WEEK IN REVIEW

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FOCUS

WEEK INSIGHT

The Week in Review has witnessed about the strong case for investments in the country as reflected by the development of the balance of payment. Namely, steady foreign investments have upheld the payment balance, mitigating the burden of rising demand for investment goods on the trade balance, on backdrop of delay in the disbursement of official financial assistance by the IMF and other multilateral institutions.

As for the banking system, the National Bank sent a signal to the investment community about the return of banks to normal business operations after the emergency state required by the 2014 crisis and by the ongoing conflict in the eastern part of the country.

Meanwhile, the Government continues working towards an optimization of the public debt terms through maturity extension, while working at limiting the financial and economic risks which could arise from the upcoming electoral campaign of 2018-2019.

Interim corporate reports have also underlined the pattern of intensive investments by leading Ukrainian corporations, in this case Kernel agricultural holding and the DTEK energy holding, in order to upgrade their production mix and expand their geographic and market reach. In the meantime, a failure to invest in strategic repositioning is sending other players in distress, as the egg producer Avangard demonstrated in its report.

Meanwhile, the country's natural gas infrastructure has been recognized as one of the top 20 European gas facilities, deserving 18th place in the ranking of the continental natural gas hubs. Nevertheless, further market reforms are required in order for the country's natural gas market to become decisively attractive for European players. The European banking institutions continue paying high attention to the upgrade of the country's gas and energy sector, especially through energy saving and consumer support programs.

ECONOMY

Ukraine's current account deficit grew by 13.8% y/y in ten months of the current year and amounted to USD 3.3 BN as of end of October, 2017, deepening from a deficit of 6.2% y/y in nine months, according to NBU preliminary data. Exacerbation of the merchandise trade deficit (30.2% y/y or USD 1.6 BN y/y) to USD 7.0 BN, together with repatriation of income on investments (13.3% y/y or USD 578 MN) to USD 4.9 BN above all conditioned the current account gap. The merchandise trade deficit increased by 30.2% y/y to USD 7 BN up from a 27.6% y/y growth in January-September. The growth in merchandise export slowed to 20.3% y/y (from 20.8% y/y in 9M) to USD 32.2 BN, whereas imports accelerated to 22.0% y/y (from 21.9% y/y) to USD 39.2 BN, driven above all by stronger imports of energy materials and engineering goods. The net current foreign borrowing of the country (current account + capital account) increased by 17.2% y/y to USD 3.2 BN in ten months. Meanwhile, the net inflow on the financial account grew by 38.5% y/y to USD 5.3 BN, accelerating from a growth of 32.8% y/y in nine months, thanks to steady increase in foreign investments. The surplus of the balance of payments increased to USD 2.1 BN in ten months. The positive balance of payment secured a strengthening of the country's foreign reserves to USD 18.7 BN as of November 1, 2017, matching 3.7 months of future imports. ***The development of the balance of payment echoes the rising investment interests in the country's economic sector. As a result, imports of investment goods, together with***

expanding energy imports, levelled out the gains on exports allowed by the favorable global commodity environment. In the meantime, inflow of foreign investments (direct and portfolio) secured a strong surplus on the financial account, which on aggregate generated a positive balance of payments in ten months. The current pattern of payment balance will likely endure in the coming months; any substantial support to the balance of payment is conceivable only after resumption of financial assistance to the country by the IMF, the EU and other global financial institutions.

AGRICULTURE

Avangard agricultural holding, the largest shell eggs producer in Ukraine, reported an increase in net loss by 46.3% y/y to USD 20.8 MN in 9M2017, according to the interim report of the company published on the London Stock Exchange on November 30, 2017. The Company's consolidated revenue fell by 24.4% y/y to USD 84.0 MN. Avangard's EBITDA was negative at USD 12.2 MN, expanding 21.9% y/y and mostly attributed to losses on exchanges, according to the Company. Avangard reported an operating loss before working capital changes in the volume of USD 2.5 MN, plunging from a gain of USD 14 MN in the corresponding period of the previous year. Nevertheless, the company reported a net cash inflow from operations in the tune of USD 2.8 MN rebounding from an outflow of USD 4.5 MN in 9M2016, thanks to gains from reduction in receivables, prepayments and inventories. The company reported a net cash inflow from investing activities worth USD 639 thousands, compared with an outflow of USD 8.4 MN in the corresponding period of the previous year. Avangard issued no data on financing activities. The overall development left the Company with a net cash inflow of USD 3.4 MN in 9 months, resulting in a balance of cash and cash equivalent in the volume of USD 17.1 MN in nine months. The total borrowings of the company grew by 6.1% y/y to USD 365.1 MN. Eurobonds account for 63% of the debt. Currently, Avangard is in negotiation with a special committee of bondholders and its adviser about a restructuring of its 10% USD 200 MN Eurobonds due in 2018. ***The Company's revenues have been hit above all by the restrictions on Ukraine's poultry imports on its major markets, especially in the MENA region, on top of the losses due to geopolitical turmoil. The current development has undermined the Company's cash generation capacity, compelling Avangard to seek another revision of its debt terms. However, a failure to realign the business and competitive strategy of the Company along the new economic policy of the country will most likely continue impeding upon Avangard's recovery in the medium term.***

Kernel, a large Ukrainian agrarian group, reported a net profit of USD 22.8 MN in the first quarter of 2018 fiscal year (FY, July 2017 – June 2018), ending September 30, 2017, down 64.3% y/y, according to the company's report. Kernel's revenue grew by 39.6% y/y to USD 536.1 MN, thanks above all to increase in sunflower oil sales. Revenue from sales of bulk sunflower oil rose 2.2x to USD 334.3 MN, from bottled oil by 1.5x to USD 35.6 MN, while revenue from grain exports fell by 25.3% y/y to USD 149.2 MN. The Company's operating profit fell by 58.35% y/y to USD 24.8 MN. Kernel reported an EBITDA reduction of 36.5% y/y to USD 46 MN, mostly due to lower crop yields owing to adverse weather conditions in central Ukraine, on backdrop of increasing operating costs. The Company reported USD 74.9 MN net cash from operating activities, emerging from an outflow of USD 29.7 MN in the corresponding quarter of the previous year. Net cash used in investing activities increased to 75.1 MN (5.1x y/y). Net interest-bearing debt grew by 55.2% y/y to USD 506.3 MN, as the company attracted fund to finance the acquisition of new farmlands. As a result, Net debt to EBITDA increased to 1.7x from 0.9x in 1Q2017FY. Kernel targets an EBITDA of over USD 210 MN in the current financial year (FY, July 2017-June 2018), down from USD 319 MN in the 2017 FY (2016-2017) due to lower capacity load in the grain infrastructure segment and EBITDA reduction in the agricultural segment. ***The Company results reflect the ongoing revision in its corporate strategy,***

expressed in intensive investments in the grain business against the mature oil segment. Additionally, weaker agricultural performances on background of the strong comparative base of the previous year, together with low global grain prices have restrained the bottom line. The result of the new marketing year, however, will show the company yielding from the current investments in product and market diversification.

ENERGY

DTEK energy holding reduced Electricity output by 6.1% y/y to 26.8 BN kWh in January-September 2017, according to the interim production report of the Company. A production downswing is noted in nearly all business segments save electricity exports (45.2% y/y) and natural gas production (2.9% y/y). Coal production fell by 5.8% y/y to 21.0 MN tonnes (including the Russian mine directorate Obukhovskaya), and coal concentrate output by 9.2% to 10.5 MN tonnes. Electricity generation fell by 6.1% y/y to 26.8 BN KWh, while electricity transmission declined by 5.3% y/y to 31.8 BN KWh. Coal exports were down by 48.9% y/y to 582 ths tonnes, and the production of gas condensate fell by 0.2% y/y to 41.4 ths tonnes. Electricity generation at the Botiyevska wind power plant increased by 10.3%, to 443.7 MN kWh. The power units of DTEK Energy operating on gas coal increased output by 14.3%, to 19.8 BN kWh. In the meantime, the Company imported 1.3 MN tonnes of coal (146.7x y/y) and 19.6 mcm gas (289.4.x y/y).
Meanwhile, DTEK Power Trade LLC has made a public demand to the minority shareholders of DTEK Zakhidenergo (97.4% owned by DTEK) about a squeeze-out, according to a report of the Company in the information disclosure system of the National Securities and Stock Market Commission. The buyout price is set at UAH 130.46 per share, using as reference the highest price at which DTEK and SCM Group have bought shares back in the last twelve months. The total number of the company shares in circulation is 12,790,451, allowing estimating the total amount of the deal to be in the range of UAH 43.8 MN. ***The Company's operating performances were hit by the loss of the production assets and supplies from the facilities located in the breakaway territories of Donbass, resulting among others in loss of market share to nuclear and hydro power competitors. The loss was only partially compensated by increasing electricity exports, especially thanks to the recent electricity delivery contract to Moldova. Competitive pressure on the Company has also strengthened as domestic consumption adjusts to high energy prices and the transition to low energy economic model. The relative weakening production performances still allow expecting a strengthening of the Company's financial results thanks to the Government's consistent policy of energy price increase and to redirection of the spared capacities towards exports.***

The European Bank for Reconstruction and Development (EBRD) commits additionally EUR 18 MN to the Ukraine Residential Energy Efficiency Financing Facility (UREEFF), according to information release of the institution from November 30, 2017. Sub-loans in the volume of EUR 10 MN and EUR 7 MN will be provided to existing partners of the IQ Energy Program – UkrSibbank and OTP Bank respectively, which is designed to promote energy efficiency investment. In the meantime, a credit limit of up to EUR 1 MN is opened for the new partner-bank Credit Agricole. The volume should cover up to 18,000 projects of individual borrowers, with an average project volume of UAH 300,000 per person, according to the bank's officials. IQ energy, which has been operational in Ukraine since April 2016, has already channeled around UAH 320 MN worth (approx. USD 12 MN equivalent) to 13,000 Ukrainian households for thermal modernization, according to the statement. ***The development underscores the commitment of the European institutions to the modernization of the country's energy sector. Additionally, the emphasis on support to end consumers should help easing the pressure against the Government's energy market reform policy.***

Ukraine has for the first time been included in the European Gas Hubs Benchmarking Study, prepared annually by the European Federation of Energy Traders (EFET), according to a press statement of Naftogaz of Ukraine, referring to the 4th edition of the EFET report. The country ranks 18th out of 20 continental hubs, coming ahead of Bulgaria and Romania, according to the report. The country made advances thanks to a basic virtual trading point established recently. Nevertheless, the study notes that currently much of Ukraine's gas trading still takes place on the borders and surrounding markets. The recent approval of draft amendments to the GTS Code developed by Ukrtransgaz and submitted to the NEURC (Ukraine's energy regulator) should help the Ukrainian hub improve its position and progress in the next EFET Review, according to the report. Additionally, the country needs to set tariffs at the internal entry/exit points of its GTS, introduce daily balancing with imbalance settlement procedures, and start using short-term standard products on the trading platform within the framework of daily balancing. ***The event marks a first step in the integration of the country's natural gas infrastructure and system into the European market. A decisive development on this way should be the introduction of a full-fledged natural gas market in the country, encompassing the use of its gas transportation system and final restructuring of the state monopolistic company Naftogaz of Ukraine. Though foreign natural gas players started entering the country's market, fixing the issue of natural gas supply to the country and especially the relations with Russian suppliers remain critical for the further advance of the country towards the European energy market.***

TRANSPORT & LOGISTICS

The National Bank of Ukraine (NBU) has approved the application of StarMoney LLC (Kyiv), the subsidiary of the leading Ukrainian mobile communications operator Kyivstar, to act as an operator of the payment infrastructure, Kyivstar President Peter Chernyshov reported. StarMoney, the 100% subsidiary of Kyivstar, has finally received the status of operator of payment infrastructure services, Chernysov posted on Facebook. The NBU decision paves the way for the launch of mobile financial services and transactions with e-money for subscribers, planned for end 2017, according to the Company's representative. Kyivstar in mid-January 2014 jointly with Alfa-Bank (Kyiv) launched the NFC service of contactless payments, which requires a user to own a bank card linked to a SIM card and a special app. In August 2014, the operator registered StarMoney LLC to provide financial services (except insurance and pension funding), financial leasing, lending and other types of monetary intermediation, as well as data processing and information publishing on websites. ***The development, while opening the way to the launch of e-money products and services, marks a breakthrough on the country's market for retail financial services. If successfully launched, the innovation should increase the challenges to the payment card business as well as to established banks' distribution channels.***

MONEY & CREDIT

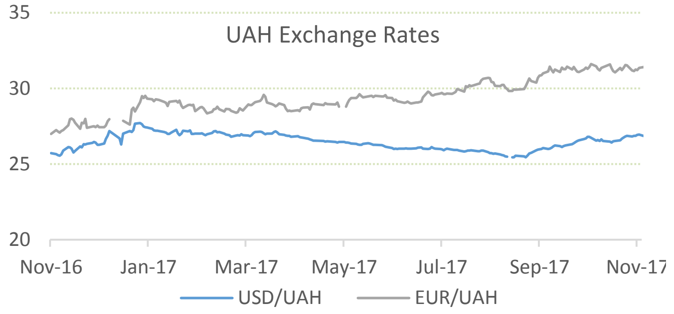
On November 28, 2017, Ukraine's Finance Ministry placed seven Series of currency-pegged government domestic loan bonds in the volume of USD 575.1 MN with maturity term between 490 and 546 days, and at a fixed coupon rate of 3.85% per annum paid half-yearly. In the meantime, the Ministry failed to place Hryvnia-pegged bonds with maturity term between 175 and 994. ***The successful placement allowed the Government refinancing the payment of about USD 550 MN on USD-denominated domestic debt due in the upcoming week. Additionally, the debt operation is in line with the Government's policy of moving the pending short-term debt payments beyond 1H2019, in order to ease the debt pressure on the budget during the electoral campaign of 2018-2019. The current placement came as a relief for the Government against the end-of-year foreign-currency debt payment, considering the postponement of***

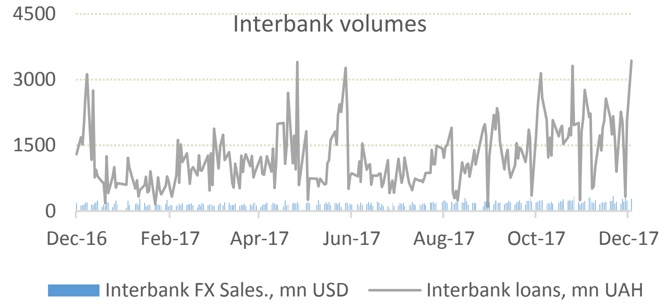
the disbursement of financial assistances to the country by the IMF and the EU.

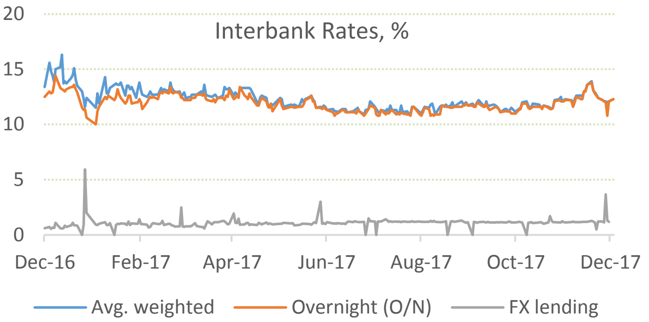
BANKING AND FINANCES

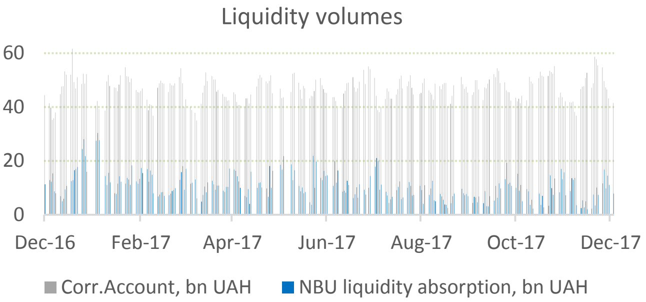
The National Bank of Ukraine cancelled its decision from February 24, 2015, introducing extraordinary regulations aimed at stabilizing the banking system against the shocks ensuing from the exacerbation of the economic and political situation in the country in 2014-2015, as well as from the military conflict in eastern Ukraine, according to an information release of the Central Bank from November 27, 2017. The regulator made the decision taking into consideration that banks have factored the risks from these events in their strategic plans, while the situation has stabilized in the country and in the banking system. The decision is effective from November 28, 2017 and is operational until January 1, 2019. ***The decision marks a rehabilitation of the regulatory system after the emergency period of 2014-2016, and therefore a return of the banking system to normal operations. Nevertheless, cautions remain with consideration to the latest signs of strengthening volatility on the foreign exchange market and spiraling inflation on backdrop of escalating political tension.***

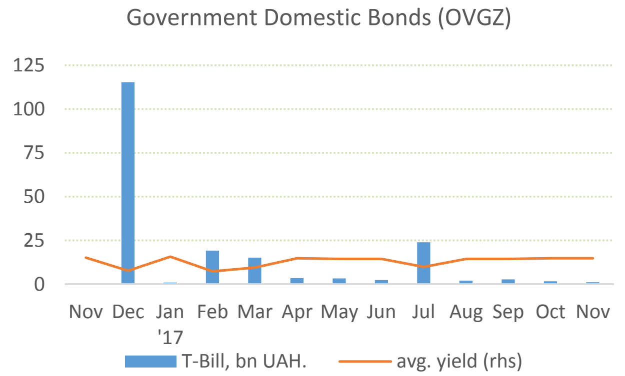
MARKETS

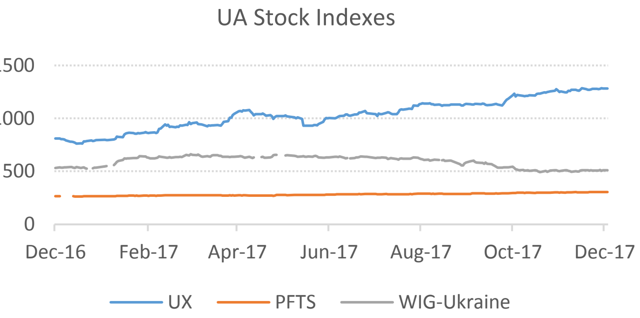


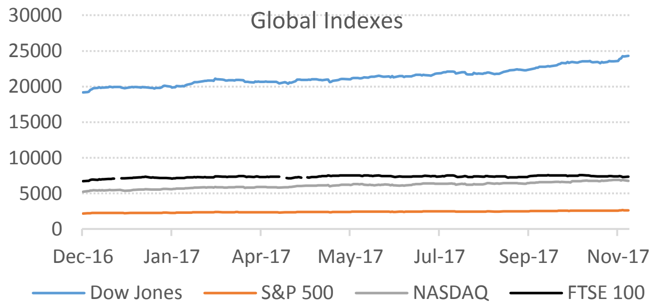


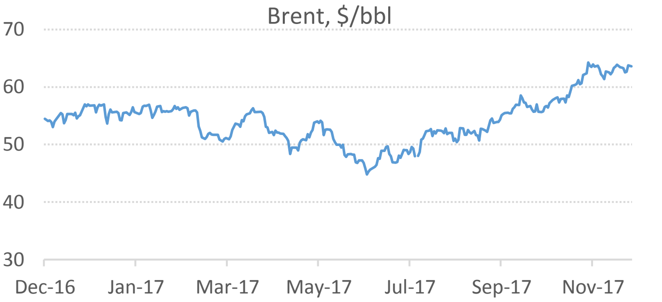


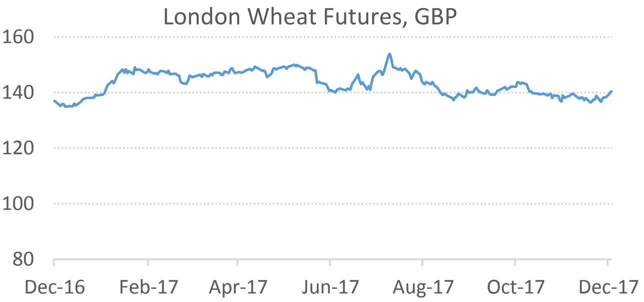












Sources: NBU; State Statistics Service of Ukraine; UX; PFTS; WSE; LSE; NASDAQ; NYSE:ICE; InvestFunds/CBonds

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