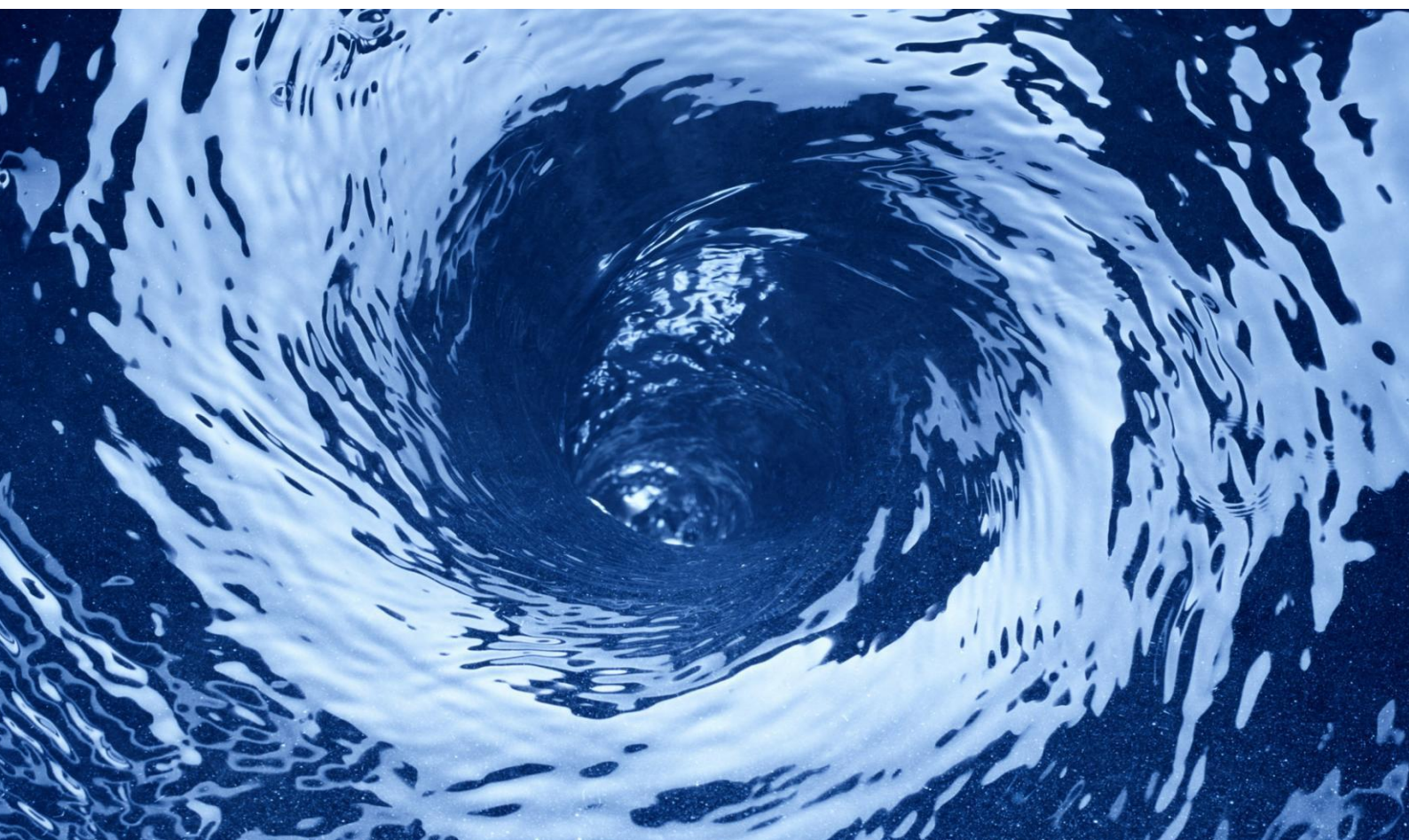


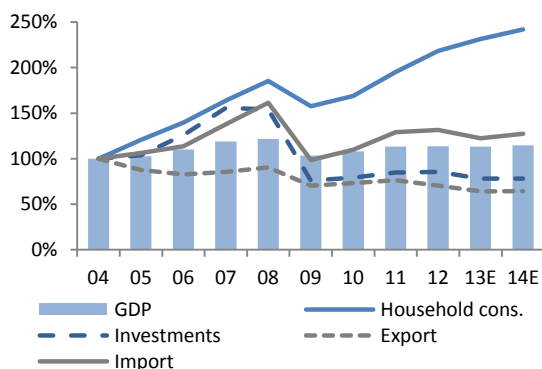
Ukraine Monthly

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



Economy

GDP components, real terms (2004 = 100%)



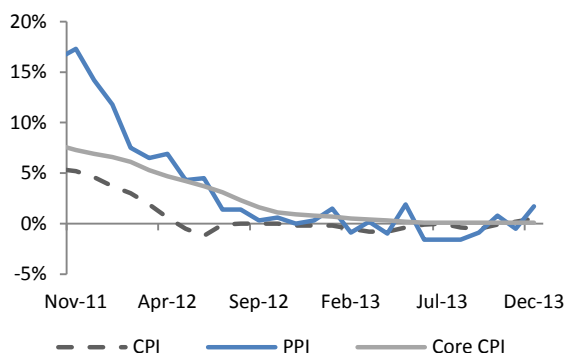
Sources: UkrStat, SP Advisors

Growth of real GDP and its components

	2012	2013E	2014E
GDP	0.2%	-0.4%	1.2%
Household consumption	11.7%	6.1%	4.5%
Gross fixed capital	0.9%	-8.5%	0.1%
Export	-7.7%	-9.3%	0.8%

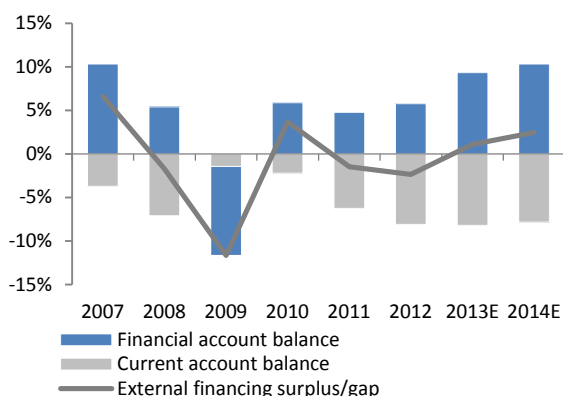
Sources: UkrStat, SP Advisors

CPI and PPI, yoy



Source: UkrStat

External financing gap, % of GDP



Sources: NBG, Finance Ministry

The landmark Ukraine-Russia deal in late December has substantially changed our expectations on key economic indicators. The USD 15 bln loan and a hefty gas price reduction fully enable the NBU and the government to keep the hryvnia stable through to the presidential elections in March 2015. With this loan the government has also secured a much-needed inflow of funds to cover the fiscal deficit. Unlike the offered IMF loan, Russia's money comes with no economic reform requirements. This will have a substantial adverse longer-term effect on the economy – the C/A gap will stay at an unacceptably high 8% of GDP and the central budget gap will exceed 4.5% of GDP. The current year will therefore see fundamental problems mount, albeit no major shocks should occur in the next 15 months. However, the hangover will be harsh when Russia's loan comes due in December 2015 (against unaddressed fundamental challenges) but this doesn't seem to be a consideration for the current government.

GDP growth will remain negative in 1Q14 followed by a gradual recovery

The economy is unlikely to visibly recover in 2014 – we project a decline of 0.4% in 2013E, followed by moderate 1.2% growth in 2014. GDP growth is likely to be negative at least in 1Q14 before a gradual recovery on the back of stronger exports. Our view on the key GDP components is as follows:

Private household consumption was the only component with a positive contribution to GDP growth in 2013 and it will remain in the green in 2014. It is, however, losing steam with growth expected to slow to 4.5% in 2014 from 6.1% in 2013E. Even though public wages and social outlays should rise 5-6% in real terms, the private sector is unlikely to see a similar increase in salaries, which will somewhat depress household incomes and spending.

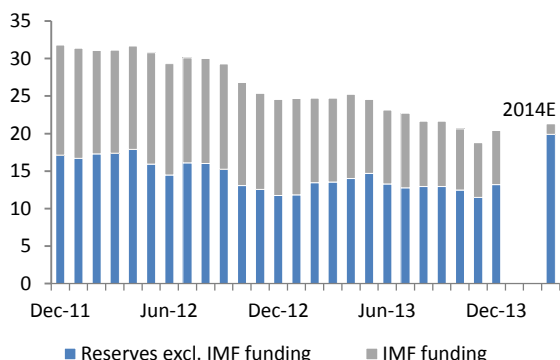
Fixed capital investment will remain flat this year following a drastic 8.5% fall in 2013E. Last year's substantial decline was partly due to a high comparison base related to EURO 2012 infrastructure spending. This year, the private sector is likely to abstain from large-scale investing due to the deterioration in the investment climate and the expensiveness of bank credit. The government is also expected to cut capex, redirecting funds to current spending.

Exports should start recovering in 2014 following two consecutive years of decline (in real terms). While demand for steel, Ukraine's key export commodity, remains subdued, production of machinery should increase as Russia has promised to lift non-tariff barriers in the next few months. Also a c. 30% decline in natural gas prices (a part of the Ukraine-Russia deal) for industry improves price competitiveness and favors stronger exports. We note that any major positive surprise for the economy would most likely come from external markets. We do not exclude the potential for export growth to come in stronger than our projected 1% yoy increase.

C/A deficit to stay high, Russia's loan will help cover the gap fully

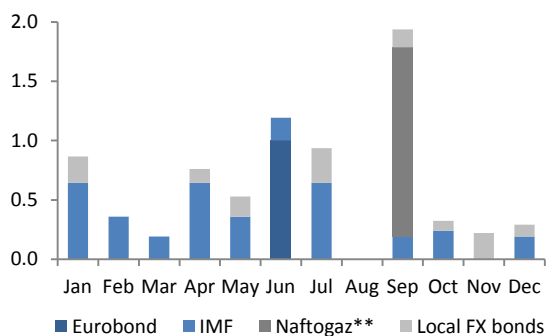
The much-needed FX injection from Russia will enable the NBU and the government to keep the hryvnia relatively stable through-1Q15. We don't expect the hryvnia to fall below UAH 8.4/USD vs. the current UAH 8.3/USD over this period, and the authorities strongly believe this will serve as an argument that they are efficiently tackling economic challenges ahead of the presidential election. We argue, however, that hryvnia stability will undermine Ukraine's external position and the economy will see an extremely challenging period (with all related liquidity and depreciation risks attached) when Russia's credit comes due.

NBU gross international reserves, USD bln



Sources: UkrStat

Sovereign FX debt redemption, USD bln*

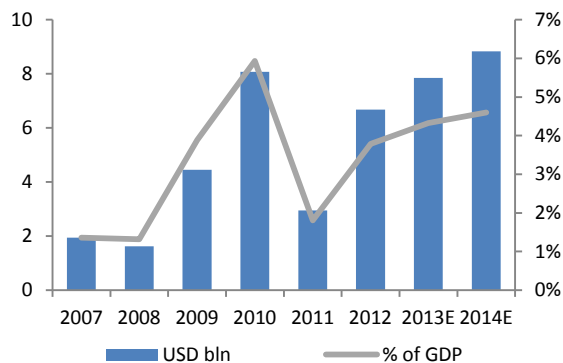


* excludes interest payments on FX debt (USD 1.2-1.4 bln)

** state-guaranteed Naftogaz Eurobond

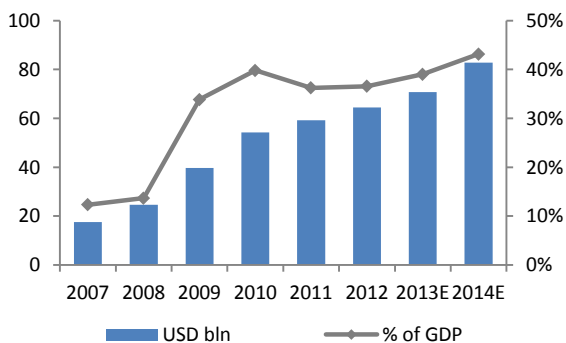
Sources: Finance Ministry, IMF, SP Advisors

State budget deficit



Source: Finance Ministry, SP Advisors

Public debt (direct + state-guaranteed)



Sources: Finance Ministry, SP Advisors

On the back of a stable exchange rate Ukraine's current account deficit will stay close to 8% of GDP in 2014 for the third year in a row. The December deal with Russia foresees a reduction in the gas bill by USD 2.0-3.5 bln depending on import volumes – the equivalent of 2.4-4.2% of total 2013 commodity imports. Yet, a decrease in gas payments is likely to be fully offset with an increase in imports of consumer goods supported by the continued growth (even though decelerating) in household incomes.

With the Russian loan secured, Ukraine will apparently not face any problems covering a C/A gap of that size. Our biggest concern on the financial account side is that the banking sector and non-financial private sector are likely to reduce net borrowings in external markets and most net debt inflows will be in 2-year money to the state sector. We also see FDI shrinking substantially to about USD 2.9 bln in 2014, or just 1.5% of GDP, a record low in over a decade. This will be a direct consequence of the poor investment climate and the government's failure to properly address key macroeconomic challenges.

We don't expect a meaningful increase in NBU reserves in 2014. The government and NBU will face about USD 8.0 bln in FX debt redemptions this year (including USD 3.7 bln in IMF loans, a USD 1.0 bln Eurobond, and a USD 1.6 bln state-guarantee NAFTO Eurobond) and USD 1.2-1.4 bln in interest payments on FX debt. Additionally, the NBU will have to spend a substantial amount on FX market interventions. On balance, we see NBU reserves growing by a moderate 10% yoy to USD 22.4 bln in 2014.

No fiscal consolidation on the 2014 agenda

There will be no room for a prudent fiscal policy in 2014. Given the approaching presidential election, the government has set an ambitious goal of raising minimum wages and social payments by an avg. 8% yoy. Meanwhile, problems with fulfilling budget revenue plans are mounting. Tax collections have fallen 1-2% yoy in 2013E due to weakening domestic consumption and lower corporate profits. To counterbalance that decline, the government moved to raise non-tax revenues. For instance, the NBU boosted budget transfers by more than 60%, providing about 9% of central budget revenues last year – a record-high. Paradoxically, NBU transfers to the budget considerably exceeded its earnings, implying the central bank is supporting budget revenues at the expense of its equity.

Against the backdrop of weak economic growth and moderate inflation, central budget revenues should increase by only 5-6% yoy in 2014 (below the 7-8% yoy increase in expenditures). The government will certainly miss its deficit target of 3.6% of GDP and we project the shortfall will reach 4.6% (vs. 4.3% in 2013E). As always, the central budget balance is but a part of the story. Naftogaz' persistent ample financing shortfall is another aspect. Thanks to the deal with Russia, Naftogaz' cash deficit should decline to about 0.8% of GDP in 2014 from an estimated 1.4% of GDP in 2013. At the same time, the deficit of the pension fund (the part not offset directly with transfers from the central budget) is set to increase to 0.7% of GDP this year from 0.4% in 2013. All of the above yields a general government deficit of 6.1% in 2014E, virtually unchanged from 2013E.

Nearly all of the USD 8.8 bln in state budget deficit has to be financed with debt. While the government projects privatization will bring in USD 2.1 bln in cash, we discard this projection as completely unrealistic and think USD 0.5 bln is the absolute maximum the government can expect. Raising USD 8.8 bln domestically and externally would be a huge challenge if not for the Russian loan – it gives a cushion in the event other sources of borrowings dry up. On the back of the Russian loan Ukraine's public debt is set to surge 15% yoy in 2014 to a historic high at 43% of GDP.

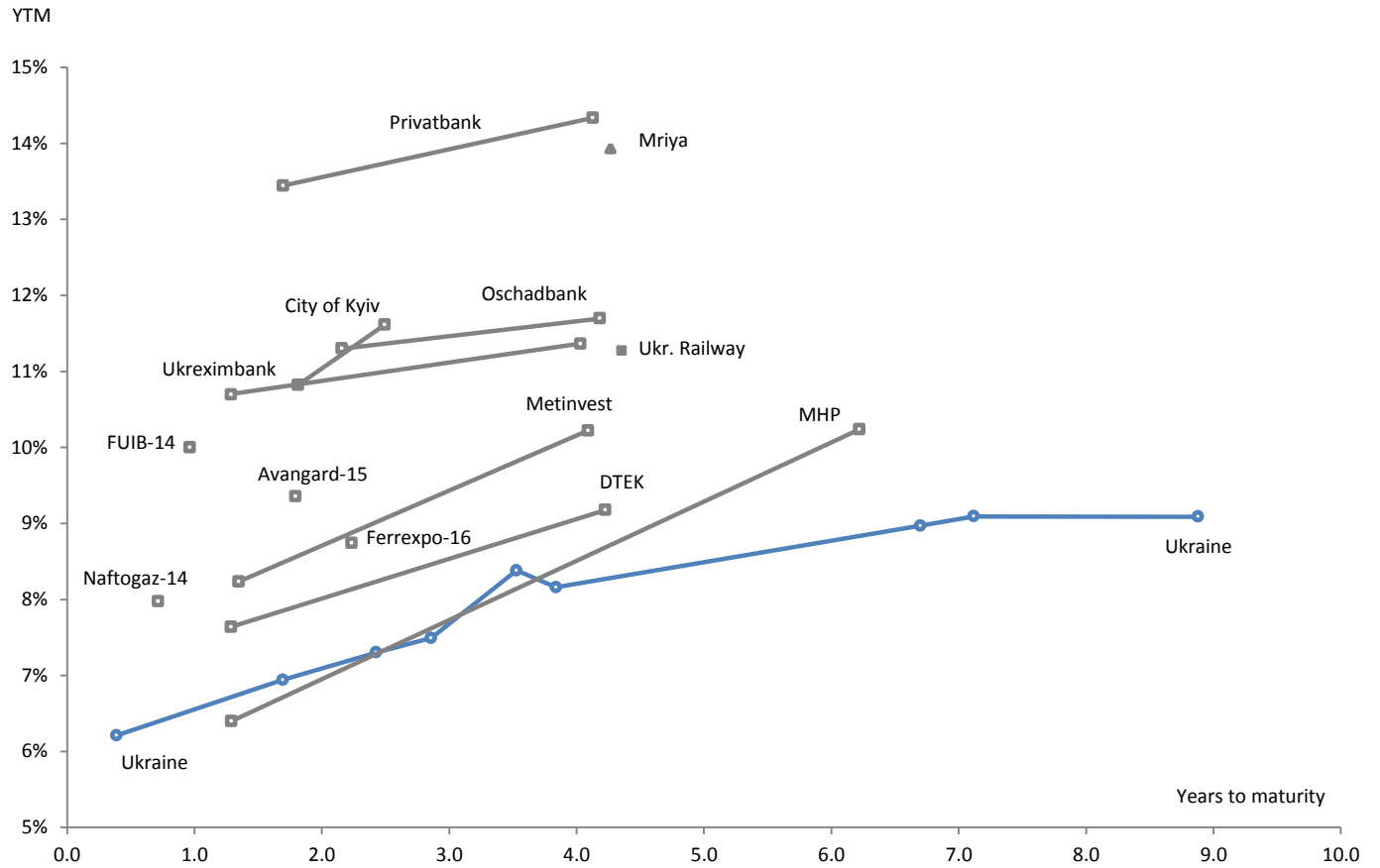
Appendix A. Key macro data and projections

	2007	2008	2009	2010	2011	2012	2013E	2014E
Business cycle indicators								
Real GDP, chg yoy	7.6%	2.3%	-14.8%	4.1%	5.2%	0.2%	-0.4%	1.2%
Household consumption, chg yoy	17.1%	11.8%	-14.9%	7.1%	15.7%	11.7%	6.1%	4.5%
Investments in fixed capital, chg yoy	23.9%	1.6%	-50.5%	3.9%	7.1%	0.9%	-8.7%	0.1%
Industrial output, chg yoy	7.6%	-5.2%	-21.9%	11.2%	7.6%	-1.8%	-4.1%	2.9%
Nominal GDP, UAH bln	721	948	913	1,083	1,302	1,409	1,448	1,534
Nominal GDP, USD bln	143	180	117	136	163	176	181	192
GDP per capita, USD	3,078	3,891	2,550	2,982	3,585	3,875	3,983	4,230
CPI (eop)	16.6%	22.3%	12.3%	9.1%	4.6%	-0.2%	0.5%	4.1%
CPI average	12.8%	25.2%	15.9%	9.4%	8.0%	0.6%	-0.3%	1.5%
Unemployment (ILO methodology, avg)	6.9%	6.9%	9.6%	8.8%	8.6%	8.1%	7.6%	7.2%
Balance of payments								
Current account balance, USD bln	-5.3	-12.8	-1.7	-3.0	-10.2	-14.3	-14.9	-15.1
% GDP	-3.7%	-7.1%	-1.5%	-2.2%	-6.3%	-8.1%	-8.2%	-7.9%
Financial account balance, USD bln	14.7	9.7	-12.0	8.0	7.8	10.1	16.9	18.1
% GDP	10.3%	5.4%	-10.2%	5.9%	4.8%	5.8%	9.3%	9.4%
FDI net, USD bln	9.2	9.9	4.7	5.8	7.0	6.6	3.1	2.9
% of GDP	6.5%	5.5%	4.0%	4.2%	4.3%	3.8%	1.7%	1.5%
Gross NBU reserves (eop), USD bln	32.5	31.5	26.5	34.6	31.8	24.5	20.5	22.4
Monetary and banking indicators								
Monetary base, UAH bln	142	187	195	226	240	255	285	322
Monetary base, chg. yoy	46%	32%	4%	16%	6%	6%	12%	13%
Money supply (M3), UAH bln	396	515	487	598	683	773	864	985
Money supply, chg. yoy	52%	30%	-5%	23%	14%	13%	12%	14%
Monetary multiplier (eop M3/MB)	2.8	2.8	2.5	2.6	2.8	3.0	3.0	3.1
Bank loans, chg. yoy	74%	72%	-2%	1%	10%	2%	8%	9%
Bank deposits, chg. yoy	52%	28%	-8%	26%	18%	16%	14%	14%
Loan-to-deposit ratio	152%	205%	219%	175%	162%	143%	135%	130%
Exchange rate								
Official UAH/USD (eop)	5.05	7.70	7.99	7.96	7.99	7.99	7.99	7.99
Official UAH/USD (avg)	5.05	5.27	7.79	7.94	7.97	7.99	7.99	7.99
Market UAH/USD (eop)	5.05	7.82	8.01	7.97	8.04	8.05	8.24	8.40
Budget and debt indicators								
State budget revenues, USD bln	165.9	231.7	209.7	240.6	314.6	346.0	351.2	372.9
% of GDP	23.0%	24.4%	23.0%	22.2%	24.2%	24.6%	24.3%	24.3%
State budget expenditures, USD bln	175.7	244.2	245.2	304.9	338.1	399.4	413.9	443.4
% of GDP	24.4%	25.8%	26.8%	28.2%	26.0%	28.3%	28.6%	28.9%
State budget balance, USD bln	-9.8	-12.5	-35.5	-64.3	-23.6	-53.4	-62.7	-70.6
% of GDP	-1.4%	-1.3%	-3.9%	-5.9%	-1.8%	-3.8%	-4.3%	-4.6%
Public debt, USD bln	88.7	189.4	317.9	432.3	473.2	515.5	565.0	654.0
% GDP	12.3%	20.0%	34.8%	39.9%	36.3%	36.6%	39.0%	42.6%

Sources: NBU, UkrStat, Ministry of Finance, Bloomberg, SP Advisors

Appendix B. Ukraine's Eurobond universe (1)

Ukraine Eurobond yield map*



*as of Jan. 13, 2014. Source: Bloomberg

Appendix B. Ukraine's Eurobond universe (2)

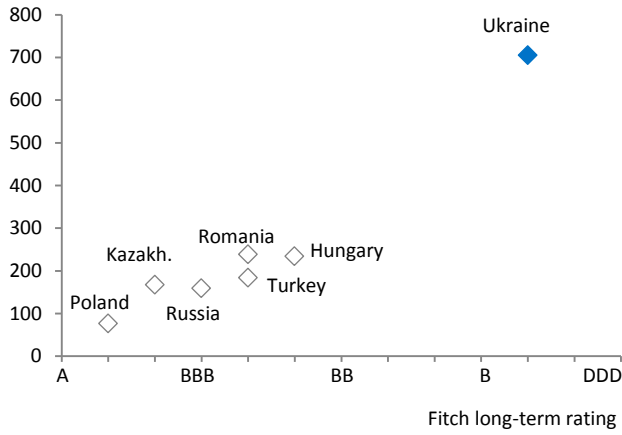
Key parameters of Ukrainian Eurobonds

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	6.21	1.33	-9.84	-	B-	Caa1 /*-	B-
Ukraine-09/15	USD	500	24.09.2015	6.94	0.64	-5.07	-3.20	B-	Caa1 /*-	B-
Ukraine-10/15	EUR	600	14.10.2015	5.55	0.62	-5.59	-5.08	B-	Caa1 /*-	B-
Ukraine-06/16	USD	1,250	18.06.2016	7.30	0.47	-4.40	-2.55	B-	Caa1 /*-	B-
Ukraine-11/16	USD	1,000	22.11.2016	7.49	0.40	-3.90	-2.38	B-	Caa1 /*-	B-
Ukraine-07/17	USD	2,600	25.07.2017	8.38	0.29	-3.60	-	B-	Caa1 /*-	B-
Ukraine-11/17	USD	700	15.11.2017	8.16	0.40	-2.87	-2.24	B-	Caa1 /*-	B-
Ukraine-20	USD	1,500	24.09.2020	8.97	0.26	-1.65	-1.34	B-	Caa1 /*-	B-
Ukraine-21	USD	1,500	24.02.2021	9.09	0.25	-1.55	-0.91	B-	Caa1 /*-	B-
Ukraine-22	USD	2,250	29.11.2022	9.09	0.22	-1.33	-	B-	Caa1 /*-	B-
Ukraine-23	USD	1,250	18.04.2023	8.77	0.17	-1.32	-	B-	Caa1 /*-	B-
Infrastr. projects-11/17	USD	568	04.11.2017	10.74	0.52	-2.02	-1.47	-	Caa1 /*-	-
Infrastr. projects-12/17	USD	550	08.12.2017	10.18	0.75	-4.10	-	-	(P)Caa1 /*-	-
Infrastr. projects-18	USD	690	21.04.2018	10.50	0.52	-1.59	-1.91	-	Caa1 /*-	-
Municipal										
City of Kiev-15	USD	250	06.11.2015	10.82	1.23	-4.76	-3.83	B-	Caa1 /*-	B-
City of Kiev-16	USD	300	11.07.2016	11.61	0.62	-3.57	-3.93	B-	Caa1 /*-	B-
Banks										
Finance and Credit-19	USD	95	25.01.2019	-	-	-	-	-	Ca	-
VAB Bank-14	USD	112	14.06.2014	-	-	-	-	WD	Caa1 /*-	-
FUIB-14	USD	252	31.12.2014	10.00	0.00	-2.56	-6.79	NR	Caa1 /*-	-
Ukreximbank-14	UAH	2,385	03.02.2014	-	-	-	-	B-	Caa1 /*-	-
Ukreximbank-15	USD	750	27.04.2015	10.70	0.00	-10.47	-2.44	B-	Caa1 /*-	-
Ukreximbank-16	USD	125	09.02.2016	12.75	1.55	-7.28	-4.66	CC	Caa2 /*-	-
Ukreximbank-18	USD	600	22.01.2018	11.37	0.62	-4.59	-	B-	Caa1 /*-	-
Oschadbank-16	USD	700	10.03.2016	11.30	0.81	-5.72	-3.09	B-	Caa1 /*-	-
Oschadbank-18	USD	500	20.03.2018	11.70	0.48	-4.48	-	B-	Caa1 /*-	-
Privatbank-15	USD	200	23.09.2015	13.44	1.41	-8.37	-4.45	B-	Caa1 /*-	-
Privatbank-16	USD	150	09.02.2016	17.78	3.47	-6.65	-2.92	-	Caa2 /*-	-
Privatbank-18	USD	175	28.02.2018	14.34	1.09	-2.77	-	B-	Caa1 /*-	-
Corporate										
Naftogaz-14	USD	1,595	30.09.2014	7.98	0.00	-11.89	-4.23	B-	-	-
Agroton-14	USD	50	14.07.2014	210.70	34.78	-0.60	188.36	WD	-	NR
Avangard-15	USD	200	29.10.2015	9.36	0.00	-1.87	-9.90	B-	-	-
MHP-15	USD	235	29.04.2015	6.40	0.00	-5.04	-6.77	B-	Caa1 /*-	-
MHP-20	USD	750	02.04.2020	10.24	0.00	-2.47	-	B-	-	B-
DTEK-15	USD	200	28.04.2015	7.64	0.00	-3.46	-4.47	B-	Caa1 /*-	-
DTEK-18	USD	750	04.04.2018	9.18	0.00	-2.51	-	B-	Caa1 /*-	-
Metinvest-15	USD	500	20.05.2015	8.23	0.00	-2.97	-3.66	B-	Caa1 /*-	-
Metinvest-18	USD	750	14.02.2018	10.22	0.00	-1.96	-2.64	B-	Caa1 /*-	-
Mriya-16	USD	72	30.03.2016	9.97	0.75	-2.74	-3.97	B-	-	B-
Ferrexpo-16	USD	400	07.04.2016	13.94	0.00	-1.88	-	B-	-	B-
Ukrlandfarming-18	USD	425	26.03.2018	12.48	0.66	-2.46	-	B-	-	B-
Ukrainian Railway-18	USD	500	21.05.2018	11.27	0.00	-5.54	-	B-	-	B-

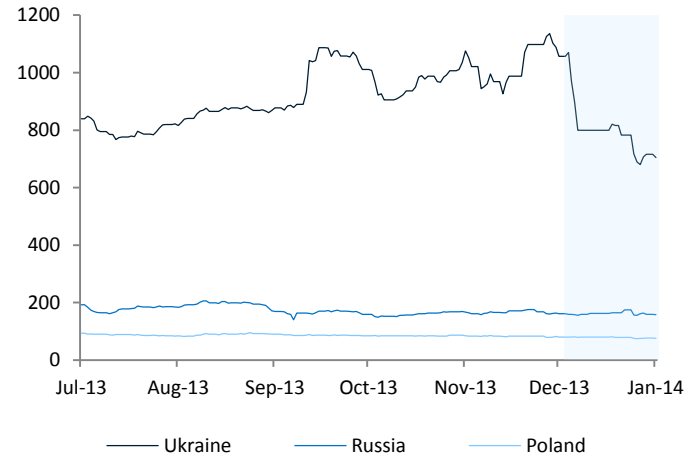
*as of Jan. 13, 2014. Source: Bloomberg

Appendix C. NDF and CDS

5Y CDS vs. Fitch long-term rating*



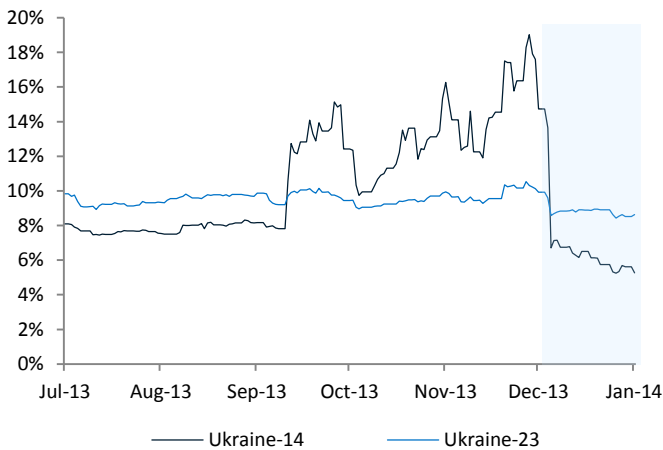
5Y CDS, 6-m development



* data as of Jan. 13, 2014
Source: Bloomberg

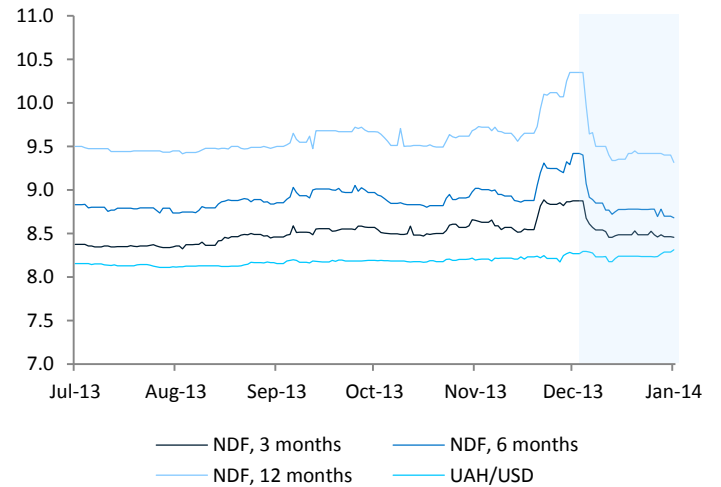
Source: Bloomberg

Ukraine sovereign Eurobond yields, 6-m development



Source: Bloomberg

Hryvnia spot and NDF rates, 6-m development



Source: Bloomberg

Appendix D. Ukrainian equity multiples

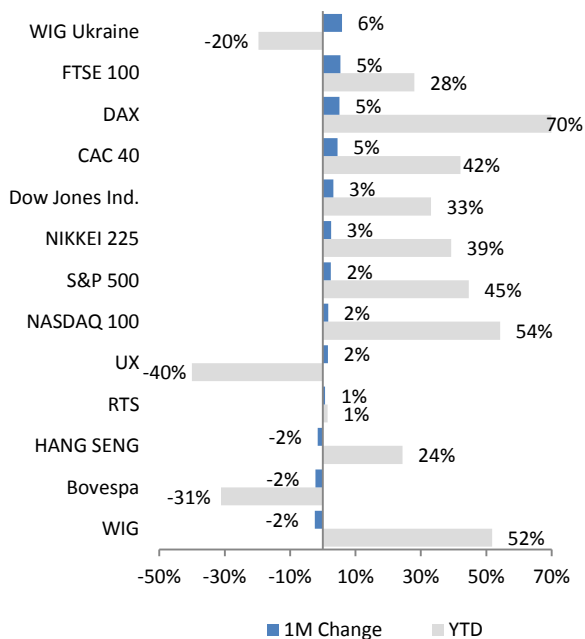
Ukrainian stock multiples*

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	1,078	5.6	4.2	0.7	0.5	0.8	0.7	9.9	5.9	0.36	0.25
MHP	MHPC LI	1,860	7.0	5.3	2.0	1.7	1.5	1.3	8.6	6.3	0.93	0.69
Mriya	MAYA GR	770	4.2	4.3	3.0	2.5	-	-	4.8	5.1	-	-
Astarta	AST PW	526	6.6	5.2	1.6	1.2	1.1	1.0	8.0	5.0	0.58	0.46
IMC	IMC PW	129	5.3	3.3	1.7	1.0	0.8	0.6	4.9	3.1	0.62	0.34
KSG Agro	KSG PW	50	4.0	3.7	1.7	1.2	-	-	4.2	4.2	-	-
Agroton	AGT PW	21	-	-	-	-	-	-	-	-	-	-
Sintal Agriculture	SNPS AV	0.2	-	-	-	-	-	-	-	-	-	-
Median		-	5.4	4.2	1.7	1.2	1.0	0.8	6.4	5.0	0.60	0.40
Food												
Avangard	AVGR LI	735	2.9	2.4	1.2	1.0	0.5	0.5	3.3	3.3	0.08	-0.02
Ovostar	OVO PW	182	6.6	4.5	2.5	2.0	1.4	1.2	7.1	4.9	0.14	0.25
Milkiland	MLK PW	117	5.1	4.4	0.4	0.4	-	-	6.6	6.4	-	-
UkrProduct	UKR LN	7	3.1	2.1	0.2	0.2	0.2	0.2	3.9	2.5	0.39	0.24
Median		-	4.1	3.4	0.8	0.7	0.5	0.5	5.3	4.1	0.14	0.24
Oil & Gas												
JKX Oil & Gas	JKX LN	203	2.0	1.8	1.0	0.8	0.4	0.3	6.3	5.7	-0.01	-0.07
Kulczyk Oil	SEN PW	277	3.3	2.4	1.7	1.3	1.3	1.1	9.0	5.0	-0.09	-0.18
Regal Petroleum	RPT LN	71	-	-	-	-	-	-	14.2	-	-	-
Cadogan Petroleum	CAD LN	39	-	-	-	-	-	-	-	-	-	-
Median		-	3.0	2.2	1.4	1.0	0.8	0.7	9.0	5.4	-0.05	-0.12
Mining												
Coal Energy	CLE PW	16	-	-	-	-	-	-	-	-	-	-
Sadovaya Group	SGR PW	8	-	-	-	-	-	-	-	-	-	-
Median		-	13.2	-	1.1	-	-	-	-	-	-	-
Metals & Mining												
Ferrexpo	FXPO LN	1,686	4.8	5.2	1.5	1.4	1.0	0.9	6.6	7.6	0.34	0.32
Median		-	4.8	5.2	1.5	1.4	1.0	0.9	6.6	7.6	0.34	0.32
Real Estate												
TMM	TR61 GR	22	-	-	-	-	-	-	-	-	-	-
Median		-	-	-	-	-	-	-	-	-	-	-
Industrials												
Westa ISIC	WES PW	7	-	-	-	-	-	-	-	-	-	-
Median		-	-	-	-	-	-	-	-	-	-	-
Transportation												
KDM Shipping	KDM PW	96	-	-	-	-	-	-	-	-	-	-
Median		-	-	-	-	-	-	-	-	-	-	-

* as of Jan. 13, 2014. Source: Bloomberg

Appendix E. Stock market summary

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



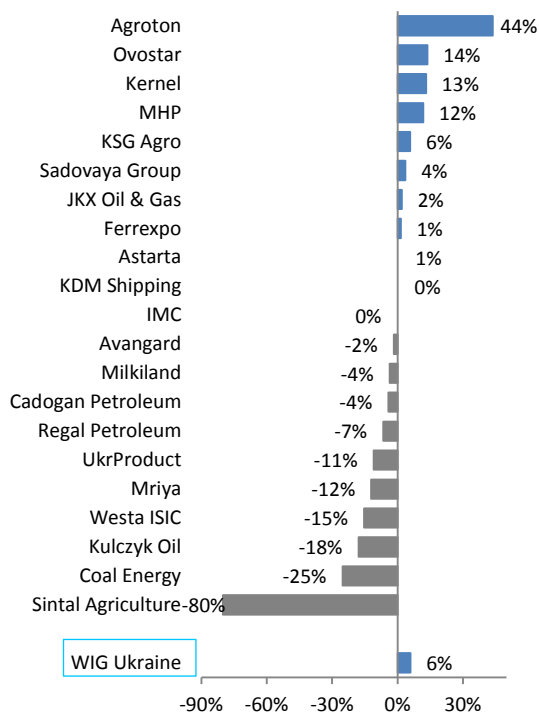
Data as of Jan. 13, 2014
Source: Bloomberg

WIG Ukraine, 6-month development



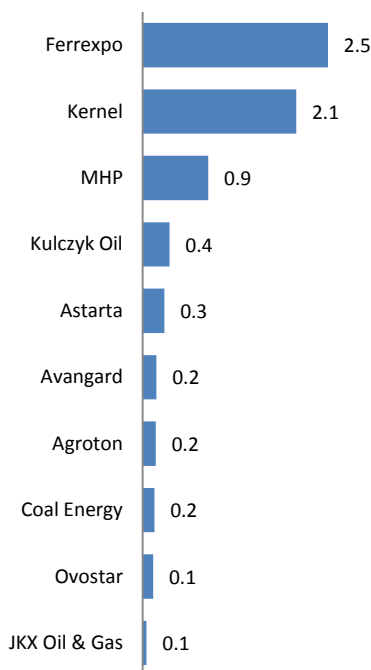
Source: Bloomberg

Ukrainian stock price change, mom*



* as of Jan. 13, 2014
Source: Bloomberg

Average daily trading in Ukrainian stocks, USD mln*



* Only top-10 stocks are shown, data are on Dec. 13, 2013 - Jan. 13, 2014
Source: Bloomberg

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