ALFA·BANK

Insight and Upside: Monthly #59

August: So Far, So Good

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Theme: Wireline Telecoms: Downgrades on Efficiency Ceilings

- Momentum in the equity market remains strong and the mood amongst investors is positive. Given the lack of any news flow in August (good or bad), it is reasonable to assume that we will see the RTS push higher and probably beyond the fair value level of 815 on the RTS that we calculated in early May. Although the current level of the Index is just below that fair value level, several stocks – many of which are not constituents of the RTS Index – offer considerably better upside. The full list is available in the table on pages 17-19 of this report, and we particularly continue to highlight Gazprom locals, the major oils, some of the regional telecoms (depending on Svyazinvest progress) and the mobile telecom shares. With the exception of LUKoil, all of these stocks lagged the RTS performance over the first half of this year but should take the lead over the final months.
- While confident that equities will push higher towards the fair value level over the short-term, there is no reason for us to review that level higher. The reason for moving it higher last May was because of the broader earnings and macroeconomic effects of higher oil plus a reduced risk premium as Putin moved to make peace with big business and the YUKOS case lost its negative impact. Continuing high oil revenues and, for example, the recent sovereign rating upgrade by Fitch do allow us the opportunity to "tweak" the fair value higher, but to justify a major increase we would need to see much greater clarity on the economic case for growth, i.e. a realistic and reasonable reform agenda. That is not likely over the medium term, and hence we do not see any reasonable opportunity to substantially raise the equity fair value beyond 815. We therefore recommend that investors concentrate on buying shares with the greatest upside or which have a strong earnings rationale to expect some fair value upgrade in the future, *e.g.*, Sberbank.

Portfolio Selections*

VimpelCom	35% upside to fair value. Like MTS, the share lagged badly over the first half but looks set for a better run in 2H05 as investors seek value and growth.
Severstal	30% upside to DCF-based fair value. Has under-performed the RTS year-to-date on metals pricing concerns and a lack of clarity on expansion strategy. Better performance expected in 2H05.
Norilsk Nickel	23% upside to fair value. As global growth concerns ease, investors are globally returning to metals stocks.
Uralsvyazinform	22% upside to fair value. Shares in the regional telecom sector have under-performed due to uncertainty on the Svyazinvest sale. That should be resolved over the next few months, which would be enough to allow these shares to recover.
Gazprom (local)	15% upside. The share lagged the RTS over the first half, but as expected the combination of optimism over an imminent agreement on the Shtokman field and the timetable for ring-fence removal is encouraging investors to increase weightings.
Sistema	13% upside to fair value. Significant exposure to MTS but with greater diversification. Should benefit from both MTS recovery and other growing business areas.

*Note: * based on a 3-6 month time horizon; based on close of August 5*

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Strategy

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Blue-chip stock performances

July was one of the strongest months for equities in recent years

July was one of the strongest months on the Russian equity market in recent memory, with the RTS Index gaining 10.2% and MICEX up 10.5% on the June 30 close. As we mentioned in our May and June monthly reports, the market seemed poised for a rare summer rally after the traditional spring rise was delayed by negative sentiment stemming from the interminable reading of the verdict in the Khodorkovsky-Lebedev trial. But once investors moved on, several factors combined to create powerful forward momentum that pushed the main indices to new all-time highs as of this publication (810.0 on the RTS and 718.5 on MICEX). Shaking things up a bit was the recalculation of the RTS Index, which gave significant boosts to stocks like Sberbank and Norilsk Nickel while reducing the relative impact of previous heavyweights LUKoil and Surgutneftegaz. Now, no stock of the 50 comprising the Index may have a weighting of more than 15%.

Figure 1. Top Blue-chip Stock Performances in July

Severstal	CHMF	+17.2%
VSMPO	VSMO	+14.6%
Sberbank	SBER	+14.4%
Norilsk Nickel	GMKN	+13.9%
Tatneft	TATN	+12.4%
LUKoil	LKOH	+12.2%
Volga Telecom	NNSI	+12.1%
Novolipetsk	NLMK	+10.8%
Mosenergo	MSNG	+10.4%
Surgutneftegaz	SNGS	+8.9%
Far East Telecom	ESPK	+8.0%
Center Telecom	ESMO	+7.6%
NW Telecom	SPTL	+6.7%
YUKOS	YUKO	+5.4%
Nizhny Tagil	NTMK	+5.0%
Rostelecom	RTKM	+4.5%
UES	EESR	+4.1%
Siberia Telecom	ENCO	+2.6%
Uralsvyazinform	URSI	+1.5%
Sibneft	SIBN	-5.3%

Source: RTS

Combination of positive factors pushed stocks steadily forward

One of the main factors underpinning bullish sentiment was the strong oil price, which currently sits at a nominal all-time high above $62 p/bbl on NYMEX. Another was the underweight position of many international fund managers in the MSCI Index, which led to significant buying of blue chips such as LUKoil (+12.2%) and Surgutneftegaz (+8.9%). Sberbank (+14.4%) was also a locomotive for the main indices on anticipation of a sovereign ratings upgrade and a general hunger for exposure to the financial sector (for further details on banking sector stock performances, see section on page 48). The final reason that allowed the local bourses to push ahead with hardly a pause for breath was the favorable situation on global equity markets. For example, both the NASDAQ and S&P 500 reached four-year highs on a strong earnings season amidst muted inflation, while in emerging markets Mexico attained a new historical high.

Figure 2. RTS Futures Performance in July

LUKoil-9.05	+12.7%
LUKoil-9.05	+11.9%
Norilsk Nickel-9.05	+11.8%
Gazprom-9.05	+9.5%
Surgutneftegaz-9.05	+8.5%
UES-3.06	+7.7%
SNGS-12.05	+5.6%

Source: RTS

Looking ahead

When rally in emerging markets ends, so to will the rally in Russian equities

The cheaper Russian asset base has allowed the RTS to out-perform the rising emerging market tide. When that rally in global emerging markets ends, then so too will the rally in local equities. Perversely, the ever-increasing price of oil, which continues to transform Russia's fiscal health, could also be the catalyst that cracks investor confidence in emerging economies. The escalating war of words between the US and both North Korea and Iran will keep the oil price rising and act as a break on optimism in equity markets.

We could very well see our fair value of 815 breached,…

The local feel-good factor plus continuing high liquidity inflows into global emerging market funds (almost across the board) and a benign backdrop in major equity markets has allowed the RTS to push close to our fair value level of 815 and, barring any surprises, we could well see that level breached over the next few days/weeks. The continuing high oil price (especially if the government indeed follows through with its promise to reduce the tax burden in the oil sector) combined with a lower yield on the benchmark sovereign Eurobond allows us the opportunity to "tweak" that fair value higher – perhaps to the 840-850 level. Beyond that, we do not see any justification for a higher level.

…but there are several reasons for caution

The reason for that cautious view is that there is little reason for optimism on earnings growth beyond our current assumptions, based on 1) continued government indecision on major economic and industrial issues, 2) a general lack of initiatives to push growth, and 3) little progress towards the promised reforms. Given the clear political nature of economic management in Russia, it is not very likely that we will see any major reform initiatives ahead of the 2007-08 election season.

Events, not valuations, are most liable to stop this rally

Fair value or premium valuations will not stop this rally. Instead, we should look for some specific events. The most likely reason will be a slowing of liquidity inflows into emerging market funds as the cheap assets argument runs its course. The valuation gap with mature economies is already sharply lower than in the spring because of the out-performance of GEMs since then. The continuing high oil price, while strongly positive for Russia, is again building up to be a major negative for emerging market economies. If it goes much higher, then this could be the cause of a crack in confidence that reverses liquidity flows. Russia now has a Beta of between 0.9 and 1.1 relative to GEM, so if emerging markets start to under-perform, then so too will Russia – irrespective of high oil benefits.

Avian flu problem deserves close watching

On the domestic front investors should be watching the growing avian flu problem. Hopefully that will be contained, but if not then we should be mindful of the damage to business and investor confidence that dragged China and some South Asian equity markets sharply lower two years ago. Let's hope that this is not Russia's August disaster.

Stocks in mature market economies, in contrast, continue to drift in the seasonal summer dog days with, e.g. US investors torn between the positive earnings impact of last week's strong payrolls growth and the inflationary effect of that growth. Earlier optimism that the US Fed (which meets again this week) might pause in its policy of raising interest rates by the now customary 25 bpts (the tenth such hike since June 2004) is now gone. But at least that does suggest a backdrop of benign international markets over the remainder of the summer. An escalation of tension with North Korea and/or Iran is a possible negative event that cannot be discounted.

Second-tier oils theme still strong

Second-tier oils continue to push ahead strongly driven by a combination of industry consolidation and an end to transfer pricing that is now strongly boosting the profitability of downstream and smaller oil operators. This boost to the bottom line has been the main driver of the preferred shares in these stocks. Year to date, for example, Saratovneftegaz prefs are ahead 185%, Ufaneftekhim prefs are up 165%, Udmurtneft prefs are up 140% and the prefs of Megionneftegaz are up 120%.

This sector, for reasons of industry consolidation, was one of our "theme" portfolio recommendations for 2005, and despite the strong performance year-to-date the boost to valuations from the ending of transfer pricing suggests that this theme is not spent just yet.

Bottom line? Enjoy the ride but start looking for an exit point

Bottom line on the RTS? Enjoy the ride but start looking for an exit point beyond 815, especially in stocks that are trading at a premium to their DCF-based fair values. Others, especially those stocks that have under-performed the year-to-date rally and which still offer good upside to fair value, are the safer way to play the approaching top of this rally. Check the table in the new, expanded of our *Morning Brief* to be unveiled tomorrow morning.

We still highlight many of our top portfolio picks from July

In terms of **portfolio recommendations**, we continue to highlight several names from last month's report, including a couple that have under-performed year-to-date and seem poised to play catch-up. **Severstal**, our top pick from July (and up 17.2% last month, see Figure 1) remains our favorite stock on an improved outlook for metals prices in the second half of the year. **Gazprom locals** continue to justify our optimism (+19.3% since June 30) on a combination of progress in development of the Shtokman field and further moves leading to eventual removal of the ring-fence. Meantime, we still see **VimpelCom** as a prime candidate for out-performance following the traditionally strong 'dacha' season. Our inclusion of **Sistema** is an adjunct to expected recovery in the share price performance of the other mobile stock **MTS**. Another newcomer to our recommended list is **Uralsvyazinform** as a sector catch-up play in response to positive news flow on the Svyazinvest privatization front. And as global growth concerns ease, investors are globally returning to metals stocks, leading us to add **Norilsk Nickel** to our list.

For upsides to fair value as well as further details, see the front page for a list of our main portfolio recommendations.

Small and mid-cap stock performances

Small and mid-cap stocks up 7.6% in July vs. 10.2% among the most liquid names

Although the trading headlines in July were grabbed by blue chips like LUKoil and Sberbank, the small and mid-cap stocks also had quite an impressive month, with the RTS-2 Index up 7.6% vs. 10.2% among the most liquid names. The overall market continued to broaden as investors, flush with liquidity and encouraged by the latest macroeconomic indicators, hunted for bargains in a wide range of sectors with a common theme centering on domestic consumption. Selected stocks racked up big gains: In total, 21 second-tier stocks jumped by more than 25% from the end of June (see Figure 3 on the following page).

Figure 3. Top Twenty Second-tier Performers in July, RTS

Stock	RTS Ticker	Percentage gain in July, m-o-m
Silvinit	SILV	86.7
GAZ	GAZA	64.2
Ufaneftekhim pref	UFNCP	60.3
Ufaorgsintez pref	UFOSP	57.1
Ufaneftekhim	UFNC	56.6
Ryazanenergo	RZEN	47.4
Kolenergo pref	KOLEP	46.6
Pervoualsky Pipe	PNTZ	46.0
Chelyabinsk Pipe	CHEP	43.3
Kazan City Telephone	KGTS	38.9
Sberbank pref	SBERP	38.4
Ufaorgsintez	UFOS	35.2
Tatneft pref	TATNP	34.2
Vysokogorsky GOK	VGOK	30.4
United Heavy Machinery	OMZZ	30.1
Purneftegaz pref	PFGSP	29.8
Uralkaly	URKA	29.7
Nizhnekamsk Tire	NKSH	29.5
Novatek	NVTK	28.1
Red October	KROT	26.7
Purneftegaz	PFGS	25.4

Source: RTS

Lower-tier performances were even more remarkable, with 22 stocks recording greater than 30% gains m-o-m on the RTS Board (see Figure 4).

Figure 4. Top Lower-tier Stocks in July, RTS

Stock	RTS Ticker	Percentage gain in July, m-o-m
Stepan Razin Brewery	praz	309.2
Promstroibank St. Petersburg	pcbs	143.8
Novoroscement	nvrcp	135.6
Apatit pref	apatp	90.0
Apatit	apat	72.4
Avtodiesel	avdz	61.8
Novomoskovsk Azot	nmaz	59.5
Avtodiesel pref	avdzp	54.7
Sovincenter	sovi	52.6
Priargunskoe Enterprise	pgho	50.0
Komsomolsk Refinery pref	knprp	46.0
Kolomensky Factory	klmz	42.9
Ufa Refinery pref	unpzp	41.6
Kazanorgsintez pref	kzosp	40.7
Gaisky GOK	ggok	40.5
Perm Aviation	inka	38.3
Perm Azot	azop	38.2
Dorogobuzh pref	dgbzp	36.7
Ammophos	ammo	36.1
Altai Coal	akks	35.7
Ufa Refinery	unpz	34.2
BKMPO	bmpo	33.3
Dorogobuzh	dgbz	30.6

Source: RTS

As can be seen in the tables above, investors continued to put their money into **refining** and **fertilizers**, while interest revived in **banking, autos, engineering, nuclear** and **pipes**. This was mirrored in the top less-liquid performances in the final week of the month (see Figure 5 on the following page).

Figure 5. Top Ten Less-liquid Performers, July 25-29

Stock	Ticker	% gain July 25-29
Bank Vozrozhdenie pref	vzrzp	70.3
Ostankinsky Milk Factory	osmk	42.9
Chelyabinsk Pipe	CHEP	36.9
Avtodiesel pref	avdzp	27.3
Morion	mori	25.0
GAZ	GAZA	22.5
Uralkaly	URKA	19.4
Priargunskoe Enterprise	pgho	18.6
UralSib Bank	USBN	18.6
Nevinnomisky Azot	neaz	16.7

Source: RTS

Energos and regional telecoms under-performed, but the latter is already catching up

Indeed, the only sectors that missed out on the July rally were electricity and regional telecoms – and even then the latter got a major boost in early August from positive news flow on the Svyazinvest privatization front. We think that investors will continue to take a closer look at these under-performers in the coming months.

We anticipate continued interest in shipping, downstream oil, nuclear and pulp & paper

Meanwhile, we anticipate interest in consumer-oriented names to continue in response to rising personal income and corporate investment as the flood of petro-dollars filters down into the economy. A number of companies have yet to report second quarter results, which is required by the RTS by August 15. We thus will be on the lookout for financial results of companies in segments such as **shipping, downstream oil** (including **retail** on high gasoline and product prices as well as a play on acquisitions and vertically-integrated consolidation). We also anticipate continued buying in the **nuclear sector** (on high uranium prices and cooperation with Iran, India and China in the building and maintenance of reactors), and may see some interest developing in **pulp & paper** as the Duma is set to consider the draft Forestry Law in second reading in September.

Greatest momentum is currently with regional banks driven by Sberbank and VTB's plans for IPO

However, the greatest momentum is clearly with the regional banks as the search continues for exposure to the financial sector – driven of late by Vneshtorgbank and the CBR's encouragement of smaller institutions to prepare for IPOs. While urging a degree of caution, we particularly like **Promstroibank St. Petersburg** and **Bank of Moscow**, the reasons for which are highlighted in our upcoming banking sector report.

Second-tier momentum remains strong, with focus on transition stocks like TNK, Severstal and Novatek

In short, the less-liquid sector is riding a powerful wave of momentum that seems set to continue on into the autumn. The big prize for investors comes with identifying those stocks that seem most likely to make the transition from small and mid-cap into the upper-tier category, such as **TNK**, **Severstal** and **Novatek** are well on the way to accomplishing.

Theme: Wireline Telecoms: Downgrades on Efficiency Ceilings

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- We downgraded our target prices by 3-9% for UralSI, Siberia Telecom and NW Telecom to $0.045, $0.067 and $0.65. The recent telecom rally pushed these stocks to HOLD, HOLD and SELL, respectively. We raised Far East Telecom's target price to $1.70 (+28%), though the stock is still trading in HOLD territory.
- Financial assumptions were downgraded based on (i) low mobile ARPU, limited fixed-line revenue growth and a low targeted EV/line, as well as (ii) low population density, which limits the ability of PRTs to reach the CEE EBITDA margin level of 40-45% due to a 'naturally inefficient' cost structure. Far East Telecom's upgrade was mainly due to risk assumptions being revised downward.
- We upgraded our target price for MGTS to $19.4 (BUY) following a downward (2 ppts to 6%) revision of the company's risk premium. We introduced a 'sum-of-the-parts' valuation: $17.4 is the DCF value of the incumbent business, while $2.2 is due to 46% ownership in Comstar.
- The stand-alone fixed-line businesses of NW Telecom and Volga Telecom are undervalued and trade at an average 2005E fixed-line EV/EBITDA of 3.9 and about $180x EV/line, which is about 30% below the regional incumbent's average. UralSI's fixed-line business is overvalued and trades at 6.5x 2005E EV/EBITDA (18% premium to the average) and $425 per land line (+76%). In the longer term this might expose UralSI to risk that in the case of disposition of mobile assets, its fixed-line valuation might collapse to match the level of its regional peers.
- Our target prices and rating for other PRTs remain unchanged pending the release of 2004 IFSR results.

'Glass ceiling' over efficiency improvements

We downgraded UralSI, Siberia Telecom and NW Telecom to HOLD, HOLD and SELL

Recently four regional telecoms (UralSI, Siberia Telecom, NW Telecom and Far East Telecom) reported 2004 IFSR results, while MGTS reported 2004 US GAAP results. We have already covered these figures in our daily publication, so would like to use this opportunity to introduce changes and updates to our models.

Far East Telecom is still trading in HOLD territory, while MGTS was upgraded to BUY

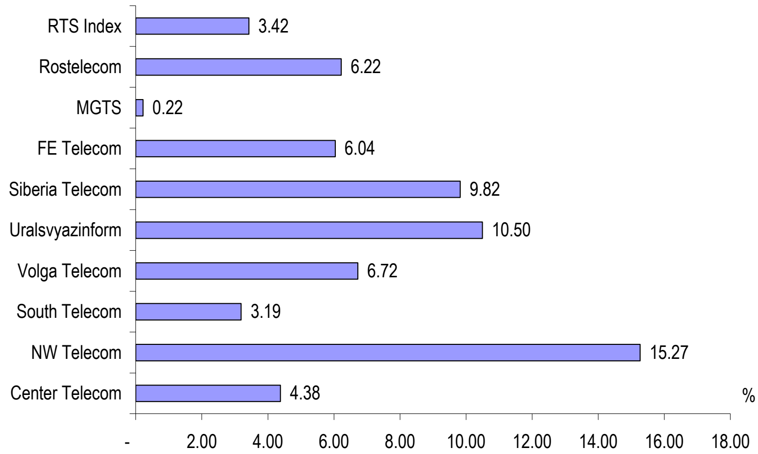
These moves led us to downgrade by 3-9% the target prices for these regional incumbents. The recent rally among telecom stocks (see Figure 7 on the next page) following news flow on the Svyazinvest privatization led to share price appreciation, which in turn forced us to change our ratings on these stocks: HOLD for Uralsvyazinform and Siberia Telecom, and SELL for ordinary shares of NW Telecom. Far East Telecom's target price was increased to $1.70 (+23%). The upgrade was mainly due to risk assumptions that were revised downward. Notwithstanding this fact, the stock is still trading in HOLD territory. MGTS was the clear beneficiary of this revision, and we upgraded its target price by 31% to $19.4. Based on our in-house ratings methodology this puts the stock in BUY territory (see Figure 6 for details).

Figure 6. Change in Target Prices and Recommendations

	New target price $	New Rating	Change in target price %	Upside/ downside to fair value %	Old target price $	Old rating
Uralsvyazinform	$0.045	HOLD	-8%	13%	$0.049	BUY
Siberia Telecom	$0.067	HOLD	-7%	12%	$0.072	BUY
NW Telecom	$0.65	SELL	-3%	-16%	$0.67	HOLD
Far East Telecom	$1.70	HOLD	23%	8%	$1.38	HOLD
MGTS	$19.4	BUY	31%	23%	$14.7	HOLD

Source: Alfa Bank estimates

Figure 7. Telecom Incumbents – Change in Share Prices in Last 5 Trading Days



Source: Bloomberg

Our model update involved the following:

We downgraded the risk premium for MGTS and NW Telecom to 6%, 7% for FE Telecom,…

- WACC inputs, which resulted in a downgrade of the risk premium and cost of debt assumptions, which are now 6% and 11%, respectively, for stocks mentioned (the in-house risk premium for blue chips is 5%). We believe that such downgrades for NW Telecom and MGTS (by 1.5 ppts and 2 ppts, respectively) are justified given the relatively transparent policy of new management and constantly improving corporate communication (however the latter is still far from the benchmark). We downgraded the risk premium for Far East Telecom to 7% from a previous 8% since, as with NW Telecom, the company is on its way to improving disclosure and governance standards. The higher risk premium is justified by its smaller size and lower efficiency. Please refer to Figure 8 on the following page for more details.

…revised financial assumptions and…

- Underlying financial assumptions, to be discussed in detail below.

…introduced 'sum-of-the-parts' valuation for MGTS

- Introduction of 'sum-of-the-parts' valuation for MGTS, which de-consolidated its alternative business from its financial business and currently holds 46% of Comstar-UTS.

Figure 8. Change of Underlying Model Assumptions

	New	Old	Change
Uralsvyazinform/Siberia Telecom			
Risk premium	6%	6%	N/C
Terminal growth rate	2%	2%	N/C
Cost of debt	11%	12%	- 1 pp
NW Telecom			
Risk premium	6%	7.5%	-1.5 pp
Terminal growth rate	1.5%	1.5%	N/C
Cost of debt	11%	12.5%	- 1.5 pp
Far East Telecom			
Risk premium	7%	8%	-1 pp
Terminal growth rate	1.5%	1.5%	N/C
Cost of debt	12%	13%	- 1 pp
MGTS			
Risk premium	6%	8%	- 2 pp
Terminal growth rate	1.5%	1.5%	N/C
Cost of debt	11%	13%	- 2 pp

Source: Alfa Bank estimates

We downgraded EBITDA CAGR in 2004-10E by 3-7 ppts to 7-16% for selected PRTs

The major changes in the financial assumptions concerned a 3-7 ppt downgrade of EBITDA growth assumptions (please refer to the Appendix for more details). Thus estimated EBITDA CAGR 2004-10E now ranges from 7-16% vs. 10-23% previously. One reason for the downgrade is corporate guidelines that leave little room for improvement. Other fundamental reasons are the following:

Low mobile ARPU, limited fixed-line revenue growth and low potential EV/line

- Strong dilution of mobile ARPU, which can end up as low as $7.5 for 2005E in VimpelCom's case, should be the *de facto* benchmark for the fixed-line ARPU ceiling and leaves almost no upside from its current average level of $6. Granted, fixed-line ARPU in Europe is nearly twice the level of Russia, but mobile ARPU there exceeds $20. The same argument actually means that Russia can hardly reach the European EV/line valuation of $400-500 simply because of different revenues per unit profile. As far as new VAS services are concerned, the key here is that regional telecoms should first learn not only how to provide, but also how to sell them.

Low population density limits ability to reach the CEE EBITDA margin level of 40-45%

- Unfortunately, the same 'glass ceiling' argument applies to cost structure, i.e. Russian telecom incumbents are unlikely to reach the Eastern European level of 300-350 lines per employee simply because of different geographical profiles. MGTS and NW Telecom currently enjoy the highest level of lines per employee – 215 and 150 respectively – simply because they operate in Russia's most populated regions (Moscow and St. Petersburg). Those that suffer the most are Far East Telecom and Siberia Telecom (70 and 80 lines per employee, respectively), which operate in regions with low population density and difficult climate conditions. The above discussion aims to illustrate that the Eastern European EBITDA margin level of 40-45% will be very hard to achieve due to a 'naturally inefficient' cost structure.

Figure 9. Telecom Incumbents – CAGR 2004-2010E

	NEW	OLD
Uralsvyazinform		
Revenues	7%	7%
EBITDA	12%	16%
Net income	20%	31%
Capex	-8%	-8%
Siberia Telecom		
Revenues	5%	6%
EBITDA	7%	12%
Net income	8%	19%
Capex	-9%	-8%
NW Telecom		
Revenues	8%	8%
EBITDA	12%	16%
Net income	24%	33%
Capex	-4%	-5%
Far East Telecom		
Revenues	9%	7%
EBITDA	16%	23%
Net income	13%	13%
Capex	4%	-15%
MGTS		
Revenues	11%	11%
EBITDA	12%	10%
Net income	16%	9%
Capex	0%	3%

Source: Alfa Bank estimates

MGTS is now valued at $19.4 using 'sum-of-the-parts': $17.2 is DCF value of incumbent business and $2.2 the value for Comstar exposure

With this theme piece for the August monthly report we introduce a 'sum-of-the-parts' valuation for MGTS based on a DCF approach for its incumbent business ($17.2, mainly due to a downgrade of the risk profile – see Appendix for details) and a multiples-based valuation for its stake in Comstar ($2.2 per MGTS share).

We estimated Comstar UTS's valuation based on targeted multiples for Golden Telecom and applied a 20% discount for its low profile, more lackluster license portfolio and geographical coverage. We assumed that Comstar is debt-free since we lack any decent information on its indebtedness. This valuation assumes that about 11% of MGTS's value comes from its alternative business.

Figure 10. Comstar UTS – Multiples-based Valuation

	GTI targeted	20% discount to GTI targeted	Comstar's Estimated EV *$ mln*
2005E EV/Revenues	1.7	1.4	443
2005E EV/EBITDA	5.6	4.5	481
Average			462
MGTS 46% stake in Comstar			212
per MGTS share, $			**2.2**

Source: Alfa Bank estimates

Continued stripping of telecom incumbents

We estimated the target value of Svyazinvest's fixed-line business by refining it from mobile and alternative

One of the possible scenarios for Svyazinvest's post-privatization development widely discussed within the investment community is the possible sale of its mobile and CLEC businesses in order to reduce debt and make the new owners concentrate on developing fixed-line operations. In order to arrive at a valuation of the fixed-line business, we used the same approach first described in our desk note entitled *"Stripping Down Telecom Incumbents: Fixed-Line Value Uncovered"* dated April 25, 2005, i.e. deducting the fair value of mobile and alternative businesses from the value of regional telecoms. However, there was one major difference in that desk note: We used the current market valuation of the incumbent, whereas below we apply a target valuation.

We see the following major implications:

Fixed-line businesses of NW and Volga Telecom trade at 30% below the peer average

- The stand-alone fixed-line businesses of NW Telecom and Volga Telecom are undervalued and trade at average 2005E fixed-line EV/EBITDA of 3.9 and about $180x EV/line, which is nearly 30% below the regional incumbent's average.

UralSI's fixed-line business trades at an 18-76% premium, which may be risky given the sale of its mobile business

- Uralsvyazinform's fixed-line business is overvalued and trades at 6.5x 2005E fixed-line EV/EBITDA (18% premium to the average) and $425 per land line (+76%). This may be justified at the current stage as a premium for the favorable mix of mobile (25% of revenues) and fixed-line businesses in its portfolio. However, as we mentioned some time ago, in the longer term this might expose UralSI to risk that in the case of disposition of mobile assets, its fixed-line valuation might collapse to match the level of its regional peers.

MGTS' 50% premium may be justified considering its more efficient profile

- MGTS' 50% premium to the average might be justified considering its more efficient profile and more opportunities to cut costs going forward. Alongside MGTS' geographical advantage since it operates in the highest populated and richest region in Russia (which allows it to increase lines per employee), its network remains one of the most outdated in Russia (about 20% digitalization level vs. about 50% among regional peers), thus leaving significant room for improvement.

Center, South, Siberia and Far East Telecoms trade at average 2005E EV/EBITDA of 5.2 and $230 per line

- Other regional telecoms (Center, South, Siberia and Far East) trade at average 2005E EV/EBITDA of 5.2 and $230 per line.

Figure 11. Telecom Incumbents – Value of Fixed-line Business

	2005E Wireline subs '000	2005E Mobile subs '000	Total targeted EV $ mln	Wireline EV $ mln	Mobile EV $ mln	CLEC EV $ mln	2005E FX line EV/Sub $	2005E FX line EV/EBITDA
Center Telecom	6,469		1,355	1,355			209	5.1
NW Telecom	4,335		919	719		200	166	3.9
South Telecom	4,145		1,021	1,021			246	5.5
Volga Telecom	4,541	2,100	1,471	894	578		197	3.9
Uralsvyazinform	3,584	3,200	2,405	1,525	880		425	6.5
Siberia Telecom	4,014	1,700	1,375	908	468		226	4.8
Far East Telecom	1,287		308	308			239	5.5
MGTS	4,276		1,942	1,730		212	405	8.6
Average							**264**	**5.5**

Source: Alfa Bank estimates

Still expensive by global standards

PRTs trade at 2005E EV/EBITDA of 5.2, in line with EMEA peers notwithstanding their less geared and more efficient profile

Regional telecoms remain expensive by global standards and trade at 2005E average blended EV/EBITDA of 5.2, which is in line with EMEA peers notwithstanding the less geared and more efficient profile of the latter. The discount on P/E may be irrelevant considering that the bottom line is vulnerable to a number of factors such as dividends, which for regional telecoms are paid based on RAS net income rather than IFSR.

Figure 12. Regional Telecoms – Comparative Valuation

	EV	EV/Sales			EV/EBITDA			P/E			EBITDA Margin			Sales CAGR, %
	$ mln	2004	2005E	2006E	2004	2005E	2006E	2004	2005E	2006E	2004	2005E	2006E	2004-06E
Russia														
Center Telecom	1,376	1.7	1.4	1.3	6.3	5.1	4.6	199	ng	22	26	27	29	11.4
NW Telecom	917	1.7	1.3	1.2	7.3	4.9	4.4	28	13	11	23	26	28	18.6
South Telecom	1,135	2.1	1.7	1.7	8.0	6.1	5.2	ng	ng	44	26	28	32	11.9
Volga Telecom	1,356	2.0	1.7	1.6	6.1	4.8	4.2	12	10	8	34	35	38	12.7
Uralsvyazinform	1,970	2.1	1.8	1.7	7.1	5.3	4.6	16	10	8	30	33	36	12.7
Siberia Telecom	1,196	1.5	1.3	1.2	5.6	4.3	3.9	10	6	5	27	29	31	13.0
Far East Telecom	316	1.1	1.0	0.9	8.3	5.7	4.3	6	16	8	14	17	21	12.9
Average*		**1.8**	**1.4**	**1.4**	**7.0**	**5.2**	**4.5**	**15**	**11**	**15**	**26**	**28**	**31**	**13.3**
EMEA														
Cesky Telecom	6,998	2.9	2.9	2.8	6.2	6.3	6.1	32	28	21	47	46	46	1.8
Matav	5,976	1.9	1.9	1.9	4.7	4.7	4.6	17	14	13	40	40	41	0.4
TPSA	10,785	2.0	1.9	2.0	4.6	4.5	4.7	18	16	16	43	43	42	0.4
Bezeq	4,498	2.5	2.4	2.3	6.1	6.1	5.8	28	24	20	41	39	40	3.0
Telkom SA	11,908	1.7	1.7	1.6	4.3	4.2	4.1	11	11	10	39	39	39	2.2
Average		**2.2**	**2.2**	**2.1**	**5.2**	**5.2**	**5.1**	**21**	**18**	**16**	**42**	**42**	**42**	**1.6**
Russia premium (disc.) to EMEA average		*-20%*	*-33%*	*-35%*	*34%*	*0%*	*-12%*	*-32%*	*-40%*	*-6%*				
Latin America (LatAm)														
Brasil Telecom	3,728	1.2	1.1	1.0	2.9	2.7	2.5	17	13	9	42	41	41	7.6
CTC	3,179	2.6	2.7	2.6	5.7	6.0	5.5	7	38	30	45	45	48	(0.8)
Tele Norte Leste	9,789	1.8	1.6	1.5	4.1	3.7	3.5	20	13	10	43	44	44	9.0
Telmex	29,368	2.6	2.2	2.1	5.3	5.0	4.6	12	12	11	49	45	45	12.1
TeleSP	9,989	2.1	2.0	2.0	4.7	4.4	4.4	12	10	9	46	46	45	4.4
Average		**2.1**	**1.9**	**1.8**	**4.6**	**4.4**	**4.1**	**14**	**17**	**14**	**45**	**44**	**45**	**6.5**
Russia premium (disc.) to LatAm average		*-15%*	*-26%*	*-26%*	*53%*	*18%*	*9%*	*5%*	*-35%*	*10%*				
Asia														
China Telecom	47,489	2.5	2.3	2.2	4.7	4.3	4.3	10	9	8	54	54	52	6.0
KT Corp	20,883	2.0	2.0	2.0	3.5	3.7	3.8	11	10	10	56	55	54	(0.9)
Chiunghwa Telecom	19,005	3.4	3.4	3.4	6.3	6.3	6.2	14	13	13	55	54	55	0.6
Average		**2.7**	**2.6**	**2.6**	**4.8**	**4.8**	**4.8**	**11**	**11**	**10**	**55**	**55**	**54**	**1.9**
Russia premium (disc.) to Asia average		*-34%*	*-45%*	*-47%*	*43%*	*9%*	*-6%*	*27%*	*2%*	*44%*				
Western Europe (WE)														
DT	121,774	1.6	1.6	1.5	4.9	4.6	4.4	23	17	14	33	34	35	3.6
FT	126,130	2.1	2.0	1.9	5.4	5.1	5.0	20	14	11	38	39	39	4.1
BT	47,298	1.4	1.4	1.4	4.5	4.5	4.4	12	12	11	31	31	31	0.7
Average		**1.7**	**1.7**	**1.6**	**5.0**	**4.8**	**4.6**	**18**	**14**	**12**	**34**	**35**	**35**	**2.8**
Russia premium (disc.) to WE average		*2%*	*-14%*	*-15%*	*40%*	*9%*	*-3%*	*-20%*	*-22%*	*26%*				

Note: excluding Center Telecom
Source: Bloomberg, IBES, Alfa Bank estimates

Appendix

Figure 13. Uralsvyazinform – Model Update

NEW	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	CAGR, 2004-10E
Revenues	717	934	1,121	1,187	1,230	1,287	1,348	1,396	1,429	1,469	7%
EBITDA	202	278	370	424	456	490	520	535	526	519	12%
Net income	45	78	128	160	180	202	221	229	218	208	20%
EBITDA margin	28%	30%	33%	36%	37%	38%	39%	38%	37%	35%	
Net margin	6%	8%	11%	14%	15%	16%	16%	16%	15%	14%	
Capex	267	264	230	231	215	199	182	161	164	169	-8%
Capex/Revenues	37%	28%	21%	20%	18%	16%	14%	12%	12%	12%	
Net debt	396	661	698	630	536	424	293	152	59	(40)	-22%
Net debt/EBITDA	2.0	2.4	1.9	1.5	1.2	0.9	0.6	0.3	0.1	(0.1)	-30%

OLD	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	CAGR, 2004-10E
Revenues	717	888	1,073	1,149	1,189	1,246	1,308	1,359	1,386	1,437	7%
EBITDA	198	249	341	416	466	521	570	606	602	620	16%
Net income	40	60	106	158	197	239	281	308	305	315	31%
EBITDA margin	28%	28%	32%	36%	39%	42%	44%	45%	43%	43%	
Net margin	6%	7%	10%	14%	17%	19%	21%	23%	22%	22%	
Capex	267	264	230	230	214	199	183	163	166	172	-8%
Capex/Revenues	37%	30%	21%	20%	18%	16%	14%	12%	12%	12%	
Net debt	376	519	565	509	420	305	164	12	(69)	(168)	-46%
Net debt/EBITDA	1.9	2.1	1.7	1.2	0.9	0.6	0.3	0.0	(0.1)	(0.3)	-54%

CHANGE	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E
Revenues	0%	5%	5%	3%	3%	3%	3%	3%	3%	2%
EBITDA	2%	12%	9%	2%	-2%	-6%	-9%	-12%	-13%	-16%
Net income	13%	31%	20%	1%	-8%	-15%	-21%	-26%	-29%	-34%
Capex	0%	0%	0%	1%	1%	0%	-1%	-2%	-1%	-2%
Net debt	5%	27%	24%	24%	27%	39%	79%	1147%	-185%	-76%

Source: Company data, Alfa Bank estimates

Figure 14. Siberia Telecom – Model Update

NEW	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	CAGR, 2004-10E
Revenues	576	785	954	1,003	1,006	1,014	1,033	1,062	1,076	1,123	5%
EBITDA	150	212	280	308	316	310	309	324	304	309	7%
Net income	62	70	100	114	116	108	104	112	93	91	8%
EBITDA margin	26%	27%	29%	31%	31%	31%	30%	30%	28%	28%	
Net margin	11%	9%	10%	11%	12%	11%	10%	11%	9%	8%	
Capex	157	201	200	170	161	152	134	117	118	124	-9%
Capex/Revenues	27%	26%	21%	17%	16%	15%	13%	11%	11%	11%	
Net debt	185	362	406	366	317	276	218	132	74	11	-16%
Net debt/EBITDA	1.2	1.7	1.4	1.2	1.0	0.9	0.7	0.4	0.2	0.0	-21%

OLD	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	CAGR, 2004-10E
Revenues	577	716	850	893	916	949	987	1,025	1,052	1,091	6%
EBITDA	157	201	250	285	315	345	367	386	386	396	12%
Net income	61	65	84	104	125	148	165	180	180	188	19%
EBITDA margin	27%	28%	29%	32%	34%	36%	37%	38%	37%	36%	
Net margin	11%	9%	10%	12%	14%	16%	17%	18%	17%	17%	
Capex	157	201	200	179	165	152	138	123	126	131	-8%
Capex/Revenues	27%	28%	24%	20%	18%	16%	14%	12%	12%	12%	
Net debt	184	280	346	340	307	256	192	117	63	18	-14%
Net debt/EBITDA	1.2	1.4	1.4	1.2	1.0	0.7	0.5	0.3	0.2	0.0	-22%

CHANGE	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E
Revenues	0%	10%	12%	12%	10%	7%	5%	4%	2%	3%
EBITDA	-5%	6%	12%	8%	0%	-10%	-16%	-16%	-21%	-22%
Net income	2%	9%	20%	9%	-7%	-27%	-37%	-38%	-48%	-51%
Capex	0%	0%	0%	-5%	-2%	0%	-3%	-5%	-6%	-6%
Net debt	0%	29%	17%	8%	3%	8%	14%	12%	17%	-38%

Source: Company data, Alfa Bank estimates

Figure 15. North West Telecom – Model Update

NEW	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	CAGR, 2004-10E
Revenues	403	535	727	752	763	786	818	844	883	925	8%
EBITDA	93	125	186	209	220	230	240	242	253	256	12%
Net income	9	24	55	65	70	75	84	88	98	101	24%
EBITDA margin	23%	23%	26%	28%	29%	29%	29%	29%	29%	28%	
Net margin	2%	5%	8%	9%	9%	10%	10%	10%	11%	11%	
Capex	84	131	182	135	114	110	106	101	97	102	-4%
Capex/Revenues	21%	24%	25%	18%	15%	14%	13%	12%	11%	11%	
Net debt	96	216	296	288	253	213	170	130	83	54	-8%
Net debt/EBITDA	1.0	1.7	1.6	1.4	1.2	0.9	0.7	0.5	0.3	0.2	-18%

OLD	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	CAGR, 2004-10E
Revenues	403	482	650	673	691	718	752	783	819	850	8%
EBITDA	101	121	171	200	227	256	279	297	308	313	16%
Net income	13	25	49	66	87	108	127	141	149	153	33%
EBITDA margin	25%	25%	26%	30%	33%	36%	37%	38%	38%	37%	
Net margin	3%	5%	7%	10%	13%	15%	17%	18%	18%	18%	
Capex	84	131	175	135	117	101	98	94	98	102	-5%
Capex/Revenues	21%	27%	27%	20%	17%	14%	13%	12%	12%	12%	
Net debt	96	144	207	196	155	86	13	(61)	(123)	(168)	
Net debt/EBITDA	1.0	1.2	1.2	1.0	0.7	0.3	0.0	(0.2)	(0.4)	(0.5)	

CHANGE	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E
Revenues	0%	11%	12%	12%	10%	9%	9%	8%	8%	9%
EBITDA	-8%	3%	9%	4%	-3%	-10%	-14%	-19%	-18%	-18%
Net income	-29%	-3%	13%	-2%	-19%	-31%	-34%	-38%	-34%	-34%
Capex	0%	0%	4%	1%	-3%	9%	9%	8%	-1%	0%
Net debt	0%	50%	43%	47%	63%	147%	1164%	-314%	-167%	-132%

Source: Company data, Alfa Bank estimates

Figure 16. Far East Telecom – Model Update

NEW	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	CAGR, 2004-10E
Revenues	224	310	388	428	450	474	498	523	559	601	9%
EBITDA	30	52	74	94	105	116	122	126	132	140	16%
Net income	6	26	22	35	42	49	53	55	59	63	13%
EBITDA margin	13%	17%	19%	22%	23%	24%	25%	24%	24%	23%	
Net margin	3%	8%	6%	8%	9%	10%	11%	11%	11%	11%	
Capex	38	46	78	73	68	66	60	57	61	60	4%
Capex/Revenues	17%	15%	20%	17%	15%	14%	12%	11%	11%	10%	
Net debt	68	109	147	146	138	127	108	93	79	59	-3%
Net debt/EBITDA	2.3	2.1	2.0	1.5	1.3	1.1	0.9	0.7	0.6	0.4	-16%

OLD	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	CAGR, 2004-10E
Revenues	224	277	331	353	369	387	407	427	456	491	7%
EBITDA	32	38	56	73	92	109	123	134	149	167	23%
Net income	6	31	11	21	34	45	56	63	73	85	13%
EBITDA margin	14%	14%	17%	21%	25%	28%	30%	31%	33%	34%	
Net margin	3%	11%	3%	6%	9%	12%	14%	15%	16%	17%	
Capex	38	122	89	74	63	54	49	47	50	49	-15%
Capex/Revenues	17%	44%	27%	21%	17%	14%	12%	11%	11%	10%	
Net debt	68	139	208	222	213	193	162	134	104	62	
Net debt/EBITDA	2.1	3.6	3.7	3.0	2.3	1.8	1.3	1.0	0.7	0.4	

CHANGE	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E
Revenues	0%	12%	17%	21%	22%	22%	22%	23%	22%	22%
EBITDA	-6%	36%	33%	28%	14%	6%	-1%	-6%	-11%	-16%
Net income	-12%	-14%	106%	70%	25%	8%	-5%	-12%	-20%	-26%
Capex	0%	-62%	-13%	-2%	8%	22%	22%	23%	22%	22%
Net debt	0%	-21%	-29%	-34%	-35%	-34%	-34%	-31%	-24%	-6%

Source: Company data, Alfa Bank estimates

Figure 17. MGTS – Model Update

NEW

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	CAGR, 2004-10E
Revenues	473	481	562	638	707	772	832	898	958	1,023	11%
EBITDA	210	168	202	229	257	280	304	335	359	384	12%
Net income	70	75	99	114	131	146	162	184	199	215	16%
EBITDA margin	44%	35%	36%	36%	36%	36%	36%	37%	37%	38%	
Net margin	15%	16%	18%	18%	19%	19%	20%	21%	21%	21%	
Capex	95	179	169	159	141	154	166	180	192	205	0%
Capex/Revenues	20%	37%	30%	25%	20%	20%	20%	20%	20%	20%	
Net debt	112	161	184	177	128	71	4	(76)	(168)	(269)	
Net debt/EBITDA	0.5	1.0	0.9	0.8	0.5	0.3	0.0	(0.2)	(0.5)	(0.7)	

OLD

	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	CAGR, 2004-10E
Revenues	473	559	646	728	809	889	958	1,026	1,088	1,155	11%
EBITDA	207	232	254	278	312	342	370	402	434	469	10%
Net income	70	71	76	78	89	99	108	123	134	155	9%
EBITDA margin	44%	42%	39%	38%	39%	38%	39%	39%	40%	41%	
Net margin	15%	13%	12%	11%	11%	11%	11%	12%	12%	13%	
Capex	95	168	194	218	202	222	192	205	218	231	3%
Capex/Revenues	20%	30%	30%	30%	25%	25%	20%	20%	20%	20%	
Net debt	111	115	146	185	183	178	117	43	(44)	(150)	-15%
Net debt/EBITDA	0.5	0.5	0.6	0.7	0.6	0.5	0.3	0.1	(0.1)	(0.3)	-22%

CHANGE

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E
Revenues	0%	-14%	-13%	-12%	-13%	-13%	-13%	-13%	-12%	-11%
EBITDA	2%	-28%	-21%	-18%	-18%	-18%	-18%	-17%	-17%	-18%
Net income	0%	5%	30%	46%	48%	48%	50%	50%	48%	39%
Capex	0%	7%	-13%	-27%	-30%	-31%	-13%	-13%	-12%	-11%
Net debt	1%	39%	27%	-4%	-30%	-60%	-96%	-276%	284%	79%

Source: Company data, Alfa Bank estimates

Stock Performance and Valuations

Figure 18. ADR Performance, MTD, as of August 2, 2005

Company	Type of ADR	Ratio	% as ADRs	Price	Change last month	YTD	Last 52 weeks High	Low
				$	%	$	$	$
Oil and Gas								
Gazprom ADS	114A, REG S	10 in 1	1.4	42.9	16.6	20.8	44.0	27.1
LUKoil	Level 1	4 in 1	31.0	42.6	13.5	38.4	42.7	26.0
Sibneft	Level 1	5 in 1	4.0	15.6	-9.3	3.7	19.3	11.9
Surgutneftegaz	Level 1	50 in 1	19.0	41.6	8.9	12.0	42.2	30.3
Tatneft	Level 2	20 in 1	25.0	41.8	9.6	44.3	42.0	22.2
Yukos	Level 1	4 in 1	20.0	2.6	18.2	-25.7	21.8	1.5
Utilities								
Irkutskenergo	Level 1	50 in 1	N/A	11.5	5.5	13.9	12.0	9.5
Lenenergo	REG S	80 in 1	6.2	49.2	1.3	0.0	55.4	39.4
Mosenergo	Level 1	100 in 1	20.0	8.33	8.5	-44	25.3	7.0
UES	Level 1	100 in 1	22.0	32.0	6.2	15.3	33.0	22.8
Telecoms								
Golden Telecom	Level 3	1 in 1	14.0	29.7	-3.9	12.3	31.8	23.1
MTS	Level 3	20 in 1	22.0	36.0	6.2	4.0	40.2	28.8
Sistema	Level 4	50 in 1	23.0	18.50	5.3	5.7	18.9	15.0
VimpelCom	Level 3	1 in 4	40.0	38.8	11.0	7.3	42.9	25.0
MGTS	Level 1	1 in 1	N/A	14.0	8.6	20.0	12.0	8.0
Volga Telecom	Level 1	2 in 1	8.5	6.8	10.0	20.9	6.5	4.0
Rostelecom	Level 2	6 in 1	19.7	12.7	1.8	16.1	15.0	10.0
South Telecom	Level 1	1 in 2	N/A	4.9	9.6	53.8	4.5	2.5
Uralsvyazinform	Level 1	200 in 1	N/A	6.7	-2.9	4.8	6.9	4.6
Other sectors								
GMK Norilsk Nickel	Level 1	1 in 1	17.0	70.3	14.3	27.8	70.5	43.5
OMZ	144A, REG S	1 in 1	16.6	4.6	27.1	44.2	4.2	2.2
GUM	Level 1	2 in 1	32.2	5.5	17.8	84.6	6.1	1.8
SUN Interbrew B	144A, REG S	1 in 1	32.0	35.1	0.0	128.0	29.5	6.3

Note: N/A – not available
Sources: Reuters, Bloomberg

Figure 19. Blue Chip Performance and Valuation vs. International Peers, MTD, as of August 2, 2005

Company	Price	Change MTD	Change YTD	Last 52 weeks High	Last 52 weeks Low	ADV	MCap	P/E 2004	P/E 2005E	EV/EBITDA 2004	EV/EBITDA 2005E	Target price	Upside	Recommendation
	$	%	%	$	$	$ mln	$ mln					$	%	
Oil and Gas														
Gazprom	3.32	14	25	3.32	1.80	69.2	79,624	10.5	8.8	7.3	5.2	3.95	19	BUY
LUKoil	42.37	15	43	42.37	26.70	9.6	36,038	8.5	8.2	5.5	5.7	45.24	7	HOLD
Sibneft	3.17	-4	2	3.75	2.40	1.4	15,030	7.3	6.8	4.7	5.4	3.20	1	HOLD
Surgutneftegaz	0.82	10	12	0.83	0.64	1.2	34,367	11.8	13.3	3.4	3.4	0.93	13	BUY
Tatneft	2.08	12	45	2.08	1.14	0.3	4,723	5.4	6.6	4.3	4.7	2.09	0	HOLD
Yukos	0.62	7	-8	5.22	0.50	0.1	1,376	0.2	0.3	1.6	1.8	Suspended	U/R	SUSPENDED
Petrobras	*56.20*	*4*	*21.78*	*56.47*	*28.08*	*13.2*	*58,4*	*7.96*	*6.21*	*4.35*	*3.48*			
PetroChina	*0.89*	*6*	*66.27*	*0.95*	*0.47*	*104.8*	*156,0*	*12.19*	*9.74*	*7.15*	*7.15*			
Sinopec	*0.44*	*-7*	*6.25*	*0.46*	*0.35*	*70.0*	*43,9*	*8.44*	*8.04*	*5.02*	*5.02*			
Average for peers								***7.1***	***6.6***	***4.5***	***3.9***			
Utilities														
Irkutskenergo	0.23	5	12	0.24	0.15	0.1	1,106	N/A	N/A	N/A	N/A	N/A	N/A	RESTRICTED
Lenenergo	0.91	28	8	0.92	0.57	0.0	695	N/A	N/A	N/A	N/A	N/A	N/A	RESTRICTED
Mosenergo	0.09	10	-42	0.25	0.06	0.1	2,403	N/A	N/A	N/A	N/A	N/A	N/A	RESTRICTED
UES	0.32	6	15	0.33	0.23	5.8	13,084	N/A	N/A	N/A	N/A	N/A	N/A	RESTRICTED
CEZ	*5.55*	*2*	*2*	*5.65*	*3.24*	*5.5*	*2,031*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	N/A	RESTRICTED
Copel	*2.76*	*-7*	*-7*	*3.21*	*1.96*	*0.4*	*832*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	N/A	RESTRICTED
Eletrobras	*13.37*	*-19*	*-19*	*17.69*	*5.34*	*3.6*	*4,310*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	N/A	RESTRICTED
Average for peers														
Telecoms														
MGTS*	15.50	12	27	15.60	11.95	0.1	1,400	19.8	19.4	9.0	5.9	19.40	23	BUY
TeleSP	*15.54*	*-1*	*-22*	*20.82*	*15.11*	*3.5*	*9,240*	*11.0*	*9.8*	*4.4*	*4.2*			
Tele Norte Leste	*22.88*	*9*	*17*	*24.20*	*13.97*	*3.6*	*7,373*	*ng*	*ng*	*6.6*	*5.8*			
Average for peers								***15.4***	***14.6***	***5.5***	***5.0***			
Rostelecom	2.11	5	14	2.47	1.70	1.2	1,915	13.7	25.1	4.7	5.4	2.05	-3	HOLD
Indosat	*0.58*	*9*	*-4*	*0.66*	*0.41*	*4.0*	*2,997*	*16.7*	*13.3*	*5.5*	*4.5*			
Embratel	*1.87*	*-12*	*-35*	*4.61*	*1.66*	*0.0*	*1,501*	*N/M*	*N/M*	*4.5*	*3.9*			
Average for peers								***15.2***	***19.2***	***5.0***	***4.2***			
Golden Telecom	29.68	-4	12	31.75	23.05	2.3	1,077	16.6	11.2	6.0	4.5	37.00	25	BUY
Netia	*1.73*	*7*	*-9*	*2.06*	*1.49*	*3.4*	*448*	*ng*	*10.7*	*3.5*	*3.3*			
MTS	36.00	6	4	40.20	28.81	55.9	14,352	14.0	10.7	7.6	5.9	48.00	33	BUY
Sistema	17.75	5	3	18.90	14.95	55.9	8,444	N/A	N/A	N/A	N/A	21.40	20	BUY
VimpelCom	38.76	11	7	42.90	25.00	39.2	7,951	22.7	13.4	9.0	6.1	52.00	34	BUY
Stet Hellas	*19.50*	*0*	*5*	*22.15*	*14.49*	*N/A*	*1,644*	*13.7*	*13.8*	*5.2*	*5.2*			
Mobinil	*45.33*	*6*	*39*	*52.17*	*18.79*	*0.0*	*4,560*	*25.8*	*20.1*	*11.5*	*9.2*			
Average for peers								***25.8***	***17.0***	***8.3***	***9.2***			
Metals														
GMK Norilsk Nickel	69.80	15	31	70.00	51.10	2.1	14,931	8.1	10.7	4.4	5.5	87.00	25	BUY
Amplats	*43.83*	*1*	*45*	*44.71*	*27.96*	*944.4*	*9,539*	*27.5*	*27.2*	*12.3*	*14.3*			
Inco	*37.72*	*0*	*7*	*43.32*	*31.64*	*32.4*	*7,129*	*11.7*	*9.0*	*5.1*	*5.6*			
Implats	*86.58*	*0*	*24*	*89.56*	*61.89*	*2,205.4*	*5,768*	*13.4*	*14.6*	*9.3*	*8.5*			
Average for peers								***17.5***	***16.9***	***8.7***	***10.0***			
Severstal	8.51	19	14	8.3	7.12	0.5	4,696	3.4	4.0	2.3	2.5	11.00	29	BUY
Mechel	28.57	-1	16	33.70	15.79	4.8	3.964	7.3	7.6	3.9	3.9	35.00	35	BUY
Evraz Holding	14.30	-2	-2	N/A	N/A	3.6	5.078	4.7	4.3	2.8	2.8	19.00	31	BUY
China Steel	*0.99*	*-1*	*-11*	*1.17*	*0.89*	*35.9*	*9,830*	*6.2*	*6.2*	*4.1*	*4.1*			
POSCO	*175.40*	*1*	*-1*	*217.70*	*135.94*	*49.7*	*15,292*	*3.9*	*3.5*	*2.3*	*2.1*			
Average for peers								***5.0***	***4.9***	***3.2***	***3.1***			
Food														
Baltika	27.60	4	67	27.60	11.80	0.1	3,234	24.2	13.4	13.9	8.7	31.30	13	HOLD
Wimm-Bill-Dann	16.76	0	0	0.00	0.00	0.0	737	31.4	26.7	9.4	8.4	17.30	3	HOLD
Grupo Modelo-C	*3.09*	*1*	*9*	*3.20*	*2.48*	*0.8*	*10,056*	*2.2*	*2.1*	*7.1*	*6.5*			
GUINNESS Malasya	*1.47*	*-0.9*	*8.7*	*1.53*	*1.21*	*0.1*	*445*	*2.2*	*2.1*	*7.1*	*6.5*			
Average for peers								***2.2***	***2.1***	***7.1***	***6.5***			
Retail														
Apteki 36.6	20.75	10	26	23.00	18.25	0.1	166	92.2	137.2	167.1	14.4	27.30		BUY
Robinson & Co	*7.74*	*0*	*-5*	*8.98*	*4.97*	*0.4*	*1,066*	*20.4*	*21.1*	*17.8*	*9.3*			
Matahari Putra Prima	*22.06*	*5*	*-22*	*28.87*	*19.20*	*0.1*	*6,337*	*41.6*	*38.7*	*25.1*	*16.8*			
Average for peers								***31.0***	***29.9***	***21.4***	***13.1***			
Engineering														
OMZ	4.70	25	39	5.20	3.20	0.1	166	N/M	12.9	9.1	6.9	4.50	-4	BUY
Hyundai Heavy	*49.62*	*0*	*52*	*57.13*	*20.77*	*20.5*	*3,771*	*22.7*	*8.7*	*3.6*	*3.5*			
Atlas Corpo	*37.25*	*1*	*10*	*39.40*	*30.67*	*52.4*	*9,818*	*14.3*	*13.6*	*8.4*	*7.6*			
Average for peers									***13.6***	***6.0***	***5.6***			

*Notes: N/A – not available, N/M – not meaningful; U/R – under review; * based on close of August 5*
Sources: RTS, Bloomberg, Alfa Bank estimates

Figure 20. Second-tier Stocks Performance and Valuation, MTD, as of August 2, 2005

Company	Price	Change		Last 52 weeks		ADV	MCap	P/E		EV/EBITDA		Target	Upside	Recommendation
		MTD	YTD	High	Low			2004	2005E	2004	2005E	price		
	$	%	%	$	$	$ '000	$ mln					$	%	
Oil and Gas														
Megionneftegaz	27.95	1	47	27.95	18.50	97.2	3,547	8.1	N/A	5.7	N/A	30.46	9	**HOLD**
Bashneft	6.60	12	42	6.60	3.68	63.3	1,260	6.3	4.8	2.8	3.2	6.53	-1	**HOLD**
RITEK	4.35	6	12	5.00	3.16	111.2	435	3.8	N/A	2.4	N/A	4.75	9	**HOLD**
Utilities														
Bashkirenergo	0.33	1	6	0.36	0.29	52.2	342	N/A	N/A	N/A	N/A	N/A	N/A	**RESTRICTED**
Chelyabenergo	0.03	0	-16	0.04	0.01	27.0	125	N/A	N/A	N/A	N/A	N/A	N/A	**RESTRICTED**
Krasnoyarskenergo	0.48	9	9	0.62	0.44	24.1	286	N/A	N/A	N/A	N/A	N/A	N/A	**RESTRICTED**
Kubanenergo	7.30		85	7.30	7.30	0.0	130	N/A	N/A	N/A	N/A	N/A	N/A	**RESTRICTED**
Kuzbassenergo	0.69	-4	-1	0.74	0.62	26.1	418	N/A	N/A	N/A	N/A	N/A	N/A	**RESTRICTED**
Novosibirskenergo	19.50	0	26	19.50	13.00	29.3	264	N/A	N/A	N/A	N/A	N/A	N/A	**RESTRICTED**
Permenergo	5.40		4	5.40	4.00	0.0	196	N/A	N/A	N/A	N/A	N/A	N/A	**RESTRICTED**
Rostovenergo	0.05		43	0.05	0.05	0.0	156	N/A	N/A	N/A	N/A	N/A	N/A	**RESTRICTED**
Samaraenergo	0.11	0	-8	0.13	0.10	33.4	386	N/A	N/A	N/A	N/A	N/A	N/A	**RESTRICTED**
Sverdlovenergo	0.42		0	0.43	0.42	0.0	217	N/A	N/A	N/A	N/A	N/A	N/A	**RESTRICTED**
Telecoms														
Far East Telecom*	1.49	6	35	1.50	0.89	31.4	181	6.2	17.6	8.5	5.8	1.70	8	**HOLD**
Center Telecom	0.39	4	35	0.42	0.26	43.7	749	216.0	117.8	6.3	5.1	0.37	-5	**HOLD**
Volga Telecom	3.53	7	9	4.20	2.47	149.0	1,062	12.9	10.7	6.0	4.8	3.86	9	**HOLD**
NW Telecom*	0.67	6	27	0.67	0.44	77.9	696	30.0	15.6	7.0	4.9	0.65	-16	**SELL**
Siberia Telecom*	0.06	2	-3	0.07	0.04	127.7	817	13.7	10.6	5.5	4.4	0.067	12	**HOLD**
South Telecom	0.09	6	28	0.12	0.07	39.4	346	-33.0	-38.0	8.1	6.2	0.06	-37	**SELL**
Uralsvyazinform*	0.03	1	-6	0.04	0.03	369.8	1,111	23.2	13.0	6.6	4.8	0.045	13	**HOLD**
Other Sectors														
AvtoVAZ	25.30		-11	30.00	22.10	0.0	793	8.1	3.1	2.4	1.7	32.00	26	**BUY**
Chelyabinsk Pipe	0.80	49	178	0.80	0.21	230.1	378	208.8	25.8	17.3	9.1	0.75	-6	**HOLD**
Vyksa Pipe	425.00	9	111	425.00	177.00	53.8	800	11.4	11.3	6.4	6.0	400.00	-6	**HOLD**
NTMK	1.28	5	28	1.30	0.60	104.8	1,670	5.0	5.6	2.8	3.1	1.50	18	**BUY**
Mechel	251.50		2	270.00	97.00	0.0	795	7.1	11.6	5.0	7.0	275.00	9	**BUY**
Sberbank	780.00	16	53	805.00	369.50	1.922.6	15,330	N/A	N/A	N/A	N/A	520.00	-33	**HOLD**
Irkut	0.61	6	8	0.67	0.49	44.5	536.2	8.3	6.5	6.6	6.2	0.84	38	**BUY**
Kalina	30.13	12	89	33.00	16.50	55.3	321.8	14.7	10.9	8.0	7.1	30.13	0	**BUY**

*Sources: RTS, Alfa Bank estimates; Note: * based on close of August 5*

Figure 21. Preferred Stock Performance and Valuation, MTD, as of August 2, 2005

Company	Price	Change		Last 52 weeks		ADV	Pref. to Com.	Dividends	Dividend	Target	Upside	Recommendation
		MTD	YTD	High	Low		discount	2005E	yield	price		
	$	%	%	$	$	'000 $	%	$	%		%	
Oil and Gas												
Transneft pref.	1,058	14	18	1,058	750	1,723.8	N/A	10.77	1.03	760	-28	**SELL**
Surgutneftegaz pref.	0.6585	11	22	0.6825	0.403	508.0	20	0.0203	3.03	0.65	-1	**HOLD**
Tatneft pref.	1.295	30	60	1.295	0.545	167.2	38	0.0335	3.12	1.3585	5	**BUY**
Utilities												
UES pref.	0.2835	-1	19	0.3007	0.213	51.4	N/A	N/A	N/A	N/A	N/A	**RESTRICTED**
Telecoms												
Rostelecom pref.	1.57	4	13	1.72	1.31	222.4	25	0.1320	8.04	1.5375	-2	**HOLD**

Source: RTS, Alfa Bank estimates

Upcoming Events

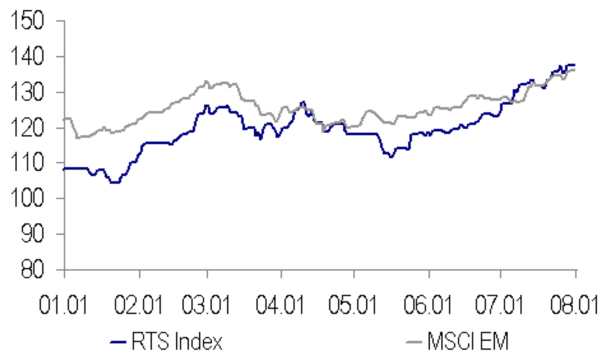
Figure 22. Calendar of Upcoming Corporate Events

Date	Company	Event
August 1-10	Aeroflot	2Q05 RAS Results
August 1-10	AvtoVAZ	2Q05 RAS Results
August 1-10	Baltika	2Q05 RAS Results
August 1-10	Far East Shipping Company	2Q05 RAS Results
August 1-10	GAZ	2Q05 RAS Results
August 1-10	GUM	2Q05 RAS Results
August 1-10	KAMAZ	2Q05 RAS Results
August 1-10	Neftekamski Plant	2Q05 RAS Results
August 1-10	PAZ	2Q05 RAS Results
August 1-10	PRISCO	2Q05 RAS Results
August 1-10	Seventh Continent	2Q05 RAS Results
August 1-10	SeverstalAvto	2Q05 RAS Results
August 1-10	UAZ	2Q05 RAS Results
August 1-10	Wimm-Bill-Dann	2Q05 RAS Results
August 1-10	Zavolzhsky Motors	2Q05 RAS Results
August 10-15	Pharmacy Chain 36.6	1H05 IAS Results
August 15	Unified Energy System	Board of Directors Meeting (GenCo-5 EGM)
August 15	Unified Energy System	1H05 RAS Results
Mid-August	AvtoVAZ	1H05 IAS Results
August 20-25	Lebediansky	1H05 IFRS Results
August 26	Baltika	1H05 US GAAP Results
August 26	Unified Energy System	Board of Directors meeting
August	Seventh Continent	1H05 IAS Results
August	Gazprom (local)	1Q05 IAS Results (last year reported on September 21)
August	Irkut	Close of deal with EADS
August	Kazan Helicopter Plant	Swap ratio announcement between Tatar government and Oboronprom
August	Ulan-Ude Aviation Plant	Swap ratio announcement for government stake, Oboronprom shares
August	VSMPO-AVISMA	Publication of US GAAP financials for 2004
July – August	Alchevsk Chemical-Recovery Plant	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Alchevskiy Metallurgical Combine	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Azovstal	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Bank Aval	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Centrenergo	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Chernivtsioblenergo	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Dniproblenergo	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Donbasenergo	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Donetsk Metals Plant	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Donetskoblenergo	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Harkivoblenergo	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Hmelnitskoblenergo	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Kharzysky Pipe	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Luganskteplovoz	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Naftokhimik Pricarpatya	2004 Annual Report under Ukrainian Standards
July – August	Nikopolsky Zavod Ferosplavov	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Novomoskovsk Pipe	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Nyzhnodniprovsky Tr. Z-d	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Odescable	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Prykarpattyaoblenergo	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Sevastopolenergo	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Slavutich	Share Split
July – August	Stah-Y Z-D Ferosplaviv	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Turboatom	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Ukrnafta Oil Co.	2004 IAS Results
July – August	Ukrrichflot JSSC	2004 annual disclosures to the Ukrainian Securities Commission
July – August	UkrTelecom	2004 IAS Results
July – August	Vinnitsaoblenergo	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Volynoblenergo	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Zakarpattyaoblenergo	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Zaporizhoblenergo	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Zaporizhstal	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Zaporizhtransformator	2004 annual disclosures to the Ukrainian Securities Commission
July – August	Zhydach Tcel-Pap C-T	2004 annual disclosures to the Ukrainian Securities Commission

Sources: Company reports, Alfa Bank estimates

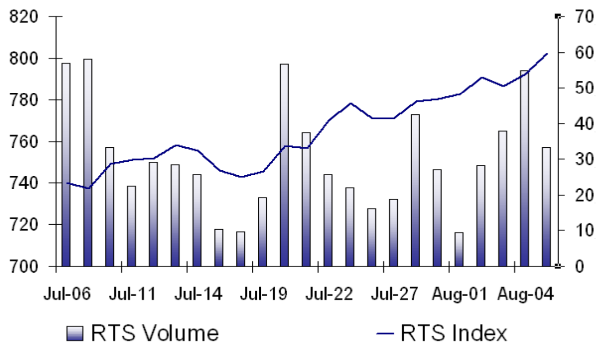
Chartbook

Figure 23. RTS vs. MSCI EM, YTD



Sources: RTS, Reuters

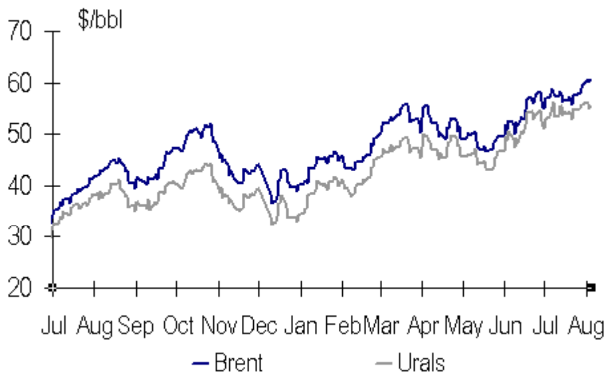
Figure 24. RTS Performance, MTD



Source: RTS

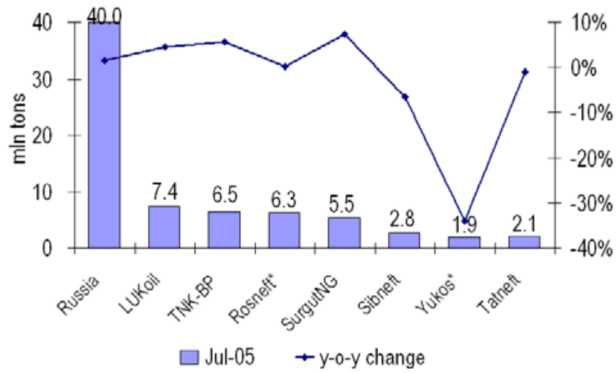
- The RTS rose 10.2% in July and currently stands at a new all-time closing high of 810
- Volumes were well above the monthly average as the market experienced a rare summer rally

Figure 25. Oil Price: Brent vs. Urals, past 12 months



Source: Bloomberg

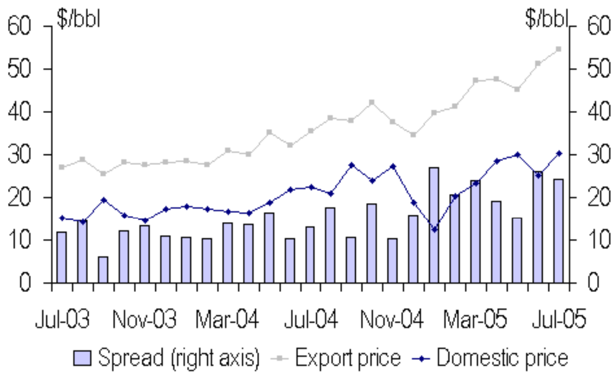
Figure 26. Oil Output by Company, March 2005



Source: Ministry of Energy

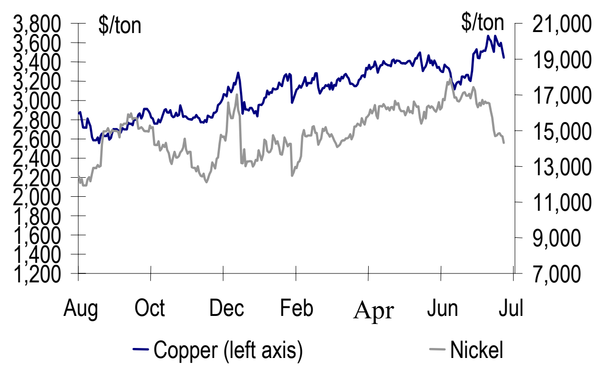
- After a small correction in the last few days of June, both the Brent and Urals prices edged higher, with the differential seeing a slight expansion at the beginning of July
- Russian production growth decelerated further in July, generally failing to meet expectations

Figure 27. Oil Export Price vs. Domestic Price



Source: Ministry of Energy

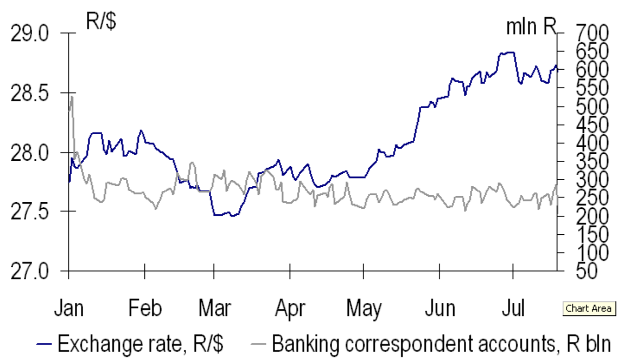
Figure 28. Copper vs. Nickel Price, past 12 months



Source: Bloomberg

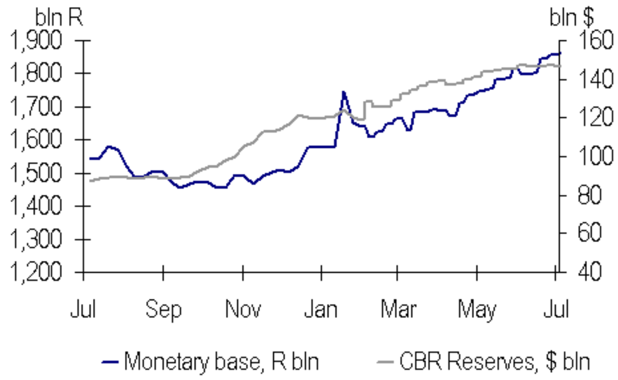
- Domestic crude prices accelerated faster than the export price, squeezing down the differential
- In July copper reached an historical maximum of $3,800 per ton on speculation that strikes in the US and Mexico would hurt supply

Figure 29. Exchange Rate vs. Bank Liquidity



Source: CBR

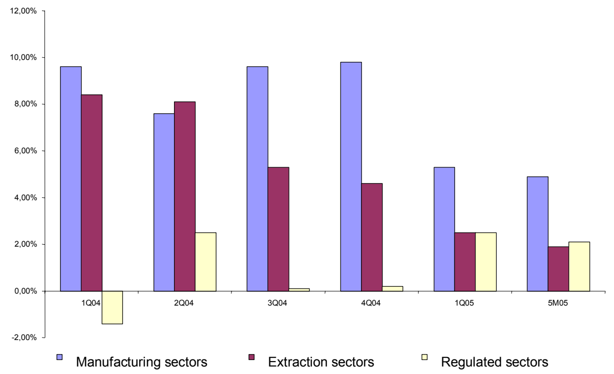
Figure 30. Monetary Base vs. CBR Reserves



Source: CBR

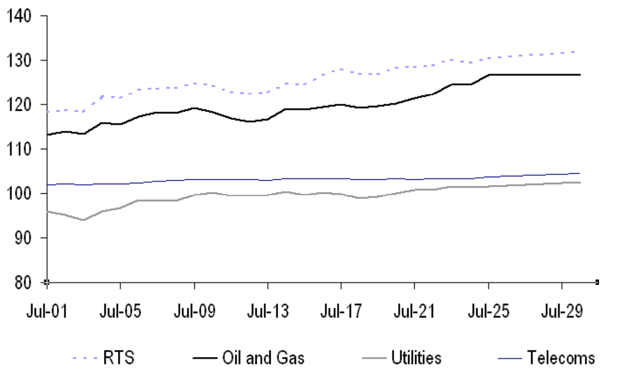
- Liquidity remained plentiful in July, helping to support the equity market's rally
- CBR reserves were flat on $15 bln in payments to the Paris Club as the monetary base expanded further

Figure 31. GDP Growth Rates



Source: State Committee on Statistics

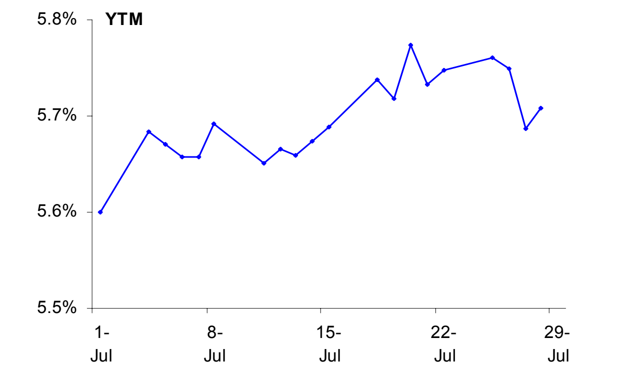
Figure 32. Sector Performance, MTD



Source: Alfa Bank estimates

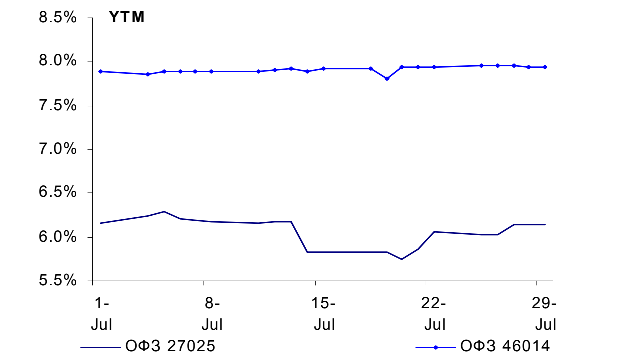
- Growth in all main sectors declined in 2Q05 on a quarterly basis, though not precipitously
- Oil & gas significantly outperformed other sectors, riding on the wave of record oil prices

Figure 33. Euro-30 Performance, MTD



Source: Reuters

Figure 34. OFZ 27013 – OFZ 46001 Performance, MTD



Source: Reuters

- The ruble government bond market was inactive, which is typical for summer period
- Russian debt market was less sensitive to UST price decline. Spreads reached historic lows

Macroeconomics

Natalya Orlova (7 095) 795-3677

Macro performance better than expected in July

Russia's macroeconomic performance turned out to be better than expected in July. After the very poor 1.4% y-o-y industrial growth in May, industry recovered by around 7% in June. As a result, GDP growth for 1H05 was 5.6%, only slightly better than the 5.4% measured in 1Q05. While this acceleration was due to the rapid increase in state-related sectors and thus may be temporary, Prime Minister Fradkov said he was nevertheless satisfied with the 1H05 results. Also, some deceleration of inflation in July to 0.5% (vs. 0.6% in June) is encouraging and suggests that we may see deflation in August.

We are less optimistic than the government on inflation

Some concerns, however, prevent us from sharing the Cabinet's optimistic view on inflation. The current slowdown in price growth was partly due to stable gasoline prices domestically, and partly a reflection of the accumulation of payment arrears on budget accounts. As in 2004, the federal budget is apparently trying to control price growth by postponing the financing of state expenditures, in particular money due to be paid to state enterprises, until 4Q05. However, as pension and salary indexation will begin starting from August, we expect inflation to pick up in September-October. The ongoing increase of international oil prices will support this trend. Thus the official 11% inflation forecast for 2005, in our view, will be revised in favor of a higher number in October.

Fitch upgraded Russia to two notches above investment grade

While questions remain regarding the growth-stimulation policy, Russia's macro picture continues to improve. The $15 bln in early repayments to the Pairs Club convinced Fitch to upgrade its sovereign rating of Russia from "BBB-"to "BBB". The ratings from S&P and Moody's remain one-notch below, but the agencies are likely to follow their competitor and move in the coming months.

Legislation

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Figure 35. Key Events

July 11 **Duma passes law on competition in first reading; aimed at price-fixing by large companies**

On Friday the Duma passed in first reading draft legislation that defines anti-competitive behavior and reduces business concentration in sectors of the economy. The bill replaces the outdated law on competition from 1991, and explicitly targets large companies. According to the head of the Federal Anti-monopoly Service Igor Artemev as quoted in Kommersant, in the future "the work of the anti-monopoly organs will be focused exclusively on large enterprises having direct and indirect effects on the country's economy". As such, the law does not pertain to the sector of small and mid-sized businesses (SMEs), as only deals totaling more than R30 mln (~$1 mln) will fall under its jurisdiction. In the future the FAS will no longer have the power to issue normative acts; instead, they will now be regulated by the law itself.

Promulgation of the bill appears a response to allegations in the past year of price-fixing in the market for gasoline and oil products. According to Artemev, the FAS proved in court that companies had in fact colluded to keep gasoline prices high. Courts have already found LUKoil and YUKOS guilty, and more than R100 mln ($3.4 mln) in fines have already been received by the federal budget. Meanwhile, investigations continue into Sibneft's activities in Omsk and 20 other regions.

Importantly, the new version of the law defines for the first time in Russia what constitutes a cartel, and lowers the allowable level of business concentration in any one sector from 65% to 50%. Such limitations are in line with the government's strategic objective to broaden economic growth away from the natural resource sectors.

Artemev declined to comment on how the law might affect non-oil sectors, preferring instead to wait for the law to be shaped further before second and third reading. Lobbying activity is expected to be active, with several amendments likely to be proposed, and final passage may occur as soon as the end of the Duma's autumn session.

July 14 **Supreme Arbitration Court rules against tax authorities' ability to levy additional back tax claims**

According to a report carried on Lenta.ru citing Vedomosti, the Supreme Arbitration Court has ruled against the tax authorities' ability to apply additional back tax claims and fines in cases involving repeated inspections. The decision involves an obscure regional water/sewage company Ulyanovskvodokanal, which had contested large back tax claims applied to the company during the course of a repeated review. Essentially, the

Court found that the company was not bound to pay for the previous mistakes of tax inspectors, even if the claims were found to have been justified.
The decision is encouraging from a legal standpoint, but of more practical importance is whether it will be cited in future cases involving larger, higher-profile companies. It should force the tax inspectors to be more thorough in their investigations, which may have the negative consequence of dragging out the inspection process as well as the accompanying period of uncertainty. That said, it does fit in with President Putin's call to rein in the powers of the tax authorities and stop “tax terrorism”.

July 15 **Constitutional Court affirms 3-year statue of limitations on back tax claims with single exception**
Yesterday the Constitutional Court affirmed the 3-year statue of limitations on back tax claims, except in cases where the payer acted in bad faith (“actively obstructed the tax authorities”), in which case courts could then disregard the statue of limitations and impose tax sanctions.
While the wording of the exception is vague and undoubtedly disappointing for those who were hoping for a tighter ruling, we believe the market was correct in focusing on the fact that the Court ruled in favor of all other aspects of the new statue of limitations. Like yesterday’s FAS decision barring repeated inspections, the Court’s view is in line with Putin’s campaign to rein in the excesses of the tax authorities and put an end to so-called “tax terrorism”. Hence the implications, and more importantly in our view the broader intent of the ruling, seem positive for the investment case.
We believe the alarming media headlines and accompanying commentary are missing the point with regard to the market impact of the ruling, which in our view essentially draws a line in the sand with regard to major back tax investigations. The Kremlin has apparently realized that its strategic goals for the economy (doubling GDP, raising the standard of living for the population, etc) are now threatened by the negative impact on business from the actions of overzealous tax investigators. Thus, those who wish to exploit the apparent loophole should already be aware that they would be doing so at their own risk (as we saw in the case involving VimpelCom earlier this year).
In any event, the loophole can be addressed by amending current tax legislation, as the Court made clear in its ruling. Granted, for the time being the tax authorities can theoretically exploit the vague wording, but the better question to ask is whether they are liable to actually do so given the Kremlin's clear view on the matter. We believe the answer is “highly unlikely”.

July 18 **RTS to extend trading hours starting July 25 by 75 minutes in bid to compete with MICEX**
Last Thursday, the Federal Service for Financial Markets (FSFM) approved plans by the Russian Trading System (RTS) to extend its trading hours by a total of 75 minutes. Starting next Monday, the RTS will open at 10:30 AM and close at 6:45 PM, matching the current trading hours of its main competitor the Moscow Interbank Currency Exchange (MICEX). According to RTS press representative Igor Polishchuk as reported on Gazeta.ru, the decision was based on a number of factors, chief of which is a desire to ensure conditions for correct pricing.
Bringing the trading hours on the two main local bourses into line will eliminate the ability of traders on MICEX to speculate based on earlier closing prices fixed on the RTS, often distorting quotations. The decision also relates to the RTS’ plans to soon begin trading in futures based on the RTS index, the proper functioning of which depends on closing levels that are a true reflection of the broader market.
More generally, the new trading hours reflect the RTS’ need to take steps to become more competitive with MICEX. In recent years the ruble-denominated bourse has steadily drawn trading volumes away from the RTS, with turnover sometimes differing by as much as 20 times. The end result is that many investors now consider the RTS to be merely indicative in character. Large players should welcome the extended hours, as most are registered on the RTS and have grown increasingly uncomfortable with its propensity to “catch-up” with closing MICEX levels the following morning.

July 26 **RTS to begin trading futures contracts based on Index tomorrow**
Tomorrow the RTS will launch trade in 3- and 6-month futures contracts based on the bourse's main Index. As reported in Vedomosti, contracts will be fulfilled in March, June, September and December. Each contract will be worth $2 per each point of the Index, and will be analogous to the creation of a portfolio of 50 shares used in calculation of the Index on a proportional basis.
We see good potential for this new instrument, as it will provide speculative investors with an alternative means of placing their money into Russian equities. It should also serve as a useful indictor of market sentiment and help fund managers who track the Index make longer-term investment decisions.

July 27 **State Property Fund to demand state companies pay 20-25% of net profit as dividends in 2006**
The head of the State Property Fund’s commercial division Gleb Nikitin told journalists yesterday that the Fund would demand that companies with government participation pay 20-25% of net profit as dividends in 2006. Moreover, he said that in the longer term the level would be raised to as much as 40-50%, adding that “the plank should be equal for all companies in which the state has a stake”.
However, seemingly contradicting the words of his subordinate, the head of the Fund Valery Nazarov also on Tuesday said that a range of factors should be taken into account for each company on an individual basis, chief of which being the degree of corporate development. To remind, this year the Fund requires that companies with state participation pay a minimum of 10% net profit to shareholders as dividends.
The setting of a uniform level is a view supported by those within the government who would avoid repeating arguments each year surrounding dividend payments by state companies, such as we are now seeing with Transneft. Raising the percentage payout might also create a new source of income for the federal budget – as well as for minority shareholders in companies like Gazprom and Sberbank, which have traditionally paid weak dividends – and compensate for the decline in privatization revenues in recent years.
Yet the apparent contradiction among top Fund officials as to the ultimate shape of the proposal suggests that a final decision is unlikely anytime soon, though the story warrants close monitoring. The outcome of the Transneft dividend saga may be particularly revealing in this regard.

August 2 **Government to consider creating $2.4 bln Investment Fund to finance infrastructure projects**
In a meeting with President Putin yesterday, Economy Minister Gref said the government would examine on Thursday a proposal to create an Investment Fund totaling R70 bln ($2.4 bln). Funds would be used over the next three years to finance “projects in private-government partnership”. He said the emphasis would be on infrastructure projects, adding that a mechanism would be created for attracting private investment. Only “large national projects” with a term of at least five years and totaling at least R5 bln ($174 mln). According to Interfax, state projects as well as those carried out in partnership with non-state companies will be eligible for funding, and proposals will be taken from Russian regions, municipalities and private companies. Business daily Vedomosti citing a copy of the proposal writes that projects would be evaluated exclusively by foreign banks with a minimum level of ratings from the agencies S&P, Fitch and Moody’s.
The creation of an Investment Fund is in line with the government’s plan to encourage investment in strategic sectors of the economy, with housing, roads and electricity the likely areas to be targeted, in our view. However, it remains to be seen whether the selection process will not be unduly influenced by lobbying efforts, and whether the government will heed the opinions of the foreign appraisers. The decision to exclude Russian banks from the process also raises questions as to whether the government is trying too hard to appear above reproach, in the process excluding local expertise and know-how.

Source: Corporate and Industry News

Oil and Gas

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All points at Millhouse's intention to sell out

July generally appeared a quieter month than June for the Russian oil and gas sector. Speculation about Millhouse's intention to cash out on its stake in Sibneft have transformed into a firm conviction in the market, following the unfreezing of YUKOS' 14.5% interest in Sibneft and the subsequent return of this stake to its original holder, Millhouse. As a result, the latter's stake in the oil company increased from 57.5% to 72%. An additional factor in favor of the cash-out scenario appeared soon thereafter, when Sibneft's board of directors announced the record date for participation in the newly called AGM scheduled for September 12. The record date for the AGM, as well as the cut-off date for the bumper $2.3 bln dividend announced earlier, was set for July 27, i.e. after the 14.5% stake in Sibneft was returned to Millhouse. We reduced our valuation of Sibneft accordingly to exclude the dividend – the new fair value is $3.20 per local share and $16.0 per ADR with a HOLD rating.

Gazprom appears the most likely acquirer

We now turn to the likely acquirer. Following a range of speculation about who might be the possible buyer of Sibneft, Gazprom now appears the most plausible candidate. This is suggested by newswire reports, albeit not yet officially confirmed, that Gazprom is looking to raise as much as $12 bln in the form of a syndicated loan from Western banks, with a view to financing the purchase of the 72% interest in Sibneft from Millhouse.

Implications for Sibneft's minority shareholders?

What would be the possible implications of the change in ownership for minority shareholders in Sibneft? First of all, it is still unclear at what price the 72% stake would be bought out. Secondly, whether or not Sibneft's minority shareholders will have the right to sell their stakes in the company to the buyer of Millhouse's stake, it depends on one change in Sibneft's Charter. Specifically, the September 12 AGM is due to vote on an amendment to restore the clause in the Charter ensuring that any buyer of a 30% or greater stake in the company offers to buy out shares held by minority shareholders at the greater of the market price or the six-month average price up to the date of the sale.

We do not see upside for minorities

Clearly, should Gazprom confirm and finalize its purchase of Millhouse's stake in Sibneft prior to the AGM, Sibneft's minority shareholders will not see any upside from the sale. On the other hand, we would still not be optimistic even if the sale takes place after the AGM. We are convinced that approving the respective clause will serve as an excellent bargaining tool for Millhouse in its negotiations with Gazprom over the financials of the deal. Furthermore, should Gazprom indeed acquire control over Sibneft, improvement or even maintenance of the latter's operational efficiency would be highly questionable, given Gazprom's own internal efficiency issues.

Russian oil production growth decelerates further in July, as expected

Elsewhere, Russian oil and gas production growth data for July came in weaker than that for June, in line with our expectation. In January-July output advanced by 3.3% y-o-y (in terms of daily production volumes), which represents a deceleration from January-June (+3.6%), January-May (+4.1%), and January-April (+4.4%). Production growth of 3.3% for January-July is in line with our full-year forecast for 2005, which we will likely revise downward if output continues to slow through August. As anticipated, leaders in production growth in July included TNK-BP (up 0.8% over June), Rosneft (up 0.8% on the back of a 1.5% increase in oil production by Yuganskneftegaz), LUKoil (+0.5%) and Surgutneftegaz (+0.4%). Unsurprisingly, YUKOS and Sibneft noticeably lagged behind, with negative production growth of 4.1% and 2.8% in July.

Gazprom

Figure 36. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	33,916	42,926	44,111	44,178
EBITDA, $ mln	13,128	18,243	17,519	17,327
Net profit, $ mln	7,142	8,553	8,580	8,919
P/E	10.5	8.8	8.7	8.4
EV/EBITDA	7.3	5.2	5.4	5.5
Market Cap, $ mln	79,624			
Enterprise Value, $ mln	95,393			
Production, boe	3,464			
Reserves, boe	105,816			
Shares Outstanding, mln	23,674			

Sources: Company reports, Alfa Bank estimates

Figure 37. Company Snapshot

Strengths

- Monopoly over domestic gas market
- Large portion of revenues (65-70%) derived from exports
- Strong position on the European gas market

Weaknesses

- Low domestic gas prices
- Slow progress in improving operating efficiency
- Dual market for company's share trading

Opportunities

- Ring-fence removal appears imminent in the near term
- Potential for cheap asset acquisitions
- Potential JVs with international majors; Gazprom would benefit from foreign management expertise
- New export-pipeline projects
- Gradual rise in domestic gas prices

Threats

- Risk of growing inefficiency of operations as new assets are added to the company's structure
- Risk of squandering cash proceeds expected from the government in exchange for the 10.7% stake

Sources: Company reports, Alfa Bank estimates

Figure 38. Key Events

July 8 **Gazprom preview of 2004 IAS results; ADS reduced to HOLD**

Gazprom announced that it plans to release its full-year 2004 IAS results this evening. We expect a 22% year-on-year increase in revenues to $32.7 bln, a 12% rise in EBITDA to $11.9 bln, and an 18% increase in net profit to $6.1 bln. We will focus our attention on the company's operating costs, net debt position, the situation with operating cashflow generation, as well as capex efficiency. All in all, we do not expect major surprises, and view the company's performance as of secondary importance to the progress with ring-fence liberalization at this stage.

We also reduce our rating on Gazprom's ADS to HOLD, as the ADS market value is approaching our target price. However, we still see upside for the local shares and keep the rating unchanged at BUY.

July 11 **Gazprom publishes mixed 2004 IAS results**

Gazprom released its 2004 IAS results, which appeared to be fairly mixed. Revenues increased by 27% y-o-y to $33.9 bln (vs. consensus of $33.5 bln) on the back of strong international gas prices and healthy export volume growth in the fourth quarter. EBITDA, likewise, went up by 27% to $13.1 bln, in line with the consensus. However, net profit jumped by 38% to $7.1 bln, surpassing the consensus of $6.6 bln. The increase in the net profit was helped by a $169 mln decrease in interest expense and a $42.5 mln increase in gains on and extinguishments of restructured liabilities.

Overall, we believe that the results should have a neutral effect on Gazprom. The company's shares are more driven by progress on the ring-fence liberalization front and looming sizeable acquisitions.

July 14 **US firm sues Gazprom over ownership of Yuzhno-Russkoye field, chances of success appear questionable**

A couple of noteworthy new pieces of information appeared in Gazprom's Eurobonds offering memorandum, as quoted in the press today. The company has disclosed an outstanding suit against it by a US company Moncrief Oil filed in Texas on June 7, 2005. The US company wants to reclaim rights for the development of Yuzhno-Russkoye field and in case its rights are not reinstated is demanding compensation for earnings foregone in the range of several billions of dollars (the exact amount is not disclosed). Back in 1997-1998 Moncrief Oil had apparently reached an agreement with the former head of Zapsibgazprom (at that point a subsidiary of Gazprom and holder of license for Yuzhno-Russkoye field), pending this agreement the company was to invest $1 bln in the development of the field in return for a 40% stake in the project. Later on the license for the field was transferred to Severneftegazprom. By 2001 Gazprom had lost control over Zapsibgazprom and Severneftegazprom, with controlling stakes having passed to Yukos affiliated structures and Itera, respectively. Gazprom later returned control over the field following efforts by the new management team to regain ownership of assets lost under the Rem Vyakhirev era.

Yuzhno-Russkoye is a large field in northern Russia, expected to produce up to 25 bcm pa and to become a platform for exporting gas to Europe via the to be constructed North-Equropean gas pipeline. In April 2005 Gazprom signed a memorandum with Germany's BASF according to which the company will be getting a 50%-1 share stake in Severneftegazprom (owner of license for Yuzhno-Russkoye field).

The chances of success of the US company at this stage appear questionable. First of all it is unclear whether the company had fulfilled its part of the obligation and made the necessary investments into the field, if it had not than it would appear that it does not have legal basis to claim Gazprom to fulfill its part of the deal. Secondly it is unclear whether Gazprom should in fact be the entity to be held liable for the claims of the US company – Gazprom itself was diluted out of the venture and had to later reclaim its ownership. In any case we will continue to carefully monitor the situation and provide an update should new information emerge.

In addition to this in the risks section of the memorandum Gazprom had mentioned the possibility of delays in the payment by Rosneftegaz for the 10.7% stake in Gazprom received from the company's subs. As a reminder the total $7.1 bln sum to be received from Rosneftegas is to be paid in three tranches with the largest tranceh of $5.8 bln to be transferred before December 25, 2005. It was clear from the start that the fact that the payment is not immediate, but rather will be spaced over time, is not the best scenario for Gazrom. However the fact that this risk was disclosed in the memorandum does not in our view highlight an increased likelihood of delays, but rather most likely is simply a standard procedure of disclosing all types of hypothetical risks that may be faced by the company.

July 18 **Gazprom settles dispute with Ukraine over 7.8 bcm of lost gas**

Gazprom has finally reached an agreement with Naftogaz Ukrainy over the 7.8 bcm of Gazprom's gas "lost" in Ukraine's underground storage tanks. Of this volume, 2.55 bcm will be counted toward payment of transit services to Ukraine, while Gazprom will receive a payment of $800 mln from RosUkrEnergo (JV of Gazprombank and Raiffeisen Investment) for the remaining 5.25 bcm. RosUkrEnergo will in turn receive 5.25 bcm of gas from Naftogaz for export in 2005-2006. Additionally, the parties have agreed to increase Gazprom's transit volumes through Ukraine by 8 bcm in 2005 and 8-11 bcm in 2006. The parties have signed all the necessary documents to settle the issue.

The outcome of this dispute appears favorable to Gazprom: the company will be able to regain revenues lost in 2005, as well as to boost proceeds from the increase in export deliveries above originally planned volumes.

On a separate front, Gazprom said on Friday that it considered the Sakhalin-2 project to be overvalued after its operator, Royal Dutch/Shell, doubled its cost estimate for the project to $20 bln. Earlier, Gazprom and Shell had reached an agreement for an asset swap involving the exchange of Shell's 25% stake in Sakhalin-2 for a 50% stake in the development of Neocome layers at Gazprom's Zapolyarnoye field. This dispute over the Sakhalin estimate will likely prolong the negotiations over the terms of the swap.

July 20 **Gazprom: Rosneftegaz close to securing attractive international loan**

Whether the government succeeds in raising funds from the international banks to finance its acquisition of the 10.74% stake in Gazprom on time remains an open question. However, according to Vedomosti, the deal is nearing and Rosneftegaz is looking to secure very favorable terms. According to banking sources close to the deal, Rosneftegaz plans to borrow $7.3 bln in two tranches, both with very short-term maturities – a $1.4 bln loan in July with a three-month maturity and a $5.9 bln one in December with under a year's maturity, Vedomosti writes. Notably, the rate Rosneftegaz is looking for is as low as LIBOR + 1.55%, which is extremely attractive for the borrower. Interestingly, the loan would not be guaranteed by export revenues. The issue of a pledge has not yet been decided, and the banks are considering accepting Rosneftegaz's 100% stake in Rosneft and 10.74% in Gazprom, according to several banking sources. Moreover, the banks are also looking for a 0.5% fee for their services.

Rosneftegaz, however, may not be able to secure the loans before 23 July, when the first payment for its stake in Gazprom is due, according to two syndicate bank officials, and the deal is most likely to be finalized in August. In turn, Gazprom has warned about the risk of delays in payment in its recent eurobond prospectus. In our view, a delay by a few days or weeks would not be a big surprise; however, if it extends further, Gazprom shares might experience downward pressure.

July 21 **Question of settling Ukraine's $1.6 bln gas debt to Russia once again reopened**

Gazprom's peace with Ukraine did not last for long. Just days after the parties reached an agreement over the resolution of the fate of 7.8 bcm of gas "lost" in Ukraine's underground storages, Ukraine has started again to pick at old wounds. Yesterday the country's Minister of Justice Roman Zvarich stated that the August 2004 agreement between Gazprom and Naftogaz Ukrainy to settle Ukraine's $1.6 bln debt to Gazprom for gas deliveries over 1997-2000 was illegal, as it ran counter to inter-governmental agreements reached between the two states in 2001. According to Zvarich, Ukraine should repay its debts to Gazprom in cash as stipulated in the 2001 agreement, rather than employing any other schemes. Contrarily, the agreement of August 2004 states that Ukraine will service its $1.6 bln debt (less a 22% discount) by reducing Gazprom's future payments for gas transit through Ukraine (through 2009). By this agreement, Gazprom would be free to export some 5 bcm of gas per annum to Europe instead of selling it in Ukraine for $50/bcm. According to our estimates, this scenario would have generated around $2 bln in additional revenue for Gazprom over 2005-2009.

The fact that this issue has yet again become controversial is obviously disappointing, as once again there is no clarity as to how and when the debt would be repaid. However, judging by the track record of the new Ukrainian government's energy relations with Russia, this development is by no means a surprise.

July 22 **Gazprom receives $568 mln first tranche of total $7.15 bln payment from Rosneftegaz according to schedule**

Gazprom has received the first tranche of the total $7.15 bln in payments from 100% state-owned Rosneftegaz for a 10.74% stake in the company that was sold to the government. According to an unnamed state official cited by Interfax, this first payment of $568 mln (R16.235 bln) occurred yesterday, just ahead of the July 23 deadline. According to the news agency's source, Rosneftegaz has not yet raised funds from Western institutions, and obtained the funds for this tranche from Rosneft. The truth of that statement is questionable, given that Rosneft itself is currently under serious financial strain (with a debt burden of $22.5 bln). More plausible is the possibility that the payment was financed by a local bank; Kommersant's sources consider Vneshekonombank to be the likely candidate.

The largest of the three tranches to be paid to Gazprom is due by December 25 and will amount to $5.8 bln. By that point, Rosneftegaz plans to have raised a syndicated loan from Western financial institutions of $7.3 bln. According to earlier media reports, the terms of this loan are likely to be quite favorable with an expected interest rate of LIBOR+1.5%.

On a separate front, S&P confirmed yesterday Rosneft's B- rating with a developing outlook, and removed it from its Credit Watch list. S&P has apparently decided that the potential of immediate liquidity strains on the company has been reduced. This follows as a result of Rosneft apparently reaching an agreement with banks holding $1.9 bln of the company's long-term obligations for the granting of waivers on Rosneft's breached covenants. Rosneft has also reached a temporary agreement with banks that credited YUKOS and for which Yuganskneftegaz acted as a guarantor (for a total amount of $1.1 bln).

July 27 **Gazprom apparently looking to raise $12 bln to buy Sibneft**

Gazprom's acquisition of Sibneft seems to be getting closer by the day. Yesterday Reuters reported, referring to unnamed sources, that Gazprom is discussing with a number of Western banks the possibility of raising as much as $12 bln via a syndicated loan with a view to financing the gas company's acquisition of Millhouse's 72% stake in Sibneft. The information has not been officially confirmed by either Gazprom or banking officials.

At first glance, the development looks like a good deal for Millhouse: If all of the $12 bln goes toward purchasing the stake, this would represent a near 6% premium to the current market price. That said, it does not necessarily imply good news for Sibneft's minority shareholders, given that at the current stage Gazprom has no obligation to offer to buy out their stakes at market prices. Sibneft's AGM was expected to approve an amendment to the Charter calling for any buyer of a 30% or greater stake in the company, or any additional 5% on top of this threshold, to offer to buy out remaining shareholders at market prices. However, the AGM did not materialize due to the lack of a quorum.

As far as Gazprom is concerned, borrowing such a sizeable amount is not so sound, though we think Sibneft is slightly undervalued at current levels. Hence it would not represent a bad investment for Gazprom from a financial standpoint (set aside for a moment Gazpom's ability, or rather inability, to operate Sibneft efficiently).

On a separate front, Vedomosti reported that Sibneft's board of directors is due to meet today to decide on the cut-off date for eligibility to its hefty $2.3 bln dividend for 2004 announced after the failed AGM. Sibneft has confirmed that the board will indeed meet today, though the meeting agenda has not been disclosed. In our view, the cut-off may be dated for any day counting from the return to Millhouse of the 14.5% stake in Sibneft previously held by YUKOS at the court's order.

Source: Alfa Bank research

LUKoil

Figure 39. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	34,058	36,096	32,880	31,586
EBITDA, $ mln	7,109	6,858	6,383	6,649
Net profit, $ mln	4,248	4,376	4,034	4,394
P/E	8.5	8.2	8.9	8.2
EV/EBITDA	5.5	5.7	6.1	5.8
Market Cap, $ mln	36,038			
Enterprise Value, $ mln	38,855			
Production, mln boe	664			
Reserves, mln boe	20,072			
Shares Outstanding, mln*	851			

*Note: * Excluding 25 mln treasury shares*
Sources: Company reports, Alfa Bank estimates

Figure 40. Company Snapshot

Strengths
- Large proved reserves totalling 20.1 bln boe
- Diversified asset base
- Independent oil export routes from Timan-Pechora and Caspian region (20 mln ton capacity)

Weaknesses
- Slow progress in improving operating efficiency
- High and rising unit capex

Opportunities
- Advantages of strategic partnership with ConocoPhillips
- Increasing production growth
- Rationalization of asset portfolio
- Restructuring program to boost capex and opex efficiency
- Development of gas business segment
- Revival of contract in Iraq

Threats
- Large capex may not yield the desired rate of return
- Dependence on the domestic market

Sources: Company reports, Alfa Bank estimates

Figure 41. Key Events

July 27 **LUKoil sells 100% of Arcticneft for $1.5/bbl of reserves to Urals Energy**

LUKoil has announced the sale of its 100% stake in Arcticneft to Urals Energy. Arcticneft is a small upstream company operating in Nenets region (on Kolguev island in the Barents sea). The company holds 26.3 mln bbl of proven crude reserves, with production in 2004 amounting to 0.53 mln bbl. According to the report in Vedomosti, LUKoil received a total of $40 mln for its stake (of which $20 mln was repayment of Arcticneft's debts to LUKoil). LUKoil announced plans to dispose of this asset back in April 2004. The sale was made at a reasonable price of about $1.5/bbl and is in line with LUKoil's strategy of rationalizing its asset portfolio.

Source: Alfa Bank research

Sibneft

Figure 42. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	9,265	10,637	9,695	9,264
EBITDA, $ mln	3,242	2,846	2,490	2,386
Net profit, $ mln	2,046	2,197	1,820	1,747
P/E	7.3	6.8	8.3	8.6
EV/EBITDA	4.7	5.4	6.2	6.4
Market Cap, $ mln	15,030			
Enterprise Value, $ mln	15,338			
Production, mln boe	260			
Reserves, mln boe	4,827			
Shares Outstanding, mln	4,741			

Sources: Company reports, Alfa Bank estimates

Figure 43. Company Snapshot

Strengths
- High operating efficiency
- Owns Russia's most advanced refinery with 82% refining depth
- Access to Moscow fuel market via 38% stake in Moscow refinery

Weaknesses
- Low (8%) free-float
- Having been one of most aggressive tax minimizers, the company is at risk of back tax penalties

Opportunities
- Sale of stake in the company to a strategic investor
- Boost in operating efficiency of Sibneft's 50% subsidiary (Slavneft)

Threats
- Fate of the 20% stake in Sibneft currently held by Yukos
- Potential further downward revisions to already decelerating production growth

Sources: Company reports, Alfa Bank estimates

Figure 44. Key Events

July 5 **Sibneft to pay record $2.3 bln dividend for 2004; no record date set yet**

Sibneft announced yesterday that its board of directors recommended on June 30 that its new AGM approve a dividend payment for 2004 of R66.0 bln ($2.29 bln), or R13.91 ($0.48) per share. We believe this would imply a payout of all of the company's 2004 net profit and translate into a handsome dividend yield of around 14% based on yesterday's closing price of $3.54. The announcement precipitated a surge in the company's share price, driving it up 3.5% at yesterday's close.

However, management has not provided any details on the proposed date for the new AGM or the record date. This should be expected in the coming days, according to Sibneft. In the run-up to this announcement, we might see continued strength in the company's share price.

July 7 **Sibneft Rosneft after 20% of Sibneft; we downgrade Sibneft to HOLD**

Vedomosti and the Moscow Times quoted Rosneft CEO Sergei Bogdanchikov as saying that at its request assets of YUKOS have been frozen, including the 20% stake in Sibneft. Rosneft is seeking to ensure it gets compensation for YUKOS' debt owed to Yuganskneftegaz, which it acquired at an auction last December. According to Bogdanchikov, Rosneft is not interested in more than 20% of Sibneft and does not plan on increasing its already high debt levels.

On the other hand, according to Gazprom officials, the company is actively negotiating with Sibneft's core shareholders (Millhouse) on the potential buyout of 72% of Sibneft and that the parties have already reached a preliminary agreement on the price, according to Vedomosti. The deal has reportedly been coordinated with the government. The report in the business daily echoes the earlier report by Kommersant, which emphasized both Gazprom's and Rosneft's interest in Sibneft.

July 11 **Sibneft: Putin confirms talks between Gazprom and Millhouse**

Speculation that Gazprom is interested in acquiring Sibneft from its core shareholders has acquired a new dimension. Both Vedomosti and the Moscow Times quoted President Putin as confirming that negotiations between Gazprom and Millhouse are indeed taking place and that he has personally discussed this with Sibneft. Putin explicitly stated that the government has no relation to the matter and that the deal would be entirely an agreement between the parties involved – Gazprom and Sibneft's shareholders. In our view, however, Putin's statement suggests that the deal is nearing and has apparently been blessed by the Kremlin.

Vedomosti quoted a source close to Gazprom as saying that the company is considering offering $3.00 per Sibneft share, which means a 14% discount to the last close of $3.47. This, however, has not been confirmed. Moreover, Sibneft is yet to announce its new AGM and record date, which will indicate the shareholders eligible to the 2004 dividend proposed by the Board last week.

In our view, if Sibneft's core shareholders indeed decide to sell out, they are unlikely to get any significant premium to the market price, especially if Gazprom indeed turns out to be the buyer.

In the meantime, we reduce our rating on Sibneft shares from BUY to HOLD. The share price has come close to our target price of $3.68, and we do not see any major triggers for the company in the near term.

July 13 **Sibneft's 2004 US GAAP falls short of expectations on near 4x jump in effective tax rate**

Yesterday Sibneft released its 2004 US GAAP results, which were weaker than our and the market's expectations. While revenues were in line with our estimate – $8,886 mln vs. $8,890 mln, EBITDA came in somewhat lower – $3,242 mln vs. consensus of $3,345 mln. This is due mainly to higher growth in SG&A (up 34% y-o-y at $1.4 bln), which hampered the good operating cost numbers (up only 8% y-o-y to $1.9 bln).

Below the operating line the major cause for the miss in expectations was a substantial jump in income taxes – up a whopping 376% y-o-y to $875 mln. This translated into an effective income tax rate of 39% in 2004 vs. just 10% in 2003 (our calculation subtracts income from equity affiliates from the pre-tax profit, as this item is already post-tax). While we forecast an increase in the effective income tax rate, given that the company departed from its tax optimization schemes last year, this is significantly above the statutory 24% rate. This leads one to suspect that part of the increase may well have been due to accounting for back taxes. This information is supported by the disclosure Sibneft made regarding the balance sheet item "income and other taxes payable", which increased $389 mln y-o-y. According to the company this item includes the actual payments settled by Sibneft during 4M05. The bottom line also suffered from larger other non-operating expenses – up 45% y-o-y to $250 mln vs. our forecast of around $200 mln. As a result, net income decreased by 10% y-o-y to $2.0 bln, some $285 mln below the consensus estimate.

On the cashflow side, the company failed to deliver on its promise to increase cashflow from operating activities, which was down $314 mln in 2004, while we were expecting a $105 mln increase. Our assumption was based on Sibneft's reassurance when it published its 2H04 results that the situation with its working capital would improve, which did not materialize. Capex was largely in line with our expectation.

Overall, though the results did fall short of expectations and sparked selling of Sibneft shares, the main reason for the miss appears to be higher tax payouts, which is something that the market has generally waited for. Meanwhile on the operating side, Sibneft continues to show it has a fairly good handle on costs. We thus maintain our HOLD recommendation and $3.68 fair value while highlighting the possibility of a downward revision should the tax authorities' review of the company's 2002-2003 activities reveal new back tax obligations.

July 18 **Sibir Energy brings its case over lost ownership of Sibneft-Yugra JV to British Virgin Islands**

Sibir Energy's battle to reclaim a 49% stake in the Sibneft-Yugra venture with Sibneft continues. Sibir Energy has filed a complaint in a court in the British Virgin Islands against Sibneft, Roman Abramovich, and six affiliated offshore companies. The court has issued an injunctive prohibiting the defendants from diminishing their assets below $1 bln each, and also obliging them to disclose all assets valued over $1 mln. As an additional measure, the court ruled that a temporary receiver be named to hold the 49% stake in Sibneft-Yugra in trust.

The dispute over Sibir Energy's stake in Sibneft-Yugram began in May 2004 when the company started claiming that its stake in the venture was diluted without its knowledge from 49% to 1%. So far, the company has lost all of its cases in Russian courts. The next hearing in the present case is scheduled for July 27. This court case could impede the potential sale of Abramovich's stake in Sibneft to Gazprom, i.e., if Sibir energy actually succeeds in proving his affiliation with the company.

July 21 **Millhouse regains ownership of 14.5% stake in Sibneft after arrests lifted**

The media reported yesterday evening that the courts have lifted the arrest on a 14.5% stake in Sibneft, and that the stake will be returned to its former owner – Millhouse Capital. According to the press, Sibneft has confirmed this information. To recall, the court of Chukotka ruled in the summer of last year to reverse the original share-swap transaction between YUKOS and Sibneft, and returned to Millhouse a 72% stake in Sibneft in exchange for a 26% stake in YUKOS). However, since part of these shares (a 14.5% stake in Sibneft) had already been frozen by decisions of both the Basmanny and Moscow Arbitration courts, ownership could not be transferred. With the stake in question now unfrozen, the ruling of the Chukotka court may now finally take effect.

With Sibneft's core owners obtaining control of 72% of the company, the path now seems clear for the potential sale of the stake to Gazprom. Vedomosti reports today that several unnamed sources have already confirmed that Sibneft's core owners and Gazprom have already reached a general agreement. Although it appears unlikely that Gazprom will pay a meaningful premium on the stake, interest may rise in the remaining 8% of Sibneft's shares floating on the market. Gazprom could decide to boost its 72% stake to super-majority ownership (75%), with the possibility perhaps of selling a blocking stake to another strategic investor. In addition, should Rosneft obtain a 20% stake in Sibneft from YUKOS following court proceedings, it may also be interested in accumulating a blocking stake. These considerations will probably support the share price in the near to medium term.

It is worth mentioning that Millhouse is much more likely to set the ex-dividend date on the proposed $2.3 bln dividend after the return of the addition 14.5% stake rather than before. This would imply that up until the moment of that transaction, Sibneft shares will trade cum-dividend.

July 28	**Sibneft shares go ex-dividend today, AGM to take place September 12** Sibneft yesterday finally set the date for its AGM and determined the closing date for the register. The AGM will take place September 12, and shareholders are to approve a $2.33 bln dividend payout proposed by the board of directors. The dividend cut-off date for local shares was yesterday evening, and thus today they will be trading ex-dividend. ADRs should still be trading cum-dividend: Sibneft's depository – The Bank of New York – has set the ADR record date at August 1, thus by the usual logic the cutoff date should be two days before (i.e. at the close of the day today) and ADRs will thus go ex-dividend tomorrow. The dividend of $0.49 p/s ($2.46 p/ADR) will yield 14.8% on yesterday's ADR closing price. Another key item on the AGM agenda is reinstatement of the clause into the company's charter on the obligatory buyout proposal to minority shareholders by the acquirer of more than a 30% stake in the company. The price that the acquirer would have to offer to minority shareholders must be no less than the six-month average market price to the deal date. At the same time, it is well within the power of the company's shareholders to reject this amendment. For Gazprom, which is widely rumored to be interested in acquiring a 72% stake in the company, this would be an unwanted burden. It is thus quite likely that Sibneft's core owners may use this opportunity as a bargaining tactic in negotiations with Gazprom for a better selling price.

Source: Alfa Bank research

Surgutneftegaz

Figure 45. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Net Revenue, $ mln	12,841	16,148	14,892	14,174
EBITDA, $ mln	4,057	4,094	3,965	4,039
Net profit, $ mln	2,503	2,406	2,211	2,197
P/E	11.8	13.3	14.5	14.6
EV/EBITDA	3.4	3.4	3.5	3.4
Market Cap, $ mln	34,367			
Enterprise Value*, $ mln	13,872			
Production, mln boe	522			
Reserves, mln boe	8,750			
Shares Outstanding, mln	43,428			

*Note: * Excludes value of own stock held through company's subsidiary*
Sources: Company reports, Alfa Bank estimates

Figure 46. Company Snapshot

Strengths
- Politically safe stock
- Refinery near St. Petersburg is well located for domestic deliveries and export

Weaknesses
- Low dividend payout ratio (3-4%)
- Refinery is one of Russia's most obsolete (54% refining depth)
- Very poor financial transparency, capital efficiency and shareholder relations

Opportunities
- Development of new reserves in Eastern Siberia
- $800 mln modernization of Kinef refinery by 2008
  Change in corporate governance practices

Threats
- Company's non-transparent ownership structure facilitates manipulation of large 47% block of "treasury shares"
- Large unused cash pile which does not add value

Sources: Company reports, Alfa Bank estimates

Tatneft

Figure 47. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	6,095	6,827	6,132	5,668
EBITDA, $ mln	1,431	1,306	1,192	1,163
Net profit, $ mln	845	687	599	620
P/E	5.4	6.6	7.6	7.3
EV/EBITDA	4.3	4.7	5.2	5.3
Market Cap, $ mln	4,723			
Enterprise Value, $ mln	6,186			
Production, mln boe	187			
Reserves, mln boe	6,173			
Shares Outstanding, mln	2,326			

Sources: Company reports, Alfa Bank estimates

Figure 48. Company Snapshot

Strengths
- Loads up to 25% of Moscow refinery's capacities
- New technology helps keep production at 24 mln tons

Weaknesses
- Tatarstan government exercises significant influence
- Undeveloped downstream operations
- Poor transparency
  90% depleted reserves lead to higher costs

Opportunities
- Construction of $820 mln modern refinery by 2008
- Development of reserve base in new areas should boost production
- Introduction of a differentiated production tax would lower the company's tax burden

Threats
- Growth in financing costs due to growing debt position
- Possible introduction of oil quality bank

Sources: Company reports, Alfa Bank estimates

Figure 49. Key Events

July 15	**Tatneft publishes 1H04 US GAAP results: EBITDA up 112% to $676 mln** Alas Tatneft has published its US GAAP numbers. For 1H04 the company's revenues grew 30% y-o-y to $2.956 bln on top of higher crude and products prices both domestically and abroad. Costs grew notably slower: up only 16.5% y-o-y, this brought a 175% boost to the operating profit, which increased to $519 mln. EBITDA grew 112% y-o-y to $676 mln, while net income was up 22% y-o-y to $330 mln. The key reason for the slower growth of the bottom line is the large one off gain of $152 mln that Tatneft posted in 1H03 as a result of the cumulative effect of a change in accounting principle. Both EBITDA and operating margin improved significantly up to 23% and 18% from only 14% and 8% respectively in 1H03. Overall the results fall generally fall in line with our expectations, in the second quarter of 2004 the company should have been able to post yet stronger results due to substantially higher prices (both domestically and abroad) though offset to a degree by the higher taxes. We will be taking a more careful look at the numbers and will adjust the model accordingly, though no significant changes are expected. It is a relief that the company has finally managed to publish its US GAAP numbers, thereby no longer risking being de-listed from the NY stock exchange.

Source: Alfa Bank research

Yukos

Figure 50. Key Events

July 15	**Yukos loses appeal against YuganskNG's suit; now liable to repay $2.2 bln** Yukos yesterday lost its appeal in Moscow court involving the claim of R62.4 bln ($2.2 bln) against the company from its former subsidiary Yuganskneftegaz. The court had earlier upheld its decision in favor of the $2.2 bln claim. YuganskNG has sued its former parent for non-payment for crude that the subsidiary delivered to Yukos in 2004. The total amount of claims that YuganskNG is presenting approaches $15 bln. As the courts uphold the claims by Rosneft (via YuganskNG) and it becomes one of the largest creditors of Yukos, it will be in a position to easily lay its hands on the remaining assets of the torn company. Rosneft has already expressed interest in the 20% stake in Sibneft, currently still in the hands of Yukos, while other major assets of interest would be Yukos' refineries as well as its remaining two production subsidiaries.
July 21	**Rosneft and YUKOS urged to ensure compliance with license terms** The Russian Ministry of Natural Resources is on the prowl, as always, for noncompliance with oil field development license terms. Demonstrating its nondiscriminatory approach to its duties, the Ministry has just leveled accusations against Rosneft and YUKOS. YUKOS has three months to prove that its subsidiary Samaraneftegaz's Malaninsky deposit is in compliance with license terms. Rosneft has one year to reaffirm compliance for five fields in Chechnya – Ilinsky, Lesny, Severo-Bragunsky, Gudermes and Chervlen. In our view, these charges represent merely the normal course of events, "just another day" at the Ministry, which has issued similar warnings to other Russian companies in the past. In any case it appears unlikely that Rosneft will lose its major licenses.

Source: Alfa Bank research

Utilities

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UES

Figure 51. Key Events

July 1	**UES board of directors holds its meeting** UES board of directors elected Alexander Voloshin, Advisor to the Head of Administration of the President of Russia, as Chairman of the company's board of directors, and Victor Khristenko, Minister of Industry and Energy, as Deputy Chairman of the Board. Alexander Voloshin has been a member of UES board since 1999, and the board Chairman for six consecutive years. UES board approved the plan for the formation of TGC-11 on the basis of the generation assets of Tomskenergo and Omskenergo. UES board also approved the divestiture by "COR UES", a wholly-owned subsidiary of UES, of its stake in Media-Holding REN TV. UES CEO Anatoly Chubais made a suggestion to the members of the board to use the proceeds from this transaction to finance a special project designed to significantly improve the efficiency of dispatching/control and enhance the reliability of the energy systems' power grid facilities affected by the recent blackout. UES board deemed it advisable to liquidate the 34 management companies being spun off in the course of regional energos' restructuring, and made alterations to its previously adopted resolutions. The board accepted the resignation of Dmitry Zhurba as member of the Management Board and CFO. According to Anatoly Chubais, the functions performed by Dmitry Zhurba as Financial Director, will be entrusted to Sergey Dubinin, member of the Management Board of UES.
July 1	**UES Selects Investment Banks to Support Establishment of Six TGCs** UES has selected the investment banks to complete the establishment of the six Territorial Generation Companies (TGCs). As a result of the tender held by UES together with the minority shareholders of the regional generation companies (RGCs) included in the respective TGCs, the following

investment banks have selected: TGC-2 –Troika Dialogue Financial Broker; TGC-5 –Web-Invest Bank; TGC-6 - Alfa-Bank; TGC-4, TGC-8, and TGC-9 - United Financial Group.

July 1 **State registration was granted to 15 Companies spun off from regional energos of UES**

In accordance with the schedule for regional energos restructuring, state registration was granted to 15 new companies spun off from Dagenergo, Orenburgenergo, Tyumenenergo, and Khakasenergo in accordance with the basic restructuring plan, including:

Dagenergo - Dagestan Regional Generation Company (possesses 1.3GW of hydro generating assets), Dagestan Energy Retail Company;

Orenburgenergo (100% owned by UES) - Orenburg Heat Generation Company, Iriklinskaya TPP (to be included in GenCo-1), Orenburgenergosbyt;

Tyumenenergo (100% owned by UES) - Surgutskaya TPP-1 (to be included in GenCo-2), Surgutskaya TPP-2 (GenCo-4), Nizhnevartovskaya TPP (GenCo-1), Urengoiskaya TPP (GenCo-1), Tyumen Regional Generation Company, Tyumen Energy Retail Company;

Khakasenergo (100% owned by UES) - Khakassia Generation Company, Khakasenergosbyt, Khakassia Transmission Company, Khakassia Energy Management Company.

July 10 **UES and Rusal to complete construction of Boguchanskaya HPP**

UES announced that it and Rusal will set up a company on a parity basis to complete construction of Boguchanskaya HPP in Siberia.

The companies signed a memorandum of intention providing for the establishment of a special company that will own around a 90% stake in the HPP (representing the stakes of UES and Rusal in the station). The company will also own a 100% stake in the aluminum smelter, which is to be built in Krasnoyarsk krai and become the hydropower plant's key consumer. The partners plan to allot $1.2 bln for this purpose.

July 14 **UES determining its future involvement in Bulgarian CHPs**

UES is still determining the extent to which it will be involved in ownership of two Bulgarian CHPs in light of changes to the conditions of their sale. The Commission for Defense of Competition in Bulgaria stated that it would permit UES to buy only one Bulgarian CHPs, despite the country's Privatization Agency's decision to allow UES to purchase two stations. According to the Commission's statement, UES's ownership of two stations would threaten competition and in turn negatively influence Bulgaria's market for electricity. As a result, UES will need to choose which CHPs it wants to acquire.

Bulgaria decided to sell three CHPs (100% stakes) in 2004: Varna, Russe, and Bobov Dol. UES participated in the tenders along with ten other international corporations. The government set strict criteria for the qualifying rounds of auctions, but did not set limitations on the number of stations a participant could own. The results of the tenders were revealed in April. UES proved to be victorious in two of three auctions, those for Varna and Russe. The holdings offered the highest purchase prices: €120 mln for Varna and €389 mln for Russe.

According to the results of the tenders, UES will pay for 100% stakes in the CHPs over several stages: first, it will purchase a minimum of 51% of the shares in each station; next, it will finance an increase to their charter capital by 16%; and finally, over the course of two years, it will purchase any remaining shares from the government.

July 18 **Court postpones repeat hearing on ineffective ruling about UES back tax claim for 2001**

Moscow's Arbitration Appellate Court No. 9 has postponed until August 18 a repeat hearing on a claim by the Interregional Tax Ministry Inspectorate No. 4 against UES for back tax payments of R3.67 bln. The court decided to postpone the hearing to allow both sides to introduce additional documents and to compile more facts.

In 2004, the Interregional Tax Ministry Inspectorate No. 4 held a standard inspection of UES's accounting of its profit tax for 2001. After the inspection, the Ministry charged UES with improper accounting and tax payments, and levied additional tax obligations and sanctions for 2001 amounting to R3.679 bln. UES disputed the results of the inspection, and responded by filing a lawsuit in Arbitration Court. In December 2004, the Arbitration Court ruled against UES's suit, and the company decided to appeal. In March 2005, the Appellate Court upheld the decision of the court of first instance generally without change. However on June 3, the Appellate Court No. 9 cancelled the appeal decision from March 15, and called for new hearings.

July 18 **Launch of bilateral model for wholesale power market to be postponed until July 1, 2006**

According to the head of the Federal Tariff Service ("FST") Sergei Novikov, the transformation of the regulated segment of the wholesale power market (FOREM) to a bilateral contracts model is likely to be postponed from January 1, 2006 to July 1, 2006 in the absence of the required legislative base. Originally, UES planned to launch the bilateral contracts model on January 1, 2006, with its share of the market diminishing gradually by 15% each year (from its current point of 85%) in favor of the competitive sector of the wholesale power market (the so-called '5-15' segment). The creation of a bilateral model is essential for the successful construction of a competitive model for Russia's wholesale power market.

July 18 **Government to determine comprehensive power sector reform plan within 2-3 weeks**

According to the departmental director of the Ministry of Economic Development and Trade ("MEDT") Kirill Androsov, the government will make a decision about the Comprehensive Power Sector Reform Plan for 2003-2008 in the next 2-3 weeks. The document was submitted for government approval at the end of April, but the government has yet to comment on its fate. The plan in particular proposes the sale of one or two pilot thermal-GenCos (GenCo-5 and GenCo-3) before UES dissolves in 2006. The GenCos would be tendered at auctions, with payments made in both cash and UES shares. The government's decision on this issue will have a major impact on the utilities sector.

July 25 **GenCo-5 offers share swap to Konakovskaya TPP minorities**

GenCo-5 offered Konakovskaya TPP minorities (representing about 48.6% of the company's capital) to swap each of their shares for 19 shares (R1 at par value) of GenCo-5 until August 26, 2005 in the framework of the transition of GenCo-5 to single share capital. Konakovskaya TPP (2,400 MW) is the only plant of GenCo-5 (8,663 MW) which is not 100% controlled by the company. In this case, if all of Konakovskaya TPP minorities decide to join GenCo-5, the share of minorities in GenCo-5 (currently 100% owned by UES) may reach 10-12%.

However, shareholders of Konakovskaya TPP also may refuse to swap their shares. In this case, during the second stage of merging the TPP into GenCo-5 to be initiated by the latter (GenCo-5 currently owns 51.4% of Konakovskaya TPP) and given approval by 75% of Konakovskaya TPP shareholders, the company will offer a buy-back option. However, UES has yet to determine the buy-back price to be approved by the TPP's board of directors.

July 26 **FST determines boundaries for electricity tariffs in 2006**

The Federal Service on Tariffs ("FST") has confirmed its limits on electricity and thermal energy tariffs in 2006. Tariffs on electric energy in 2006 will grow no faster than the planned rate of inflation, and should rise by 7.5% on average and by 25% for households. According to the FST, the minimum growth in tariffs on households will be 15%, exceptions being situations in which a cross-subsidy problem must be resolved or in which higher tariffs would lead to negative social consequences. The proposed growth rate for household tariffs should allow the government to eliminate cross-subsidies in 2-3 years.

July 29 **UES board revises Committee staffs, approves establishment of JV with Moscow City Hall**

On its regular meeting, the board of directors of UES revised its Committees staff, leaving the quality composition unchanged. Changes to the staff were made mostly in terms of the results of recent board elections and legislative changes, and also reflect some changes among the management of UES minorities (i.e. SUEK). As a result, there were a number of changes among government representatives on the Committees, while Gazprombank's representative Wolfgang Skribot joined the Strategy and Reform Committee. Portfolio investors maintained their presence on the Committees – one representative on the Appraisal Committee and two representatives and chairmanship (David Herne) of the Strategy and Reform Committee.

UES board approved the establishment of joint venture to manage Moscow networks. According to a memorandum signed by UES CEO Anatoly Chubais and Moscow Mayor Yuri Luzhkov on July 1, a venture will be created by UES and Moscow City Hall on a parity basis (50/50 share in the statuary fund) to run Moscow network assets. These include Moscow electricity network company, Moscow heat network company (both spun off from Mosenergo with UES' share at 50.9%) and Moscow Unified Energy Company (100% owned by City Hall and possessing its network assets).

Source: Alfa Bank estimates

Mosenergo

Figure 52. Key Events

July 6 **UES and Moscow government agree to establish company to manage city's energy system**

UES and the Moscow government have signed an agreement regarding the establishment of a joint venture to manage the facilities of Moscow's thermal-electricity and electricity networks. This agreement is outlined in a memorandum signed on July 1 by UES CEO Anatoly Chubais and Moscow mayor Yuri Luzhkov.

According to the memorandum the newly established management company will assume control of Moscow Unified Energy Company (100% owned by the city), Moscow Municipal Electricity Network Company and Moscow Thermal Network Company. UES holds stakes of 50.86% in the latter two companies, both of which emerged from the reorganization of Mosenergo. The management company's general director will be Alexander Kazakov, and first deputy mayor of Moscow Peter Aksenov will head its board of directors. Both parties agreed to limit the sale of core and non-core assets during the transition of these companies to management by the new venture. The document notes that the fundamental reason for establishing such a joint management company is the need to raise the reliability and effectiveness of Moscow's electricity and thermal energy resources.

July 26 **Mosenergo obtains new management board and calls for 8% electricity tariff hike in 2006**

Mosenergo's board of directors appointed a new management board headed by CEO Anatoly Kopsov. The board of directors appointed 13 of 15 members of the management board, while two seats remain vacant. Only five members of the former management board of the company kept their seats, including first deputy CEO Dmitry Vasilyev.

According to a Mosenergo representative, the company has sent the Federal Tariffs Service a draft of its tariff growth plan for 2006. The company suggests increasing electricity prices for customers in Moscow city and region by 8% to R1.24/kWh ($0.043/kWh) and heat prices by 14.8% for Moscow city and 7.9% for Moscow region to R470/Gcal ($16.4/Gcal) and R450Gcal ($15.7/Gcal) respectively. According to Kopsov, the requested tariff hike for heat would lead to a zero margin on heat generation.

Source: Alfa Bank estimates

Lenenergo

Figure 53. Key Events

July 29 **Fortum makes offer to Lenenergo shareholders at $1.05 p/s**

Finland's Fortum, which owns 32.8% of voting shares in Lenenergo, made a 30-day offer to the company's shareholders at R30 ($1.05) per share. Fortum expects to buy 25 mln shares and increase its stake in Lenenergo to 36.4%. Originally Fortum held a 30.7% stake in Lenenergo, 29.6% of which was common stock. However, Lenenergo recently bought back and cancelled about 10% of capital from shareholders who opposed the company's reorganization plan (including around an 8% stake from the former second-largest minority shareholder Warwick Holding). Accordingly, Fortum's stake in the company's ordinary shares grew by more than 30% to 32.8%, and Fortum had to make an obligatory offer to Lenenergo shareholders due to legislative rules.

Source: Alfa Bank estimates

Irkutskenergo

Figure 54. Key Events

July 29 **Irkutskenergo's net profit according to RAS for 2Q05 reaches $35 mln vs. the net loss of $3.4 mln for 2Q04**

According to company's information the net profit of Irkutskenergo for 2Q05 amounted to $34.9 mln vs. net loss of $3.4 for the same period of 2004. However, second quarter results are 19% lower than $43.1 mln of net profit gained in 1Q05. By official statement the company explains the reduction of Q-o-Q financial results by bad debt reserves allocations and seasonal fluctuations. For 1H05 Irkutskenergo's net profit increased 104 times from last year's $0.75 mln to $78 mln mainly due to increase of utilization of hydro generating assets (9GW).

Source: Alfa Bank estimates

Telecoms

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- Ruble-denominated bonds comprise 40-80% of the net debt of PRTs, with maturity and put-options evenly distributed in 2005-2010. The two risks and exceptions are Center and South Telecom, which under a worst-case scenario may face significant debt redemptions in 2006, which increases the companies' credit risks.

New old challenge: Redeem debt

Another noteworthy difference between Russian telecom incumbents and their Eastern European peers is a high debt load. This resulted in high debt servicing costs, which in the extreme cases of South and Center Telecom actually mean that they have to spend the bulk of their operating profit in order to service debt. The next challenge will be to redeem this debt.

Ruble-denominated bonds are about 40-80% of net debt among PRTs

Ruble-denominated bonds that are publicly traded locally represent approximately 40-80% of corporate net debt. Although telecoms are not the largest in absolute terms (oil & gas) or the most represented sector (banking), they nevertheless remain the most liquid instruments on the local corporate bond market. All issues have a 'plain vanilla' structure, i.e. duration of 3-5 years and a semi-annual coupon. Uralsvyazinform is the champion in terms of number of issues (five), while Center Telecom has the largest stand-alone issue so far (R5.6 bln).

We note the challenges facing Center Telecom and South Telecom within the next year – they are the highest geared telecoms with 2004 Net Debt/EBITDA (RAS) of 2.2 and 3.7 respectively.

In the worst case, Center Telecom would have to redeem about $270 mln within two months in 2H06

- Center Telecom will have to redeem a R2 bln issue in September 2006 and has a put-option for its R5.6 bln issue due in November 2006. In the worst-case scenario (in which all investors exercise their put-option), the company would have to redeem about $270 mln within a two-month period.

Worst case for South Telecom is the redemption of about $230 mln within 6-7 months in 2006

- South Telecom has a put option for its R1.5 bln issue due in February 2006. The next put option for the R3.5 bln issue is due in April, and in mid-September the company will have to redeem the R1.5 bln issue. In the worst-case scenario (see above), the company would have to redeem about $230 mln of debt within 6-7 months.
- The maturity and put-option dates of other regional telecoms are more evenly spread throughout 2006-2010.

In general, we can reasonably expect some kind of support for telecom incumbents from their major shareholder Svyazinvest. However, such massive redemption of debt could potentially raise the cost of refinancing, which in turn would be negatively reflected in the bottom line (used as a basis for dividends).

Figure 55. Telecom Incumbents – Ruble-denominated Bonds as of July 25, 2005

	#	Date of issue	Volume	Put option date	Maturity date	Duration to put option	Duration to maturity	Coupon	YTM	YT put option	Spread over Moscow	Net debt as of 1Q05	Bonds in Issue (per company)	% of Net debt	2004 Net debt /EBITDA (RAS)
			R bln			years	years	%	%	%	bpts	R bln	R bln		
Center	3	16-Sep-03	2	19-Sep-05	15-Sep-06	0.16	1.06	12.35	8.65	-3.43	289	17.6	7.6	43%	2.2
	4	17-Aug-04	5.622	16-Nov-06	21-Aug-09	1.19	3.15	13.8	10.21	3.98	289				
NW	2	8-Oct-03	1.5	5-Oct-05	3-Oct-07	0.21	n/a	13.2	n/a	6.55	705	6.2	4.5	73%	1.0
	3	3-Mar-05	3	28-Feb-08	24-Feb-11	2.32	n/a	9.25	n/a	8.63	165				
South	1	18-Sep-03	1.5		14-Sep-06		1.06	14.24	10.4		466	15.5	6.5	42%	3.7
	2	11-Feb-04	1.5	8-Feb-06	7-Feb-07	0.53	n/a	12	n/a	9.85	626				
	3	6-Oct-04	3.5	8-Apr-06	10-Oct-09	0.69	n/a	12.3	n/a	10.04	498				
Volga	1	21-Feb-03	1		21-Feb-06		0.58	15	2.98			7	1.0	14%	1.0
UralSI	2	22-Aug-02	1		6-Aug-05		0.04	17.5	6.26		502	15.8	9.0	57%	1.7
	4	4-Nov-04	3		1-Nov-07		2.06	9.99	8.82		188				
	5	21-Apr-05	2		17-Apr-08		2.44	9.19	8.91		192				
	6	22-Jul-03	3		18-Jul-06		0.96	14.25	7.86		225				
Siberia	3	18-Jul-03	1.53		14-Jul-06		0.95	14.5	9.07		347	8.1	6.5	81%	1.6
	4	8-Jul-04	2		5-Jul-07		1.79	12.5	8.69		209				
	5	29-Apr-05	3		25-Apr-08		2.46	9.2	8.96		197				
	6*	2H05	2		5 years										
Far East	1	19-Nov-03	1	16-Nov-05	15-Nov-06	0.32	1.23	15	8.76	-3.24	269	1.4	1.0	71%	0.8
MGTS	4	28-Apr-04	1.5	27-Apr-06	22-Apr-09	0.74	n/a	10	n/a	7.05	149	2.1	3.0	143%	0.4
	5	31-May-05	1.5	30-May-07	25-May-10	1.74	n/a	8.3	n/a	8.47					
Average			**2.17**						**8.30**	**5.32**	**332**			**65%**	**1.55**

Note: planned issue

Source: Company data, Alfa Bank estimates

MOBILES

MTS

Figure 56. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	3,887	5,152	5,885	6,170
EBITDA, $ mln	2,095	2,730	3,149	3,342
Net profit, $ mln	1,023	1,335	1,566	1,650
P/E	14.0	10.7	9.2	8.7
EV/EBITDA	7.6	5.9	5.1	4.8
Market Cap, $ mln	14,352			
Enterprise Value, $ mln	16,015			
Subscribers, '000 sub.	34			
ADRs Outstanding, mln	399			

Sources: Company reports, Alfa Bank estimates

Figure 57. Company Snapshot

Strengths
- Very strong financial position
- Nationwide license coverage in 87 of 89 regions

Weaknesses
- Relatively low free-float
- Potential share overhang on DT selling its stake in MTS

Opportunities
- Expansion to CIS market at reasonable multiples
- Inclusion to the MSCI Index
- Synergy with other Sistema companies

Threats
- Introduction of Universal Services Fund
- Price wars in the market

Sources: Company reports, Alfa Bank estimates

Figure 6. Key Events

July 28 **Court rejects ASVT claim, maintaining MTS' ownership structure; potentially positive for Sistema , neutral for MTS**

The Moscow Arbitration Court yesterday rejected a claim by ASVT concerning liquidation of the company VAST, which holds 3% of MTS and is 51%-owned by Sistema and 49% by ASVT. In case of liquidation, ASVT could have received 1.47% of MTS shares, which are much more liquid than its stake in VAST. Sistema is consolidating 1.53% of its beneficial ownership in MTS through VAST into its 51% ownership in MTS.At present, the news is neutral for both MTS and Sistema since it maintains the status quo. However, should Sistema manage to buy out ASVT's ownership in VAST (i.e. 1.47% beneficial ownership in MTS) with a significant discount to the market value, it might be positive news for Sistema.

Source: Alfa Bank estimates

VimpelCom

Figure 58. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	2,147	3,137	3,596	3,959
EBITDA, $ mln	1,023	1,507	1,800	1,959
Net profit, $ mln	350	594	732	779
P/E	22.7	13.4	10.9	10.2
EV/EBITDA	9.0	6.1	5.1	4.7
Market Cap, $ mln	7,951			
Enterprise Value, $ mln	9,226			
Subscribers, '000 sub.	27			
ADRs Outstanding, mln	205			

Sources: Company reports, Alfa Bank estimates

Figure 59. Company Snapshot

Strengths
- Telenor and Alfa Group as co-investors

Weaknesses
- Lowest ARPU among 'Big Three' operators
- Lack of decent exposure to the Far East

Opportunities
- CIS expansion at fair multiples, Far East license
- Further margin and ARPU convergence with MTS
- Inclusion in MSCI Russia Index

Threats
- Introduction of Universal Services Fund
- Unfair treatment by regulators
- Price wars in the market

Sources: Company reports, Alfa Bank estimates

Figure 4. Key Events

July 11 **VimpelCom maintains leadership in net additions in Russia in June**

In general, June yet again surprised on the upside. Expected high churn from the Christmas campaign turned out to be less visible (or, more correctly, non-visible). Jointly cellular operators in Russia signed almost 4.4 mln subscribers, exceeding May's figure by 0.5 mln. Russian penetration climbed to 67% (Moscow and St. Petersburg reached 118% and 102%, respectively).According to the latest mobile data released by AC&M consulting, VimpelCom maintained its leadership in Russia in June in terms of net additions – 41% vs. 24% of MTS. This advantage was even more pronounced in the regions (for the second quarter in a row), where this proportion was 42% vs. 22%, respectively. As of the end of June, VimpelCom lags its major competitor in Russia by only 0.5%, with a 34.5% overall market share vs. MTS' 35%. June's subscriber numbers support our bullish stance on the mobile market, and we maintain our BUY recommendations on both VimpelCom and MTS stock with $52 and $48 target prices, respectively. We also expect the 2Q05 numbers to be strong for both VimpelCom and MTS, and expect the market to start 'preparing' for it in advance.

July 14 **VimpelCom (BUY, $52) enters under-penetrated Sakhalin market via acquisition at $635 per sub**

VimpelCom has entered the Sakhalin mobile market by acquiring approximately 84.4% of Sakhalin Telecom Mobile (STM), a GSM-1800 and D-AMPS mobile operator in Sakhalin. According to the deal structure, VimpelCom simultaneously with STM purchased 60% of Sakhalin Telecom Limited (ST), an alternative fixed-line operator in the region. Both companies were controlled by British Cable & Wireless, which owned 61.4% of STM and 60% of ST.VimpelCom paid $51.2 mln for the stake in STM and $5 mln for the stake in ST, plus it will repay $2.2 mln of ST's debt to Cable & Wireless.Excluding ST, which VimpelCom intends to sell going forward, VimpelCom valued 100% of STM at $60.7 mln. At present STM has 96,000 subs (95,500 of which are GSM) and enjoys a 45.7% market share in Sakhalin region, which itself is only 35.5% penetrated – 39% below Russia's level of 58.3% at the end of June. That implies a $635 per sub valuation as of the end of June, which we believe is fair given that this acquisition was the only way to get to the Sakhalin mobile market.

Source: Alfa Bank estimates

Alternative Operators

Golden Telecom

Figure 60. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	584	761	948	1,131
EBITDA, $ mln	171	229	288	345
Net profit, $ mln	65	96	125	150
P/E	16.6	11.2	8.6	7.2
EV/EBITDA	6.0	4.5	3.6	3.0
Market Cap, $ mln	1,077			
Enterprise Value, $ mln	1,027			
Shares Outstanding, mln	36			

Sources: Company reports, Alfa Bank estimates

Figure 61. Company Snapshot

Strengths
- Largest CLEC in Russia
- Vast regional and Ukrainian exposure

Weaknesses
- Relatively low liquidity
- Limited transport infrastructure

Opportunities
- Further regional and CIS expansion
- Becoming national LD operator
- Rebound in margins due to efficient management

Threats
- Intensifying competition and decreasing margins in carrier business
- Large payments to the Universal Services Fund

Sources: Alfa Bank estimates

Figure 5. Key Events

July 20 **Golden Telecom (BUY, $37) to have new CEO starting September 1, 2005; positive**

Golden Telecom announced yesterday a proposed reshuffle of its top management, as well as the separation of the positions of CEO and President. Jean-Pierre Vandromme will be CEO as of September 1, 2005. Alexander Vinogradov will remain the president of the company, and shall focus on government relations, regulatory aspects of the company's business, and regional expansion. Jean-Pierre Vandromme has extensive telecoms industry experience both abroad and in Russia. He is also familiar with Golden Telecom: from 1994-2001, Vandromme held various positions in Global Telesystems (Golden Telecom's parent), including President of GTS-Business Services. From 1998-1999, Vandromme was Acting President and CEO of GTS-Russia, and assisted in developing a strategy for that company's IPO, which resulted in the creation of Golden Telecom. He also worked together with Alexander Vinogradov in Sovintel, now a major subsidiary of Golden Telecom. According to sources, Vandromme is a tough manager who understands "Russian specifics".

Source: Alfa Bank estimates

Traditional Operators

Svyazinvest

Figure 62. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	6,176	7,276	7,706	7,996
EBITDA, $ mln	1,802	2,189	2,475	2,723
Net profit, $ mln	487	512	706	896
P/E	7.0	6.6	4.8	3.8
EV/EBITDA	1.7	1.4	1.3	1.1
Market Cap, $ mln	3,385			
Enterprise Value, $ mln	3,094			
Lines in Use, '000	0			
Shares Outstanding, mln	0			

Source: Alfa Bank estimates

Figure 63. Company Snapshot

Strengths
- Above 90% market share in local fixed-line market
- De facto monopoly in last-mile access

Weaknesses
- Low efficiency, high gearing
- Weak exposure to corporate clients
- State regulation of tariffs

Opportunities
- Increase of operating efficiency
- Exposure to VAS

Threats
- LD market liberalization
- Further delay of Svyazinvest privatization

Source: Alfa Bank estimates

Figure 64. Key Events

July 07 **Svyazinvest to raise local wireline tariffs on average by 20% in 2005; LD tariffs to be lowered 5-10%**

Svyazinvest's deputy general director Konstantin Belyaev made a few comments yesterday on the holding's tariff policy.He mentioned that the holding is still waiting for the government's decree on the state regulation of fixed-line tariffs, which will enable it to produce a mixture of tariff plans and eliminate the out-of-date practice of dealing with the Federal Tariffs Service (FTS) whenever local tariffs must be raised. However, pending the signing of the decree, regional telecoms will have to follow the existing routine to raise local tariffs in their respective regions.Overall, Svyazinvest plans to raise local tariffs in 2005 by an average of 20% (from the country's current average of R161, or $5.59), with a respective decrease in LD tariffs of 5-10%.

Source: Alfa Bank estimates

MGTS

Figure 65. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	481	646	728	809
EBITDA, $ mln	168	254	278	312
Net profit, $ mln	75	76	78	89
P/E	19.8	19.4	19.0	16.7
EV/EBITDA	9.0	5.9	5.4	4.9
Market Cap, $ mln	1,400			
Enterprise Value, $ mln	1,513			
Lines in Use, '000	4,334			
Shares Outstanding, mln	96			

Sources: Company reports, Alfa Bank estimates

Figure 66. Company Snapshot

Strengths
- Ownership of the bulk residential 'last mile' in Moscow

Weaknesses
- Has one of the most outdated networks among regional telecoms
- Small revenue from LD business
- Lack of control over Sistema's CLEC business

Opportunities
- Review of settlements with Rostelecom for LD traffic

Threats
- Loss of SME/SOHO segment to CLECs
- Large costs of network digitalization
- Failure of new CEO to deliver

Sources: Company reports, Alfa Bank estimates

North-West Telecom

Figure 67. Key Events

July 01 **NW Telecom's 2004 IFSR results show 2.3x increase in net debt; neutral for stock**

Yesterday NW Telecom became the second regional telecom to report its 2004 IFSR results. We reiterate our view that investors should not be looking at the financial statements of regional telecoms to identify catalysts and stock performance triggers. Instead, we suggest using the 2004 numbers for reference purposes rather than as the basis for investment decisions. Last year's results are not directly comparable with previous periods, for the following reasons:

- consolidation of smaller regional incumbents in 4Q04 statements; and
- revision of 2003 financial statements, which pushed that year's EBITDA margin down from 25% in previous statements to 21% in the revised version. Unfortunately, the company did not disclose the reasons or background for this revision.

If we look at other financial highlights, the 2.3x increase in net debt to $216 mln (1.7x Net Debt/EBITDA) seems alarming. However, this figure is still below those of some other peers.

Source: Alfa Bank estimates

Holdings

Sistema

Figure 68. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	5,682	7,501	8,700	9,500
EBITDA, $ mln	2,512	3,080	3,408	3,800
Net profit, $ mln	525	665	748	850
P/E	N/A	0.0	0.0	0.0
EV/EBITDA	-0.2	-0.2	-0.2	-0.2
Market Cap, $ mln				
Enterprise Value, $ mln	-588			
Lines in Use, '000	0			
Shares Outstanding, mln	483			

Source: Alfa Bank estimates

Figure 69. Company Snapshot

Strengths
- Diversified operations
- Strong expertise in the telecoms sector

Weaknesses
- Strong dependence on value of MTS

Opportunities
- Acquisition of Svyazinvest assets at low valuation

Threats
- Failure to develop business outside of telecoms

Source: Alfa Bank estimates

Rostelecom

Figure 70. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	1,296	1,296	1,358	1,423
EBITDA, $ mln	442	381	385	400
Net profit, $ mln	149	81	100	123
P/E	13.7	13.7	13.7	13.7
EV/EBITDA	4.7	5.4	5.4	5.2
Market Cap, $ mln	1,915			
Enterprise Value, $ mln	2,064			
Shares Outstanding, mln	972			

Sources: Company reports, Alfa Bank estimates

Figure 71. Company Snapshot

Strengths
- Strong balance sheet
- Owns a national backbone infrastructure

Weaknesses
- Non-diversified business, lack of 'last mile access'
- Competitive environment alongside social burden

Opportunities
- Change in settlements for ILD traffic with regional telecoms
- Entrance to Europe-Asia transit traffic
- Acquisitions in both the CLEC segment and CIS markets

Threats
- Liberalization of LD market
- Significant reduction of LD tariffs alongside growing costs
- Significant reduction of margins in LD business

Sources: Company reports, Alfa Bank estimates

Figure 72. Key Events

July 01 **Rostelecom reports good 2004 IFSR results, neutral for stock price performance**

Rostelecom released its 2004 results according to IFSR. We reiterate our position that the numbers should be neutral for share price performance, as they reflect historical trends rather than future ones due to the rapidly changing business environment. We reiterate that in the short term, Rostelecom will continue to enjoy a strong cash flow and balance sheet. However, in the longer term, in response to de facto liberalization of the LD market, a declining traffic growth rate and increasing competition, its position will be less sustainable

Source: Alfa Bank estimates

Metals

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In July Polyus released its development plans for 2010-2012

In July Norilsk's gold arm Polyus released its development plan for 2010-2012. The plan includes the following targets for the period:

- annual gold production: 4.5-4.8 mln oz (140-150 tons);
- proven reserves and resources: 71 mln oz (2,200 tons);
- EBITDA: $500-600 mln;
- total production costs: $220-240/oz.

Total investment not including M&A will amount to $2.3 bln in 2005-2010.

Based on its existing assets, we value Polyus at around $4-4.5 bln

We expect the company to produce about 2-2.6 mln oz of gold by 2010E. Based on its existing assets, we value Polyus at around $4-4.5 bln. The guideline provided was useful for investors, and its publication was positive for Norilsk.

In August Norilsk will release its Memorandum to spin off gold assets – key catalyst

As a reminder, Norilsk aims to increase value for its shareholders by eventually spinning off its gold assets. Meanwhile, we expect Norilsk in the second half of August to send its shareholders a Memorandum detailing the spin-off, which we believe could reveal some useful details regarding the transaction. An EGM to consider the reorganization is preliminarily scheduled for September. Publication of details of this plan in August will be a strong company catalyst. We reiterate our BUY rating on Norilsk Nickel with a target price of $87. The company remains one of our favorite picks in the sector.

Iron ore producers will answer FAS's request in August

In July the Federal Anti-Monopoly Agency (FAS) requested that Russia's largest iron ore producers, including SGOK, MGOK, LGOK and Kachkanarsky GOK, disclose their pricing policy from 2003 to 1H05. The companies must reply before August 15.

By our estimates, Stoylensky GOK (NLMK) and Kachkanarsky GOK (Evraz) control 13% and 9% of local iron ore output, respectively, while MGOK and LGOK (Unikor) together control 41% of production. While most Russian GOKs are part of major steel groups, Unikor is the largest independent iron ore producer and significantly affects the market.

We do not expect the FAS to limit the GOKs' price flexibility, though should it do so the main beneficiary would be MMK, which is the only major steel producer unsecured with its own iron ore (only 10% of its needs vs. 85-100% among the other majors).

By autumn we expect a decision on this issue, which will serve as an important catalyst for the iron ore producers and MMK.

MMK will continue to buy iron ore from SSGPO in August

Meanwhile, in July the market received some signs that pressure on MMK in respect of iron ore supplies could ease. According to *Vedomosti* citing unnamed managers of MMK, Kazakhstan's Sokolovsko-Sarbaysky GOK (SSGPO) will resume supplies of iron ore to the company in August.

To remind, this May MMK's key iron ore suppliers SSGPO, MGOK and LGOK halted their shipments to the company in an attempt to pressure the steel producer. We estimate that before the conflict MMK bought 15% and 10% of its iron ore from Mikhailovsky and Lebedinsky GOK, respectively, while SSGPO supplied 65% of MMK's purchased iron ore.

According to the business daily, MMK will buy about 200,000 tons of iron ore concentrate from SSGPO in August, while we estimate that up until May MMK was buying about 760,000 tons of iron ore per month. However, we believe that the supplies will eventually return to pre-dispute levels. Reportedly LGOK and MGOK have yet to sign new contracts with MMK.

Signs that the conflict is close to an end are positive for MMK, and its outcome is a key catalyst for the company. We therefore maintain our BUY rating with a target price of $0.64.

GMK Norilsk Nickel

Figure 73. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	7,033	6,058	5,490	4,917
EBITDA, $ mln	3,375	2,673	2,289	2,032
Net profit, $ mln	1,832	1,399	1,131	929
P/E	8.1	10.7	13.2	16.1
EV/EBITDA	4.4	5.5	6.5	7.3
Market Cap, $ mln	14,931			
Enterprise Value, $ mln	14,794			
Shares Outstanding, mln	213.9			

Sources: Company reports, Alfa Bank estimates

Figure 74. Company Snapshot

Strengths

- Diverse export revenue base, exports generate 90% of revenues
- High liquidity relative to other companies in the sector

Weaknesses

- Low technological level compared to western peers
- High social expenditures - more than $100 mln per year

Opportunities

- Implementation of revised capex program
- Development of new metals projects (gold, etc.)

Threats

- Revision of privatization and Group's restructuring results
- Increase in tax burden

Sources: Company reports, Alfa Bank estimates

Figure 75. Key Events

July 01 **Norilsk Nickel's new board of directors includes three independent members; no changes**

At yesterday's AGM GMK Norilsk Nickel shareholders elected a new nine-member board of directors. The following directors retained their seat: Andrei Bugrov, Guy de Selliers, Vladimir Dolgikh, Andrei Klishas, Heinz Schimmelbusch, Yekaterina Salnikova, Mikhail Prokhorov. Company shareholders elected two new directors: Tav Morgan, deputy CEO of Norilsk Nickel; and Kirill Ugolnikov, head of the tax department of Vneshyurkollegia. Accordingly, Interros and Norilsk Nickel are directly represented by five board members. Vladimir Dolgikh is not formally linked with Interros but has served on Norilsk's board for three years, and thus we do not consider him to be an independent director. We consider three members of the new board to be independent (just as last year).

July 6 **Norilsk's gold arm Polyus releases development plans for 2010-2012**

The gold company Polyus, a Norilsk Nickel subsidiary, has released its strategic development plan for 2010-2012. The plan includes the following targets for the period:

- annual gold production: 4.5-4.8 mln oz (140-150 tons);
- proven reserves and resources: 71 mln oz (2,200 tons);
- EBITDA: $500-600 mln;
- total production costs: $220-240/oz.

Total investment not including M&A will amount to $2.3 bln in 2005-2010, including:

- development and engineering of existing assets: $1.6 bln;
- exploration and prospecting: $140 mln;
- acquisition and development of new assets (Pervenetz and Verninskoye deposits are included): $600 mln.

Source: Alfa Bank estimates

Severstal

Figure 76. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	6,648	6,866	6,771	6,556
EBITDA, $ mln	2,124	1,925	1,712	1,513
Net profit, $ mln	1,401	1,166	988	825
P/E	3.4	4.0	4.8	5.7
EV/EBITDA	2.3	2.5	2.8	3.2
Market Cap, $ mln	4,696			
Enterprise Value, $ mln	4,853			
Production, mln ton	17			
Shares Outstanding, mln	552			

Sources: Company reports, Alfa Bank estimates

Figure 77. Company Snapshot

Strengths
- Healthy financial performance
- Professional management team

Weaknesses
- Long-term contract sales hinder pricing flexibility in the environment of rising prices
- High dependence on performance of world steel markets

Opportunities
- Acquisition of foreign assets could increase Severstal's capacities and strengthen its position on foreign markets
- Entrance to large-diameter pipe market

Threats
- Low liquidity, estimated 8% free-float

Sources: Company reports, Alfa Bank estimates

Evraz

Figure 78. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	5,925	6,151	6,316	5,859
EBITDA, $ mln	2,004	2,062	2,273	2,002
Net profit, $ mln	1,084	1,174	1,311	1,138
P/E	4.7	4.3	3.8	4.4
EV/EBITDA	2.8	2.8	2.5	2.8
Market Cap, $ mln	5,078			
Enterprise Value, $ mln	5,677			
Shares Outstanding, mln	355			

Source: Alfa Bank estimates

Figure 79. Company Snapshot

Strengths
- Company controls 85% of its iron ore and 100% of coking coal supplies
- The largest steel group in terms of output in Russia (21% of local steel output)

Weaknesses
- Relatively unfavorable geographic position increases transportation costs
- Low technological level of steel-making capacities (open hearth -- 26%; ingot casting -- 66%)

Opportunities
- $1.2 bln investment program in 2004-07 to modernize equipment, especially NTMK
- Expansion of mining business through acquisitions and brownfield projects

Threats
- Imposition of new export barriers in the US and EU

Source: Alfa Bank estimates

Figure 80. Key Events

July 14

As expected, Evraz bids successfully for 99% of Vitkovice Steel paying $287 mln

As expected, yesterday the Czech government announced its decision to accept Evraz Group's 7.05 bln crown ($286.9 mln) bid for 99% of the state steel company Vitkovice Steel. Evraz plans to take control of the business within the next three months, and the deal is subject to approval from anti-trust authorities.

Vitkovice Steel is the largest plate maker in the Czech Republic, with output approaching 1 mln tons of rolled steel per year (870,000 tons of steel products in 2004, mostly high-quality steel plate). Vitkovice Steel's sales and EBITDA totaled about $526 mln and $71 mln in 2004, respectively. We estimate the offer's 2004 EV/S at 0.55 vs. the emerging market average of 1.0. The offer's estimated EV/output and EV/EBITDA are close to $290/t and 4.0, respectively, compared to the EM averages of $760/t and 3.3, respectively.

We consider the deal to be beneficial for Evraz Group, as it corresponds with its strategy to enlarge and diversify its business. We estimate that following the acquisition the Group's annual rolled steel sales will grow about 7% to 13.7 mln tons in 2006E.

As a reminder, this month Evraz plans to finalize the acquisition for €60 mln of 75% + 1 share in Italy's Palini Steel, which has annual rolled steel output of 0.4 mln tons. We thus expect the Group's total rolled steel output in Europe to total 1.3 mln tons in 2006E.

July 26

Fitch upgrades Evraz's holding company Mastercroft; positive for Group

Fitch yesterday upgraded Mastercroft's senior unsecured rating and the guaranteed bonds of Evraz Securities SA to "BB-" from "B" with a stable outlook. According to the agency, the upgrade reflects Mastercroft's significant business transformation following the consolidation of mining assets in 2004 and material financial improvements over the last two years, as well as progress made in improving the quality of corporate governance and transparency following the IPO of Mastercroft's shareholder Evraz Group SA. The upgrade is positive for Evraz.

Source: Alfa Bank estimates

SG Mechel

Figure 81. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	3,636	4,055	4,170	4,325
EBITDA, $ mln	908	899	852	799
Net profit, $ mln	543	521	482	442
P/E	7.3	7.6	8.2	8.2
EV/EBITDA	3.9	3.9	4.1	4.1
Market Cap, $ mln	3,964			
Enterprise Value, $ mln	3,505			
Shares Outstanding, mln	416			

Source: Alfa Bank estimates

Figure 82. Company Snapshot

Strengths
- Company controls 90% of its iron ore and 100% of coking coal supplies
- Diversified product range and strong expertise in the production of special steel

Weaknesses
- Relatively low profitability (25% EBITDA margin in 2004, US GAAP)
- Low technological level of steel-making capacities (ingot casting -- 82%)

Opportunities
- $900 mln capex program planned for 2005-2009
- Expansion of raw steel and rolled steel capacities to 8.2 mln tons and 7.1 mln tons in 2007E

Threats
- Imposition of new export barriers in the US and EU

Source: Alfa Bank estimates

Figure 83. Key Events

July 22 **Federal authorities move to invalidate Yakutugol's transformation into an OJC; Mechel's stake not at risk**

According to *Vedomosti*, the Federal Property Fund has filed a claim to invalidate Yakutugol's transformation into an open joint company.

This January, SG Mechel acquired 25% + 1 share in Yakutugol for $411 mln at a privatization auction (remaining shares still belong to the regional authorities). Yakutugol is Russia's fifth-largest coal producer, with annual output of more than 9.5 mln tons of coal (mostly the more expensive coking coal) that accounts for about 3.5% of total domestic coal production. Yakutugol's resources are estimated at about 300 mln tons of coal. In our view, the 25%+1 share stake has a fair value of about $300-350 mln, thus implying that Mechel paid a high price because it intends to consolidate its control over the attractive asset at further privatization auctions. Bidders for this stake (including Mechel) understood the possibility that the federal authorities could make claims on the company, and took these risks into consideration during the auction. We do not believe that Mechel will lose its investment in Yakutugol, as the company legitimately purchased the stake at a government auction. However, should Mechel fail to consolidate control over Yakutugol, the high premium it paid for the stake would be unjustified.

Source: Alfa Bank estimates

Engineering

Maxim Matveev, CFA (7 095) 795-3736

Severstal-Avto completed the placement of 4.5 mln shares

In July Severstal-Avto completed its placement of 4.47 mln new shares (15% of current charter capital). Newdeal Investments Ltd. (controlled by Alexei Mordashov) exercised its preemptive right to acquire 88% of the new issue, purchasing 3.99 mln of the shares (the sale of new shares to shareholders with preemptive rights was completed on July 11 for $14.84 per share). Afterward, 0.48 mln new shares were placed via an open subscription. The price of the sale on the open market was $15.1 per share, in line with the market price for the shares at that moment.

Following this placement, Severstal-Avto's total number of shares is 34.27 mln. According to our estimates, Newdeal now controls about 62% of Severstal-Avto. We estimate the company's free-float to be 38% (vs. 12% pre-IPO), and thus view the new placement as positive for the company.

Severstal-Avto plans to begin assembling Rextons in December on ZMA

The placement will allow the company to proceed with new investment projects including the project to produce SsangYong Rexton off-road vehicles. Severstal-Avto plans to begin assembling *Rextons* in December on ZMA (Micro-Volume Automobile Works), and the price will be in the range of $25,000-30,000 depending on the model (targeted volumes – 10,000 vehicles per year). In late July Severstal-Avto has applied for the status of an "industrial producer" for the project on ZMA, as this will allow the company to pay lower import tariffs for car components and increase profitability of the project. We maintain our rating of HOLD on Severstal-Avto shares with a target price of $17 per share.

Irkut management is finalizing the terms of the share sale to EADS

The key event for the Russian aviation industry in August will be Moscow Air Show "MAKS 2005", that is scheduled for August 16-21. The event may well be used by Irkut and EADS to announce the terms of the acquisition by EADS of a 12% stake in Irkut. Previously Irkut had stated that the terms of the deal are planned to be finalized by the end of summer, while the transaction is likely to be completed by the end of the year. The deal will require approval on the state level, as Irkut is likely to be considered "a strategically important" enterprise. However we do not expect major difficulties with approval, unlike the Siemens-Power Machines case, as EADS will get less than a blocking stake in Irkut, while the key shareholders will remain the company's management (54% following the new placement) and the state (12%). We believe that the flow of the deal as well as the pricing will be a major catalyst for Irkut share price performance in the near future. We maintain our BUY recommendation on the stock.

OMZ

Figure 84. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	524	689	716	750
EBITDA, $ mln	40	52	50	51
Net profit, $ mln	-1	13	13	14
P/E	N/M	12.9	12.4	11.5
EV/EBITDA	9.1	6.9	7.2	7.0
Market Cap, $ mln	166			
Enterprise Value, $ mln	361			
Shares Outstanding, mln	35			

Sources: Company reports, Alfa Bank estimates

Figure 85. Company Snapshot

Strengths

- Monopoly position on Russia's equipment market; 90% of mining equipment market
- Level 1 ADR program increases share liquidity

Weaknesses

- Low profitability
- Company value is hit by failed merger with Power Machines

Opportunities

- Restructuring to develop core business, $210 mln capex in 2003-2008
- Acquisitions to strengthen NPP equipment segment

Threats

- Real ruble appreciation lowers price competitiveness
- Drop in price of crude oil below $15 will force oil companies to lower capex

Sources: Company reports, Alfa Bank estimates

Consumer Goods

Svetlana Sukhanova (7 095) 795-3742; **Elena Borodenko** (7 095) 795 36 92

July was marked by a number of acquisitions

July was marked by a number of acquisitions in the consumer goods and retail sector. WBD acquired a baby food plant in Kursk and received a controlling stake in Obninsk dairy plant. The prices of both acquisitions were undisclosed, hence we cannot evaluate their impact on WBD's performance. According to *Business* newspaper, Pharmacy Chain 36.6 acquired Samara Nebolit's 14-store pharmacy chain, implementing its ambitious expansion plans.

Seventh Continent expanded outside Moscow

Seventh Continent started regional expansion by acquiring the 12-store Altyn chain in Kaliningrad. Following this acquisition, we upgraded Seventh Continent's share price from $15.0 to $17.4, which implies a BUY recommendation.

Pyaterochka GDR is the most liquid stock in the sector

We have also raised the target price for Pyaterochka GDRs from $11.1 to $13.5 following the company's acquisition of Kopeika chain in St. Petersburg in June. Pyaterochka's GDR price was very volatile in July, reaching levels as high as $16.7 (+28.5% from its IPO price in May) and as low as $14.75, which confirms its status as the most liquid stock in Russia's consumer goods and retail universe.

International retailers eager to expand in Russia

France's Auchan group is expanding its operations in Russia. The first Atac supermarket of the Auchan chain will start operating in Moscow this September. It is expected to make an aggressive entrance on the market. Considering that Atac supermarkets will share suppliers with Auchan, they may sell their goods cheaper than their Russian competitors. Given Wal-Mart's plans to enter the Russian market announced in June, Russian retailers may face much stronger competition, which will weigh on their margins.

FOOD

Wimm-Bill-Dann

Figure 86. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	1,189	1,468	1,612	1,702
EBITDA, $ mln	97	121	145	156
Net profit, $ mln	23	27	37	42
P/E	31.4	26.7	19.3	17.3
EV/EBITDA	9.4	7.6	6.3	5.9
Market Cap, $ mln	737			
Enterprise Value, $ mln	916			
Shares Outstanding, mln	44			

Sources: Company reports, Alfa Bank estimates

Figure 87. Company Snapshot

Strengths

- Leading Russian milk and juice producer with national brands
- Developed distribution network, share of direct dairy distribution is 25%

Weaknesses

- Low capacity utilization rates at a number of regional dairies
- Low profit margins
- Acquired plants require significant upgrades to comply with WBD standards

Opportunities

- Entry to new segments (water, cheese) will boost sales
- Cooperation with domestic milk producers to ensure delivery of milk

Threats

- Shortage of domestic raw materials
- Increasing competition from foreign and domestic peers

Sources: Company reports, Alfa Bank estimates

Figure 88. Key Events

July 19 **WBD acquires baby food plant in Kursk**

Wimm-Bill-Dann announced yesterday that it had acquired a 100% stake in Baby Food Plant LLC in Kursk Region. The plant was founded in 1960 and modernized in 2001. Its current facilities include imported equipment for raw materials processing, as well as filling and packaging lines. The raw materials are taken from the plant's own orchards, which have a total area of 440.35 hectares. There is no information on the capacities of the plant, and the price of the transaction is undisclosed as well. At this point we are unable to evaluate the deal and therefore cannot say whether the acquisition is positive for the company.

The deal is in line with WBD's strategy to focus on the rapidly growing baby food segment (+13% in 2004). WBD's revenues from baby food grew 42% in 1Q05, while dairy sales added only 18% in the same period.

July 12 **WBD ups share in Obninsk Dairy Plant from 11.6% to 66.3%; positive**

WBD has increased its stake in Obninsk Dairy Plant to 66.3% from 11.6% for an undisclosed price. The plant, founded in 1982, currently produces about 100 tons of traditional dairy products per day. Maintained high quality of its products has ensured Obninsk Dairy Plant customer loyalty and strong demand in the premium segment of the traditional dairy market. Wimm-Bill-Dann intends to keep Obninsk Dairy Plant's product portfolio unchanged and does not envisage any significant investments in manufacturing or product promotion.

Source: Alfa Bank estimates

Seventh Continent

Figure 89. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	496	799	1,077	1,313
EBITDA, $ mln	43	79	122	147
Net profit, $ mln	27	46	72	88
P/E	35.4	21.0	13.4	11.1
EV/EBITDA	22.6	12.1	7.7	6
Market Cap, $ mln	968			
Enterprise Value, $ mln	969			
Shares Outstanding, mln	65			

Source: Alfa Bank estimates

Figure 90. Company Snapshot

Strengths
- The fifth-largest supermarket chain in Russia
- Good reputation and strong brand
- Diverse store formats

Weaknesses
- Presence only in Moscow
- Low profit margins

Opportunities
- Regional expansion
- Improve profitability

Threats
- Increasing competition on the market
- Growth of lease rates

Source: Alfa Bank estimates

Figure 91. Key Events

July 12 **Seventh Continent buys Kaliningrad chain; Positive**

Seventh Continent has initiated its regional expansion by acquiring Altyn's 12-store chain in Kaliningrad for $36 mln. Altyn, which is expected to generate $65 mln in sales in 2005, will now start operating under the Seventh Continent brand name (low-price format). Seventh Continent has already made investments and built two hypermarket shopping centers in Kaliningrad. These two deals will allow the company to take 35-40% of Kaliningrad's retail market.

This is very positive news and in line with the company's announcement that it will continue with regional expansion. Following the transaction, we upgraded Seventh Continent's target price from $15.00 to $17.40, which implies 17% upside potential. We reiterate our BUY recommendation.

Source: Alfa Bank estimates

Baltika

Figure 92. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	994	1,495	1,688	2,008
EBITDA, $ mln	253	401	458	539
Net profit, $ mln	132	238	277	333
P/E	24.2	13.4	11.5	13.7
EV/EBITDA	13.9	8.7	7.6	6.5
Market Cap, $ mln	3,234			
Enterprise Value, $ mln	3,502			
Production, mln hl	14			
Shares Outstanding, mln	131			

Sources: Company reports, Alfa Bank estimates

Figure 93. Company Snapshot

Strengths
- Leading Russian brewer with a national brand
- Strategic investor is a major shareholder
- One of the most profitable emerging-market brewers

Weaknesses
- Absence of fully-integrated distribution network
- Low liquidity and free-float

Opportunities
- Intention and ability to increase its market share

Threats
- Decrease in profitability due to increased competition

Sources: Company reports, Alfa Bank estimates

Figure 94. Key Events

July 17 **Baltika starts direct supplies of beer to Ireland: Positive**

Baltika Brewery started direct supplies of beer to Ireland. Previously, EUROBEER LTD, an Irish importer, purchased Baltika beer in Germany from Baltika Deutschland GMBH. Currently, Baltika Brewery supplies beer to 38 countries with total export supplies at 113 mln liters of beer in 2004.

July 7 **Baltika EGM rejects Pikra takeover due to lack of quorum; neutral for stock**

Baltika's EGM yesterday rejected the acquisition of a 70.3% stake in Pikra from BBH. Recently some minority shareholders announced that they regarded the proposed price of $67.5 mln as too high, though in our view it is in line with average industry valuation ratios. 66% of minority shareholders who voted approved the deal, but this was only 49.3% of all non-interested shareholders. This was insufficient for a quorum, which requires an absolute majority. 32% of non-interested shareholders were not present at the meeting, hence management intends to repeat the vote in the future. Since the number of approving shareholders is very close to 50%, we believe that Baltika will manage to have the acquisition approved at the offered price. Thus, yesterday's "no" vote should not have a significant impact on Baltika's share price.

Source: Alfa Bank estimates

Pyaterochka

Figure 95. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	1,106	1,585	2,128	2,786
EBITDA, $ mln	111	158	208	263
Net profit, $ mln	74	100	128	157
P/E	29.7	22.2	17.2	14.0
EV/EBITDA	20.3	14.4	10.9	8.6
Market Cap, $ mln	2,207			
Enterprise Value, $ mln	2,276			
Shares Outstanding, mln	153			

Source: Alfa Bank estimates

Figure 96. Company Snapshot

Strengths
- Russia's leading grocery retailer
- High profit margins
- Large amount of stores and their good location
- Strong brand

Weaknesses
- Two controlling individual shareholders (67% stake)

Opportunities
- Further geographical expansion
- Improve profitability per sqm

Threats
- Increasing competition on the market
- Shareholders' hypermarket project may have a negative impact

Source: Alfa Bank estimates

Figure 97. Key Events

July 15 **Pyaterochka added 28 own stores since the beginning of the year; Neutral**

Pyaterochka issued updated information on its current number of stores. As of June 30, 2005 Pyaterochka added 113 stores to its portfolio, 85 of which are franchised. This means that the company opened 28 own stores, which is slightly below our projections. We forecast 70 stores to be opened by the company this year and think that this figure will be very close to our estimates. This should allow the company to increase its revenues to $1.6 bln this year (43% growth compared to 2004 results).

Source: Alfa Bank estimates

COSMETICS

Concern Kalina

Figure 98. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	183	210	238	266
EBITDA, $ mln	33	39	43	47
Net profit, $ mln	19	26	29	31
P/E	14.7	10.9	9.8	8.9
EV/EBITDA	8.0	7.1	6.7	6.5
Market Cap, $ mln	322			
Enterprise Value, $ mln	267			
Shares Outstanding, mln	9.8			

Sources: Company reports, Alfa Bank estimates

Figure 99. Company Snapshot

Strengths
- Leading Russian cosmetics producer with a strong portfolio of brands
- Strong distribution and retail product placement systems
- Healthy EBITDA margin of 18%

Weaknesses
- High share of non-branded products (28%)

Opportunities
- Expansion of market share in skin and oral care segments
- Acquisitions of other brands
- Capture market share from weak Russian competitors

Threats
- Strong international competition

Sources: Company reports, Alfa Bank estimates

Figure 100. Key Events

July 19 **Kalina: We cut our recommendation to HOLD**

Timur Goryaev, Kalina CEO, reduced his stake from 50.178% to 50.052%. Since the sold stake is quite small, we regard this as neutral news for the company. But we seize the opportunity to downgrade our recommendation from BUY to HOLD since the current stock value ($31) exceeds our target price at $30.13.

Source: Alfa Bank estimates

PHARMACEUTICALS

Pharmacy Chain 36.6

Figure 101. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	211	364	527	664
EBITDA, $ mln	18	35	62	81
Net profit, $ mln	1	11	29	41
P/E	229.0	14.8	5.7	4.1
EV/EBITDA	13.2	7.5	4.1	2.8
Market Cap, $ mln	166			
Enterprise Value, $ mln	226			
Shares Outstanding, mln	8			

Source: Alfa Bank estimates

Figure 102. Company Snapshot

Strengths
- Leading pharmacy chain in Russia
- Strong position in Moscow, excellent regional presence
- Very strong brand – "36.6"

Weaknesses
- Negative cash flow until 2006
- Dependence on imports
- Low liquidity

Opportunities
- Expansion into regions via acquisitions
- Private labels development

Threats
- Competition will eat into margins
- Fast growth may be hampered by inadequate financing

Source: Alfa Bank estimates

Figure 103. Key Events

July 21 **Pharmacy Chain 36.6 (BUY, $27.3) to acquire Samara Nebolit chain; Positive**

According to *Business* newspaper, Pharmacy Chain 36.6 is acquiring the Samara Nebolit chain consisting of 14 pharmacies. Along with its own 36.6 pharmacies, which are to open soon, the Chain will have 25 outlets in Samara by the end of 2005. All drugstores will be united under the 36.6 brand name. The company's Corporate Finance and IR director Andrey Slivchenko did not confirm the acquisition, but admitted that Samara region is one of top priorities for 36.6. Acquisition of the Samara chain is positive news since it corresponds with the announced regional expansion plans of Pharmacy Chain 36.6.

Source: Alfa Bank estimates

MEDIA

RBC

Figure 104. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Revenue, $ mln	75	106	145	190
EBITDA, $ mln	20	30	44	61
Net profit, $ mln	11	20	32	47
P/E	43.3	23.9	14.7	10.1
EV/EBITDA	22.6	14.6	9.4	6.3
Market Cap, $ mln	478			
Enterprise Value, $ mln	442			
Shares Outstanding, mln	115			

Source: Alfa Bank estimates

Figure 105. Company Snapshot

Strengths
- #1 IT company in Russia
- Strong brand name and healthy business idea
- Capitalize on growing IT and advertising market in Russia
- Synergy between businesses

Weaknesses
- Low transparency and corporate governance standards
- Expensive valuations

Opportunities
- Expansion into Ukrainian market could be new source of growth; fixed costs not substantial
- Expansion of TV coverage (through Mostelecom last mile) and enhancement of content which may permit higher advertising rates
- Acquisitions and synergies in other sectors

Threats
- Reputation risks; association with a financial-industry group may limit potential advertising cash flows
- High competition in all its segments

Source: Alfa Bank estimates

Banking

Natalya Orlova (7 095) 795-3677

Terrific month for banking stock performances

July was a terrific month for stock performances in the banking sector. Blue chip proxy Sberbank (+14.4%) led the way, fed by anticipation of an upgrade by one of the major rating agencies. (In the event, Fitch moved to upgrade Russia's sovereign rating from BBB- to BBB with a positive outlook.) Sberbank prefs jumped more than 38% after the CBR eased restrictions on the sale of preferred stock to non-residents, as well in response to the release of 2H05 financial results. Also, rumors surfaced regarding the possible conversion of Sberbank prefs into commons, in line with anticipated removal of the ring-fence surrounding trade in 10% of the bank's "blessed" shares.

Investors hungry for banking names turned to the second tier

Hungry to invest in the financial sector but with no other liquid options, investors turned to regional banking names. Our favorite Promstroibank St. Petersburg posted a whopping gain of nearly 144% over the month, followed by Bank Vozrozhdenie (+74%, prefs +71% mid-market), UralSib (+66%) and our other top pick Bank of Moscow (+53% on MICEX). Interest was also fueled by comments from CBR Chairman Sergei Ignatiev encouraging Russian banks to prepare for IPOs to increase their exposure to public investors and efficiency gains it is hoped this would promote.

Figure 106. Banking Stock Performances in July

Stock	RTS ticker	% change, m-o-m
Sberbank	SBER	14.4%
Sberbank pref	SBERP	38.4%
UralSib	USBN	66%
Promstroibank St. Petersburg	pcbs	143.8%
Bank Vozrozhdenie	vzrz	74.4% mid-market
Bank Vozrozdenie pref	vzrzp	70.7% mid-market
Bank of Moscow	N/A	53.0%

Source: RTS, MICEX

Sberbank

Figure 107. Key Financial Indicators

FY Ending December	2004	2005E	2006E	2007E
Assets, $ mln	50,170	67,453	75,983	84,870
Net profit, $ mln	473	767	824	929
P/E	31.3	19.3	18.0	16.0
Market Cap, $ mln	15,330			
Ordinary shares, mln	19			
Price	780			

Sources: Company reports, Alfa Bank estimates

Figure 108. Company Snapshot

Strengths
- 75% monopoly on the retail deposit market
- State participation eliminates the risk of a run on deposits

Weaknesses
- Greater lending threatens to increase bad loans
- Inefficient and costly network of 1,329 branches
- State participation reduces incentives to increase Mcap

Opportunities
- Large branch network will aid in development of mortgage market
- Expenditures (equal to 40% of income) could be cut by 25%

Threats
- Pension reform
- Deposit insurance may increase the cost of deposits by 10%

Sources: Company reports, Alfa Bank estimates

Fixed Income

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Figure 109. Key Events

Date	Event, Commentary
July 1	**Moody's raised Argentina's rating from Caa1 to B3**. This upgrade followed the completion of the last stage of Argentina's debt restructuring process.
July 5	**The MinFin paid $14.9 bln to the Paris Club as part of its early settlement of PC debt**. This news renewed speculation on the possibility of an upgrade to Russia's sovereign debt rating, in turn sparking growth in prices of sovereign Eurobonds.
July 7	**Terrorist acts in London** led to short-term growth in demand for US Treasuries against a backdrop of sales of developing countries' bonds, temporarily expanding spreads.
July 11	**Turkey's Central Bank decided to leave its key interest rate unchanged**. This move surprised the market, causing a decline in prices not only on Turkish Eurobonds, but also on those of other developing countries. Russian debt depreciated in a range of 0.5%.
July 12	**Venezuelan government announces intention to invest in bonds of Latin American countries**. This statement bolstered demand for Latin American bonds and also led to growth in prices of Russian debt, the dependence of which on US Treasuries somewhat slackened. In consequence, spreads between Russian debt and US Treasuries tightened to record minimums.
July 14	**The US economy posted zero growth in the consumer price index in June, while retail sales rose by 1.7% (beating expectations of 1% growth)**. This data, alongside lower tempos of inflation, testified to steady growth in the US economy and revived expectations that the Fed would raise its rates again in August. Yields on US Treasuries, and consequently those on Russian Eurobonds, advanced.
July 15	**US PPI in June remained unchanged (versus forecast of +0.4%), and industrial production increased by 0.9% (vs. forecast of +0.4%).**
July 18	**Gazprom placed two Eurobond tranches with maturity in 2013**. The yield of the amortizing issue worth $646.5 mln was 5.625% p.a., while the yield on the second tranche worth $1.222 bln was 4.505% p.a. Demand for the issues exceeded $4 bln, demonstrating the maintenance of high demand for initial placements despite the summer lassitude.
July 18	**On July 18, Brazil began to hold a swap for C-Bonds in a volume of $5.6 bln**. The new issue will mature in 2018 (C-Bonds mature in 2012), and have a coupon rate of 8% p.a. (like C-Bonds). The swap of C-Bonds for the new issue without a built-in call-option will lead to the reduction of spreads between Brazilian debt and US Treasuries, which should ultimately reduce Brazil's cost of borrowing.
July 20	**The Fed chief presented his half-year report on the US economy and Fed monetary policy to the US Congress**. Greenspan confirmed investors' suspicions regarding the maintenance of the Fed's policy orientation toward gently raising rates. Given the previously published macroeconomic data, investors expected such a statement and had earlier opened short positions on US Treasuries. After Greenspan's address, yields on US Treasuries declined as short positions were closed.
July 21	**The Chinese government announced its intention to let the yuan appreciate, and the yuan strengthened against the dollar by 2.1% to CNY 8.11/$**. This announcement sparked a decline in US debt prices. The reaction of Russian Eurobonds was more conservative.

Source: Alfa Bank estimates

Spread between Russian debt and US Treasuries narrows to historic minimum

A gentle decline in the yields on Russian Eurobonds observed in the first half of 2005 reversed in July as yields took flight. A chief motivator in the decline of prices on Russian sovereign debt was the US Treasury dynamic, which reflected strengthening expectations of more hikes in the Fed's key interest rate. June data on US industrial production testified to steady economic growth, whereas both producer and consumer price growth remained flat. Given the release of so many favorable figures, Fed chief Alan Greenspan's half-year report before Congress on the US economy and Fed policy only confirmed investors' expectations that the Fed will maintain its current policy orientation over the remaining half-year.

Meanwhile, the dollar in July began to depreciate against major global currencies after China decided to allow the yuan to float and thus appreciate. Although the depreciation of the dollar against the euro was by nature short-term, the dynamic reduced the appetites of foreign investors for dollar assets.

Prices on Russian debt declined in sympathy with those on US Treasuries, albeit more conservatively. This muted reaction was due both to the traditional inactivity of investors during the summer lull, as well as to the falling correlation between Russian debt and US Treasuries (while Russian debt increasingly reacts to events in developing countries). Consequently, the spread between Russian Eurobonds and US debt fell to historical minimums in July; the spread on Euro-30 fell to 146 bpts on several different days.

In spite of summer lethargy, investor demand for new bond issues remained at a high level in July, enabling Russian issuers to continue placing new issues – both Eurobonds and CLNs – without a premium to the secondary market. In mid-July, Gazprom attracted $1.9 bln in two almost simultaneous placements of Eurobond tranches.

Investors predict higher Fed rates, but hold Russian debt on expectations of upgrade to Russia's sovereign rating

Russia's external debt market should remain inactive throughout most of August. The meeting of the FOMC (August 9-10) should bring no surprises: after Greenspan's recent address, investors have no doubt that the Fed will raise its rates by 25 bpts at the next meeting.

Nevertheless, we expect the spread between Russian Eurobonds and US Treasuries to remain at minimal levels as investors maintain long positions in Russian debt in anticipation of an upgrade to Russia's sovereign rating by Moody's. This upgrade may come as soon as the end of August or the beginning of September, just after Russia is to conclude the early settlement of its Paris Club debt (according to earlier statements, the final tranche is planned to be paid before August 20, 2005).

Figure 110. Bonds, as of July 30, 2004

	Maturity	Price	Change %	YTM %	Current yield %	Duration years	Spread over risk-free rates bpts
Sovereigns							
Russia-07	26.06.2007	109.56	-0.79	4.7	9.13	1.75	69.23
Russia-10	31.03.2010	108.44	-0.57	4.8	7.61	2.40	72.71
Russia-18	24.07.2018	148.38	-0.67	5.7	7.41	8.22	140.19
Russia-28	24.06.2028	179.75	-1.10	6.2	7.09	10.95	184.27
Russia-30	31.03.2030	110.75	-0.84	5.7	4.51	8.37	142.63
MinFins							
MinFin-5	14.05.2008	94.31	0.07	5.3	3.18	2.68	120.73
MinFin-6	14.05.2006	98.88	0.00	4.5	3.03	0.77	74.91
MinFin-7	14.05.2011	87.40	-0.68	5.6	3.43	5.31	145.95
MinFin-8	14.11.2007	96.56	0.07	5.1	3.11	1.73	108.27
Aries							
Aries 2007	25.10.2007	105.75	0.36	N/A	5.15	N/A	N/A
Aries 2009	25.10.2009	116.00	0.11	3.6	6.68	3.61	114.80
Aries 2014	25.10.2014	128.50	0.00	5.6	7.47	6.55	139.21
Municipal Eurobonds							
Moscow-06	28.04.2006	105.74	-0.70	2.9	10.36	0.72	110.41
Banking							
Alfa Bank	19.11.2005	101.30	-0.37	6.1	10.61	0.28	266.37
Vneshtorgbank-07	30.07.2007	103.88	0.21	N/A	4.58	N/A	N/A
Vneshtorgbank-08	11.12.2008	104.34	-0.57	5.4	6.59	4.44	137.37
Gazinvest-05	04.10.2005	100.88	-0.78	4.2	9.66	3.02	307.47
Gazinvest-08	30.10.2008	104.60	-0.32	5.7	6.93	5.63	161.16
Zenit Bank	12.06.2006	101.94	0.18	6.9	9.07	3.98	311.27
MDM Bank	16.12.2005	N/A	N/A	N/A	N/A	7.49	N/A
NIKoil	19.03.2007	101.73	-0.06	7.8	8.85	0.16	392.19
NOMOS Bank	13.02.2007	101.23	-0.51	8.2	9.01	2.89	435.81
Petrocommerz	09.02.2007	102.50	0.08	7.2	8.78	0.82	334.01
Russian Standard-05	28.05.2005	N/A	N/A	0.0	N/A	2.29	0.00
Russian Standard-07	14.04.2007	102.15	0.27	7.4	8.57	0.36	343.54
Sberbank	24.10.2006	101.06	0.06	N/A	2.84	N/A	N/A
UralSib	06.07.2006	104.60	-0.32	3.8	8.48	2.74	N/A
Oil & Gas							
Gazprom-07	25.04.2007	106.57	-0.67	5.1	8.56	1.38	N/A
Gazprom-09	21.10.2009	118.48	-0.83	5.5	8.86	1.15	N/A
Gazprom-10	27.09.2010	117.07	0.27	4.1	6.66	3.92	N/A
Gazprom-13	01.03.2013	N/A	N/A	N/A	N/A	1.56	N/A
Gazprom-20	01.02.2020	107.25	0.00	5.1	6.71	1.96	N/A
Gazprom-34	28.04.2034	123.34	-1.41	6.8	6.99	0.00	N/A
Rosneft	20.11.2006	109.12	-0.80	5.4	11.68	0.89	N/A
Sibneft-07	13.02.2007	108.64	1.02	N/A	10.59	2.28	N/A
Sibneft-09	15.01.2009	114.73	2.67	N/A	9.37	2.60	0.06
TNK	06.11.2007	111.06	0.37	N/A	9.90	2.01	0.06
Telecoms							
AFK Sistema-08	14.04.2008	107.36	-0.32	N/A	9.55	1.59	0.07
AFK Sistema-11	28.01.2011	104.15	0.39	N/A	8.52	3.48	0.08
VimpelCom-05	26.04.2005	N/A	N/A	0.0	N/A	5.56	0.00
VimpelCom-06	16.06.2009	107.70	0.18	N/A	9.29	6.75	0.08
MTS-04	21.12.2004	N/A	N/A	N/A	N/A	7.74	N/A
MTS-08	30.01.2008	107.64	0.36	N/A	9.06	5.63	0.06
MTS-10	14.10.2010	104.58	0.68	N/A	8.01	12.30	0.07
Metals							
EvrazHolding-06	25.09.2006	102.50	-0.44	N/A	8.66	1.20	0.07
EvrazHolding-09	03.08.2009	110.55	-0.12	N/A	9.84	1.37	0.08
MMK-05	18.02.2005	N/A	N/A	0.0	N/A	2.98	0.00
MMK-08	21.10.2008	102.26	0.75	10226.0	7.82	2.01	0.07
Severstal-09	24.02.2009	N/A	N/A	10298.0	N/A	2.36	0.08
Severstal-14	19.04.2014	N/A	N/A	10390.0	N/A	4.47	0.09
Other							
Alrosa	06.05.2008	N/A	N/A	N/A	N/A	3.28	N/A
Wimm-Bill-Dann	21.05.2008	N/A	N/A	10121.0	N/A	3.73	0.08

Sources: Reuters, Alfa Bank estimates

RTS Index: New Technical Target Level is 888

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Figure 111. RTS Index – Technical Analysis Focus

Share	Recommendation		Trend performance Short-term	Trend performance Long-term	Resistance Level			Support Level			Monthly Range (July 1-30)	
RTSI	HOLD <LONG>	674	Bullish	Bullish	R4	887.66	132.8% FiboR	S1	885.52	High 12.04.04	OP	706.78
	TARGET LEVEL	888			R3	876.55	Trend channel	S2	750.57	7-week MA	HI	781.50
					R2	829.39	Wedge boundary	S3	714.80	6-month MA	LO	706.22
					R1	809.56	100.0% FiboE	S4	645.91	3-year trend	CL	778.93

Source: Alfa Bank estimates

Investment Summary

- **Both the long- and short-term trends on the RTS are currently bullish, which indicates continuation of the summer rally.**
- **As we expected, penetration through strong resistance at 705 was followed by a rally toward the previous intraday historical high of 785 in July.**
- **We believe the RTS Index has a good chance to reach our new technical target level of 888 before November.**
- **In the short term a downward technical correction is likely from a level of 809-829.**
- **We thus recommend that investors HOLD LONG POSITIONS with a technical target of 888.**

Figure 112. RTS Index – Monthly Technical Performance as of August 4, 2005

Thu Aug 04 2005 14:50:20 CQG © 2005

Sources: RTS, CQG, Alfa Bank estimates

Classic Technical Analysis

The RTS Index has a good chance to reach our fair value of 815 in the short- term

As we expected, penetration through 705 in July cleared the path toward new historical high levels. At the end of July the RTS Index reached the high of April 12, 2004, as shown in Figure 112. At the same time, both the long- and short-term trends on the RTS are currently bullish, which indicates continuation of the summer rally to near our fair value on the RTS of 815.

Short-term Trend and Cycles

Figure 113. RTS Index – Daily Trend and Cycles Performance as of August 4, 2005

Source: Alfa Bank estimates

Short-term trend on the RTS remains bullish

The slow adaptive trend line (ATL) in the upper part of Figure 113 is currently moving upwards over the slow adaptive moving average (AMA), which means that the short-term trend on the RTS is bullish. Meanwhile, all another lines (the slow AMA, the fast AMA and the fast ATL) are moving upwards in tandem with the slow ATL, which should be regarded as an additional bullish sign.

Slow momentum confirms the presence of a short-term bullish trend

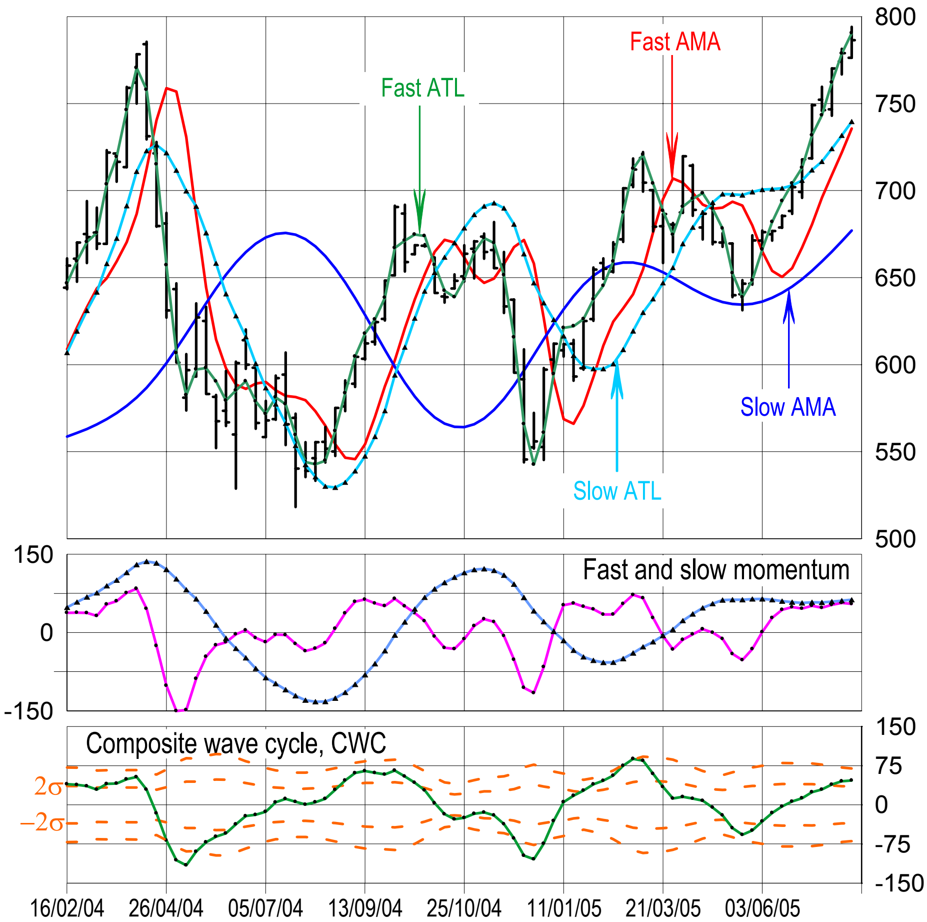
The slow momentum study (see Figure 113) continues to move sideways in positive territory, further confirming the presence of a short-term bullish trend. At the same time, the fast momentum study formed its new local maximum in positive territory, resumed a fall and reached the key zero level, which indicates a forthcoming technical correction on the RTS.

The short-term CWC is in a decline phase

The short-term CWC in the lower part of Figure 113 passed its new crest in strongly overbought territory above the “plus two-sigma” level and resumed a decline phase. The new decline phase of the short-term CWC is accompanied by bearish divergence relative to the fast ATL. The volatility of the short-term CWC remains at the normal average level.

Long-term Trend and Cycles

Figure 114. RTS Index – Weekly Trend and Cycles Performance as of August 4, 2005



Source: Alfa Bank estimates

Long-term trend on the RTS is bullish

The slow ATL in the upper part of Figure 114 continues to rise over the slow AMA, indicating that the long-term trend on the RTS is currently bullish. Meanwhile, the fast adaptive trend line (ATL) and the slow and fast AMAs are advancing in tandem with the slow ATL, which is an additional long-term bullish sign.

Both the slow and fast weekly momentum studies look very bullish

Both the slow and fast momentum studies in the middle of Figure 114 are still forming a plateau in positive territory. Such a combination of technical indicators suggests continuation of the summer rally on the Russian equity market.

Long-term CWC is still in an advance phase

Having passed its trough in moderately oversold negative territory, the long-term CWC continues along its new advance phase. For the time being the long-term CWC has reached moderately overbought territory between the "plus sigma" and "plus two-sigma" levels.

Support and Resistance Levels

Strong resistance level is now located at 809-829

The near-term support and resistance levels on the RTS are illustrated in Figure 111 and Figure 112. The strong resistance level is now located at 809-829. Another strong resistance level is 876.

Upside and Downside Potential

With regard to the state of the equity market, we conclude the following:

We reiterate our recommendation to HOLD LONG POSITIONS with a new technical target level of 888

1. Both the long- and short-term trends on the RTS are currently bullish, which indicates continuation of the summer rally.
2. As we expected, penetration through strong resistance at 705 was followed by a rally toward the previous intraday historical high of 785 in July.
3. We believe the RTS Index has a good chance to break reach our fair value of 815 in the short term as well as our new technical target level of 888 before November.
4. In the short term a downward technical correction is likely from a level of 809-829.

We recommend that investors HOLD LONG POSITIONS with a new technical target level of 888.

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BUY	15% or higher indicated upside to target price
HOLD	Less than 10% downside and less than 15% upside to target price
SELL	10% or greater downside to target price

15% is the long-term "average" return for equities and is now widely used as the threshold in determining a BUY recommendation.

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