

Daily Market Watch

| | | |
|-------------|--------|-----------|
| US Dollar | | 23.5758 |
| Euro | | 37.2238 |
| RTSI | -1.41% | 2,433.07 |
| MICEX | -2.97% | 1,894.85 |
| Brent (ICE) | -1.65% | 130,51 |
| Dow Jones | +0.19% | 12,625.62 |
| NASDAQ | +0.67% | 2,464.58 |
| S&P500 | -1.45% | 1,392.92 |
| DAX | +0.42% | 7,070.328 |
| FTSE-100 | -0.27% | 6,181.602 |
| CAC-40 | +0.02% | 5,028.738 |
| Nikkei-225 | +1.02% | 14,121.32 |
| Bovespa | -1.66% | 72,294.8 |

Overview:

Market Roundup

Domestic benchmarks headed resolutely north throughout the session on rallying crude prices. However, a downswing in oil contracts near the final bell knocked the wind out of Russian equities, as a result of which the RTS Index gave up 1.14% and the MICEX Index sank 2.97%.

After the ex-dividend date (May 21) the day's lead decliner was Polyus Gold, down a painful 28%. Other underperformers included metal issuers, which have seen sluggish weak demand in recent sessions: Norilsk Nickel dropped 3%, NLMK tumbled 3.9%, MMK shed 2.8% and Severstal pulled back 4.5%. Bank stocks posted losses under pressure from external weakness: Sberbank lost 2.1% and VTB eased 2.5%. Oil plays also saw red ink on the heels of a downturn in global crude futures: Lukoil was down 2.8%, Gazprom fell 2.2%, Rosneft sagged 2.3% and Tatneft ended 0.4% lower. UES slightly outperformed the market, off 0.7%.

U.S. stock indices achieved mild gains Thursday, partly recouping losses from the past two sessions and notwithstanding a continuing decline in real estate prices in the country. Financial issuers won back some of the turf lost in the first half of the week. Asian markets are largely bullish this morning amid yesterday's retreat on commodity exchanges. Oil contracts fell back to nearly USD 130 a barrel on statements by OPEC officials that supply is currently sufficient and oil prices are highly speculative.

We view Friday's external news flow as largely neutral for domestic investors. As financial plays are drifting higher on global exchanges, bank stocks could outperform the market in early trading. O&G plays will come under pressure from a nosedive in oil contracts for the first time in several weeks. Polyus Gold's stock performance remains unpredictable in the days to come. Although nearly 30% was sliced off the gold miner's market cap, volumes show that its stocks are still of strategic interest even after the ex-dividend date.

Breaking News

- In global petroleum market news, a stronger dollar triggered a bout of profit taking on Thursday. [\(page 2\)](#)
- AvtoVAZ plans to wrap up a transaction to acquire IzhAvto in August, unless unforeseen circumstances appear, AvtoVAZ's executive said. [\(page 2\)](#)

Sector news

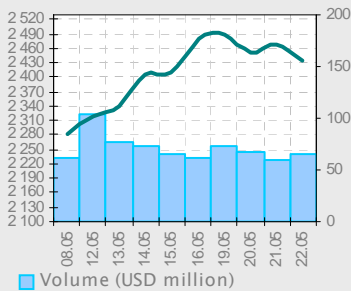
Consumer

- **Veropharm:** preliminary 1Q 2008 results. [\(page 3\)](#)

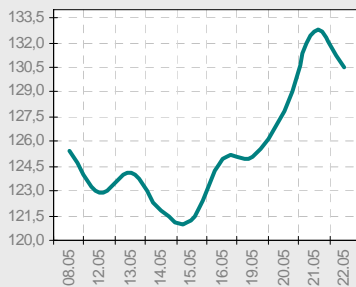
Transport

- **Sovcomflot** plans to consolidate 100% of **Novoship's** commons, but not merge to a single share. [\(page 4\)](#)

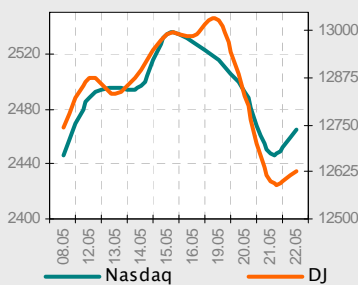
RTS



Brent (ICE)



World indices



Breaking News

In global petroleum market news, a stronger dollar triggered a bout of profit taking on Thursday. Oil prices rose to USD 135.09 a barrel in overnight electronic trading on the New York Mercantile Exchange before retreating to settle down USD 2.36 at USD 130.81 a barrel by afternoon in New York. In London, July Brent crude futures fell USD 2.19 to settle at USD 130.51 a barrel on the ICE Futures Exchange. A stronger dollar gave some investors reason to sell oil futures to lock in profits from crude's record run. Oil futures were caught yesterday between the supply and demand concerns that boosted crude to its latest record, and a desire by some investors to cash in some profits. The dollar, one of the factors that has fed oil's rally from about USD 65 a year ago, strengthened against the euro Thursday. When the greenback gains ground, commodities such as oil lose their value as hedges against inflation. Also, a stronger dollar makes oil more expensive to investors overseas. At times in a price run-up that has added nearly \$9 to a price of crude this week, and almost \$16 over the past month, investors will sell to take profits. Crude rose USD 4.19 a barrel on Wednesday alone. The Paris-based International Energy Agency on Thursday said it is worried about whether there is enough oil to meet global demand, and is working on a review of the world's 400 largest oil fields that could lead to a major revision in its closely-watched forecasts. The market is structurally tight as oil demand is not growing very quickly, while supply is constrained. As we have noted before, crude has been boosted in recent days by especially strong demand for diesel in China, where power plants in some areas are running desperately short of coal after the recent earthquake. New data from China show demand for diesel was already rising quickly before the disaster. Chinese diesel imports rose 9.2% in April compared to last year. Moving forward, crude futures understandably took a breather yesterday after having exploded to the upside on Wednesday. However, given the huge number of long positions opened by hedge funds coupled with concerns about falling supplies and rising demand, we expect prices to surge higher in the days and weeks to come. Our target price for the end of June is USD 150 for WTI and Brent.

Secondary home prices in the US dropped 3.1% y-o-y in 1Q 2008, according to the Office of Federal Housing Enterprise Oversight. Prices for single family homes also headed south - on average 1.7% down from 4Q 2007. Potential buyers are waiting until home prices reach record lows, which increases the number of homes up for sale. In addition, potential buyers face difficulties in raising loans, since banks have tightened lending terms and cut mortgage lending programs.

AvtoVAZ plans to wrap up a transaction to acquire IzhAvto in August, unless unforeseen circumstances appear, AvtoVAZ's executive said. According to him, the due diligence of IzhAvto is to be finalized in June, the sale transaction is to be prepared in July and wrapped up in August. "Unless unforeseen circumstances arise", the executive stressed. The source went on to say that AvtoVAZ intends to use IzhAvto's facilities for at least for 300,000 cars per year, while the latter's design capacity is 350,000 cars per year with three shifts. When asked about the status of the project to assemble Korean KIA cars at the enterprise, AvtoVAZ's executive said, "This is not our project and I believe that the plant's owners will take this into account". He also noted that it is still too early to speak of the value of the transaction. Another source close to the transaction said this schedule is "quite aggressive, but feasible in the event of a tailwind". He also went on to say that AvtoVAZ jointly with Renault will be considering the acquisition of at least 98% in IzhAvto. "The other 2% is held by numerous minority shareholders", he added.

Akron (RTS: AKRN) has raised a RUB 13.4 bn loan from Sberbank of Russia (RTS: SBER) to pay for licenses to tap the Verkhnetalitsky block of the Verkhnekamskoye potash and magnesium salt deposit in the Perm region, the company said in a

press release. The agreement was signed on May 20. As reported earlier, an 8.1% stake in Silvinit owned by Akron and 100% of Verkhnekamskaya Potash Company (Akron's subsidiary) are collaterals against this loan. The latter was declared the winner of the March 12 auction to tap the Talitsky block of the Verkhnekamskoye potash and magnesium salt deposit in the Perm region after it had placed the RUB 16.80 bn bid. Akron reported that it plans to invest up to RUB 40 bn to tap the Verkhnekamsk potash block. The Talitsky block on the east borders is adjacent to the blocks tapped by Uralkaly (RTS: URKA). Reserves of the Talitsky block stand at some 1 bn tons of sylvinit.

Novatek (RTS: NVTK) has held tenders to select contactors for seismic exploration on the El-Arish block in Egypt, the company reported. Implementation of Novatek's project in Egypt was addressed at a meeting between Novatek Chairman Leonid Mikhelson and Egypt's oil minister Sameh Samir Fahmy in Egypt. Mikhelson said that the company had a minor technical delay in implementation of the project, due to documentation of concession assignment. However, "all the documents are ready now and the first tenders have been held for seismic activities, biochemical analysis, i.e. as a matter of fact the work has already begun". "The company's strategy calls for diversification of gas production regions and the offshore block is our first international project. The likelihood is strong that commercial deposits will be discovered at the acquired block", he noted. As reported earlier, in 2007 Novatek acquired a 50% stake in a concession agreement on hydrocarbon exploration and production on the El-Arish offshore block in Egypt. Novatek's partner with a 50% stake is Tharwa Petroleum S.A.E. The Russian gas producer intends to invest USD 40 mn in exploration in Egypt over the next four years.

Severstal-Metiz is eyeing potential takeover targets in Ukraine, Russia or Europe, the company's CEO Olga Naumova said at a press conference Thursday. "The company plans to focus on the quality of its asset portfolio rather than just pick up any assets", she said. According to her, the company is considering various investment options, including start-ups, M&As and partnership. As reported earlier, Severstal-Metiz has recently consolidated a 95% stake in Dneprometiz after the acquisition of a 34.6% stake from TAS Group. In 2007 Severstal-Metiz's output topped 1 mn tons and EBITDA reached USD 87.3 mn, which is 80% more than in the year-earlier period.

Veropharm: preliminary 1Q 2008 results

Veropharm has posted its preliminary operating results for 1Q 2008, which show a quick growth in the company's revenue and an upturn in the share of prescription medicines in its sales structure. In our opinion, this should produce a positive impact on Veropharm's margins in 1Q and lend support to the company's stock valuation.

Veropharm announced, Thursday, its preliminary sales and operating indicators for 1Q 2008. In line with the management report, Veropharm's revenue in 1Q rose by 40% y-o-y to USD 33.3 mn. Sales in prescription medicines soared by nearly 66% y-o-y, while the segment's revenue amounted to USD 20.7 mn. In the meantime, the share of prescription medicines in the company's total revenue advanced 62%, which suggests that the company margins for 1Q 2008 should also grow.

We are upbeat on the company's 1Q08 operating results. Among the positive factors, apart from the sales increase in Veropharm's most profitable segment, we point at the successful implementation of the company's strategy to introduce new medications to the market. In 1Q, Veropharm launched production and sales of 3 new medications. Additionally, 22 medications and 4 medical devices are currently undergoing state registration.

In line with our estimates, the fair value of Veropharm's shares is USD 51.6 per share.

Sovcomflot plans to consolidate 100% of Novoship's commons, but not merge to a single share

Sovcomflot has claimed its right to buy out Novoship's common shares. In line with the company's announcement, the offer price would amount to RUB 81.82, or USD 3.45 per share, the best bid price on the RTS. We believe the news is neutral for Novoship's common shares and negative for preferred shares. According to the management's announcements, the companies are not likely to be merged to a single share in the near future. This practically deprives Novoship's prefs of the most significant upside driver.

On May 22, Sovcomflot notified Novoship about its right to buy out 3.17% of the company's shares from minority holders. This practically means the beginning of a forced minority stake buyout. The buyout price under obligatory offer is to amount RUB 81.82, or USD 3.45 per share, which is currently the best bid price on the RTS.

In late 2007, Sovcomflot acquired Novoship's state share package (67.13% of common shares) in exchange for its additional share issue in favor of the state. In early 2008, Sovcomflot, pursuant to Russian legislation, made a voluntary offer at RUB 82.82 per common share, and thus brought its stake in Novoship to 96.83% of voting shares. After consolidation of more than 95% of Novoship's commons, Sovcomflot was entitled to announce a forced minority stake buyout.

In our view, this news is neutral for Novoship's commons and negative for prefs. In line with the management's announcements, Novoship and Sovcomflot are not likely to switch to a single share in the near future. This actually deprives Novoship's preferred shares of the last possible upside driver. Novoship's prefs are currently traded with a 38% discount to the independent appraiser's valuation within the companies' merger process and with a 46% discount to our fair value. In line with our estimates, given the implementation of fleet renovation program, owners of the company's preferred shares should not expect acceptable dividend yields in the foreseeable future.

Schedule of Upcoming Events

| Date | Event | Analysts Comments |
|-------------------------------------|--|---|
| UTILITIES | | |
| May 23, 2008 | An auction for UES of Russia's share package in Bashkirenergo | UES of Russia is to hold an open auction for its 21.27% share package in the Bashkirenergo electricity company. In all, 232, 448, 366 common shares are to be sold off as a single share package. The starting price is set at RUB 11 bn. Bids are to be accepted from 12.05.2008 through 19.05.2008. In our opinion, the share package on offer may be acquired by a Bashkir government unit at a price close to the starting bid. |
| May 27, 2008 | Auctions for two energy retail companies | A 49% stake in Tambov Energy Retail Co. (RTS: TASB) is to go on sale at a starting price of RUB 310 mn. The bid increment is RUB 10 mn. A 49% share package in St. Petersburg Energy Retail Co. (RTS:PBSB) is estimated at RUB 5 bn. The bid increment is RUB 100 mn. |
| May 28, 2008 | An auction for Mosenergosbyt | The starting price of the 50.9% share package owned by UES is set at RUB 11.305 bn. |
| May 28, 2008 | An AGM at UES of Russia | The AGM is to approve the company's annual statement, finalize its dividends, appoint an auditor for the company and re-elect its BoD and the audit commission. The shareholders register is to be closed on April 15. There are 18 candidates for 15 seats on the newly-elected board. The newly-elected BoD members are to fulfill their duties for a month only, until July 1, the date for completion of UES of Russia reorganization. |
| MACHINE ENGINEERING | | |
| May 30, 2008 | Severstal-Auto is to call an AGM | The issues on the agenda include: 1. election of BoD members 2. approval of a financial statement for the year 3. endorsement of a new version of the company's Charter 4. election of auditing committee members 5. the appointment of a company's auditor We expect 2008 revenue growth to USD 3.08 bn, up 51% y-o-y. The upswing is attributable to the expansion of a model range, production growth and the rising demand. We project EBITDA of USD 369 mn and EBITDA margin at 12%. |
| CHEMICALS AND PETROCHEMICALS | | |
| June 25, 2008 | Hearings in a claim to derprivatize 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. |
| FINANCIAL SECTOR | | |
| May, 2008 | Vozrozhdeniye Bank's 1Q 2008 IFRS financials | Vozrozhdeniye Bank is to release its 1Q 2008 financials audited to IFRS |
| 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. |

MICEX Top Advancers

| | Issuer | Close | Chng. | Chng. % | USD Turnover |
|-------|-------------|---------|---------|---------|----------------|
| 05/22 | PenzaEK | 3.64 | 1.040 | 40.00 | 6,417,728.00 |
| 05/22 | VoronEnSb | 6.0 | 0.751 | 14.31 | 2,700.00 |
| 05/22 | KrasOkt | 1,350.0 | 140.000 | 11.57 | 2,315,890.26 |
| 05/22 | Tavrishesk. | 10.06 | 0.940 | 10.31 | 135,174.90 |
| 05/22 | VHZ | 230.0 | 20.000 | 9.52 | 364,477.00 |
| 05/22 | KSB | 0.48 | 0.037 | 8.35 | 446,649.80 |
| 05/22 | BuryatES | 0.9 | 0.050 | 5.88 | 3,530.90 |
| 05/22 | VBD PP | 1,990.0 | 70.000 | 3.65 | 10,994,477.99 |
| 05/22 | TGK - 4 - p | 0.0145 | 0.000 | 3.57 | 276,970.00 |
| 05/22 | Magnit | 1,280.0 | 43.000 | 3.48 | 102,789,302.56 |

MICEX Top Decliners

| | Issuer | Close | Chng. | Chng. % | USD Turnover |
|-------|---------------|---------|----------|---------|------------------|
| 05/22 | PolusZolot | 1,570.7 | -609.350 | -27.95 | 3,855,401,843.11 |
| 05/22 | MosEs | 0.585 | -0.063 | -9.72 | 17,485,075.10 |
| 05/22 | SmolEnSb - p | 1.087 | -0.107 | -8.96 | 37,357.10 |
| 05/22 | MRSK C -010 | 1.189 | -0.111 | -8.54 | 83,999.20 |
| 05/22 | ChelyabES - p | 0.117 | -0.009 | -7.14 | 21,985.70 |
| 05/22 | VTGK | 2.142 | -0.158 | -6.87 | 8,339,188.30 |
| 05/22 | NKNH - p | 9.2 | -0.611 | -6.23 | 920.00 |
| 05/22 | TambEnSb - p | 0.11 | -0.007 | -5.98 | 7,167.80 |
| 05/22 | PermEnS - p | 12.7 | -0.800 | -5.93 | 20,798.30 |
| 05/22 | SevSt | 602.0 | -28.330 | -4.49 | 623,360,529.23 |

RTS Top Advancers

| | Issuer | Close | Chng. | Chng. % | USD Turnover |
|-------|--------|--------|-------|---------|--------------|
| 05/22 | KRKO | 1.75 | 0.280 | 19.05 | 17,500.00 |
| 05/22 | MSRS | 0.087 | 0.004 | 4.82 | 128,986.95 |
| 05/22 | VRPH | 58.0 | 2.500 | 4.50 | 171,000.00 |
| 05/22 | TGKH | 0.0016 | 0.000 | 3.90 | 16,000.00 |
| 05/22 | NVTK | 8.6 | 0.300 | 3.61 | 86,000.00 |
| 05/22 | OGKE | 0.117 | 0.004 | 3.54 | 58,500.00 |
| 05/22 | BANE | 15.5 | 0.500 | 3.33 | 15,500.00 |
| 05/22 | MGNT | 53.8 | 1.700 | 3.26 | 932,280.00 |
| 05/22 | BANEP | 10.25 | 0.250 | 2.50 | 307,150.00 |
| 05/22 | MTSS | 13.1 | 0.250 | 1.95 | 3,299,500.00 |

RTS Top Decliners

| | Issuer | Close | Chng. | Chng. % | USD Turnover |
|-------|--------|---------|---------|---------|--------------|
| 05/22 | CHMF | 25.5 | -1.350 | -5.03 | 646,250.00 |
| 05/22 | MAGN | 1.325 | -0.050 | -3.64 | 66,250.00 |
| 05/22 | GMKN | 305.0 | -11.500 | -3.63 | 4,181,300.00 |
| 05/22 | RTKM | 11.35 | -0.300 | -2.58 | 113,500.00 |
| 05/22 | LKOH | 107.5 | -2.500 | -2.27 | 7,198,090.40 |
| 05/22 | UKUZ | 151.5 | -3.500 | -2.26 | 151,750.00 |
| 05/22 | NNSI | 4.6 | -0.100 | -2.13 | 46,000.00 |
| 05/22 | GAZA | 190.0 | -4.000 | -2.06 | 19,000.00 |
| 05/22 | SNOZ | 119.0 | -2.500 | -2.06 | 173,995.00 |
| 05/22 | SILV | 1,600.0 | -30.000 | -1.84 | 16,000.00 |

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.