine

Scope
Economics, bonds, equity & FX markets

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Daily Insight

FX market consumes Naftogaz's US\$1.6bn deal

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THURSDAY, 2 OCTOBER 2014

UX Index (3 months to 2 Oct 2014)



Source: UX.

Key market indicators (as of 1 Oct 2014)

	Last	Daily chg (%)	YTD chg (%)
FX & MONEY RATES			
USD/UAH	12.9500	+0.00	+57.16
USD/UAH (1Y NDF)	16.0500	+0.00	+70.38
EUR/USD	1.2623	-0.06	-8.15
USD/RUB	39.6897	+0.23	+20.75
KievPRIME O/N (%)	8.20	+0bp	+40bp
KievPRIME 1M (%)	15.70	+0bp	-55bp
SOVEREIGN EUROBONDS: yields and spreads			
Ukraine 15, Eurobond (%)	18.76	-67bp	+1,040bp
Ukraine 17, Eurobond (%)	14.28	-25bp	+472bp
Ukraine 22, Eurobond (%)	10.44	-10bp	+109bp
Ukraine 23, Eurobond (%)	10.36	-4bp	+131bp
Ukraine 5Y CDS	1,296bp	-22bp	+480bp
EQUITIES			
Stock market indices			
UX (Ukraine)	1,097.62	+1.90	+20.61
MSCI World	412.26	-1.10	+0.91
MSCI EM	996.86	-0.84	-0.58
RTS (Russia)	1,113.42	-0.92	-22.83
WIG-20 (Poland)	2,462.60	-1.51	+2.57
S&P 500 (USA)	1,946.16	-1.32	+5.29

Notes: Chg – percentage change, if not otherwise indicated; [1] – total traded volume for stocks listed in 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

VAB Bank defaults on its first post-restructure coupon payment

VAB Bank has defaulted on its first coupon payment for its 2019 Eurobond, the first bond issued since it was restructured in June 2014. The bank blames the regulatory restriction on FX-operations and the deteriorating Ukrainian banking system that prevented it from being able to fulfil the US\$2m payment due in September. While this amount is immaterial in relation the bank's size (total assets of US\$1.8bn) and its high cash-to-liabilities ratio of 10, a significant amount of cash might have been restricted in the form of guarantee deposits or similar withholdings.

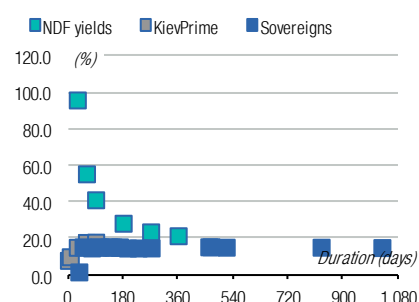
VAB bank has received UAH800m of capital inflow from its shareholders during 2014.

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Bonds: News & Comments

Yield curve of the local bond market

(as of market close on 1 Oct 2014)



Sources: Bloomberg, Investment Capital Ukraine LLC.

Bond market indicators (as of 1 Oct 2014)

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

MONEY MARKET KIEV PRIME RATES (%)

O/n	8.20	+0bp	+20bp	+270bp	+40bp
1wk	10.40	-10bp	+15bp	+90bp	+60bp
1m	15.70	+0bp	+37bp	+60bp	-55bp
2m	18.00	+0bp	+17bp	+10bp	+160bp
3m	18.00	+0bp	+0bp	+0bp	+200bp

LIQUIDITY WIDE MEASUREMENT (UAHm)

CB acc's ¹	38,316	+6.75	+22.91	+34.85	+17.17
CDs ²	25,339	-24.90	+48.38	+134.6	+3,494.2
Sovgns ³	5,269	-19.80	-7.38	+46.21	+252.4
Total	68,924	-9.55	+27.78	+60.97	+97.48

HOLDERS OF UAH SOVEREIGN BONDS (UAHm)

C.bank	266,396	+0.00	+1.61	+38.73	+83.91
Banks	86,059	+0.60	-3.38	+3.50	+7.35
Resid's ⁴	14,131	-0.48	-18.75	-8.38	+13.99
Non-res ⁵	19,478	+0.25	-3.37	+16.00	+66.49
Total	386,065	+0.13	-0.70	+25.60	+54.97

NDF IMPLIED YIELDS (%)

3m	N/A	N/A	N/A	N/A	N/A
6m	N/A	N/A	N/A	N/A	N/A
9m	N/A	N/A	N/A	N/A	N/A
1yr	N/A	N/A	N/A	N/A	N/A

LOCAL CURRENCY UAH SOVEREIGN BOND YIELDS (%)

Mar '13	N/A	-52ppt	+0bp	+0bp	+0bp
Jan '14	N/A	+320bp	+0bp	+0bp	-676bp
Aug '15 ⁶	N/A	+542bp	+0bp	+590bp	-81ppt

EUROBONDS USD SOVEREIGN BOND YIELDS (%)

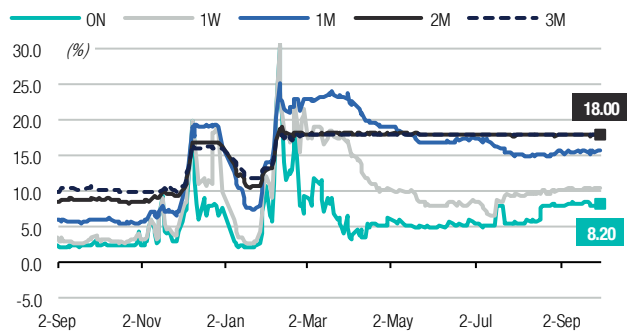
CDS 5yr	1,296	-22bp	+62bp	+494bp	+480bp
Jun '16	14.65	-67bp	-52bp	+651bp	+577bp
Jul '17	14.28	-25bp	-4bp	+574bp	+472bp
Sep '20	11.03	-10bp	+20bp	+233bp	+183bp
Sep '21	11.04	-14bp	+23bp	+246bp	+182bp
Sep '22	10.44	-10bp	+2bp	+201bp	+109bp
Feb '23	10.36	-4bp	+12bp	+207bp	+131bp

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.

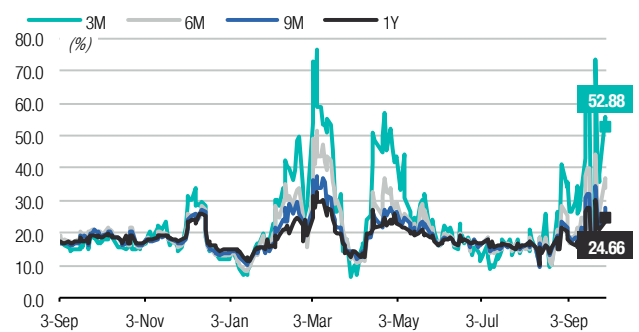
Chart page: Local bond market & Eurobond markets

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



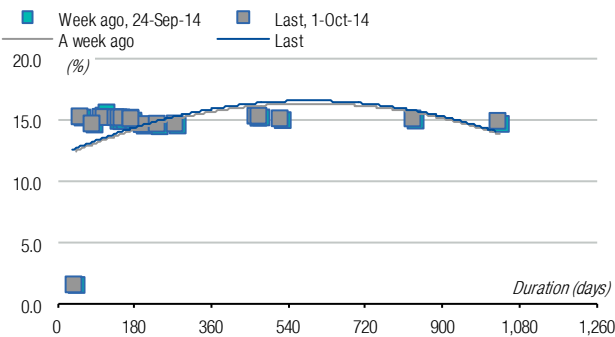
Sources: Bloomberg, Investment Capital Ukraine LLC.

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



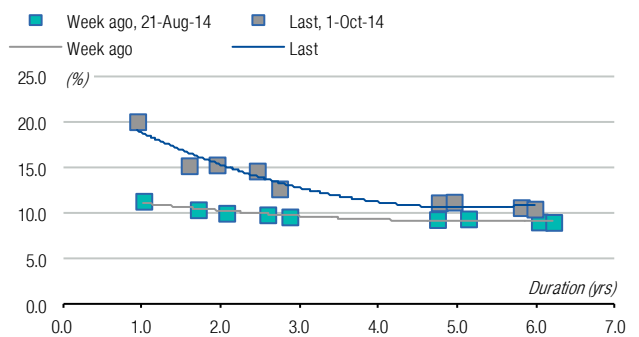
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 3. UAH sovereign yield curve (%) as of 1 Oct 2014



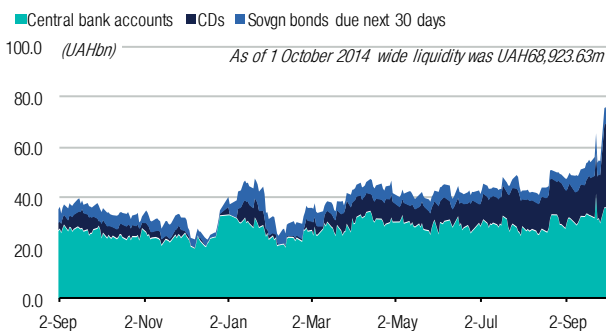
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 4. USD sovereign yield curve (%) as of 1 Oct 2014



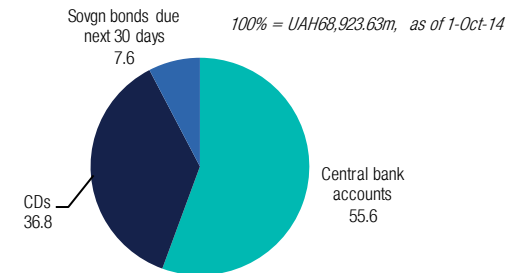
Sources: Bloomberg, Investment Capital Ukraine LLC.

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



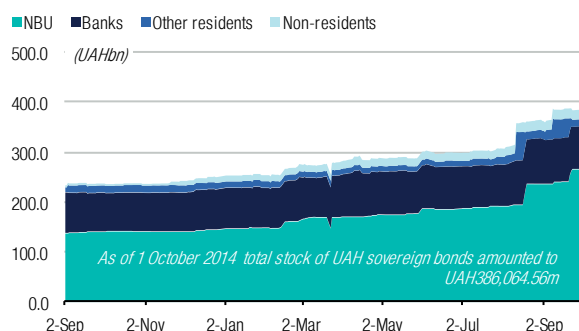
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 6. Breakdown of liquidity pool (%) as of 1 Oct 2014



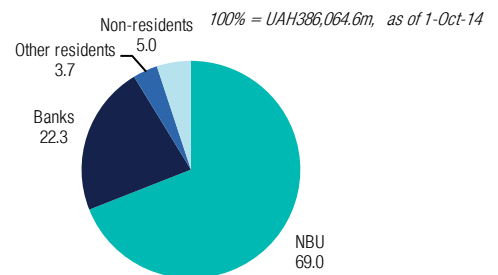
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

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



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 8. Domestic sovereign debt (%) as of 1 Oct 2014



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Table 1. Ukrainian stocks (closing prices as of 1-Oct-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)	2013	2014E	2014E	2013	2014E	2014E	2013	2014E	2014E	P/B (x)	Debt/ Assets (%)
ENERGY																											
Cadogan Petrol...	CAD LN	London	10.38 GBp	-4.6	-9.8	+0.0	-35.7	0.17	38.9	-24.2	40.2	15.6	20.9	27.2	0.21	476	Neg.	Neg.	Neg.	3.7	N/A	N/A	Neg.	Neg.	Neg.	0.2	0.0
Centrenerg	CEEN UK	Kiev, UX	7.40 UAH	+2.5	-3.0	+55.2	+48.8	0.57	211.1	272.4	21.7	45.8	36.9	231.9	0.12	844	5.6	4.9	7.4	0.4	3.9	4.1	0.5	0.3	0.3	1.1	16.3
Coal Energy	CLE PW	Warsaw	0.89 PLN	-5.3	+41.3	-15.2	-63.4	0.27	12.1	138.1	25.0	3.0	28.5	49.2	3.42	29	Neg.	N/A	N/A	6.1	N/A	N/A	1.1	N/A	N/A	0.1	39.8
Donbasenergo	DOEN UK	Kiev, UX	29.30 UAH	+3.8	-14.2	+6.2	+30.5	2.26	53.5	90.2	14.2	7.6	10.5	30.6	0.20	493	1.3	1.3	1.4	0.3	1.5	1.2	0.2	0.2	0.2	1.1	17.8
JXK Oil & Gas	JXK LN	London	47.00 GBp	-2.6	+3.9	-34.3	-24.8	0.76	130.9	136.0	47.2	61.8	25.6	40.4	0.06	1,670	20.1	21.8	4.0	2.1	2.5	2.1	0.8	0.8	0.7	0.3	5.5
Regal Petroleum	RPT LN	London	8.25 GBp	+0.0	+37.5	-36.5	-38.9	0.13	42.9	16.1	80.9	34.7	0.0	10.8	0.03	3,018	Neg.	21.4	N/A	0.7	0.6	N/A	0.4	0.4	N/A	0.1	0.0
Zakhidenergo	ZAEN UK	Kiev, PFTS	141.10 UAH	-1.3	+8.5	+56.1	+59.1	10.90	139.4	229.3	5.0	7.0	2.9	1.9	0.02	5,200	3.1	N/A	N/A	1.5	N/A	N/A	0.3	N/A	N/A	1.2	0.0
METALLURGY																											
Alchevsky Meta...	ALMK UK	Kiev, UX	0.03 UAH	+5.2	-18.1	-32.8	-35.9	0.00	51.9	2,263.8	3.9	2.0	4.3	14.6	0.27	371	Neg.	Neg.	N/A	Neg.	Neg.	N/A	2.0	1.2	N/A	N/A	85.7
Avdiyivsky Cok...	AVDK UK	Kiev, UX	2.37 UAH	+0.9	-12.9	-20.0	-26.2	0.18	35.7	31.9	4.0	1.4	3.0	11.5	0.75	134	Neg.	231.1	0.6	0.1	0.6	0.3	0.1	0.0	0.0	0.1	0.1
Azovstal	AZST UK	Kiev, UX	0.69 UAH	+5.5	-11.5	+3.0	+9.4	0.05	224.0	N/A	4.1	9.2	21.0	11.2	0.15	670	Neg.	Neg.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.2	0.0
Ferrexpo PLC	FXPO LN	London	105.10 GBp	-6.4	-17.9	-43.4	-38.5	1.70	1,003.2	1,205.6	22.4	224.7	1,986.2	1,069.2	0.61	164	3.8	3.6	6.8	2.4	2.4	3.4	0.8	0.8	0.8	0.9	35.1
Yasynivsky Cok...	YASK UK	Kiev, UX	0.48 UAH	+9.1	-17.2	-9.4	-17.9	0.04	10.1	11.2	9.0	0.9	4.7	4.5	0.96	104	Neg.	0.9	0.5	0.1	0.4	0.3	0.1	0.0	0.0	0.1	0.1
Yenakievo Steel	ENMZ UK	Kiev, UX	26.73 UAH	+3.7	-21.4	-16.5	-20.4	2.06	21.8	17.8	9.4	2.0	3.3	14.4	0.30	330	4.1	N/A	Neg.	Neg.	N/A	0.5	0.0	N/A	0.0	0.6	0.0
FOOD AND AGRIBUSINESS																											
AgroGeneration	ALAGR FP	EN Paris	0.73 EUR	-2.7	-16.1	-41.1	-50.0	0.92	85.2	139.8	34.0	29.0	9.4	8.0	0.04	2,711	Neg.	N/A	N/A	Neg.	N/A	N/A	2.1	N/A	N/A	1.6	35.9
Agroliga	AGL PW	Warsaw	14.65 PLN	+3.5	-13.2	-43.5	-51.6	4.44	6.8	7.7	16.7	1.1	2.9	2.0	0.42	239	1.7	N/A	N/A	2.2	N/A	N/A	0.4	N/A	N/A	0.6	5.7
Agroton	AGT PW	Warsaw	2.09 PLN	-1.9	+15.5	+7.2	-20.8	0.63	13.7	59.0	26.2	3.6	23.7	72.3	2.73	37	Neg.	2.0	1.7	22.1	6.2	3.7	0.7	0.7	0.7	0.1	28.4
Astarta Holdin...	AST PW	Warsaw	37.50 PLN	+0.5	+4.2	-43.9	-46.4	11.36	284.0	530.2	31.0	88.1	15.4	128.6	0.27	375	8.7	28.1	4.4	7.0	4.3	4.7	1.1	1.1	1.1	0.8	38.2
Avangard	AVGR LI	London Intl	7.90 USD	+0.0	-6.0	-32.8	-29.8	7.90	504.3	638.0	21.7	109.4	192.6	148.4	0.13	789	2.1	3.2	2.9	2.1	3.4	3.6	1.0	1.0	1.0	0.5	17.8
IMC	IMC PW	Warsaw	6.50 PLN	-3.1	-20.4	-46.5	-56.8	1.97	61.6	202.7	23.9	14.7	5.0	25.5	0.18	568	2.4	Neg.	1.6	3.7	3.7	3.6	1.8	1.1	1.1	0.4	38.7
Kernel Holding...	KER PW	Warsaw	24.75 PLN	-0.6	+4.7	-35.0	-50.4	7.50	597.4	1,504.0	58.8	351.1	617.7	974.5	0.28	356	5.4	36.1	4.2	5.2	6.5	4.6	0.5	0.6	0.6	0.6	30.6
KSG Agro	KSG PW	Warsaw	1.18 PLN	-1.7	+140.8	-89.1	-90.5	0.36	5.4	116.5	34.4	1.8	30.2	184.2	25.47	4	Neg.	0.5	0.3	4.4	3.0	2.4	1.6	1.2	1.0	0.3	44.0
MHP	MHPC LI	London Intl	11.99 USD	+0.8	+7.5	-29.7	-21.4	11.99	1,266.9	2,477.2	22.3	282.8	1,219.3	1,304.6	0.47	212	8.1	10.9	4.4	6.3	5.2	4.9	1.7	1.8	1.6	2.2	47.0
Milkiland	MLK PW	Warsaw	3.69 PLN	-3.7	-11.3	-70.5	-70.6	1.12	34.9	162.0	20.0	7.0	6.5	6.9	0.22	449	2.6	Neg.	8.2	4.9	4.2	4.6	0.4	0.4	0.4	0.2	30.8
Mriya Agrohold...	MAYA GF	Frankfurt	1.43 EUR	+0.0	-21.3	-73.6	-68.0	1.80	191.4	919.2	20.0	38.3	0.0	3.0	0.01	15,456	2.2	2.2	0.9	5.6	3.4	3.1	1.8	2.2	2.1	0.4	45.3
CONSTRUCTION																											
TMM	TR61 GF	Xetra	0.23 EUR	-0.4	+18.9	-28.7	-46.6	0.29	14.8	190.4	13.1	1.9	0.0	0.2	0.01	6,919	Neg.	N/A	N/A	Neg.	N/A	N/A	5.6	N/A	N/A	0.1	45.5
FINANCIAL SERVICES																											
Raiffeisen Ban...	BAVL UK	Kiev, UX	0.13 UAH	+0.8	+0.5	+13.2	+40.6	0.01	297.5	N/A	3.8	11.4	10.7	21.0	0.19	521	3.8	Neg.	13.1	N/A	N/A	N/A	N/A	N/A	N/A	0.6	22.4
Ukrsotsbank	USCB UK	Kiev, UX	0.14 UAH	+0.0	-15.1	-23.0	-20.8	0.01	202.1	N/A	4.5	9.1	0.0	5.7	0.01	7,733	Neg.	10.7	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; *** - P/E is above 10,000x. Sources: Bloomberg, ICU.

FX: News & Comments

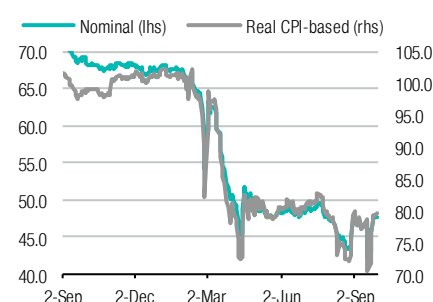
FX market consumes Naftogaz's US\$1.6bn deal

The NBU and state-run Naftogaz completed the US\$1.6bn redemption yesterday. The day before, NBU authorities likely shifted the actual payment date one day later to prevent an impact on the level of official FX reserves reported at the end of September. Both the public and investment community are highly sensitive to negative news of deposit outflows and increased demand for FX as NBU authorities' economic policy decisions and FX statistics are highly scrutinized. Any divergences are exploited by the media and political opposition. However, even though Naftogaz announced that the bond was redeemed on schedule yesterday, the sovereign risk premium is unlikely to decline during the next three months.

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ICU's UAH trade-weighted indices

(Last 12-month history to 2 Oct 2014)



Source: Investment Capital Ukraine LLC.

FX market indicators (as of 1 Oct 2014)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
USD/UAH MARKET (HRYVNIA per US DOLLAR)					
Spot mkt	12.9500	+0.00	-2.26	+5.07	+57.16
NBU avg	12.9552	+0.05	+0.08	+8.29	+58.94
Ttl vlm ¹	N/A	N/A	N/A	N/A	N/A
\$ volume ²	N/A	N/A	N/A	N/A	N/A
NDF 3M	14.6500	+0.00	-0.41	+14.45	+72.66
NDF 6M	15.1000	+0.00	-0.49	+13.75	+71.98
NDF 1Y	16.0500	+0.00	-0.47	+12.91	+70.38
TRADE-WEIGHTED INDICES (TWIs, points)					
UAH nom'l	47.745	+0.09	+4.22	+0.94	-29.31
UAH real CPI	79.546	+0.09	+4.22	+0.94	-21.30
UAH real PPI	119.803	+0.09	+4.22	+0.94	-13.68
USD nom'l	85.972	+0.04	+1.10	+5.74	+7.42
FX RATES OF KEY CURRENCIES THAT SHAPE UAH's TWIs					
USD/RUB	39.6897	+0.23	+3.94	+10.90	+20.75
EUR/USD	1.2623	-0.06	-1.23	-5.99	-8.15
USD/CNY	6.1396	+0.00	+0.09	-0.65	+1.41
USD/PLN	3.3071	-0.09	+1.30	+6.14	+9.40
USD/TRY	2.2833	+0.22	+2.09	+7.01	+6.29
USD/BYR	10,590.00	+0.00	+0.24	+2.62	+11.01
USD/KZT	181.9300	+0.00	+0.02	-0.34	+17.93
OTHER MAJOR CURRENCIES					
USD/JPY	108.8900	-0.69	-0.14	+6.12	+3.40
GBP/USD	1.6186	-0.17	-0.94	-3.78	-2.24
USD/CHF	0.9560	+0.09	+1.11	+5.53	+7.07
AUD/USD	0.8738	-0.10	-1.65	-6.16	-2.01
USD/CAD	1.1163	-0.31	+0.95	+2.26	+5.08
USD/BRL	2.4811	+1.40	+4.10	+9.90	+5.04
USD/KRW	1,062.49	+0.69	+2.17	+2.45	+1.21
COMMODITIES					
Gold(\$/oz)	1,213.88	+0.47	-0.26	-6.14	+0.68
WTI crude ³	90.73	-0.47	-3.48	-7.30	-7.81
Brent crd ³	93.51	+0.36	-1.63	-9.70	-15.62
Urals crd ³	N/A	+0.00	+0.00	+0.00	+0.00
TR/J CRB ⁴	277.91	-0.23	-0.88	-4.98	-0.81

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

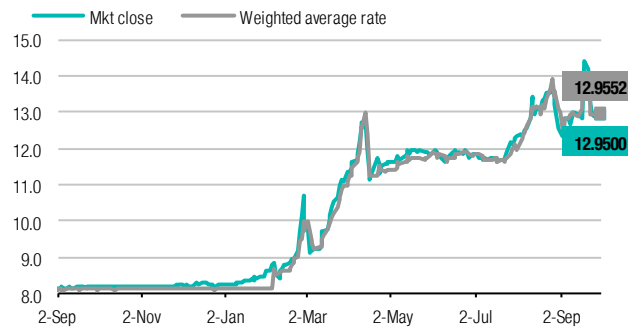
Section on FX market is continued on next page.

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.

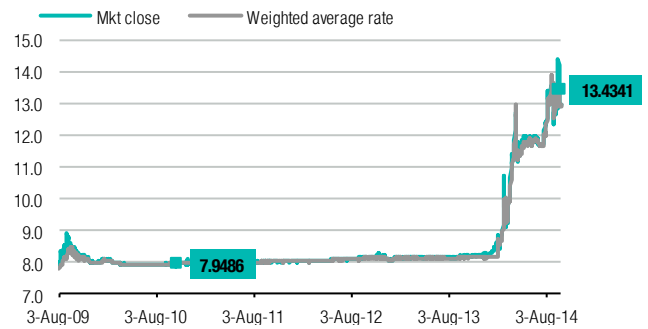
Sources: Bloomberg, Investment Capital Ukraine LLC.

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)

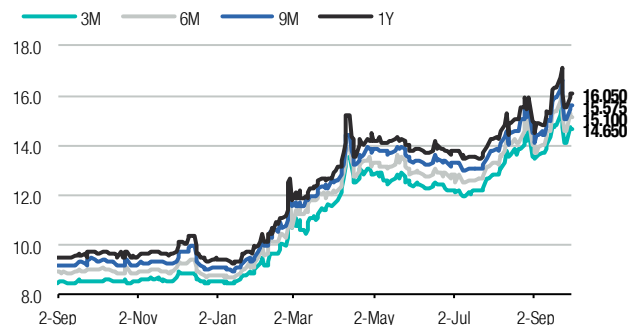


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

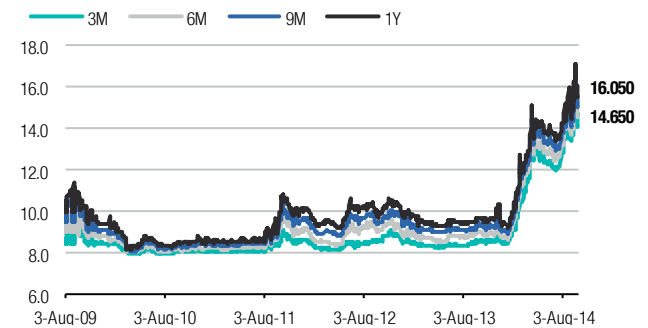


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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

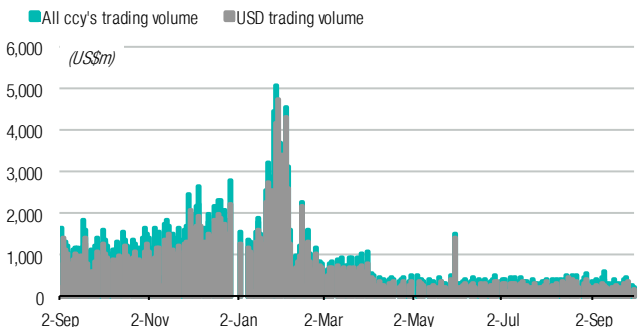


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

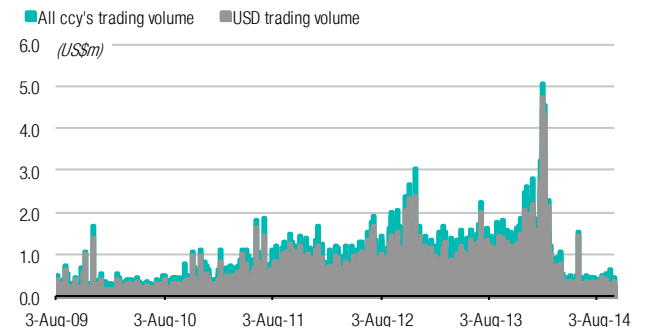


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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

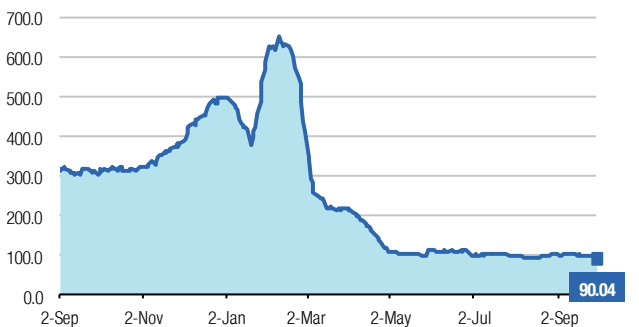


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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



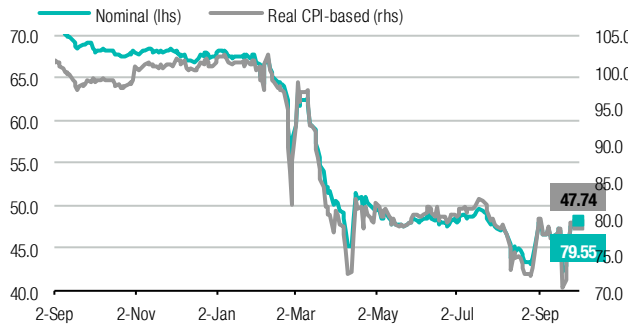
Note: * 30-day moving average; The boxes of the right chart show high and low values. Sources: NBU, State Statistics Service of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



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

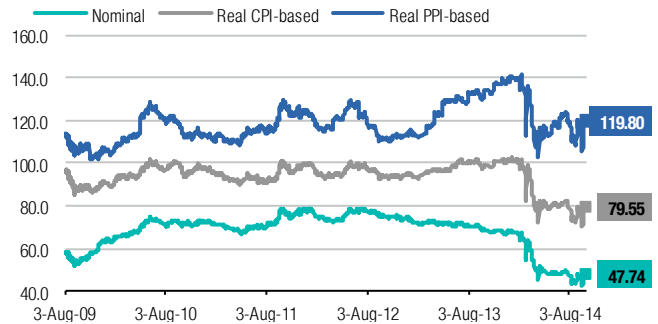
The following charts depict ICU's Ukrainian hryvnia trade-weighted indices which were calculated in accordance with methodology published in the [Quarterly Report "Keep the music playing"](#) dated 31 January 2013 and, then, updated, in the [Quarterly Report "Muddling through no more"](#) dated 14 August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

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



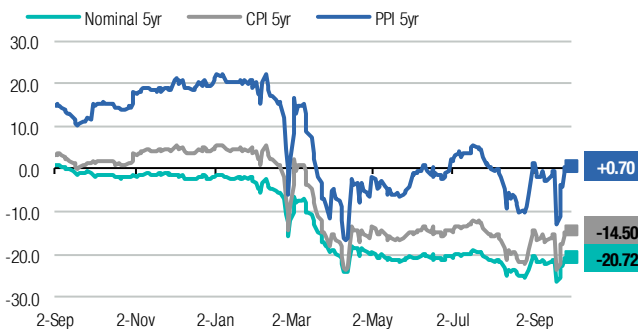
Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

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

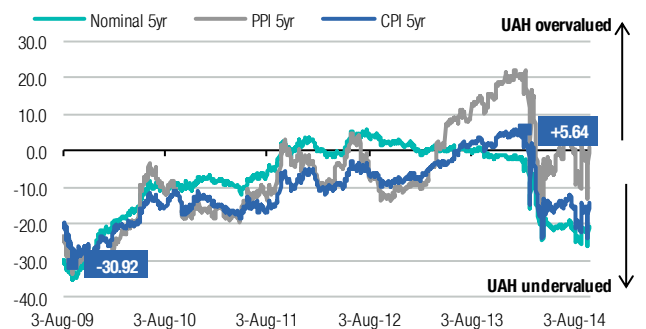


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

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)

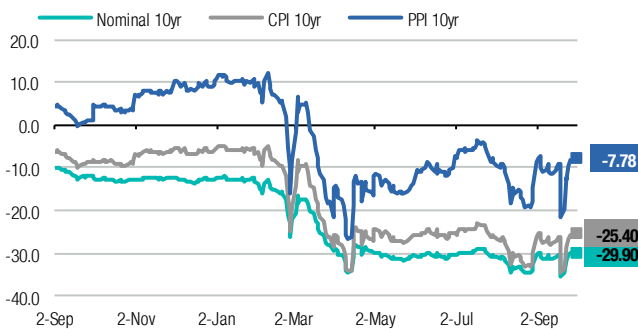


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

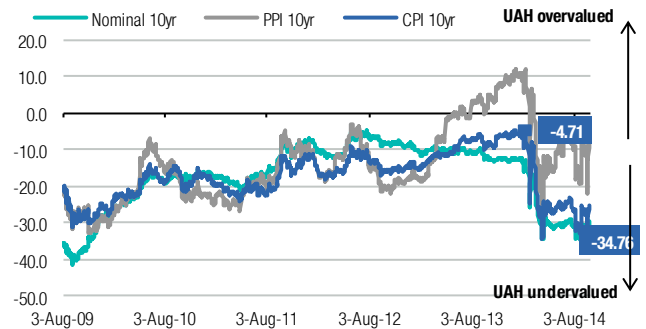


Note: the boxes indicate the high and low values of CPI-based TWI.
Source: Investment Capital Ukraine LLC.

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

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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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