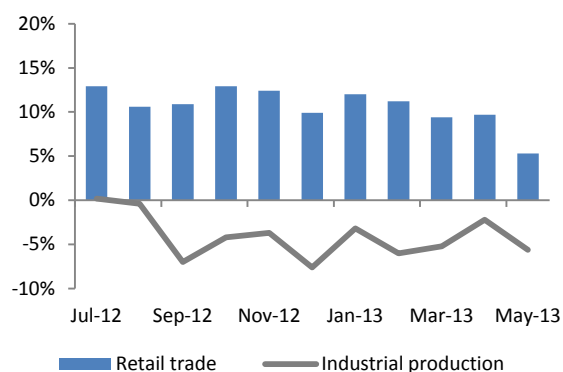


Ukraine Monthly

Economy	█
Key macro data and projections	█
Ukraine's Eurobond universe	█
NDF and CDS	█
Ukrainian equity multiples	█
Stock market summary	█

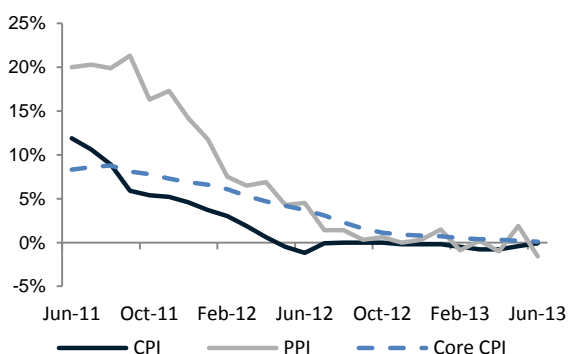


Monthly retail trade and industrial production, chg. y/y



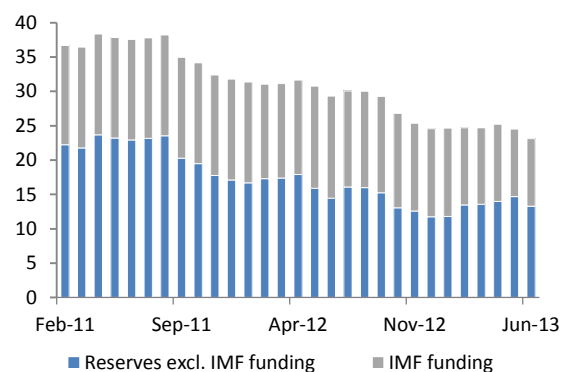
Source: UkrStat

CPI and PPI, yoy



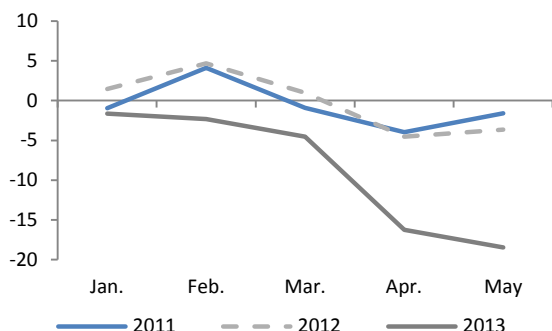
Source: UkrStat

NBU gross international reserves, USD bln



Sources: NBG, Finance Ministry

Cumulative state budget balance, UAH bln



Source: Finance Ministry

Harvest to boost 3Q growth, but only temporarily

Ukraine's economy is poised to rebound in the 3Q in yoy terms, in our view, after two consecutive quarters of contraction. The improvement, however, will come solely from this year's expected bumper grain harvest and is likely to be temporary. We don't see fundamental preconditions for a turnaround in the GDP trend through the year-end. External markets have remained depressed (declines in the export-oriented metallurgy and machinery sectors deepened to 11.2% yoy and 18.1%, respectively, in May). Household demand is also losing steam – retail trade growth weakened to 5.3% yoy in May from 12.0% in January. Overall, we maintain our previous forecast and see GDP contracting 0.5% yoy in 2013.

NBU reserves hit 6-year low, expect limited UAH depreciation

NBU reserves shrank 5.7% mom in June to USD 23.1 bln, mainly on a USD 1 bln sovereign Eurobond redemption. The government was unable to offset that with new FX borrowings domestically or externally, and the central bank only purchased net USD 0.1 bln in the market. Given the sizable one-month loss in reserves, the outlook for FX market stability through the year-end is becoming increasingly uncertain. Ukraine's C/A deficit remains high (we expect a 2013 gap of 8.4% of GDP, flat yoy), while inflows of new borrowings subsided recently due to tightening global credit conditions. Although the NBU is likely to remain staunchly committed to defending hryvnia stability, we believe real stability will be increasingly difficult to achieve in the face of mounting downside pressures (which we broadly expected). We maintain our end-2013 exchange rate projection at UAH 8.7/USD vs. the current UAH 8.15/USD.

Fiscal policy turns risky in recent months

The credibility of the government's fiscal policy has deteriorated substantially in the last few months and we downgrade our 2013 state budget deficit projection to 4.5% of GDP from 3.4%. Difficulties in fulfilling the fiscal plan have become obvious – 1H13 state budget revenues remained virtually flat yoy while the full-year target foresees 5% yoy growth. Economic growth remains well below government projections – nominal GDP added a mere 1.5-2.0% yoy in 1H13, according to our estimates. With an economic contraction in real terms against a backdrop of low inflation, growth in the taxable base will remain near zero through the year-end. Meanwhile, the government has been unable to rein in growth in budget expenditures, which surged 13% yoy in 5M13, mainly on increased social outlays. The budget gap hit UAH 18.5 bln in 5M13, or 1.3% of 2013E GDP. To make things worse, parliament amended the state budget law last week, revising planned expenditures up by UAH 6.4 bln (0.4% of GDP) to finance wages at loss-making state-owned mines. The increased expenditures are supposed to be covered with additional transfers of NBU income to the budget. Overall, the target for NBU transfers to state coffers now stands at UAH 22.7 bln, or 6.1% of budget revenues. Fiscal misbalances are becoming an increasingly pressing issue and the government is tackling the problem mainly via severe cuts in capital expenditures.

With a higher-than-expected budget deficit and immaterial privatization proceeds YTD (the 2013 plan is UAH 11 bln), the government will face the extremely challenging task of raising additional debt. While banking sector liquidity has been abundant (both in national and foreign currencies), non-state commercial banks remain reluctant to materially increase their T-bill exposure. We therefore believe state banks will play a key role in patching the fiscal shortfall by purchasing government securities. The NBU will stand ready to support liquidity at state banks by repurchasing T-bills from them; the central bank's holdings of government securities are up USD 3.3 bln YTD (1.8% of 2013E GDP). This apparently implies a partial monetization of the budget deficit. Despite the above challenges, we think government debt servicing will remain smooth but new borrowings are likely to come at a higher rate, in-line with rising global interest rates.

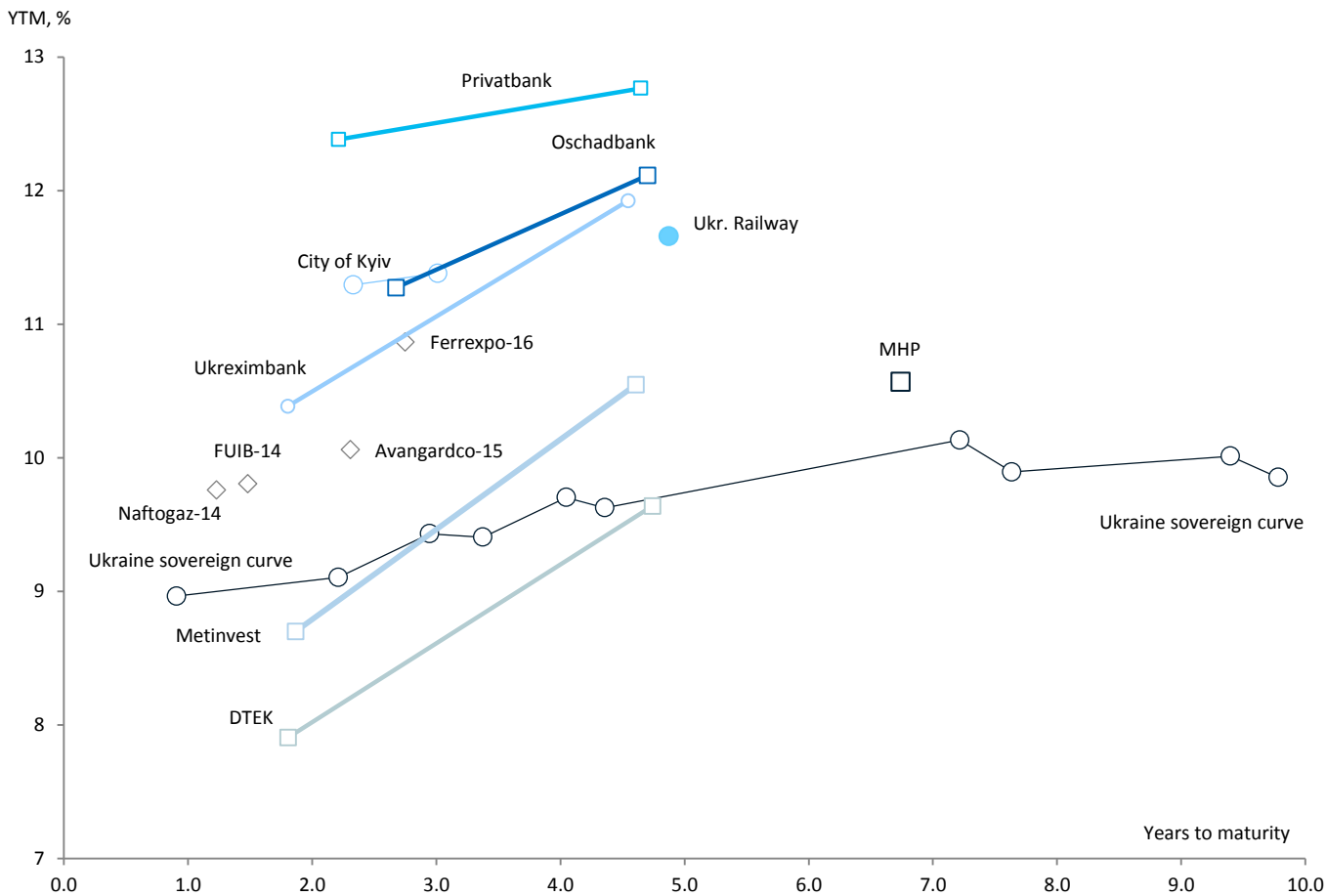
Appendix A. Key macro data and projections

	2005	2006	2007	2008	2009	2010	2011	2012	2013E
Business cycle indicators									
Real GDP, % chg yoy	3.0	7.4	7.6	2.3	-14.8	4.1	5.2	0.2	-0.5
Household consumption, % chg yoy	20.1	15.9	17.1	11.8	-14.9	7.1	15.0	11.7	8.7
Investments in fixed capital, % chg yoy	3.9	20.9	23.9	1.6	-50.5	3.9	10.1	0.9	-5.4
Industrial output, % chg yoy	3.1	6.2	7.6	-5.2	-21.9	11.2	7.6	-1.8	-2.2
Nominal GDP, UAH bln	441	544	721	948	913	1,083	1,317	1,400	1,478
Nominal GDP, USD bln	86	108	143	180	117	136	165	175	180
GDP per capita, USD	1,836	2,312	3,078	3,891	2,550	2,982	3,625	3,851	3,961
CPI (eop), %	10.3	11.6	16.6	22.3	12.3	9.1	4.6	-0.2	6.3
CPI average, %	13.5	9.1	12.8	25.2	15.9	9.4	8.0	0.6	2.4
Unemployment (ILO methodology, avg), %	7.8%	7.4%	6.9%	6.9%	9.6%	8.8%	8.6%	8.1%	7.9%
Balance of payments									
Current account balance, USD bln	2.5	-1.6	-5.3	-12.8	-1.7	-3.0	-9.0	-14.8	-15.1
% GDP	2.9%	-1.5%	-3.7%	-7.1%	-1.5%	-2.2%	-5.4%	-8.4%	-8.4%
Financial account balance, USD bln	8.2	4.0	14.7	9.7	-12.0	8.0	6.6	10.6	14.5
% GDP	9.5%	3.7%	10.3%	5.4%	-10.2%	5.9%	4.0%	6.0%	8.0%
FDI net, USD bln	7.5	5.7	9.2	9.9	4.7	5.8	7.0	6.6	5.5
% of GDP	8.7%	5.3%	6.5%	5.5%	4.0%	4.3%	4.2%	3.8%	3.1%
Gross NBU reserves (eop), USD bln	19.4	22.4	32.5	31.5	26.5	34.6	31.8	24.5	20.1
Monetary and banking indicators									
Monetary base, UAH bln	83	97	142	187	195	226	240	255	268
Monetary base, % chg yoy	54%	17%	46%	32%	4%	16%	6%	6%	5%
Money supply (M3), UAH bln	194	261	396	515	487	598	683	773	851
Money supply, % chg yoy	54%	35%	52%	30%	-5%	23%	14%	13%	10%
Monetary multiplier (eop M3/MB)	2.3	2.7	2.8	2.8	2.5	2.6	2.8	3.0	3.2
Bank loans, % chg yoy	62%	71%	74%	72%	-2%	1%	10%	2%	5%
Bank deposits, % chg % yoy	60%	39%	52%	28%	-8%	26%	18%	16%	11%
Loan-to-deposit ratio	108%	133%	152%	205%	219%	175%	162%	143%	135%
Exchange rate									
Official UAH/USD (eop)	5.05	5.05	5.05	7.70	7.99	7.96	7.99	7.99	8.70
Official UAH/USD (avg)	5.12	5.05	5.05	5.27	7.79	7.94	7.97	7.99	8.20
Budget and debt indicators									
Consolidated budget revenues, USD bln	26.2	34.0	43.6	56.4	35.0	39.6	50.0	55.7	56.4
% of GDP	2.9%	-1.5%	-3.7%	-7.1%	-1.5%	-2.2%	-5.4%	31.8%	31.3%
Consolidated budget expenditures, USD bln	27.7	34.7	45.1	59.1	39.8	47.6	52.3	62.0	64.5
% of GDP	9.5%	3.7%	10.3%	5.4%	-10.2%	5.9%	4.0%	35.4%	35.8%
Consolidated budget balance, USD bln	-1.6	-0.7	-1.5	-2.7	-4.8	-8.0	-2.3	-6.3	-8.1
% of GDP	-1.8%	-0.7%	-1.1%	-1.5%	-4.1%	-5.9%	-1.4%	-3.6%	-4.5%
General budget balance, USD bln*	na	na	na	na	-9.5	-10.1	-7.0	-8.6	-11.4
% of GDP	na	na	na	na	-8.1%	-7.4%	-4.2%	-4.9%	-6.3%
Public debt, USD bln	15.5	15.9	17.6	24.6	39.7	54.3	59.2	64.5	72.1
% GDP	18%	15%	12%	14%	34%	40%	36%	37%	40%

* Includes consolidated budget (central and local budgets), social funds and Naftogaz.
Sources: NBU, UkrStat, Ministry of Finance, SP Advisors.

Appendix B. Ukraine's Eurobond universe (1)

Ukraine Eurobond yield map*



*as of Jul. 08, 2013. Source: Bloomberg

Appendix B. Ukraine's Eurobond universe (2)

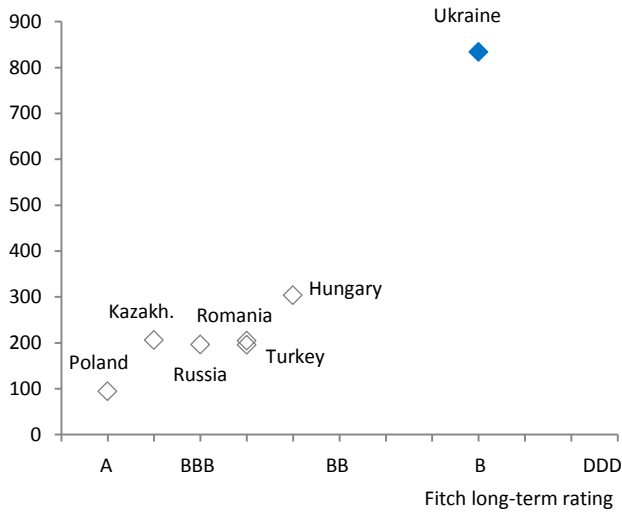
Key parameters of Ukrainian Eurobonds

Name	Currency	Amount USD mln	Maturity	YTM,%		Mid. YTM change, pp		Rating		
				Mid	Spread	1 M	YTD	Fitch	Moody's	S&P
Sovereign										
Ukraine-14	USD	1,000	05.06.2014	8.97	1.02	2.20	-	B	B3	B
Ukraine-09/15	USD	500	24.09.2015	9.11	0.66	1.93	-1.04	B	B3	B
Ukraine-10/15	EUR	600	14.10.2015	7.39	0.85	1.38	-3.25	B	B3	B
Ukraine-06/16	USD	1,250	18.06.2016	9.43	0.63	2.04	-0.42	B	B3	B
Ukraine-11/16	USD	1,000	22.11.2016	9.41	0.56	1.88	-0.47	B	B3	B
Ukraine-07/17	USD	2,600	25.07.2017	9.70	0.39	1.79	-	B	B3	B
Ukraine-11/17	USD	700	15.11.2017	9.63	0.38	2.05	-0.78	B	B3	B
Ukraine-20	USD	1,500	24.09.2020	10.13	0.43	2.21	-0.17	B	B3	B
Ukraine-21	USD	1,500	24.02.2021	9.89	0.31	1.68	-0.11	B	B3	B
Ukraine-22	USD	2,250	29.11.2022	10.01	0.23	1.46	-	B	B3	B
Ukraine-23	USD	1,250	18.04.2023	9.85	0.27	1.33	-	B	B3	B
Infrastr. projects-11/17	USD	568	04.11.2017	10.43	0.61	1.14	-1.79	-	B3	-
Infrastr. projects-12/17	USD	550	08.12.2017	11.17	0.64	2.09	-	-	(P)B3	-
Infrastr. projects-18	USD	690	21.04.2018	10.52	0.88	-	-1.89	-	B3	-
Municipal										
City of Kiev-15	USD	250	06.11.2015	11.30	1.67	1.39	-3.36	B-	B3	B-
City of Kiev-16	USD	300	11.07.2016	11.38	1.23	0.64	-4.16	B-	B3	B-
Banks										
Finance and Credit-14	USD	100	25.01.2014	-	-	-	-	-	Caa1	-
VAB Bank-14	USD	125	14.06.2014	43.03	0.00	12.72	-	WD	Caa1	-
FUIB-14	USD	275	31.12.2014	9.81	2.38	-0.09	-6.99	NR	B3	-
Ukreximbank-14	UAH	2,385	03.02.2014	21.51	2.09	1.08	-	B	B3	-
Ukreximbank-15	USD	750	27.04.2015	10.39	0.87	1.98	-2.76	B	B3	-
Ukreximbank-16	USD	125	09.02.2016	12.51	1.35	1.63	-4.90	CCC	Caa1	-
Ukreximbank-18	USD	600	22.01.2018	11.93	0.70	2.05	-	B	B3	-
Oschadbank-16	USD	700	10.03.2016	11.28	0.86	1.89	-3.12	B	B3	-
Oschadbank-18	USD	500	20.03.2018	12.12	0.54	1.95	-	B	B3	-
Privatbank-15	USD	200	23.09.2015	12.38	1.03	0.87	-5.51	B	B3	-
Privatbank-16	USD	150	09.02.2016	14.13	1.55	0.58	-6.57	-	B3	-
Privatbank-18	USD	175	28.02.2018	12.77	1.04	1.41	-	B	B3	-
Corporate										
Naftogaz-14	USD	1,595	30.09.2014	9.76	0.88	1.62	-2.45	B	-	-
Agroton-14	USD	50	14.07.2014	10.06	0.00	1.48	-9.21	B	-	-
Avangard-15	USD	200	29.10.2015	60.17	11.93	18.66	37.83	CCC/*-	-	CCC/*-
MHP-15	USD	585	29.04.2015	-	-	-	-	B	B3	-
MHP-20	USD	750	02.04.2020	10.57	0.00	1.83	-	B	-	B
DTEK-15	USD	500	28.04.2015	7.91	0.00	1.20	-4.21	B	B3	-
DTEK-18	USD	750	04.04.2018	9.64	0.00	1.74	-	B	B3	-
Metinvest-15	USD	500	20.05.2015	8.70	0.00	2.05	-3.20	B	B3	-
Metinvest-18	USD	750	14.02.2018	10.55	0.56	1.42	-2.31	B	B3	-
Mriya-16	USD	250	30.03.2016	-	-	-	-	B	-	B
Ferrexpo-16	USD	500	07.04.2016	10.87	0.00	2.59	-	B	Caa1	B
Ukrlandfarming-18	USD	425	26.03.2018	12.15	0.81	1.02	-	B	-	B-
Ukrainian Railway-18	USD	500	21.05.2018	11.66	0.59	1.72	-	B-	-	B

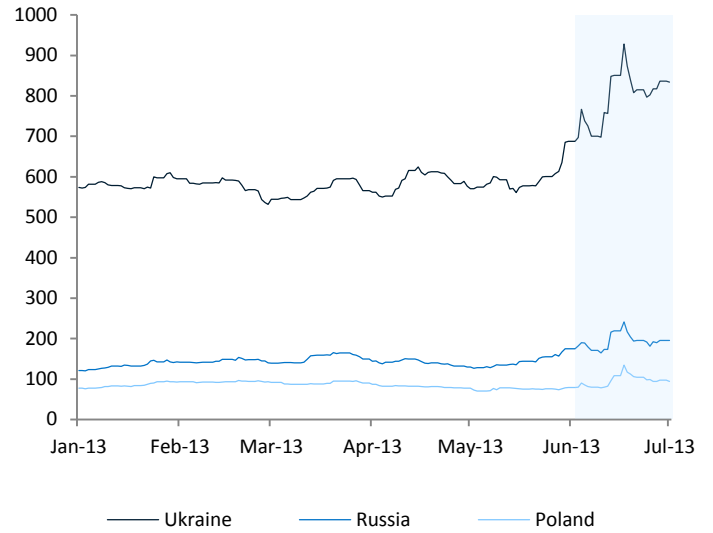
*as of Jul. 08, 2013. Source: Bloomberg

Appendix C. NDF and CDS

5Y CDS vs. Fitch long-term rating*



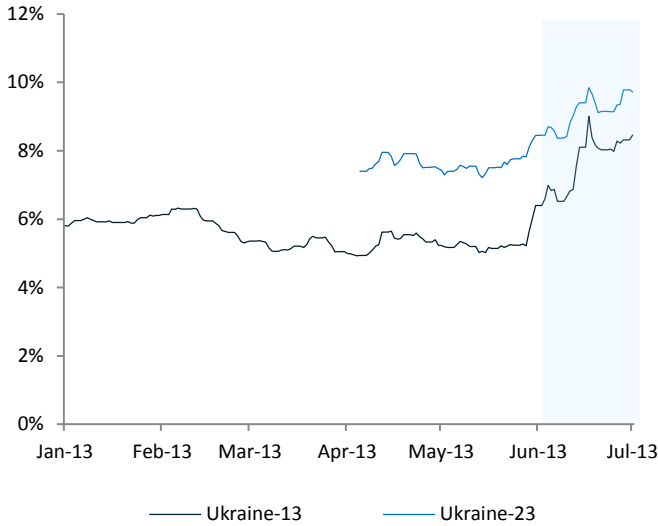
5Y CDS, 6-m development



* data as of Jul. 08, 2013
Source: Bloomberg

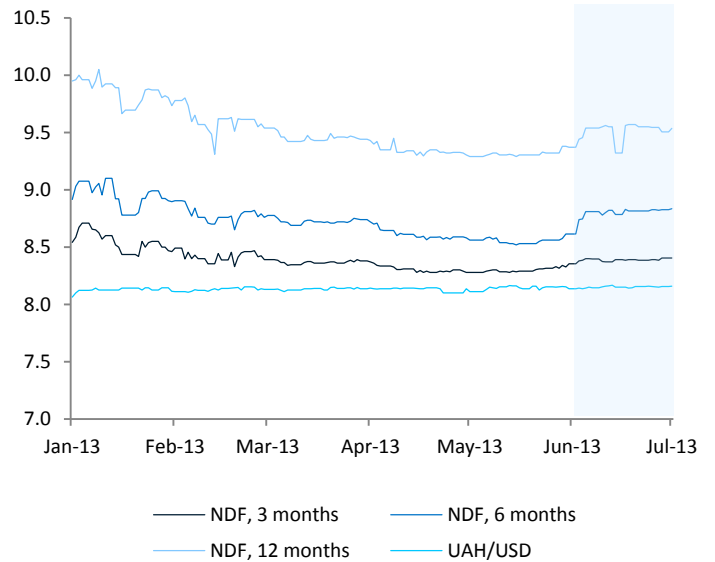
Source: Bloomberg

Ukraine sovereign Eurobond yields, 6-m development



Source: Bloomberg

Hryvnia spot and NDF rates, 6-m development



Source: Bloomberg

Appendix D. Ukrainian equity multiples

Ukrainian stock multiples*

Sector / Company	Ticker	MCap, USD mln	EV/EBITDA		EV/Sales		P/B		P/E		Net Debt / Book Value	
			2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E
Agriculture												
Kernel	KER PW	1,176	5.8	4.7	0.7	0.7	0.8	0.7	6.6	5.3	0.54	0.40
MHP	MHPC LI	1,807	5.3	4.1	1.7	1.3	1.4	1.1	6.3	4.8	0.59	0.35
Mriya	MAYA GR	616	3.2	-	2.5	-	-	-	4.1	4.8	-	-
Astarta	AST PW	473	5.2	3.8	1.5	1.2	0.9	0.7	6.3	3.9	0.47	0.34
IMC	IMC PW	139	3.4	2.8	1.4	1.0	1.0	0.6	3.3	2.7	0.46	0.25
KSG Agro	KSG PW	57	-	-	-	-	0.7	0.5	3.9	4.1	-	-
Agroton	AGT PW	17	-	-	-	-	-	-	-	-	-	-
Sintal Agriculture	SNPS AV	4	-	-	-	-	-	-	-	-	-	-
Median		306	5.2	4.0	1.5	1.1	0.9	0.7	5.2	4.4	0.51	0.34
Food												
Avangard	AVGR LI	562	2.5	1.8	1.0	0.7	0.4	0.4	2.7	2.5	0.09	-0.02
Ovostar	OVO PW	136	5.1	4.5	2.1	1.8	1.3	1.1	7.4	6.0	-0.03	0.08
Milkiland	MLK PW	105	3.8	-	0.5	-	-	-	6.0	5.9	-	-
UkrProduct	UKR LN	8	3.2	2.2	0.2	0.2	0.2	0.2	4.2	2.6	0.39	0.24
Median		121	3.5	2.2	0.7	0.7	0.4	0.4	5.1	4.3	0.09	0.08
Oil & Gas												
JKX Oil & Gas	JKX LN	136	1.2	0.8	0.6	0.4	0.2	0.2	3.0	2.7	-0.02	-0.06
Kulczyk Oil	SEN PW	222	4.7	4.3	2.5	2.3	6.9	6.7	-	-	-0.81	-0.18
Regal Petroleum	RPT LN	87	-	-	-	-	-	-	4.9	10.1	-	-
Cadogan Petroleum	CAD LN	53	-	-	-	-	-	-	-	-	-	-
Median		87	1.2	0.8	0.6	0.4	0.2	0.2	3.9	6.4	-0.02	-0.06
Mining												
Coal Energy	CLE PW	33	-	0.3	-	0.1	-	0.2	0.8	0.9	-	-0.11
Sadovaya Group	SGR PW	14	-	-	-	-	-	-	-	-	-	-
Median		24	-	0.3	-	0.1	-	0.2	0.8	0.9	-	-0.11
Metals & Mining												
Ferrexpo	FXPO LN	1,221	3.7	4.0	1.1	1.1	0.7	0.6	4.3	4.8	0.29	0.26
Median		1,221	3.7	4.0	1.1	1.1	0.7	0.6	4.3	4.8	0.29	0.26
Real Estate												
TMM	TR61 GR	27	-	-	-	-	-	-	-	-	-	-
Median		27	-	-	-	-	-	-	-	-	-	-
Industrials												
Westa ISIC	WES PW	8	-	-	-	-	-	-	-	-	-	-
Median		8	-	-	-	-	-	-	-	-	-	-
Transportation												
KDM Shipping	KDM PW	92	-	-	-	-	-	-	-	-	-	-
Median		92	-	-	-	-	-	-	-	-	-	-

* as of Jul. 08, 2013. Source: Bloomberg

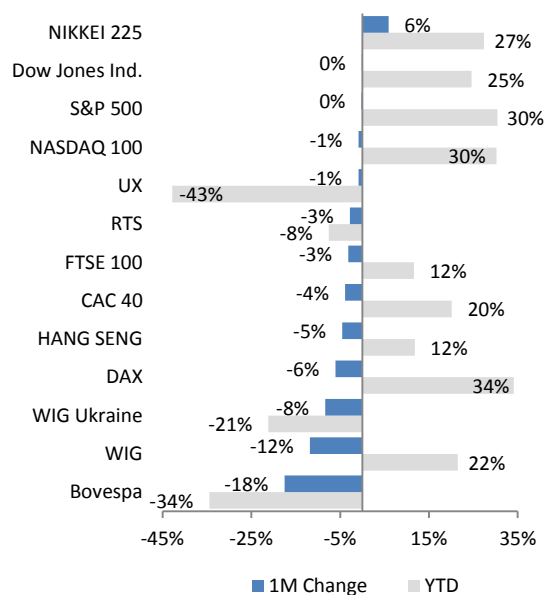
Median values for peer companies*

Sector / Company	EV/EBITDA		EV/Sales		P/B		P/E		Net Debt / Book Value	
	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E
Oil & Gas										
Emerging markets (4)	3.0	2.8	0.4	0.4	0.7	0.6	4.1	3.1	0.33	0.31
Mature markets (6)	3.9	3.8	0.8	0.8	1.3	1.2	9.5	8.7	0.17	0.17
Metals & Mining										
Emerging markets (11)	5.2	4.6	0.9	0.8	0.7	0.7	10.0	8.0	0.61	0.60
Mature markets (5)	7.1	5.0	0.4	0.4	0.9	0.9	22.4	11.1	0.96	0.85
Food										
Emerging markets (4)	14.7	9.6	1.4	1.2	5.3	4.7	26.7	22.7	0.17	0.04
Mature markets (10)	10.4	9.7	2.0	1.9	3.5	3.2	17.2	16.4	1.10	0.90
Agriculture										
Emerging markets (5)	4.9	2.5	1.1	0.8	0.5	0.5	14.9	3.7	0.16	0.12
Mature markets (4)	8.3	6.9	0.3	0.3	1.2	1.1	14.8	11.8	0.16	0.14

* numbers in brackets indicate number of peer company. Source: Bloomberg

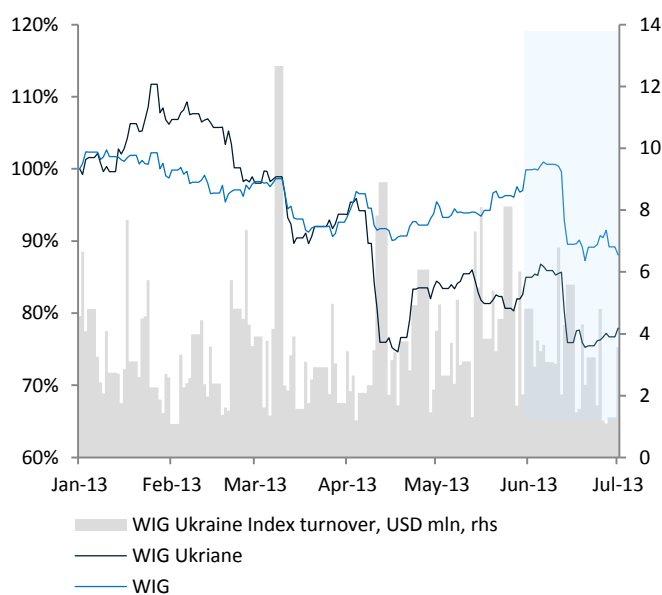
Appendix E. Stock market summary

Ukraine indexes (UX, WIG Ukraine) vs. global majors



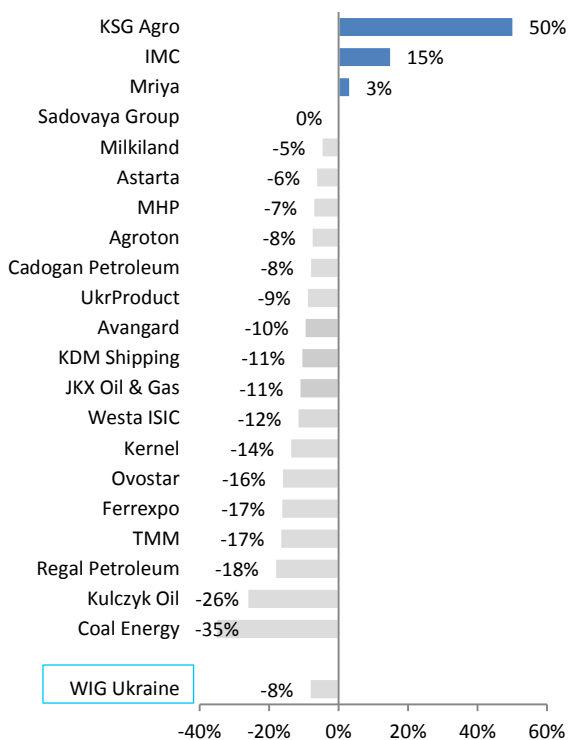
Data as of Jul. 08, 2013
Source: Bloomberg

WIG Ukraine, 6-month development



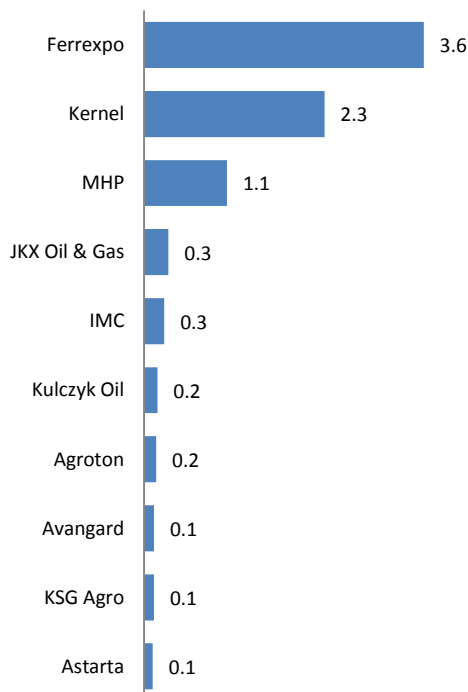
Source: Bloomberg

Ukrainian stock price change, mom*



* as of Jul. 08, 2013
Source: Bloomberg

Average daily trading in Ukrainian stocks, USD mln*



* Only top-10 stocks are shown, data are on Jun. 08, 2013 - Jul. 08, 2013
Source: Bloomberg

Contacts

CEO

Nick Piazza

npiazza@spadvisors.eu

Head of Research

Vitaliy Vavryshchuk

v.vavryshchuk@spadvisors.eu

Vice President, Capital Markets

Olena Zuikova

ozuikova@spadvisors.eu

Vice President, Sales and Trading

Tatyana Chub

tchub@spadvisors.eu

SP Advisors

spadvisors.eu

72 Chervonoarmiyska St.,

12th floor, office 17

Kyiv 03680, Ukraine

+380 44 300 1425

research@spadvisors.eu

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