

Daily Market Watch

US Dollar		23.6968
Euro		36.8699
RTSI	-0.95%	2,429.47
MICEX	-0.77%	1,901.09
Brent (ICE)	-2.69%	124.58
Urals	-2.75%	119.64
Dow Jones	-0.81%	12,402.85
NASDAQ	-0.44%	2,480.48
S&P500	-0.40%	1,380.19
DAX	+0.15%	7,019.129
FTSE-100	+0.83%	6,057.699
CAC-40	+0.98%	4,983.707
Nikkei-225	+1.03%	14,355.84
Bovespa	-2.62%	70,011.88

Overview:

Market Roundup

Russian trading was highly volatile Tuesday due to instability on global commodity markets and European bourses. Be that as it may, U.S. Federal Reserve Chairman Ben Bernanke's comments that benchmark interest rates are "well positioned" and a downturn that broke out in late hours dragged Russian stocks down: the RTS Index contracted 0.95% and the MICEX Index ended 0.77% lower.

A continuing retreat in global metal prices took a toll on metal issuers: Norilsk Nickel shed 1.8%, Severstal gave up 2.6%, NLMK pulled back 2.3% and MMK eased 0.9%. O&G plays, save Tatneft (+0.4%), also ended the session in the red: Rosneft dropped 1.4%, Lukoil was off 0.6% and Gazprom was down 0.5%. As US financial majors saw their ratings downgraded, domestic bank stocks also headed south: Sberbank tumbled 0.8% and VTB fell 1%. UES gained 1.2%, exhibiting minimal correlation with the market in the run-up to its wind-up.

Bearish sentiment again prevailed on US equity markets Tuesday against the backdrop of Ben Bernanke's statements that curbing inflationary pressure is a priority. The S&P 500 ended 0.6% lower. A strengthening dollar depressed oil contracts, down 3%. Asian markets look mixed this morning on expectations the greenback will firm up.

According to our estimates, Wednesday's morning news flow is again downbeat. Oil and gas plays will come under pressure from a 3% decline in crude futures, while Lukoil's expected first-quarter financials could, to a large extent, keep oil plays from sliding. An increase in non-ferrous metal prices could prop up metal issuers. Today financial stocks will likely remain on the sidelines. Trading in UES will be the least predictable today, as there are three days left for investors to buy into the holding before it is wound up.

Breaking News

- In global petroleum market news, oil futures fell sharply Tuesday, dropping below USD 124 a barrel as demand concerns grew and Federal Reserve Chairman Ben Bernanke announced that more interest rate cuts are unlikely. [\(page 2\)](#)
- Trubnaya Metallurgicheskaya Kompaniya has launched syndication of a USD 1.2 bn loan to take over the pipe segment of US-based Ipsco. [\(page 2\)](#)

Sector news

Financial sector

- **Vozrozhdeniye bank** reports 1Q 2008 financials under IFRS. [\(page 3\)](#)

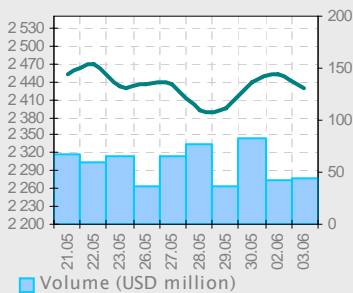
Utilities

- **OGK-1** may be sold prior to UES wind-up. [\(page 4\)](#)

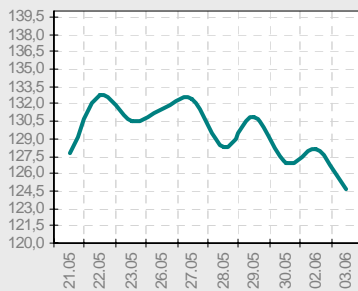
Utilities

- Top-managers leave **OGK-2**. [\(page 5\)](#)

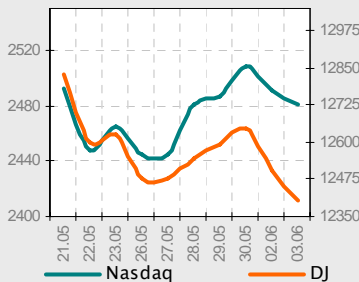
RTS



Brent (ICE)



World indices



Breaking News

In global petroleum market news, oil futures fell sharply Tuesday, dropping below USD 124 a barrel as demand concerns grew and Federal Reserve Chairman Ben Bernanke announced that more interest rate cuts are unlikely. Light, sweet crude for July delivery fell USD 3.45 to settle at USD 124.31 a barrel on the New York Mercantile Exchange. Prices dipped as low as USD 123.87 in after-hours electronic trading. It was oil's lowest trading and settlement levels since May 15. In London, July Brent crude futures fell USD 3.44 to settle at USD 124.58 on the ICE Futures exchange. Prices peaked at USD 135.09 on May 22; its settlement Tuesday was USD 10.78, or 8% below that record. Bernanke's comments sent the dollar higher and raised questions about oil's ability to reach new highs in the short term. The latest MasterCard SpendingPulse survey found that demand for gasoline fell by 4.7% last week – which included the long Memorial Day holiday weekend – compared to the same week last year. Averaged over the last four weeks, demand was down 6% last week compared to last year. This report dovetails with recent data from the Energy Department and Federal Highway Administration, as well as several other surveys suggesting high prices are cutting American's appetite for fuel. A new survey by RBC Capital Markets finds that about 90% of Americans have made changes in their daily lives to counter high energy prices, including driving less and taking public transportation more often. On Tuesday, General Motors Corp. said it would close four truck and SUV plants in the U.S., Canada and Mexico as surging fuel prices hasten a dramatic shift to smaller vehicles. Also weighing on prices was the strengthening dollar. In a speech via satellite to an international monetary conference in Spain, Bernanke suggested that further rate cuts are unlikely because of concerns about inflation. Since last year, a series of Fed cuts designed to shore up the economy has led to a protracted decline in the dollar's value against the euro. That helped feed the record run-up in oil prices as investors bought commodities such as oil as a hedge against inflation. On Tuesday, that effect reversed; the dollar gained ground on Bernanke's comments, and investors who had bought oil as part of a hedging strategy sold. Oil prices also fell Tuesday on forecasts that domestic oil and fuel supplies rose last week. We expect oil inventories rose by 2 mn barrels last week. The Energy Information Administration will issue its weekly inventory report at 6:30 pm Moscow time today. In other market news, Kurdistan's Prime Minister Nechirvan Barzani said Tuesday that Iraq should boost crude oil export capacity to 6 mn bpd, three times the amount the country is exporting now. But Iraq's oil industry is plagued by a lack of modern equipment and training after decades of U.N. sanctions, war and Saddam Hussein's rule. The country plans to boost oil output from 2.5 mn bpd to 3 mn bpd by the end of 2008 and 4.5 mn bpd by end of 2013. Looking ahead, we believe Bernanke's remarks could slow the rise of crude a little, since an end to the rate cut cycle and a stronger dollar focus would remove a contributing factor that has been driving the price of oil. However, given that the US input in the global petroleum market equation is no longer decisive, and the growing imbalance between supply and demand, we believe Bernanke's strong dollar policy will ultimately have a marginal impact on the long-term price horizon of WTI and Brent.

All top managers of OGC-2 left the company after the board approved the dismissal of CEO Mikhail Kuzichev, Gazprom and UES said in a joint press release. Gazprom, the genco's strategic shareholder, objects to make golden parachute payments to the top managers who left the company, for a total of RUB 557 mn. Golden parachutes are the right of upper executives to once-off major severance bonuses equaling 24 to 36 monthly salaries in case of premature termination of employment. "Virtually all top managers tendered letters of resignation on May 30 and the general director accepted them on the conditions of the highest payments that total RUB 557 mn. This move by the company's executives was not agreed upon and is currently being discussed by OGC-2 shareholders" - the press release said. The company saw the departure of 16 top managers, a source close to the company's shareholders said. Some of them, whom Gazprom regards as highly professional, were offered to come back, the same source noted. Golden parachute payments were made using borrowed resources. "These actions create for the public company, as OGC-2 is such, material financial and image risks that, in turn, could exert an adverse impact on the company's investment ratings, hamper the execution of the investment program and also the scheduled second phase of the IPO" - the press release pointed out.

TNK-BP attributes nearly a 100% decrease in 2007 dividends to the sale of Udmurtneft and bigger investments, the oil producer said in a statement. The audit committee attached to TNK-BP's board recommended that 2007 dividend payouts be slashed 48% to USD 2.60 bn from USD 5 bn in 2006, but all financial indicators are to be approved by the board of directors. The oil major said that given an adjustment to the asset divestiture at Udmurtneft, which was sold in 2006 to Rosneft and China's Sinopec Corp. for USD 3.5 bn, "the calculation shows a base increase by USD 1 bn or 24% of the company's equivalent earnings in 2006".

The ruble will appreciate vis-à-vis the euro/dollar basket at a slower pace in 2008 than in 2007, Finance Minister Alexei Kudrin said. "(The ruble will appreciate) slightly less than last year", Alexei Kudrin said during his visit to Saudi Arabia. Ruble appreciation vs. the bi-currency basket of USD 0.55 and EUR 0.45 came in at 1.8% in 2007. The Russian minister went on to say that the 2008 inflation target of 10.5% is feasible if food prices remain flat. Analysts and economists polled by Reuters last week project CPI growth in Russia at average 12.6% this year.

US factory orders rose 1.1% in April 2008 following the revised 1.5% estimate for March, the US Commerce Department reported. Durable goods orders (at least 3-year service life) dropped, according to the adjusted data, 0.6% in April, while they were initially reported to go down by 0.5%. The inventories/sales ratio reached 1.23 in April, compared to 1.26 in March.

HydroOGK chairman Vyacheslav Sinyugin could be appointed deputy energy minister in charge of the power utilities industry. According to several sources familiar with the situation, this issue is presently being discussed by the Ministry of Energy and the Russian government. One of the sources said that the ministry held a meeting devoted to the issue on Tuesday. Both the Energy Ministry and HydroOGK declined to comment on the situation. HydroOGK board's decision is necessary to have a new chairman appointed. The sources are unaware of a new appointee for this position.

Trubnaya Metallurgicheskaya Kompaniya has launched syndication of a USD 1.2 bn loan to take over the pipe segment of US-based Ipsco. The company said in a press release that the agreement to raise a syndicated bridge loan was inked on May 30. The funds are attracted for one year and the loan can be extended for three months. As reported earlier, TMK issued a mandate for nearly USD 2 bn loan to acquire American Ipsco's pipe business. Evraz Group is now buying Ipsco's pipe business for USD 4.025 bn from Swedish SSAB with a further resale of US-based assets to TMK for USD 1.2 bn. In 2009 Evraz will sell TMK more assets from Ipsco worth USD 500 mn.

Polyus Gold's management will submit to the BoD its opinion on Oneximbank's buyout offer for 6.54% shares of the gold maker on June 4, Polyus Gold CEO Evgeny Ivanov said. "This will be done in order to have some time left to adopt a decision on the issue in principle before the deadline expires of Onexim Group's buyout offer", Ivanov said. He did not specify whether management recommends that the board accept the offer which is valid until 6 pm Moscow time on June 6. Ivanov said that the company had not received a buyout offer for a 6.54% stake in the gold company from Interros.

VimpelCom's BoD has approved the acquisition of a 49% stake in Internet provider Corbina Telecom from Inure which acts in the interests of businessman Alexander Mamut. VimpelCom said in a press release that the value of the transaction is USD 404 mn. The deal is to be wrapped up subject to approval by regulatory authorities. VimpelCom gained control over Corbina via the acquisition of Golden Telecom in February 2008. At that time Golden Telecom reported the start of negotiations with Inure Enterprises Limited to buy out its stake. In the event of a buyout from Inure Golden Telecom will not be obliged to offer at least 10% of Cortech (Corbina's parent company) in an IPO until the end of 2008. Corbina was to go public in 2008 as part of the transaction to sell its controlling interest to STsS Sovintel (Golden Telecom's holding company) in spring 2007. However, VimpelCom to which these liabilities were assigned, was not interested in Corbina's IPO. In particular, the company's CEO Alexander Izosimov said so.

Vozrozhdeniye bank reports 1Q 2008 financials under IFRS

The 1Q 2008 financial results published by the Vozrozhdeniye bank demonstrate its effective business, while raising doubts as to its future growth rates. In particular, the bank's loan portfolio grew 2.5x slower than the average for the sector. Another important task faced by the management is to curtail payroll costs. The financial results released generally met market expectations and are unlikely to produce a tangible impact on the bank's stock valuations.

On June 3 Vozrozhdeniye bank published its 1Q 2008 financials audited to IFRS. Net profit soared by nearly 150% y-o-y to RUB 681 mn. Operating income surged by 58.1% to RUB 2,480 mn and net interest income jumped 48.8% to RUB 1,655 mn. Assets rose 5% to RUB 116.9 bn.

Vozrozhdeniye bank: Basic financials for 1Q 2008, mn RUB

Indicator	1Q 2008	1Q 2007	Change
Assets	116 925	111 404*	5.0%
Total credits	81 317	78 149*	4.1%
Equity capital	12 571	11 890*	5.7%
Interest income	2 860	1 994	43.4%
Interest expenses	1 205	882	36.6%
Net interest income	1 655	1 112	48.8%
Net commission income	803	601	33.6%
Operating expenses	2 480	1 569	58.1%
Administrative expenses	1 589	1 194	33.1%
Net profit	681	275	147.6%
Cost/Income	59.0%	61.2%	-

* - data as of 31.12.2007

Source: bank data, Finam estimates

On the upside, we point to the rapid growth in interest income, which has enabled the bank to boost its net interest income by nearly 50%. We also indicate the steady rise in commission income, up 33.6% y-o-y, and the low share of casual income in the bank's operating profit, at about 6%. We also highlight a comfortable loan-to-deposit ratio and a sound balance sheet.

We are, however, wary of the slow growth in the bank's assets and total credits, which grew slower than the average indices in the sector. On the downside, we point at the rapidly growing payroll costs, up 46.2% y-o-y and up 13.9% q-o-q. Despite this, the bank managed to bring its cost/income multiple down to 61%, from 66% in 2007.

The published financials demonstrate the bank's effective business, while raising doubts as to its future growth rates. The loan portfolio grew 2.5x slower than the average for the sector. The management also needs to reduce payroll costs. We estimate the fair value of the bank at USD 69.5 per common share, with an upside potential of 16%.

OGK-1 may be sold prior to UES wind-up

The likely acquisition of the OGK-1 power utility by a strategic investor is unlikely to arouse speculative interest in the company's shares in the hope of profiting from a buyout offer, but could raise the company's fundamental attractiveness.

UES of Russia CEO Anatoly Chubais does not exclude that OGK-1 (RTS:OGKA) may be sold before the completion of UES' reorganization. Talks between UES and IES Holding, formerly the potential buyer of the asset, have fallen through. The value of the deal is estimated at above USD 5 bn. The UES BoD is to soon consider a new scheme for the sale of the generation company. The process is to be split into two stages. The state share package, at 62.16% of the current capital, is to be sold to a strategic investor, while an additional share issue, set at 50.4% of the current charter capital, is to be distributed via an IPO.

The imminent sale of OGK-1 is indicative of the fact that the company must have sought out a potential buyer who is prepared to pay at least USD 500 per kWh of capacity. UES management previously voiced its determination not to sell off the genco cheaper than USD 500/kWh of capacity. However, the takeover of the genco is unlikely to entail an obligatory offer to minority shareholders, given the holding company's plans to grant the buyer a deferral of payment. This would dampen speculative interest in the company's shares. On the flipside, the emergence of a strategic investor for OGK-1, vital for its further development, might enhance its fundamental attractiveness.

We estimate the fair value of OGK-1 at USD 0.108 per share, which corresponds to **BUY** recommendation.

Top-managers leave OGK-2

Resignation of OGK-2's top-management team could produce negative impact on both the company's operating governance and its financial health in the short-term, since it is possible that OGK-2's former top-managers will receive remuneration of nearly RUB 557 mn.

On May 27, 2008, a meeting of OGK-2's (RTS: OGKB) BoD was held. The board accepted the voluntary resignation of OGK-2's general director Mikhail Kuzichev. In line with the 3-year labor contracts signed in January 2008, all company top-managers, as well as the general director himself, in case of resignation, upon a mutual agreement of all parties, were entitled to receive one-time maximum payments of 24-36 monthly wages depending on length of service. On 30 May 2008, almost all of the company's top-managers filed letters of resignation, and the general director accepted these letters on the condition of maximum payouts, which totaled RUB 557 mn. This amount was paid from the company's borrowed funds. In the meantime, OGK-2's FY 2007 net profit audited to RAS amounted to just RUB 40 mn.

The resignation of the company's top-management team should produce negative impact on the company's stock valuations in the short-term. The move made by OGK-2's former top-managers brings considerable financial and image risks, which in turn could negatively affect the company's investment ratings, complicate implementation of OGK-2's investment program and performance of the second IPO stage. The situation is even more aggravated by the lack of experienced management personnel in the power utilities industry. However, we believe that Gazprom, as the company's main shareholder, will help to resolve the current situation promptly.

The fair value of OGK-2's shares is USD 0.122 per share, which corresponds to **Buy** recommendation.

Schedule of Upcoming Events

Date	Event	Analysts Comments
UTILITIES		
June 6, 2008	Final cutoff date for UES	Entities listed in the shareholder's register as of the cutoff date are to receive the target structure companies' shares in exchange for their UES stocks. UES securities would stop being traded at the stock exchange on the same day. After the cutoff date, UES's shares would continue to circulate on the OTC market; however, they would not enable the stockholders to receive target structure assets. Those who buy 1 UES's share after June 6 would receive only 2 FGC's shares.
June 24, 2008	Auction to sell off St. Petersburg Supply Company	A 49% stake in Saint Petersburg Supply Company (RTS: PBSB) was valued at RUB 5 bn. The bid increment is RUB 100 mn.
June 25, 2008	Auction to sell off UES's stake in Kuzbassenergo (TGC-12, RTS: KZBE)	The share package at auction amounts to 19% of the company's charter capital, the initial price is RUB 10.03 bn, and the bid increment is RUB 10 mn. Bids are to be accepted from June 9 till June 19.
CHEMICALS AND PETROCHEMICALS		
June 25, 2008	Hearings in a claim to deprivatize a 20% stake in Apatit	If a stake in Apatit is bought by the state, PhosAgro's control over the company will weaken. This will be favorable for Akron, which will attempt to soften the terms of the agreement on apatite concentrate supplies.
TRANSPORT		
June, 2008	Aeroflot is to release its FY 2007 consolidated financials audited to IFRS	In view of the growth rates on the air travel market in 2007 and the airline's active expansion on domestic routes, we expect the air carrier to post record high revenues. Sharp price spikes on jet fuel in the closing quarter of the year may eat into the company's profit margins.
METALS		
June, 2008	NorNickel publishes FY 2007 annual report	Given the favorable conditions on the non-ferrous metals market, we expect the company's net profit to be USD 7.5 bn. The company's EBITDA should amount to USD 11 bn, in line with our estimates, while revenue should exceed USD 15.5 bn.
CONSUMER		
June 16, 2008	A EGM of Lebedyansky shareholders	An EGM at the Lebedyansky company will consider restructuring the company's business. The goal is to spin off the company's juice division for the subsequent sale of more than 75% of its shares. In our view, most of the shareholders are likely to back the spinoff with a view to getting shares in the juice division (with the possibility of a buyout offer from PepsiCo), and the baby food and mineral water unit.

MICEX Top Advancers

	Issuer	Close	Chng.	Chng. %	USD Turnover
05/03	VoronEnSb-p	4.44	0.530	13.55	847.90
05/03	YarosLSK	20.5	1.480	7.78	268,697.60
05/03	PIK	710.0	44.000	6.61	4,343,530.03
05/03	UralSvl	1.337	0.078	6.20	1,282,917,439.90
05/03	MRSK C 008	1.19	0.069	6.16	119.00
05/03	TverEnSb	1.33	0.070	5.56	264,328.90
05/03	MRSK Vol 004	0.175	0.009	5.42	14,657.27
05/03	MordEnSb	0.177	0.009	5.36	242.30
05/03	TGK-2-p	0.0129	0.001	4.88	1,987.90
05/03	OrlEnSb	1.359	0.059	4.54	8,551.40

MICEX Top Decliners

	Issuer	Close	Chng.	Chng. %	USD Turnover
05/03	MRSK NW 003	0.231	-0.034	-12.83	26,113.60
05/03	OmskEnSb	120.0	-10.000	-7.69	532,020.00
05/03	MRSK NW 010	0.2312	-0.019	-7.52	9,457.84
05/03	MRSK C 004	1.199	-0.097	-7.48	4,558.50
05/03	Tarxany	4.348	-0.335	-7.15	2,950,142.80
05/03	TomskEnSb-p	0.065	-0.005	-7.14	41,762.30
05/03	Kuzbaseng	0.508	-0.034	-6.27	9,678,309.90
05/03	CherkizG	565.0	-35.000	-5.83	11,150.00
05/03	MariEnSb-p	1.01	-0.041	-3.90	199.50
05/03	MRSK NW 007	0.25	-0.010	-3.85	106,247.44

RTS Top Advancers

	Issuer	Close	Chng.	Chng. %	USD Turnover
05/03	NNSI	4.83	0.280	6.15	919,206.90
05/03	GUMM	2.85	0.100	3.64	156,750.00
05/03	HYDR	0.092	0.002	2.22	725,102.74
05/03	PIKK	30.2	0.500	1.68	630,200.00
05/03	MTSS	12.82	0.170	1.34	383,700.00
05/03	RASP	9.9	0.100	1.02	49,500.00
05/03	BANEP	10.25	0.100	0.99	102,500.00
05/03	TRNFP	1,530.0	5.000	0.33	1,323,450.00
05/03	KOGK	4,600.0	1.000	0.02	9,200.00

RTS Top Decliners

	Issuer	Close	Chng.	Chng. %	USD Turnover
05/03	URKA	12.15	-0.600	-4.71	350,678.80
05/03	SCON	27.0	-1.100	-3.91	55,500.00
05/03	PLZL	67.5	-2.000	-2.88	441,065.00
05/03	GMKN	289.0	-5.000	-1.70	5,218,400.00
05/03	OPIN	325.0	-5.000	-1.52	129,600.00
05/03	SBER	3.52	-0.050	-1.40	16,165,750.00
05/03	ROSN	12.0	-0.150	-1.23	884,336.94
05/03	LKOH	109.4	-1.200	-1.08	6,102,282.36
05/03	UKUZ	147.0	-1.000	-0.68	44,050.00
05/03	NVTK	8.8	-0.050	-0.56	88,000.00

Research Department

Alexander Butov
Butov@finam.ru
Head of Department

Vladimir Sergievskiy
Sergievskiy@finam.ru
Chief Investment Strategist,
Banking, Infrastructure
+7 (495) 604-82-75

Analysts:

Sergey Filchenkov
Filchenkov@finam.ru
Consumer
+7 (495) 604-80-98

Mikhail Frolov
Frolov@finam.ru
Chemicals. Petrochemicals
+7 (495) 604-81-64

Konstantin Romanov
Romanov@finam.ru
Automotive. Industry
+7 (495) 604-83-77

Konstantin Reily
Reily@finam.ru
Utilities
+7 (495) 604-82-74

Alexei Sulinov
Sulinov@finam.ru
Junior Analyst

Ekaterina Sekenova
Sekenova@finam.ru
Junior Analyst

Aigul Ziyangulova
Ziyangulova@finam.ru
Junior Analyst

Finam Investment Holding

Call center
+7 (495) 796-90-26.
+7 (495) 796-93-88. ext. 221
+7 (800) 210-44-00 (toll-free in Russia))

Investment Department
Dmitry Serebrennikov
Aq@finam.ru
+7 (495) 604-84-34

International Business Development
Grigoriy Yudashkin
Yudashkin@finam.ru
+7 (495) 604-81-68.

Institutional Equities
Alexander Zalko
Zalko@finam.ru
+7 (495) 604-81-65

PR and Media Service
Igor Ermachenkov
Ermachenkov@finam.ru
+7 (495) 604-84-47

Pre-sales
Alexei Dyupin
alex@finam.ru
+7 (495) 796-93-88. ext. 248

Regional development department
Denis Kolousov
Kolousov@finam.ru
+7 (495) 796-93-88. ext. 105

Translator
Alexander Tatarinov
Tatarinov@finam.ru
+7 (495) 604-8165

Translator
Kirill Lyubchenko
Lyubchenko@finam.ru
+7 (495) 604-8165

Chief Editor
Mark Veda
Veda@finam.ru
+7 (495) 604-8165

The research material and information contained herein are intended solely for the clients of Finam Investment Company. This publication has been drafted strictly for information purposes and cannot be considered as an invitation or a solicitation to make an offer, nor a request to buy or sell securities and/or other financial instruments or to execute any investment activities. The information presented herein has been compiled on the basis of sources which in the opinion of the authors are reliable and reflects solely the viewpoint of the authors about any and all companies under analysis. Despite the fact that this research report has been drafted with due diligence neither its authors nor Finam Investment Company shall guarantee directly or indirectly its accuracy or completeness. Any and all information or assumptions contained herein shall serve as comments at the time when this research report is released and may be subject to change without notice. Neither Finam Investment Company nor its employees shall be held liable for any losses incurred due to the use of this research report or for another other reason associated with said report. Any duplication, reproduction and/or distribution of this research report, in part or in full, shall be strictly prohibited without the express written consent of Finam Investment Company.