WEEK IN REVIEW

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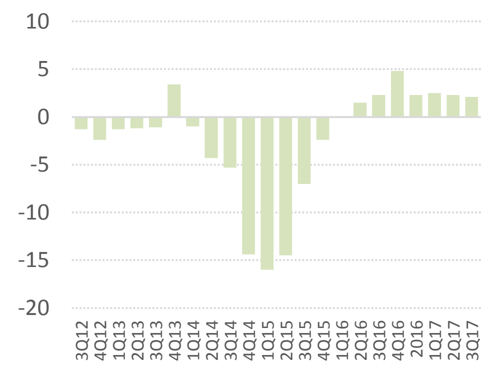
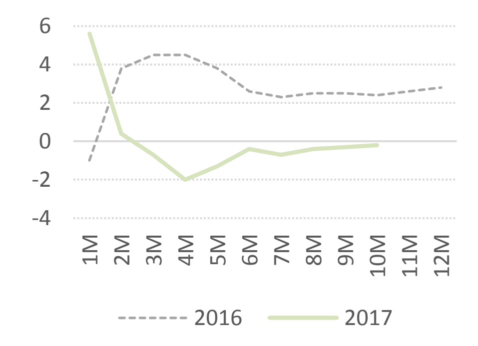
FOCUS

Ukraine's GDP, % y/y



Industrial Production, % y/y



WEEK INSIGHT

The Week in review witnessed about a resumption of the efforts at completing the restructuring of the overall Eurobond and debt landscape of the country. The restructuring of the quasi-sovereign Eurobonds has come to the final stage with the near completion of the negotiations on the remaining non-restructured portion of the foreign liabilities of the Kyiv city and the local debt of the state railway company.

In the meantime, the management report of the Mriya Agricultural Holding about the restructuring development at the company has also promised to bring the most dramatic debt chapter of the country to some kind of success story.

Meanwhile, the economic fundamentals continue supporting the optimistic outlook, compared with the generally negative forecast from the year-beginning. The current development allows justifying the anticipation of a stronger economic growth of 2.2% in the current year. Industrial development may finally come out of the gray zone, overcoming the blow from the loss of production facilities in the eastern Ukrainian conflict zone.

ECONOMY

Ukraine's GDP grew by 2.1% y/y in 3Q2017, slowing from 2.3% y/y in 2Q2017 and 2.5% y/y in 1Q2017, according to preliminary data of the State Statistics Service of Ukraine. Relative to 2Q2017, the country's economy increased by 0.2% q/q seasonally adjusted. No comprehensive data on the development has been disclosed yet. ***The preliminary GDP assessment still confirms the general assumptions about further economic recovery. Nevertheless, a relative slowing of the growth momentum is observed on backdrop of strengthening comparative base for the previous year. GDP growth is seen to continue slowing in 4Q2017, especially with consideration to the extraordinary result of 4Q2016. The end-of-year development, however, will most likely remain in the range of the 2.2% growth forecast for the current year, as the economy continues benefitting from expansion in household consumption and improved trade balance.***

Industrial production decreased by 0.2% y/y in January-October 2017, slightly redressing from a 0.3% y/y downfall in nine months and 0.4% y/y in eight months, according to the State Statistics Service of Ukraine. Mining output fell by 2.3% y/y, the generation and distribution of electricity, steam and conditioned air fell by 5.9% y/y, while manufacturing output grew by 3.8% y/y. ***Positive development in the metal related industries above all supported industrial output in October. The overall mining sector fell on asset losses in the breakaway enclaves of Donbas and against the consolidating comparative base of the previous year. In the meantime, iron ore (-1.1% y/y) and metal (-1.1% y/y) output continued redressing on backdrop of the favorable global environment. The chemical industry (11.5% y/y) benefitted from increased demand for fertilizers (15.3% y/y) during the autumn-winter sowing season. The relative gain in the metal and chemical industries compensated the slowing growth in food industries conditioned by poorer agricultural delivery compared with the previous year. The energy sector suffered from the unresolved issues of coal supply to the power generating stations, which consequently hit the engineering industries mostly exposed to the power sector. Industrial production will most likely emerge from the negative zone by year-end, benefitting from seasonal boost in energy production and new year surge in consumer demand for food and household appliances.***

AGRICULTURE

Mriya agroholding completed the restructuring negotiations on its USD 130 MN secured debts, Mriya CEO Simon Cherniavsky reported in Ternopil, Western Ukraine, while presenting a summary of the current development in the Company. As of today, the total debt of the Company amounts to USD 1.1 BN, including USD 46 MN in working capital, USD 7 MN in equipment leasing, USD 130 MN secured loans, USD 904 MN in unsecured loans, according to the report. The company hopes to complete the negotiations on the unsecured debt by spring of 2018, the official maintains. The total debt burden after restructuring is targeted at USD 330 MN. The volume of secured debt will be reduced to USD 62 MN, unsecured to USD 213 MN. Additionally, around USD 700 MN of debt will be converted into shares. Accordingly, the shareholders of the Company should consist with foreign investment funds, local and international banks and financial institutions by the completion of the company restructuring. The Company intends to invest in its technological development up to USD 36 MN in 2018-2020, including USD 10.7 MN in 2017. After the restructuring, the structure of the holding should consist with a holding company Mriya Farming Limited (London), a sub-holding company (Cyprus) and a trading company (Cyprus). The number of subsidiaries will be reduced to 25. ***The management report shows the distressed agricultural company to be consistent in the implementation of its restructuring schedule. Under the current development, the Company should be able to proceed towards the second stage of its recovery strategy, going to public offering or attracting strategic investors by 2019 as envisaged.***

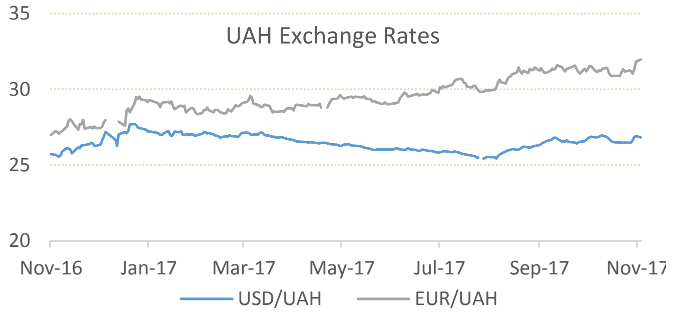
TRANSPORT & LOGISTICS

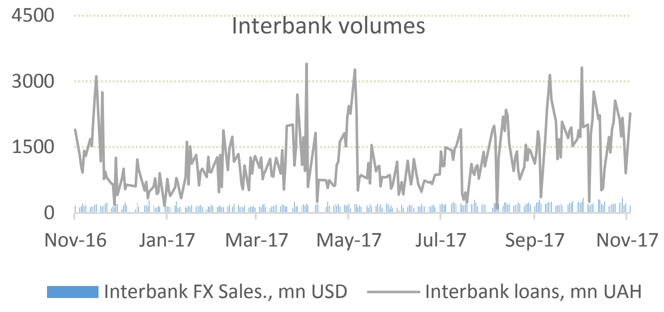
On November 23, 2017, the Public Joint Stock Company "Ukrainian Railway", Ukrzalistnytsa or UZ) put forward a consent solicitation to the holders of its USD 500 MN Eurobonds due in 2021. Under the solicitation, the issuer asks for a prolongation of the restructuring period on its domestic debts from January 1 2018 to June 30, 2019. During this period, the issuer asks for a new carve-out from Cross Acceleration and Cross default as defined in the initial debt restructuring memorandum on the outstanding non-restructured amount of the designated domestic debts. The issuer offers a consent fee of USD 4.00 for each USD 1000 principal amount of the notes to the holders who has committed to the resolution before the Voting Deadline of December 6, 2017, pending a passing of the resolution at the noteholders' meeting. The waiver on default period is needed to finalize the reprofiling negotiations on the company's debts inherited from the Ukrainian railway administration. A meeting of the noteholders is convened on December 8, 2017 to approve the proposals. ***The announcement came as a result of the company's failure to finalize the restructuring of its local debts as required by the agreement on the restructuring of its Eurobonds in 2016. The completion of the issue seems to have been complicated by the ongoing conflict around the management and the reform of the company. A resolution of the issue in the near future will most likely bump against the complicating political environment and the exacerbating conflict of interests around the railway transportation company, on background of remaining uncertainties as to its operations in the conflict-torn eastern Ukrainian region. In the meantime, a successful finalization of the debt restructuring campaign should allow the Company moving forward with the realization of a plan to come with new Eurobond issues in a total volume of up to USD 1.5 BN in the medium-term.***

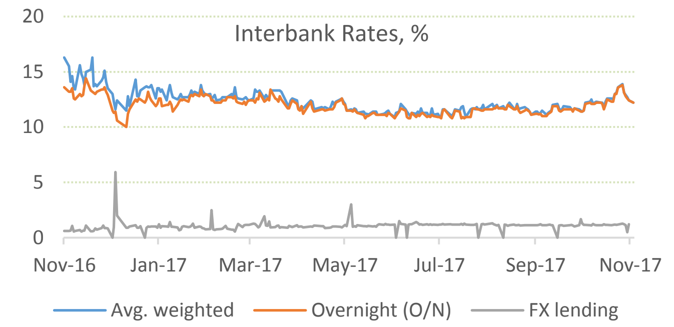
MONEY & CREDIT

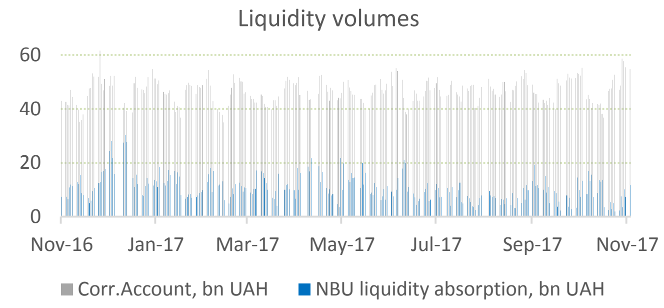
On November 21, 2017, the Kyiv City Council approved the restructuring terms on its outstanding USD 101.1 MN Eurobonds left after the debt reprofiling deal of 2015, according to an information release of the Kyiv authorities. Under the ruling, the debt maturity is extended to December 15, 2022, whereas the coupon rate is set at 7.5% per annum. The Eurobond will be amortized in equal quarterly installments beginning from June 15, 2021. The restructuring follows year-long negotiations (2016-2017), according to the information. Meanwhile, a preliminary agreement has been reach with investors about the restructuring of the outstanding local debts of the city. ***The decision fits in the overall long-term debt restructuring policy of the Kyiv Government and could follow some advances in the city's negotiations related to its local debts. The finalization of the deal should complete the restructuring of all the city's debt to foreign private investors; the majority of the debt has been renegotiated in 2015. Further successes in the debt restructuring process will considerably improve the financial standing of the city, on top of the significant gain of the local budget from the fiscal decentralization reform undertaken by the central government.***

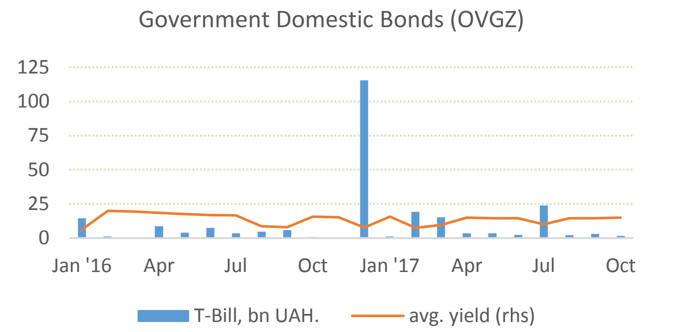
MARKETS

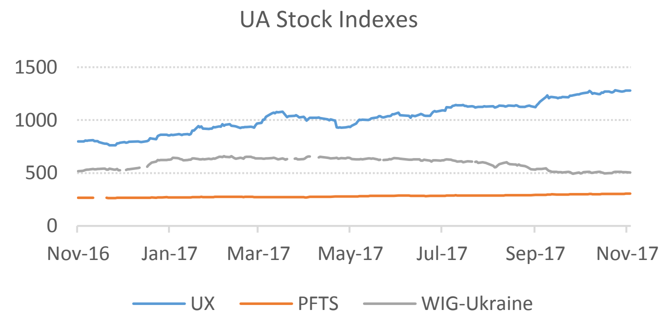


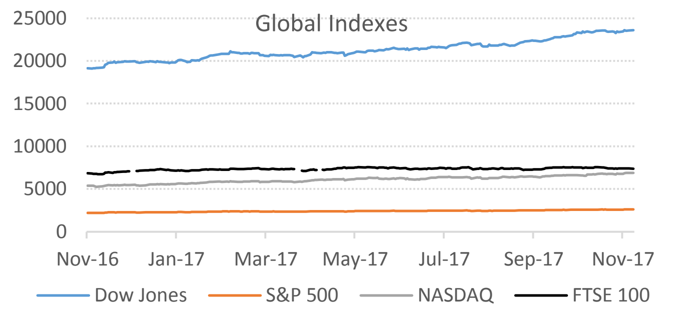


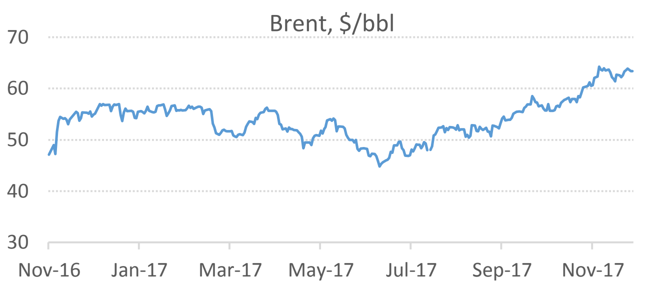


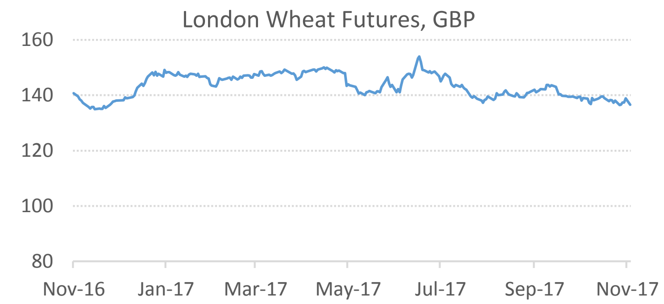












Sources: NBU; State Statistics Service of Ukraine; UX; PFTS; WSE; LSE; NASDAQ; NYSE:ICE; InvestFunds/CBonds

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