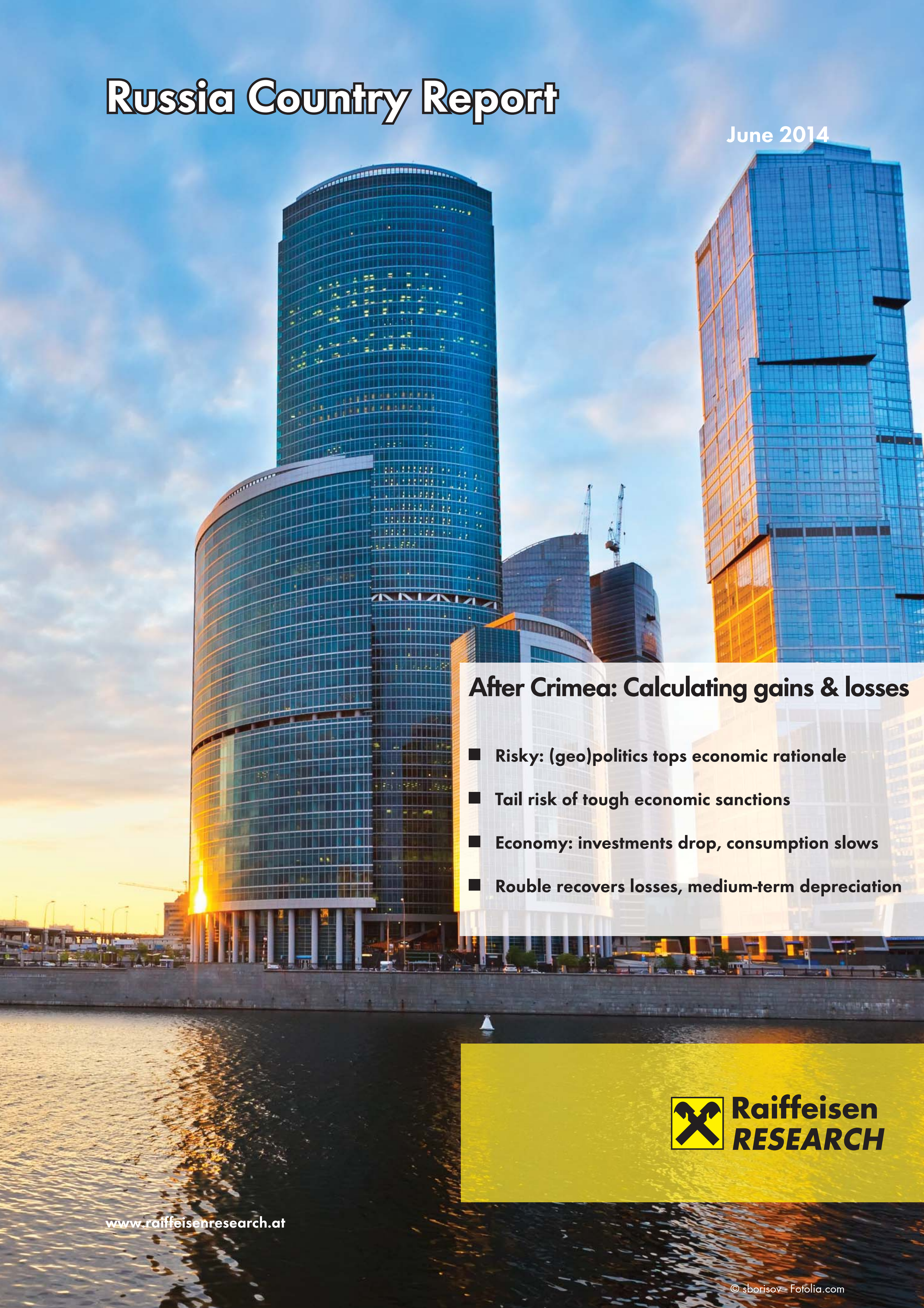


Russia Country Report

June 2014

After Crimea: Calculating gains & losses

- Risky: (geo)politics tops economic rationale
- Tail risk of tough economic sanctions
- Economy: investments drop, consumption slows
- Rouble recovers losses, medium-term depreciation

Raiffeisen RESEARCH

www.raiffeisenresearch.at

CE	*Central European countries - Poland, Hungary, Czech Republic, Slovakia, Slovenia*
SEE	*South East European countries - Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania, Serbia*
CIS	*European CIS (Commonwealth of Independent States) countries - Russia, Ukraine, Belarus*
CEE	*Central and Eastern Europe (CE + SEE + CIS)*
BRIC	Brazil, Russia, India, China

Abbreviations

Currencies and Countries

ALL	Albanian lek
BAM	Bosnian marka
BGN	Bulgarian lev
BYR	Belarusian roubel
CNY	Chinese yuan
CZK	Czech koruna
EKK	Estonian kroon
HUF	Hungarian forint
HRK	Croatian kuna
LTL	Lithuanian litas
LVL	Latvian lats
PLN	Polish zloty
RON	Romanian leu
RSD	Serbian dinar
RUB	Russian rouble
SIT	Slovenian tolar
SKK	Slovak koruna
TRY	Turkish lira
UAH	Ukrainian hryvnia

Economic abbreviations

%-chg	Percentage change (not in percentage points)
avg	average
bp	basis points
BoP	Balance of Payments
C/A	Current Account
CPI	Consumer Price Index
FDI	Foreign Direct Investments
FX	Foreign Exchange
GDP	Gross Domestic Product
LCY	Local Currency
mmav	month moving average
mom	month on month
pp	percentage points
PPI	Producer Price Index
qoq	quarter on quarter
T/B	Trade Balance
ULC	Unit Labour Costs
yoy	year on year

Stock Exchange Indices

BELEX15	Serbian stock index
BET	Romanian stock index
BUX	Hungarian stock index
CROBEX10	Croatian stock index
PX	Czech stock index
MICEX	Russian stock index
SASX-10	Bosnian stock index
WIG 20	Polish stock index

Equity related

DY	Dividend yield
EG	Earnings growth
LTG	Long term (earnings) growth
P/E	Price earnings ratio
RS	Recommendation suspended
UR	Under Revision

Please note the risk notifications and explanations at the end of this document

After Crimea: Calculating gains & losses

Crimea and Ukraine were the most influential factors shaping Russian foreign politics, the economy and financial markets in recent months. While the (first) peak of the crisis seems to have passed – and thus hard economic sanctions by the West on Russia have somewhat diminished – Russian political risk and uncertainty have shot up. It is still too early to fully assess the various implications of the events in recent months, but one might state that Russian policymakers are ready to go for a more confrontational stance towards the West, even if the economic costs are potentially high. Also, with a situation in Ukraine still in flux, tail risks with regard to tougher economic sanctions by the West remain.

From more than 4% during 2010 and 2011, GDP growth fell to 1.3% in 2013, pointing to the limits of the commodity export focused growth model and various structural rigidities. Together with the political fallout from the stand-off with the West, these limitations might result in near stagnation or even a slight decline in growth this year. Investment activity is expected to contract, and household demand – the main pillar of Russian growth – is set to slow down. Monetary and fiscal policy are unlikely sources of economic stimulus: interest rates had to be hiked by a total of 200bp earlier this year in emergency moves to shield the rouble. Budget expenditures will most likely be kept in check as the fiscal rule will be followed. Additional spending from non-budgetary fiscal funds for investment projects will not change this picture very much. For lack of convincing internal or external growth drivers and given the absence of meaningful structural reforms, a return to high growth rates seems unlikely. We do not expect a strong recovery in 2015.

The Russian rouble – like other Russian financial assets – benefited from the recent easing in political tensions in May and recouped most of the earlier losses. However, the currency is still more than 10% weaker than in early 2013 and we expect a moderate depreciation trend to prevail in the medium run. As a side effect, the weaker rouble increased FX-denominated state budget revenues, offsetting expected losses in non-oil revenues. If inflation falls sufficiently from the currently high levels between 7% and 8%, monetary authorities might begin to reverse the emergency key interest rate hikes towards the end of the year. In the banking sector, lending growth will drift lower due to the economic slump and surging interest rates. With the markets having a rather short memory, it has to be seen how long international funding conditions will suffer for Russian issuers.

Andreas Schwabe, CFA

Key economic figures and forecasts

	2011	2012	2013	2014e	2015f
Nominal GDP (EUR bn)	1,340	1,540	1,580	1,480	1,540
Real GDP (% yoy)	4.3	3.4	1.3	-0.3	1.0
Industrial output (% yoy)	4.7	2.6	0.3	0.0	0.5
Unemployment rate (avg, %)	6.6	5.7	5.6	5.8	5.8
Nominal gross wages (% yoy)	11.5	13.9	10.0	11.5	8.0
Producer prices (avg, % yoy)	12.0	5.1	3.7	3.5	3.5
Consumer prices (avg, % yoy)	8.5	5.1	6.8	6.7	5.3
Consumer prices (eop, % yoy)	6.1	6.6	6.2	6.0	5.7
Gen. government balance (% of GDP)	1.6	0.4	-1.0	-0.5	-0.4
Public debt (% of GDP)	9.8	10.5	11.3	11.5	12.0
Current account balance (% of GDP)	5.2	3.6	1.6	2.3	2.0
Gross FX reserves w/o gold (EUR bn)	350	369	343	338	338
Gross foreign debt (% of GDP)	31.1	31.4	34.1	39.0	39.3
EUR/RUB (avg)	40.9	39.9	42.3	47.7	48.6
USD/RUB (avg)	29.4	31.1	31.9	35.6	37.7
BASKET/RUB (avg)	34.6	35.1	36.6	41.0	42.6
Brent (USD/barrel)	112	112	109	112	120

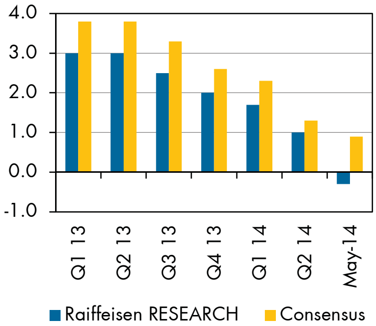
Source: Thomson Reuters, Rosstat, CBR, Ministry of Finance, Raiffeisen RESEARCH

Strategy (Horizon Dec-2014)

Rouble to basket: negative
OFZ: Sell all maturities
Corporate EB:
Buy LUKOIL 6.125% due 2020
Buy ALFARU 7.875% due 2017
MICEX: positive*
Equity market picks 6m (buy):
NLMK, PhosAgro, Severstal, LUKoil, Novatek, Tatneft, MegaFon, Rostelecom, E.On Russia,

** RBI CEE equity portfolio (EUR based investor)*

Downward revisions GDP 2014*



** development of 2014 real GDP growth forecast, % yoy*
Source: Consensus economics, Raiffeisen RESEARCH

Russia sovereign ratings

	S&P	Moody's	Fitch
Foreign currency			
Long-term	BBB-	Baa1	BBB
Short-term	A-3	-	-
Outlook	neg	watch neg	neg
Local currency			
Long-term	BBB	Baa1	BBB
Short-term	A-2	P-2	-
Outlook	neg	watch neg	neg
Latest change	Apr-14	Mar-14	Mar-14

Source: Bloomberg

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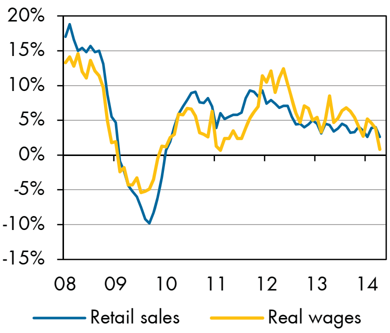
Russian economy at crossroads

- Peak of political tensions with West might be over, but uncertainty remains high
- Russian economy hurt by fears of Western sanctions – long-term FDI likely to suffer most
- Weaker consumption and the "Ukrainian factor" are the new risks for the economy
- Prudent stance in fiscal expenditures accompanied by extra revenues from weaker rouble and higher oil price

Putin's popularity is back

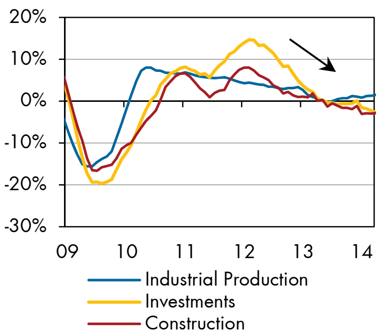
Source: Levada Center, Raiffeisen RESEARCH

Retail sales and real wages (% yoy)



Source: Rosstat, Raiffeisen RESEARCH

Real sector indicators (% yoy)



Source: Rosstat, Raiffeisen RESEARCH

The accession of Crimea to Russia on 18 March and subsequent developments in Ukraine resulted in a strong deterioration in relations with the West. The USA and EU enforced asset freezes and travel bans on selected individuals and a few companies, but backed off from meaningful trade or financial sanctions ("sectoral sanctions"). Nevertheless, the Russian economy has been indirectly hurt by the threat of sanctions (see box next page). On the other hand, at home, the foreign policies proved to be highly popular – boosting the rating of President Vladimir Putin to a multi-year high. Other recent events included the signing of a landmark gas supply contract with China and the foundation of the Eurasian Economic Union with Belarus and Kazakhstan starting from 2015, underlining Russia's efforts for political and economic sovereignty (albeit these developments will not have a strong or immediate economic impact). At time of writing, the worst of the international tensions might be over. However, with the situation in Ukraine still pretty much in flux, the foreign political outlook is highly uncertain. Given our bleak expectations for the economy, the recent domestic euphoria might vanish sooner rather than later, while parliamentary and presidential elections are still far away in 2016 and 2018.

Financial analyst: Andreas Schwabe, CFA

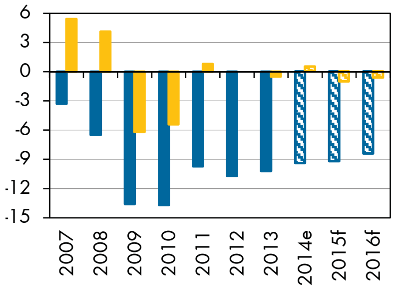
The weak economic data in Q1 2014 only confirmed our concerns about rising risks for the Russian economy. GDP growth continues to slow down. The data suggest that economic growth decelerated by more than half in Q1 2014, slipping to 0.9% yoy vs. 2% yoy in Q4 2013. According to our estimates seasonally adjusted GDP contracted in Q1 2014 by more than 1% qoq and there could be more contraction in Q2 2014, which technically would qualify as a recession. The most disappointing results are being seen in capital investments and industrial production. Although infrastructure projects financed by part of the National Welfare Fund are expected in H2 2014, we do not expect this to be significant enough to change the downward trend in investments this year. After a long period of stability, the manufacturing PMI started on a downtrend and reached the lowest level since the 2008-2009 crisis. Among industries with pronounced negative dynamics, we would highlight metallurgy and production of machinery and equipment. Moreover, the deceleration of household consumption has become an additional risk. After a long favourable period, economic stagnation and decreasing internal demand should start to negatively affect the labour market. Despite the fact that unemployment will remain rather low, we see risks of a considerable slowdown in real wages in Q2-Q4 2014, resulting in a significant deceleration of retail sales. A spike in the spring was temporary in nature, mostly explained by rouble depreciation and the willingness of households to hedge their savings via purchases of durables. Accelerating inflation (headline CPI already reached 7.6% yoy, marking an annual high) and higher costs of borrowing are also weighing on consumption and investments. We believe that rouble depreciation is more likely to prolong the investment pause, rather than to support investment activity. Even if serious sanctions against Russia are not implemented, a long period of geopolitical

Please note the risk notifications and explanations at the end of this document uncertainty could lead to a freeze in the investment programmes of the leading real sector companies. All of these factors have prompted us to revise GDP forecast for 2014 downwards to -0.3% vs. +1% previously.

There should have been no significant fundamental changes in the budget structure this year. The Russian Federal budget is expected to receive significant additional revenues, which allows for expectations of a balanced budget or even small surplus this year (0.5% of GDP vs. initial -0.5% of GDP, according to Minfin estimates). Given that a major part of revenues is denominated in USD (stemming from duties on exported oil and gas), the sharp RUB depreciation this year and a sufficiently high oil price could translate into additional unplanned net revenues of about RUB 700 bn in 2014. However, even with these extra budget revenues, a budget surplus should not be taken for granted, given the current unstable situation. Provided there is no drop in the oil price, it seems that Minfin may even have the opportunity to replenish Reserve fund this year.
This year's budget has an additional obligation to support infrastructure and social spending in the Crimea and Sevastopol regions. In 2014 it means up to RUB 300 bn in extra expenditures, which however would be covered by the special reserve of the budget. Despite the additional revenues, Minfin demonstrates strong adherence to fiscal prudence: increases in expenditures are being avoided, all the technical shortfalls are covered and the fiscal rule is not breached.
Taking into account additional budget revenues, sovereign demand for borrowing in 2014 may be rather low. The main increase will be represented by issuing state guarantees. With the strong position of authorities on fiscal tightening (despite economic stimuli and funds to support new ex-Ukrainian regions required), we do not expect any significant rise in public debt to-GDP ratio in real terms and only forecast it at 11.5% in 2014 (vs. 11.3% in 2013).

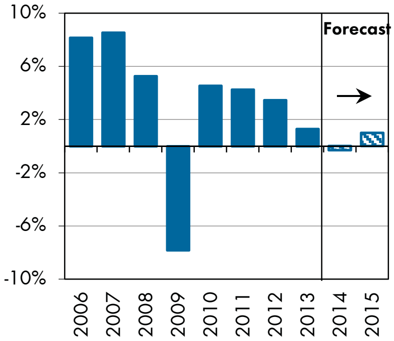
Financial analyst: Maria Pomelnikova , Raiffeisenbank ZAO, Moscow, Russia

Budget balance (% of GDP)



Source: Ministry of Finance, Raiffeisen RESEARCH

GDP dynamics and forecasts (% yoy)



Source: Rosstat, Raiffeisen RESEARCH

Focus on: Russia heavily exposed to sanctions – but costly for EU as well

After Crimea joined the Russian Federation, Western states imposed symbolic and light economic sanction on Russian individuals and several companies (asset freezes and travel bans). The direct impact of these on the economy is low. However, the indirect impact via monetary policy tightening and the uncertainty with regard to more sanctions has probably been more relevant. In this report, we assume that substantial further economic sanctions (a third round of sanctions; i.e. "sectoral sanctions" covering entire industries) will not be imposed on Russia. At the same time, the muted growth outlook for Russia is rooted in fundamental and cyclical factors preceding the Ukraine crisis, but these have been aggravated by the uncertainty in recent months (especially for investment dynamics).
In general, Russia is quite vulnerable to European trade sanctions. While trade with the USA is limited (2% of Russian exports and 5% of imports), trade with Europe accounts for 60% of exports and 40% of imports (especially machinery and consumer goods). Russia is highly dependent on energy exports to Europe and revenues would be hurt severely if exports were reduced. Oil and gas account for two thirds of Russian exports and half of the central state budget revenues. From a European perspective, the shares are far smaller, which at first sight implies some asymmetry in the degree of dependency: Russia accounts just for 5% of extra-euro area exports and 8% of extra-euro area imports. However, the exposure of European countries to imports from Russia is concentrated both geographically and product wise, making it more difficult to substitute imports in a timely manner: for example, Germany receives around 35-40% of its oil and 40% of its gas supplies from Russia, and in some cases CEE countries draw close to 100% of their gas from Russia. In the case of Germany, Russia takes 11th place in trade turnover (4% of total). Thus, there is a sufficiently strong mutual inter-dependency, which also explains the reluctance of Europeans and in particular Germany to go for harder sanctions.
Russia has also become increasingly exposed on the financial side as well, given the rising global financial integration of banks and companies. Russia's external financial position shows financial assets – both publicly and privately owned – of almost USD 1,400 bn (incl. USD 500 bn in FX reserves). Liabilities and financial investments from abroad amount to USD 1,200 bn. Russia's gross external debt has risen from USD 460 bn in 2010 to USD 730 bn as of early 2014. 70% of equities on the local Moscow stock exchange and around 25% of local government bonds are held by foreigners.

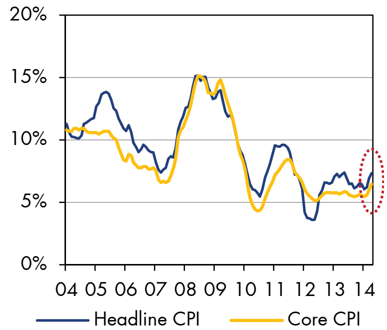
Financial analyst: Andreas Schwabe, CFA

For more information, see p. 8 of this report and our special report "Crimea stand-off and the threat of sanctions: Impact on Russia", 12 March 2014

Emergency tightening reversed only in late 2014

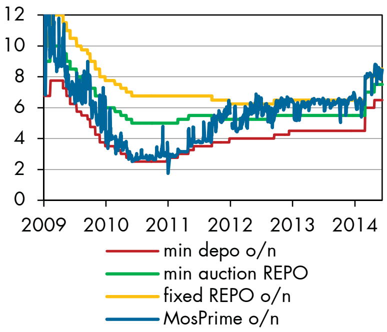
- **CBR's policy is skewed towards tightening**
- **RUB depreciation and the "Ukrainian factor" raise inflationary risks in 2014**
- **Food price shocks add to inflationary pressures**
- **Rate cuts only towards end of 2014 possible**

Inflation dynamics (% yoy)



Source: Rosstat, CBR, Raiffeisen RESEARCH

Key rates of the Central Bank (%)



Source: CBR, Raiffeisen RESEARCH

Key rate & money market outlook

	curr*	Sep-14	Dec-14	Mar-15
Key rate	7.50	7.5	7.0	7.0
1 month	9.21	9.7	8.9	8.6
3 months	9.61	9.8	9.3	9.1
6 months	9.82	10.0	9.5	9.3

**16 June 2014, 5:00 p.m. CET*
1 month: 5 year high 11.0, low 3.2.
3 month: 5 year high 12.3, low 3.7.
6 month: 5 year high 13.2, low 4.1.
Source: Bloomberg, Raiffeisen RESEARCH

Monetary policy in H1 2014 has been strongly affected by the external tensions. During the escalation of the Ukrainian situation in early March, the Central Bank of Russia (CBR) sharply increased the key rate by 150bp to 7%, in order to avoid associated inflationary risks and threats to financial stability. After one month, these risks did not disappear. Moreover, apart from RUB depreciation, other new inflationary factors have appeared. Despite market expectations, which considered the CBR's monetary tightening as a risk to economic growth, the CBR considered its first key rate hike insufficient to prevent further inflationary pressure and in late April the regulator unexpectedly raised the key rate by another 50bp, bringing the current rate to 7.5%. Since then inflationary risks have not weakened. Therefore, we do not anticipate any quick easing of monetary policy.

Annual inflation has continued to rise since the beginning of the year. There is a significant risk that CPI inflation could reach 7.8% in June. In recent months, local supply shortages for particular food products were one of the key reasons for CPI acceleration. This was more acute in the fruits and vegetables segment, as well as in milk and milk products. However, at the moment, the role of that inflationary pressure has faded and we see another risk coming. Since the end of March, the acceleration of food inflation was mainly explained by a surge in meat prices (pork, in particular): pork prices have increased by 10% while price growth for other meat products remains limited. The weighting of meat products in the CPI exceeds 9%, and we note that pork imports account for around 30% of meat consumption in Russia, with the EU being the key supplier. Taking into account that the Federal Veterinary and Phytosanitary Monitoring Service imposed a ban on pork imports from EU on 30 January 2014 and global pork prices are also rapidly rising, we expect inflationary pressure from this factor to continue.

There is a certain risk that if the situation does not improve the CPI could exceed 6% in 2014 (which is the new target level of the CBR). We note that – unlike in the USA – the core inflation index in Russia covers all food products, excluding food and vegetables but including meat products. This explains the fact that the pace of core inflation matches the rise in headline CPI. Despite the described risks, we hope that in its decisions on the rate the CBR will also take into account the deceleration of price growth in several food segments (fruits and vegetables, milk, fish, etc.) and will refrain from any further key rate hikes. However, even provided that current inflationary factors are mainly non-monetary in nature, the CBR may consider that they possibly generate extra inflationary expectations. Therefore, we see no room for any rate cuts until Q4 2014 at the earliest.

Financial analyst: Maria Pomelnikova, Raiffeisenbank ZAO, Moscow, Russia

Rouble stabilising, but still vulnerable

- **Rouble returns towards the middle of its trading band against the basket**
- **Uncertainties in relation to Ukraine as the biggest threat for RUB**
- **CBR continues to cut interventions as a step towards higher medium-term flexibility**
- **Falling current account surplus underpins our expectation of RUB depreciation**

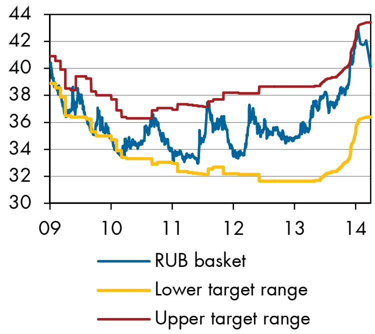
Rising tensions in Ukraine, the threats of economic sanctions against Russia by Western powers and the economic slowdown all contributed to RUB weakening in the first quarter of 2014. Subsequently, however, hopes for de-escalation in Ukraine as well as quick measures by the Central Bank of Russia helped stabilise the rouble. The CBR reduced the depreciation pressure by increasing interest rates and adjusting the movement of the FX band. The increase in the cumulative volume needed to change the RUB trading band by 5 kopecks was moved to USD 1.5 bn, thereby limiting short-term depreciation potential. The recent positive correction of the rouble was expected, given the lack of negative news-flow, but any deterioration in the political situation could trigger renewed RUB depreciation. In the meantime, the central bank's foreign exchange reserves remain large and are adequate to prevent any extreme RUB movements even in rough times.

After having used considerable volumes for interventions during the past months, the central bank has now scaled back the intervention volume considerably. On 22 May, the regulator significantly decreased the amount of FX interventions within the operational band, which itself remains unchanged (7 RUB). Since 22 May the daily amount of interventions within each sub-band has decreased to USD 100 mn (with the exception of technical and neutral sub-bands with zero interventions). Moreover, while the RUB rate is below the upper boundary of the FX band, the CBR also purchases FX on the open market for MinFin (for transfer to the Reserve Fund). With the current FX rate these purchases amount to USD 100 mn per day. We note that this move by the regulator is not unexpected given its determination to shift to a floating FX regime by 2015 and RUB currently trading within the zero-interventions sub-band. Should there be another round of RUB depreciation, the CBR's support would be weaker within the band but not at its border where the interventions become unlimited and the upward shift occurs after the sale of USD 1.5 bn. Despite the goal to move towards a floating currency in 2015 we would expect to see a longer transition phase with continued, but smaller interventions. Any escalation in Ukraine that would put renewed pressure on RUB could, however, lead to a postponement of the floating strategy by 2015.

Fundamentally, we anticipate less intensive capital flight for the rest of 2014 then seen in Q1 (where it was ~USD 64 bn) and a large enough current account surplus in H2 2014 to limit the depreciation pressure on RUB. For the first four months 2014 we have seen the foreign trade surplus increasing by 10.9% yoy to USD 69 bn. Such an improvement was mainly driven by a visible decrease in imports (-7.3% yoy). As we do not project an improvement in investment dynamics this year, weaker imports should be supportive for a continued current account surplus (provided stable exports). Nevertheless, we project the current account surplus to remain comparably low in 2015 and 2016, underpinning our expectation of a moderate RUB depreciation during these years. Additionally, the decoupling of the rouble and the oil price witnessed since mid-2013 should continue, underpinning the changed environment for RUB.

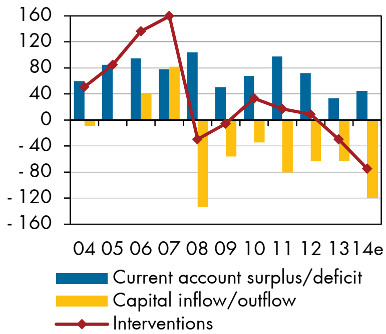
Financial analysts: Wolfgang Ernst, CEFA; Maria Pomelnikova, Raiffeisenbank ZAO, Moscow, Russia

Rouble in its target range*



** Basket is composed of 55% USD and 45% EUR*
Source: CBR, Raiffeisen RESEARCH

Balance of Payments (USD bn)



Source: CBR, Raiffeisen RESEARCH

Exchange rate outlook

	curr*	Sep-14	Dec-14	Mar-15
EUR/RUB	47.0	47.9	48.1	48.7
USD/RUB	34.5	36.3	37.0	37.4
EUR/USD	1.36	1.32	1.30	1.30
RUB basket	40.1	41.5	42.0	42.5
	2013	**2014e**	**2015f**	**2016f**
EUR/RUB (avg)	42.3	47.7	48.7	49.8
USD/RUB (avg)	31.9	35.6	37.7	38.3
EUR/USD (avg)	1.33	1.34	1.29	1.30
RUB basket	36.6	41.0	42.6	43.5

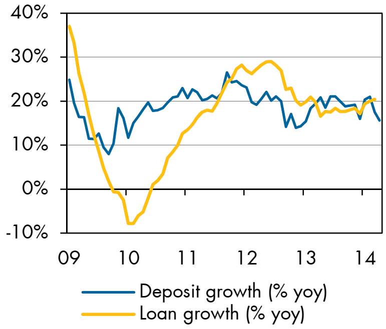
** 12 June 2014, 3:00 p.m.CET*
USD/RUB: 5 year high 36.9029, low 27.1543
EUR/RUB: 5 year high 51.1095, low 37.2149
RUB basket: 5 year high 43.2254, low 32.8939
Source: Bloomberg, Raiffeisen RESEARCH

Please note the risk notifications and explanations at the end of this document

Banking market potential challenged by growing risks

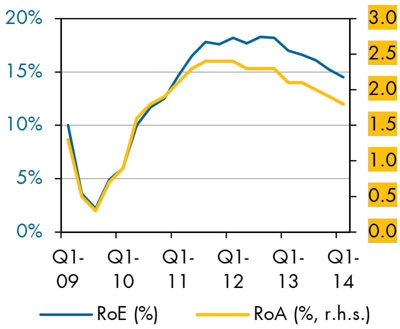
- **Lending growth to drift lower due to economic slump and surging interest rates**
- **Profitability under pressure from more challenging monetary environment, risk to asset quality**
- **Implemented and threatened sanctions weigh on funding opportunities**
- **Certain degree of resilience should support dexent profitability in non-escalation scenario**

Loans and deposit trends



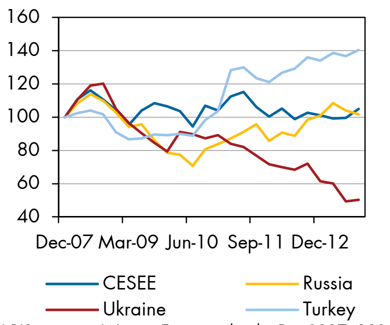
Source: CBR, Raiffeisen RESEARCH

Banking profitability



Source: CBR, Raiffeisen RESEARCH

Cross-border claims Europ. banks*



** BIS-reporting Western European banks, Dec 2007=100, latest data Q4 2013; Source: BIS, Raiffeisen RESEARCH*

Shares cross-border claims Russia*

United Kingdom	7.09%
Austria	8.75%
Germany	9.36%
Italy	12.15%
United States	12.39%
France	20.85%
Western European banks	74.25%

** Q4 2013 BIS data and company data*
Source: BIS, company data, Raiffeisen RESEARCH

H2 2014 is likely to see an end to the traditionally high growth rates in lending. While loan growth (17% yoy) still outpaced the rest of CEE region at year-end 2013, the development in 2014 and beyond remains subdued. Despite a pick-up in overall loan growth to around 20% yoy in Q1 2014, we expect the rate to drift back down towards low double-digit or high single-digit levels in 2014. The major constraining factors are the slowdown in economic growth, and – to a great extent – FX and interest rate fluctuations, triggered by the escalation of political risks. The latter two factors may also weigh on banking sector profitability through tighter margins and weakening of borrowers' financial standing. The impact of these factors may be partially offset by an increase in demand for RUB-denominated loans from export-related sectors and from borrowers for whom external financing may not appear to be an option for political reasons or due to market conditions/pricing. On the profitability side, with RoE at 15% and RoA at 1.7% in 2013, Russia kept its position among the most profitable CEE banking markets. The results of 2014 are expected to be notably worse, but still at decent levels. RoE of around 10% might still be in reach given the resilience of the Russian banking system. Credit risk indicators have remained at fairly low levels so far, with the NPL ratio varying around 4.5% in the first months of 2014. Still, as asset quality issues usually appear with a lag, the major impact of the RU-UA crisis in terms of impaired banking assets should be expected in H2 2014, leading to our year-end NPL estimate of about 6%.

In addition to asset quality pressure, vulnerable money pricing and significant external funding constraints will be the main factors that determine banks' 2014 profitability and financial standing. Western sanctions against Russia (implemented and potentially pending) have already put constraints on Russia's corporate and banking debt markets, affecting bonds, syndicated loans and credit lines. In this context, it must be stressed that the Russian market usually shows the highest volatility in external funding to the banking sector compared to other CEE markets. Moreover, external funding conditions had already grown tighter for the Russian banking sector later in H2 2013, i.e. well before the recent round of escalation of geopolitical tensions. A major downside risks for the Russian banking sector would be an overly harsh stance by the US in terms of (financial sector) sanctions against Russia. In the banking and financial sector, the US has a position which is more on par with Europe. At the individual country level, the United States has a Russia exposure comparable to that of France, which is the European country with the largest Russia exposure. Moreover, for the American banking sector Russian involvement is relatively seen at about the same level as for European banks, at about one percent of international engagements. The rather prominent position of the USA in the financial sector reflects two important aspects. On the one hand, Citibank is a major player in Russian banking locally (i.e. on-shore), and on the other hand, major US banks (Citibank, Goldman Sachs, JP Morgan) are major players in the international banking, capital markets and off-shore business.

Financial analysts: Gunter Deuber, Elena Romanova

Cautious view on Russian debt

- **Improving sentiment towards OFZ market driven by RUB recovery and de-escalation of Ukraine crisis**
- **Despite considerably lowered borrowing plan for 2014 bearish view on LCY debt especially on longer tenors**
- **Russia's long-term Sovereign Eurobond outlook to remain negative but short-term tactical marketweight is recommended**
- **Corporate Eurobonds: we suggest focusing on shorter maturities with low refinancing risks and low exposure to Ukraine**

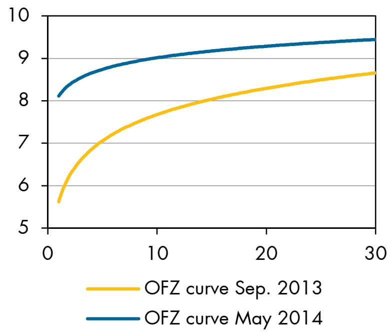
Local currency bonds

Russian assets, especially RUB papers, reacted positively to the decrease of political tensions in May and outperformed other GEM. When writing this report at the end of May, the rouble had appreciated by approximately 5% since the beginning of May, while the Ukrainian risk premium in Russian sovereign Eurobonds had dropped considerably (e.g. spread Russia 42 – Brazil 41 plunged from 100bp to 30bp). Driven mainly by RUB appreciation, foreign investors switched from risk-off to risk-on with regard to OFZs, despite the relatively high consumer price inflation (with a peak only expected in June-July). The yield on 10y OFZs shifted down 58bp to 8.85% in May, corresponding to a 135bp spread over REPO rates. These spread levels mark historical lows: before the CBR's emergency rate hikes the spread was 240bp.

Apart from the improving sentiment on RUB assets, another reason for the recent gains and the flattening of the yield curve – the 10y-2y spread was just 50bp in mid-May compared to the average of 110bp seen in 2013 – is the very limited supply of new paper by the Ministry of Finance. It is not selling more than investors are ready to buy without granting them an elevated premium. In addition, in May Russian debt managers almost halved their official borrowing programme for this year from RUB 825 bn to RUB 435 bn as revenues of the federal budget were revised upwards thanks to the combination of a weaker rouble and higher oil prices. The budget surplus is now estimated at 0.5% of GDP, but we doubt that the federal budget will end this year with a surplus, given the still looming economic risks on the downside. However, net borrowing amounts to RUB 119 bn which is rather moderate compared to RUB 316 bn maturing OFZs this year. To recap, net borrowing in 2013 was RUB 358 bn. We note that due to the escalation of the Ukraine conflict in Q1 2014 MinFin only managed to borrow RUB 8 bn in net terms on the local market. Several OFZ auctions were cancelled due to the additional risk premium investors demanded. According to the new borrowing programme, in contrast to recent years, in 2014 the OFZ market is becoming a source of rouble liquidity (MinFin is expected to raise RUB 120 bn and to pay out RUB 272 bn in coupons). Accordingly, we think that OFZ pricing is quite expensive at the moment and expect that another round of RUB depreciation – which will likely be seen in H2 2014 in our opinion – will trigger a correction on the OFZ market. Against this backdrop (and the adverse inflationary environment), the likelihood that the central bank could reverse parts of its emergency rate hikes later this year declined. In comparison, Turkey was able to roll-back the crisis-induced emergency rate hikes on the improved risk perception of TRY markets. In any case, both countries' debt markets should not be able to benefit from possibly looser MP in the longer run due to rising pressure from US rates, so under current market conditions we consider short-term non-sovereign tier-1 bonds a better alternative compared to OFZs.

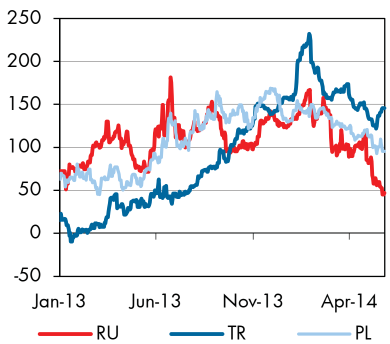
Financial analysts: Denis Poryvay, Stephan Imre

OFZ curve shifted upwards*



**x-axis: term to maturity (years); y-axis: yield-to-maturity (%)*
Source: Russian Ministry of Finance

Yield curve steepness (bp)*



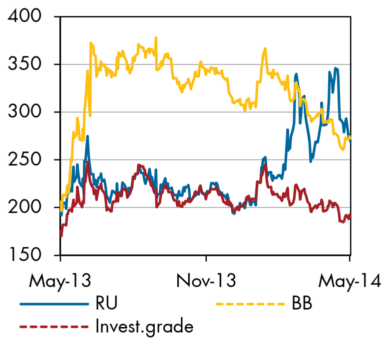
** 10y minus 2y yield*
RU: 5y high 276, 5y low 36
TR: 5y high 171, 5y low -152
PL: 5y high 168, 5y low35
Source: Bloomberg, Raiffeisen RESEARCH

OFZ market outlook (%)

	current*	Sep-14	Dec-14	Mar-15
2y	8.2	8.3	8	8
5y	8.3	8.5	8.2	8.6
10y	8.5	8.9	8.8	9.4

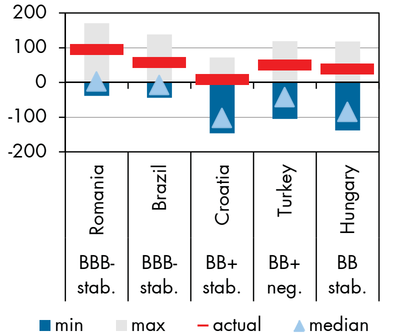
** as of 16 June 2014, 11.30 a.m. CET*
Source: Bloomberg, Raiffeisen RESEARCH

Russia rating spread*



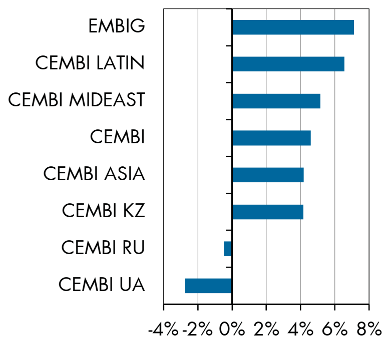
** EMBIG USD spread in basis points, rating spread aggregated from EM rated sovereigns included in the EMBIG, Investment grade - BBB- and higher rating*
Source: Thomson Reuters, Raiffeisen RESEARCH

Russia spread to EM peers*



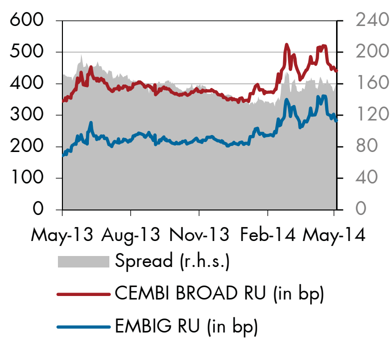
** spread difference Russia minus peer, EMBIG USD spread in basis points, data covering May 2013 - May 2014; Source: Thomson Reuters, Raiffeisen RESEARCH*

2014 YTD returns



Source: JP Morgan, Raiffeisen RESEARCH

RU: sovereign/corporate spread*



** in bp*
Source: Bloomberg, JP Morgan, Raiffeisen RESEARCH

Sovereign Eurobonds

The Russia-Ukraine conflict led to a significant deterioration of the investment outlook for RU. To illustrate, since the UA crisis unfolded in February 2014 RU's EMBIG index has underperformed the broader composite measure by 4% and posted a 6% net loss compared to its maximum. Although we do not see the risk of broader sanctions against RU as being very high, the worsening investment outlook and a looming economic recession prompted all three of the major rating agencies to downgrade their outlook from stable to negative (BBB-/Baa1/BBB by S&P/Moody's/Fitch). Moreover, the market takes a pretty negative view of the situation as evidenced by CDS-implied rating trading one notch below the investment grade at BB+ and the EMBIG spread being firmly anchored to the BB rating bracket. S&P already downgraded RU to BBB- in April, and we see a higher chance that Moody's and Fitch to follow suit. Despite the strong external liquidity and fiscal position, RU's investment outlook is clouded, and the stagnant economy will reduce the government room for manoeuvre. Also, the private sector's large short-term external debt might result in additional stress and lead to further depletion of international reserves. As a result, we see the long-term risk being skewed to the downside while over the short term we expect RU Eurobonds to level up, after the earlier sell-off created technically more attractive entry levels. Therefore, we recommend only a tactical market-weight for the next three months at best. In terms of relative value, we find RU remaining comparatively attractive vs. Brazil and Turkey, while we expect a wider spread in favour of Hungary and Romania due to their stronger medium-term upgrade pattern.

Financial analyst: Gintaras Shlizhyus

Corporate Eurobonds

Global EM corporate index (JPMorgan CEMBI Broad Index) returned 4.6% ytd in 2014 and outperformed its Russian segment (-0.5% ytd) by a wide margin. Clearly Russian-Ukraine stand-off remains the key driver of Russia's 2014 performance. Also, the CIS primary market corporate activity was hit by Russian-Ukrainian stand-off with USD 6.3 bn issued ytd compared to USD 37 bn year ago. The significant decrease is attributable mainly to lower issuance from Russia which came mainly from quasi sovereign issuers (98% of country's total). We have seen several planned deals being postponed including a sub deal from Tinkoff Credit Systems Bank and a senior Eurobond from Lukoil. Currently the limited market access is forcing Russian corporates to test their relationships with commercial banks and possibly turning to more exotic markets with Gazprom's dim sum bond (USD 300 mn equivalent) being in the pipeline. Despite currently closed primary market we think any new deal announcements will come with interesting primary market premiums. We suggest waiting until more clarity is gained with regards to further sanctions imposed on Russia. On the secondary market, we recommend temporarily avoiding Russian consumer lenders due to a more challenging operating and regulatory environment. In oil and gas sector we prefer privately owned entities (Lukoil, Novatek) to state owned as according to the US/EU rhetoric these are less likely a target of the economic sanctions should these be implemented. We suggest focusing on shorter maturities of credits with low refinancing risks and low exposure to Ukraine as the best strategy in the current situation. We are standing by our buy recommendations on GPBRU 6.5% due 2015, SBERRU 5.4% due in 2017 and ALFARU 7.875% due 2017. We assess these banks' short-term refinancing risk as modest. We are also maintaining our buy calls on LUKOIL 6.125% due 2020 and NVTKRM 6.604% due 2021.

Financial analysts: Martin Kutny, Lubica Sikova, CFA

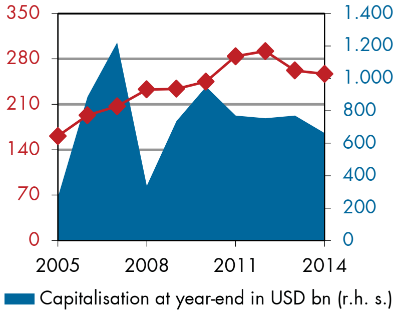
Depression following political wobbles

- **Geopolitical conflict over Ukraine at the centre of attention**
- **Further escalation between the West and Russia is not anticipated**
- **MICEX earnings growth dampened by energy sector**
- **Traditional valuation discount to other EM increased**

With a market capitalization of EUR 474 bn at the end of March 2014 the Moscow Exchange is by far the largest stock market in CEE/CIS. With regards to liquidity, the MOEX was also one of the most active with an average daily trading turnover of EUR 1 bn in the first quarter. It must be noted, however, that trading turnover increased especially due to tensions in Ukraine (calculated in roubles, by around 42% yoy over Q1 2013). Energy companies are in the majority within the MICEX benchmark at 55%, which reflects the dominance of oil and gas sector within the Russian economy.
With respect to future performance of the CEE stock markets we are generally optimistic. The key issue remains to what extent the threats and sanctions between the West and Russia will materialize and if there will be any further escalation. In our baseline scenario, we do not expect any serious escalation, but do believe that the situation will remain tense in the coming months. It is not likely that a quick solution will be found and waves of uncertainty could hit the markets at any time again. Generally, the crisis poses a risk not only to the Russian economy through sanctions but also to the stability of the local financial market through capital outflows. Due to the international nature of the Moscow Stock Exchange with non-residents holding 70% of free-float traded shares on MOEX, the volatility of capital flows will remain high; in the first quarter investors pulled out USD 70 bn, which was more than the USD 63 bn outflows in all of last year.
Obviously, a stabilization of the situation in Ukraine is necessary in order to avoid further risk-selling of Russian shares. Nonetheless, the market is gradually adapting to the situation and we observe a familiarization effect of investors who retreated from eagerly focusing the situation. According to the latest information from the OSCE, Russian President Vladimir Putin supports mediation efforts, which is obviously a positive sign and should contribute to further calming of the situation.
However, even excluding the Ukrainian crisis, conditions for investments in Russia are not very advantageous. The economic outlook is bleak and is dampening earnings growth. Following a drop in corporate profits by nearly 9% last year) we expect corporate earnings of MICEX constituents to grow by 8.3% in 2014. Profit growth will especially be brought down by the heavily weighted energy stocks, which we expect to deliver profits for this year lower by 7.6%. On the other hand, the MICEX's extremely attractive valuation (P/E ratio 2014e: 5.6), which has been lower only six months out of the past ten years, does offer support to the overall market. To provide some context, the MSCI Emerging Markets Index is currently trading with a P/E ratio greater than 13.3. The MICEX's dividend return is also quite positive at 4.6% (aggregate of the entire index).
All in all, we expect largely positive performance from the MICEX over the next twelve months. Political tensions have likely already peaked and as the economy once again finds its floor capital outflows should turn around. As such, in our opinion the positive factors outweigh the short-term (political) risks. However, due to the still weak economic growth we assume that upside is limited in the year to come.

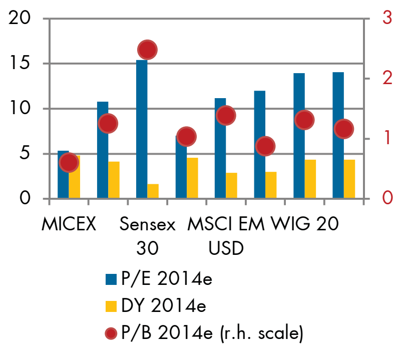
Financial analyst: Aaron Alber, CIIA

Market capitalisation



Source: World Federation of Exchanges, Raiffeisen RESEARCH

Valuation comparison



Source: Bloomberg, Thomson Reuters, Raiffeisen RESEARCH

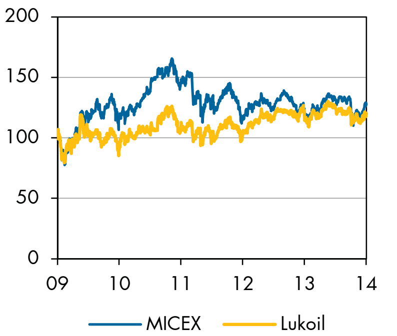
MICEX index sector weightings

Energy	54.81%
Materials	13.34%
Banks	12.50%
Telecommunications	9.19%
Food & Drug Retailing	4.02%
Utilities	3.74%
Diversified Financials	0.69%
Retailing	0.65%
Transportation	0.30%
Consumer Durables	0.28%
Pharma & Biotechnology	0.23%
Capital Goods	0.15%
Automobiles	0.10%

Source: Thomson Reuters, Raiffeisen RESEARCH

Stock picking in Moscow

LUKoil vs MICEX Index



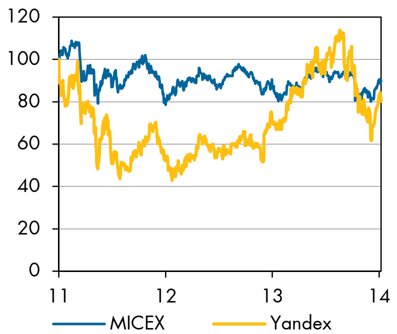
LUKoil 5y high 138.13 5y low 76.03
MICEX 5y high 178.23 5y low 74.15
Source: Thomson Reuters, Raiffeisen RESEARCH

LUKoil (Buy, RUB 2,499)

LUKoil has long-term potential on the back of its promising greenfields, better-than-average refineries in Russia and a high dividend yield, while the stock is still one of the most attractive on multiples. LUKoil has displayed lower volatility among Russian stocks during Ukrainian crisis. But it still trades at a discount to its Russian peers and with a significant gap to its international peers, while it offers one of the highest dividend yields in the sector. We believe that LUKoil´s dividend policy could become a new mid-term trigger for the stock. LUKoil could compensate its shareholders for the RUB depreciation and dividends for 2014 should rise by 15% yoy in USD terms, with a yield of almost 7%. Moreover, for the investors focused on dividend stories it is an attractive opportunity to receive 6.3% (or 10.9% annualized) yield in the next 7 months, thanks to LUKoil´s high interim dividends.

Financial analyst: Andrey Polischuk, Raiffeisenbank ZAO, Moscow, Russia

Yandex vs MICEX Index



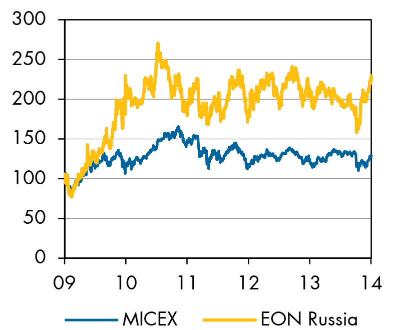
Yandexvs 5y high 133.21 5y low 55.68
MICEX 5y high 105.21 5y low 59.22
Source: Thomson Reuters, Raiffeisen RESEARCH

Yandex (Buy, USD 31)

Yandex's share price suffered a significant pressure resulting from the relatively weak Q1 2014 results and more cautious outlook, amplified by the president Putin's call for more Internet regulation and respective comments on Yandex specifically. This was accompanied by the Russia sovereign rating downgrade and the correction of global tech stocks, multiplying the anxiety towards the stock. We argue that, emotions aside, the proposed measures impose little risk on Yandex's core contextual advertising business, which still enables it to grow by 25-30% pa even despite the economic slowdown. Yandex has a strong balance sheet with cash pile of USD 1.4 bn, around 15% of market cap, buyback programme in place and further potential for cash distribution. Although the share price has already bounced from the drought, we believe that there is more upside potential in the event of the general market recovery, as Yandex belongs to the high-beta Internet sector.

Financial analyst: Sergey Libin, Raiffeisenbank ZAO, Moscow, Russia

E.On Russia vs MICEX Index



E.On Russia 5y high 275.02 5y low 73.66
MICEX 5y high 178.23 5y low 74.15
Source: Thomson Reuters, Raiffeisen RESEARCH

E.On Russia (BUY, TP: RUB 3.11)

E.On Russia is the highest yielding dividend stock on the Russian market among the large- and mid-caps. The board of directors proposed to pay RUB 0.38 per share which translates in a 14% dividend yield. We expect the dividend to drop significantly in 2014e following the deterioration of EBITDA this year. Nonetheless we treat this drop in profit as a run up before the jump as in 2015e the company is expected to post healthy growth in EBITDA and bottom line on the back of the newly-launched CSA-contracted unit at Berezovskaya TPP. The company is free cash flow positive and the fact that the management does not see interesting opportunities in Russia apart from small scale distributed generation projects makes us believe that there is high probability that E.On Russia is likely to continue sharing these cash flows with minority shareholders.

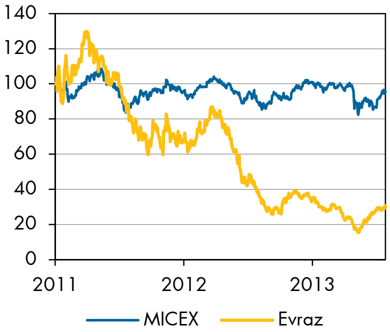
Financial analyst: Fedor Kornachev, Raiffeisenbank ZAO, Moscow, Russia

Evraz (Buy, GBP 116.0)

In FY 14e Evraz is well-positioned to demonstrate improvements in its financial performance, which should be due to several reasons. A) We expect Evraz to increase production of high-quality rails after the modernization of Novokuznetsk rail mill was completed. The company already announced its targets to increase sales of rails not only in Russia but also on the export markets in CIS and EU. B) Focus on cost saving measures (introduction of the PCI technology at its core steel-making operations) should help Evraz to realize better margins. At its Investor Day which will take place on June 11 Evraz should make first announcements related to positive achievements on the operational cost side. C) Potential sale of Evraz Highveld Steel and Vanadium, which should be completed in 2014 and solid operations in the USA should help to improve profitability. Evraz's current cheap valuation on FY 14e EV/EBITDA multiple makes the company attractive on the current levels.

Financial analyst: Irina Trygub-Kainz, Raiffeisenbank Centrobank, Vienna

Evraz vs MICEX Index



Evraz	*5y high*	*134.1*	*5y low*	*15.71*
MICEX	*5y high*	*118.51*	*5y low*	*68.28*

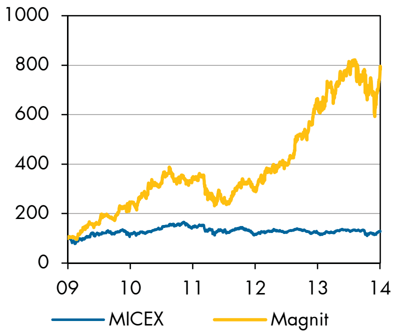
Source: Thomson Reuters, Raiffeisen RESEARCH

Magnit (Buy, RUB 10,034)

We like Magnit's common shares, which we see as more attractive for investors than the GDRs. Despite the rapid rebound from 12 months low level reached in late-April, explained by the sell-off of the Russian equities on ongoing Ukraine political tensions, we still see an attractive upside potential for the stock. The 13% discount in the price of Magnit's local shares to its GDRs implies an opportunity to play on the narrowing of this discount. Aside from the technical factors, we confirm our positive view on Magnit for fundamental reasons. Russian food retail market demonstrates relatively low market concentration ratio and still provides attractive growth opportunities. We like the retailer's aggressive organic growth strategy, which should enable it to double the selling space, adding up to 3 mn sqm by 2018. Meanwhile, starting from 2014 we expect Magnit to generate enough operating cash flow to cover its capex program (in FY14e Magnit plans to invest USD 1.7-1.8 bn), which implies that the retailer's Net Debt/EBITDA ratio will remain below 1x, indicating financial stability of the company.

Financial analyst: Natalya Kolupaeva, Raiffeisenbank ZAO, Moscow, Russia

Magnit vs MICEX Index



Magnit	*5y high*	*793.34*	*5y low*	*94.62*
MICEX	*5y high*	*178.23*	*5y low*	*74.15*

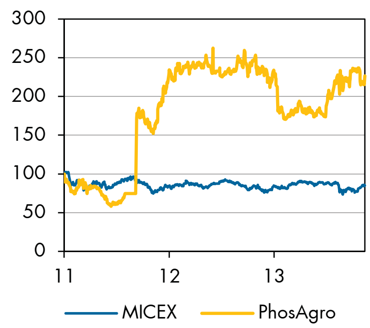
Source: Thomson Reuters, Raiffeisen RESEARCH

PhosAgro (Buy, TP: U.R.)

We stick to our Buy call on PhosAgro as it is the best pick to enter fertilizer story, which grounds on cogent fundamentals, i.e. population growth, reduction of arable land per capita and increase of human wealth in EM and related changes in diet preferences. The company has flexible production lines that enable it to switch from one product to another at short notice to mitigate seasonality and constantly seek for the best available price netbacks. Even in tough times for phosphate market, when Chinese flooded global arena with large quantities of DAP, while the biggest importer India suffered from rupee weakness and reduction of state subsidy for farmers, PhosAgro was able to operate at 100% capacity utilization, while the industry average was below 70%. Recently the company reported upbeat 1Q 2014 financials driven by sales growth, massive price recovery and RUB devaluation, which support our view on the name. We also highlight that PhosAgro is cheap on multiples with 5.3x EV/EBITDA 2014e vs. average industry of 10.0x.

Financial analyst: Konstantin Yuminov, Raiffeisenbank ZAO, Moscow, Russia

PhosAgro vs MICEX Index



PhosAgro	*5y high*	*271.92*	*5y low*	*63.26*
MICEX	*5y high*	*100.00*	*5y low*	*55.97*

Source: Thomson Reuters, Raiffeisen RESEARCH

Real GDP (% yoy)

Countries	2012	2013	2014e	*Consensus*	2015f	*Consensus*
Poland	1.9	1.6	3.3	*3.1*	3.3	*3.5*
Hungary	-1.7	1.1	2.7	*2.5*	2.5	*2.2*
Czech Rep.	-0.9	-0.9	2.6	*2.1*	2.4	*2.6*
Slovakia	1.8	0.9	2.7	*2.3*	3.0	*3.0*
Slovenia	-2.5	-1.1	1.0	*-0.2*	1.0	*0.9*
CE	**0.6**	**0.8**	**2.9**	*2.6*	**2.9**	*3.0*
Croatia	-2.2	-0.9	-0.8	*-0.3*	1.0	*0.9*
Bulgaria	0.6	0.9	2.0	*1.7*	3.5	*2.5*
Romania	0.6	3.5	3.5	*3.0*	3.5	*3.4*
Serbia	-1.5	2.5	0.0	*1.1*	2.0	*2.4*
Bosnia a. H.	-1.1	1.9	0.0	*1.7*	3.5	*3.0*
Albania	1.6	0.4	2.0	*1.8*	3.0	*2.6*
Kosovo	2.5	3.0	3.0	n.a.	4.0	n.a.
SEE	**-0.1**	**2.2**	**2.0**	*2.0*	**2.9**	*2.7*
Russia	3.4	1.3	-0.3	*0.3*	1.0	*1.7*
Ukraine	0.2	0.0	-7.0	*-4.2*	1.5	*1.6*
Belarus	1.7	0.9	0.5	*1.3*	1.5	*2.5*
CIS	**3.1**	**1.2**	**-0.8**	*0.0*	**1.1**	*1.7*
CEE	**2.1**	**1.2**	**0.5**	*0.9*	**1.7**	*2.2*
Turkey	2.1	4.1	3.5	*2.4*	4.0	*3.7*
Austria	0.9	0.3	1.3	*1.4*	2.1	*1.8*
Germany	0.9	0.5	1.8	2.0	2.5	2.0
Euro area	**-0.6**	**-0.4**	**1.2**	*1.1*	**2.0**	*1.5*

Source: Thomson Reuters, Bloomberg, Consensus Economics, Bloomberg, Raiffeisen RESEARCH

Consumer prices (avg, % yoy)

Countries	2012	2013	2014e	2015f
Poland	3.7	0.9	0.4	2.3
Hungary	5.7	1.7	0.7	3.0
Czech Rep.	3.3	1.4	0.8	2.2
Slovakia	3.6	1.4	0.1	1.4
Slovenia	2.6	1.8	1.8	2.0
CE	**3.8**	**1.2**	**0.6**	**2.3**
Croatia	3.4	2.2	0.6	2.0
Bulgaria	3.0	0.9	1.1	3.5
Romania	3.3	4.0	1.9	3.0
Serbia	7.8	7.8	5.5	5.5
Bosnia a. H.	2.1	-0.1	-0.3	2.5
Albania	2.0	1.9	2.3	2.5
Kosovo	2.5	1.8	1.0	2.5
SEE	**3.7**	**3.4**	**1.9**	**3.2**
Russia	5.1	6.8	6.7	5.3
Ukraine	0.6	-0.2	11.3	9.0
Belarus	59.2	18.3	21.0	20.0
CIS	**6.4**	**6.6**	**7.5**	**6.0**
CEE	**5.4**	**4.9**	**5.1**	**4.7**
Turkey	8.9	7.5	8.5	7.4
Austria	2.6	2.1	1.5	1.8
Germany	2.1	1.6	1.0	2.0
Euro area	**2.5**	**1.4**	**0.8**	**1.3**

Source: Thomson Reuters, Raiffeisen RESEARCH

Current account balance (% of GDP)

Countries	2012	2013	2014e	2015f
Poland	-3.5	-1.3	-1.1	-2.1
Hungary	1.8	3.0	3.4	3.5
Czech Rep.	-1.3	-1.4	0.4	0.3
Slovakia	2.2	2.2	1.7	1.4
Slovenia	3.3	6.5	6.4	5.0
CE	**-1.5**	**0.0**	**0.4**	**-0.3**
Croatia	-0.1	1.3	1.2	0.7
Bulgaria	-0.8	1.9	0.7	-0.5
Romania	-4.4	-1.1	-2.0	-2.5
Serbia	-10.7	-4.9	-5.3	-6.2
Bosnia a. H.	-9.8	-5.9	-8.1	-11.1
Albania	-9.3	-10.4	-10.3	-11.0
Kosovo	-8.0	-7.0	-7.7	-7.8
SEE	**-4.4**	**-1.4**	**-2.2**	**-2.9**
Russia	3.6	1.6	2.3	2.0
Ukraine	-8.5	-9.1	-3.0	-3.1
Belarus	-2.9	-10.2	-5.5	-6.1
CIS	**2.5**	**0.4**	**1.7**	**1.4**
CEE	**0.7**	**0.1**	**0.9**	**0.4**
Turkey	-6.2	-7.8	-6.3	-6.0
Austria	2.4	2.7	2.5	2.3
Germany	7.4	7.5	7.0	6.5
Euro area	**1.3**	**2.3**	**1.9**	**1.5**

Source: Thomson Reuters, Raiffeisen RESEARCH

General budget balance (% of GDP)

Countries	2012	2013	2014e	2015f
Poland	-3.9	-4.3	-3.3	-2.9
Hungary	-1.9	-2.3	-2.8	-2.9
Czech Rep.	-4.2	-1.5	-1.5	-2.5
Slovakia	-4.4	-2.8	-2.6	-2.5
Slovenia	-3.8	-7.0	-5.0	-4.0
CE	**-3.7**	**-3.4**	**-2.9**	**-2.8**
Croatia	-5.0	-4.9	-4.8	-4.5
Bulgaria	-0.4	-1.9	-1.8	-1.3
Romania	-3.0	-2.3	-2.5	-2.3
Serbia	-6.4	-4.8	-7.2	-6.3
Bosnia a. H.	-2.0	-1.5	-1.5	-1.8
Albania	-3.4	-6.0	-6.6	-4.5
Kosovo	-2.7	-2.7	-2.0	-2.0
SEE	**-3.3**	**-3.0**	**-3.4**	**-3.0**
Russia	0.4	-1.0	-0.5	-0.4
Ukraine	-5.5	-6.5	-7.0	-4.5
Belarus	0.5	0.2	0.0	0.0
CIS	**0.0**	**-1.4**	**-1.0**	**-0.7**
CEE	**-1.4**	**-2.1**	**-1.7**	**-1.5**
Turkey	-2.4	-2.2	-2.5	-2.5
Austria	-2.6	-1.5	-2.6	-0.9
Germany	0.1	0.0	0.0	0.0
Euro area	**-3.7**	**-3.0**	**-2.6**	**-2.5**

Source: Thomson Reuters, Raiffeisen RESEARCH

Public debt (% of GDP)

Countries	2012	2013	2014e	2015f
Poland	55.6	57.0	50.7	50.4
Hungary	80.2	79.2	81.5	81.0
Czech Rep.	46.2	46.0	45.7	46.5
Slovakia	52.2	55.4	55.2	56.2
Slovenia	54.0	73.0	75.0	75.0
CE	**56.5**	**58.3**	**55.3**	**55.4**
Croatia	56.2	67.4	70.8	73.2
Bulgaria	18.5	19.0	22.0	20.0
Romania	38.0	38.4	38.5	38.2
Serbia	59.9	61.0	67.1	69.3
Bosnia a. H.	39.7	41.5	42.5	41.5
Albania	61.5	68.0	72.0	70.0
Kosovo	18.0	20.0	22.0	22.0
SEE	**41.1**	**43.5**	**45.4**	**45.4**
Russia	10.5	11.3	11.5	12.0
Ukraine	36.8	40.3	54.0	54.5
Belarus	31.3	32.5	34.4	36.0
CIS	**13.1**	**14.1**	**15.4**	**15.9**
CEE	**27.5**	**28.9**	**29.1**	**29.4**
Turkey	39.7	39.4	0.0	0.0
Austria	74.4	74.5	79.4	77.3
Germany	81.0	78.4	77.3	74.5
Euro area	**90.7**	**92.6**	**93.6**	**93.2**

Source: Thomson Reuters, Raiffeisen RESEARCH

Gross foreign debt (% of GDP)

Countries	2012	2013	2014e	2015f
Poland	72.7	70.8	69.2	68.0
Hungary	131.1	123.5	118.2	112.6
Czech Rep.	50.9	54.2	55.6	53.9
Slovakia	71.5	82.7	84.6	86.7
Slovenia	115.6	113.3	114.0	115.3
CE	**77.7**	**77.6**	**76.5**	**74.8**
Croatia	103.1	105.8	106.6	104.2
Bulgaria	94.3	93.5	89.1	82.4
Romania	75.7	67.5	62.8	61.3
Serbia	86.9	78.9	79.6	78.7
Bosnia a. H.	63.3	62.2	63.5	62.5
Albania	25.8	28.2	28.9	30.8
Kosovo	14.8	14.4	13.9	13.4
SEE	**80.6**	**75.7**	**72.7**	**70.4**
Russia	31.4	34.1	39.0	39.3
Ukraine	74.4	78.9	106.8	98.0
Belarus	51.9	52.7	56.1	54.0
CIS	**35.4**	**38.1**	**43.8**	**43.7**
CEE	**51.3**	**52.4**	**56.2**	**55.5**
Turkey	42.0	45.0	52.5	48.4
Austria	n.v.	n.v.	n.v.	n.v.
Germany	n.v.	n.v.	n.v.	n.v.
Euro area	**n.v.**	**n.v.**	**n.v.**	**n.v.**

Source: Thomson Reuters, Raiffeisen RESEARCH

Exchange rate EUR/LCY (avg)

Countries	2012	2013	2014e	2015f
Poland	4.18	4.20	4.16	4.04
Hungary	289	297	308	319
Czech Rep.	25.1	26.0	27.3	27.1
Slovakia	euro	euro	euro	euro
Slovenia	euro	euro	euro	euro
Croatia	7.52	7.58	7.63	7.65
Bulgaria	1.96	1.96	1.96	1.96
Romania	4.46	4.42	4.45	4.44
Serbia	113	113	116	119
Bosnia a. H.	1.96	1.96	1.96	1.96
Albania	139	140	140	140
Kosovo	euro	euro	euro	euro
Russia	39.9	42.3	47.7	48.6
Ukraine	10.4	10.8	14.7	14.8
Belarus	10,748	11,828	14,107	15,899
Turkey	2.31	2.53	2.85	2.70
Austria	euro	euro	euro	euro
Germany	euro	euro	euro	euro
USA	**1.29**	**1.33**	**1.34**	**1.29**

Source: Thomson Reuters, Raiffeisen RESEARCH

Ratings[1]

Countries	S&P	Moody's	Fitch
Poland	A-	A2	A-
Hungary	BB	Ba1	BB+
Czech Rep.	AA-	A1	A+
Slovakia	A	A2	A+
Slovenia	A-	Ba1	BBB+
Croatia	BB	Ba1	BB+
Bulgaria	BBB-	Baa2	BBB-
Romania	BBB-	Baa3	BBB-
Serbia	BB-	B1	B+
Bosnia a. H.	B	B3	not rated
Albania	B	B1	not rated
Kosovo	not rated	not rated	not rated
Russia	BBB-	Baa1	BBB
Ukraine	CCC	Caa3	CCC
Belarus	B-	B3	not rated
Turkey	BB+	Baa3	BBB-
Austria	AA+	Aaa	AAA
Germany	AAA	Aaa	AAA

[1] for FCY, long-term debt
Source: Bloomberg, Raiffeisen RESEARCH

Please note the risk notifications and explanations at the end of this document

Risk notifications and explanations

Warnings

- Figures on performance refer to the past. Past performance is not a reliable indicator of the future results and development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for the future results and development of a financial instrument, a financial index or a securities service.

A description of the concepts and methods which are used in the preparation of financial analyses can be found at: www.raiffeisenresearch.at/conceptsandmethods

Detailed information on sensitivity analyses (procedure for checking the stability of the assumptions made in this document) can be found at: www.raiffeisenresearch.at/sensitivityanalysis

NLMK

5y high: USD 51 (04/01/2011)
5y low: USD 10.75 (14/03/2014)
Start of Coverage: 21/12/2009

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
23.05.2014	Buy	17.20	14.00	22.9%
05.03.2014	Hold	14.90	12.74	17.0%
31.01.2014	Buy	18.10	14.75	22.7%
23.10.2013	Hold	18.10	18.10	0.0%
25.07.2013	Hold	17.04	15.06	13.1%
23.05.2013	Hold	17.40	15.80	10.1%
27.03.2013	Hold	17.84	15.56	14.7%
21.02.2013	Hold	23.70	19.96	18.7%
27.11.2012	Hold	22.48	20.01	12.3%
25.06.2012	Hold	19.24	16.45	17.0%

Source: Raiffeisen Centrobank, rounding differences may occur

PhosAgro

5y high: USD 14.77 (08/04/2013)
5y low: USD 8.1 (05/01/2012)
Start of Coverage: 11/10/2011

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
02.04.2013	Buy	18.20	14.10	29.1%
23.11.2012	Buy	18.45	14.05	31.3%

Source: Raiffeisen Centrobank, rounding differences may occur

Severstal

5y high: USD 20.17 (06/04/2011),
5y low: USD 4.25 (13/07/2009)
Start of Coverage: 16/06/2010

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
12.05.2014	Buy	9.70	7.95	22.1%
17.03.2014	Buy	8.80	6.14	43.4%
12.02.2014	Buy	10.30	8.42	22.3%
31.01.2014	Buy	10.30	8.31	23.9%
16.05.2013	Buy	10.30	8.34	23.6%
13.03.2013	Hold	12.60	10.82	16.5%
21.02.2013	Hold	14.30	12.00	19.2%
06.09.2012	Buy	14.20	11.42	24.3%

Source: Raiffeisen Centrobank, rounding differences may occur

LUKoil

5y high: RUB 2136 (15/10/2013)
5y low: RUB 1304.99 (10/07/2009)
Start of Coverage: 01/02/2002

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
16.05.2014	Buy	2,499.00	1,890.00	32.2%
13.03.2013	Buy	2,555.00	2,014.90	26.8%
02.07.2012	Hold	1,870.00	1,801.70	3.8%

Source: Raiffeisen Centrobank, rounding differences may occur

Novatek

5y high: RUB 420 (26/02/2014)
5y low: RUB 114.9 (27/08/2009)
Start of Coverage: 16/10/2012

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
24.03.2014	Buy	499.00	328.00	52.1%
11.12.2013	Buy	493.00	410.75	20.0%
13.03.2013	Buy	446.00	308.05	44.8%
16.10.2012	Buy	443.00	352.01	25.8%

Source: Raiffeisen Centrobank, rounding differences may occur

Tatneft

5y high: RUB 225.62 (20/09/2013)
5y low: RUB 96.3 (10/07/2009)
Start of Coverage: 20/07/2007

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
27.03.2014	Buy	237.00	195.79	21.0%
13.03.2013	Reduce	198.00	215.50	-8.1%
02.07.2012	Hold	183.00	180.20	1.6%

Source: Raiffeisen Centrobank, rounding differences may occur

MegaFon

5y high: USD 38.5 (22/10/2013)
5y low: USD 19.6 (28/11/2012)
Start of Coverage: 07/02/2013

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
17.03.2014	Buy	31.00	24.77	25.2%
27.02.2014	Hold	31.30	29.72	5.3%
17.07.2013	Reduce	31.00	34.34	-9.7%
07.02.2013	Hold	29.00	28.00	3.6%

Source: Raiffeisen Centrobank, rounding differences may occur

Rostelecom

5y high: RUB 217.36 (17/06/2011)
5y low: RUB 73.61 (25/04/2014)
Start of Coverage: 23/01/2012

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
25.03.2014	Buy	118.60	82.25	44.2%
17.03.2014	Buy	116.00	78.00	48.7%
17.07.2013	Hold	121.20	113.23	7.0%
25.03.2013	Buy	146.80	120.25	22.1%
23.10.2012	Hold	140.00	134.25	4.3%
25.07.2012	Buy	142.70	112.96	26.3%

Source: Raiffeisen Centrobank, rounding differences may occur

E.On Russia

5y high: RUB 3.305 (06/12/2010)
5y low: RUB 0.94 (10/07/2009)
Start of Coverage: 02/07/2012

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
19.05.2014	Buy	3.11	2.57	21.2%
28.10.2013	Buy	3.34	2.49	34.0%
10.04.2013	Buy	3.54	2.44	45.1%
12.02.2013	Buy	4.18	2.92	43.2%
02.07.2012	Buy	3.11	2.35	32.3%

Source: Raiffeisen Centrobank, rounding differences may occur

Yandex

5y high: USD 44.22 (09/01/2014)
5y low: USD 16.66 (14/06/2012)
Start of Coverage: 07/10/2013

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
30.04.2014	Buy	31.00	25.59	21.1%
17.03.2014	Buy	38.60	30.39	27.0%
17.02.2014	Hold	40.70	40.29	1.0%
07.10.2013	Hold	40.00	38.35	4.3%

Source: Raiffeisen Centrobank, rounding differences may occur

MICEX

5y high: 1865.25 (06/04/2011)
5y low: 852.41 (13/07/2009)

Coverage universe recommendation overview

Empty	buy	hold	reduce	sell	suspended	UR
Universe	51	57	10	5	12	5
Universe %	36%	41%	7%	4%	9%	4%
Investment banking services	11	12	1	0	3	2
Investment banking services %	38%	41%	3%	0%	10%	7%

Source: Raiffeisen Centrobank, rounding differences may occur

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