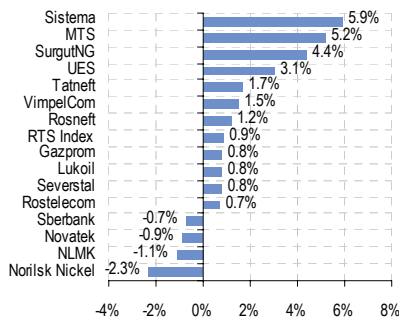
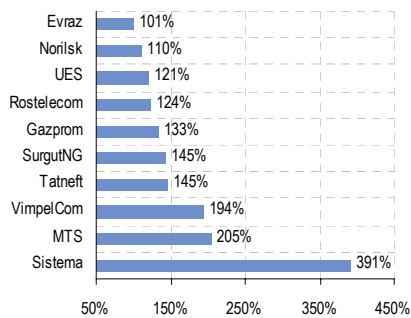


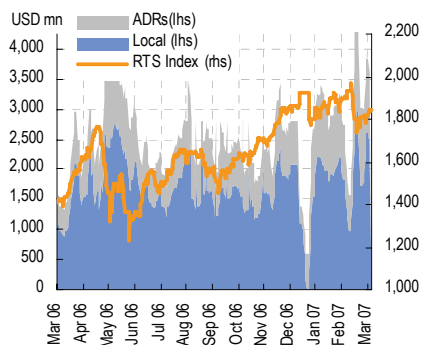
Blue chips: advancers and decliners



Volume monitor: daily/3M avg. volume



RTS index and weekly trading volumes



Upcoming events

22-Mar	Kalina 2006 results
27-Mar	Auction of Yukos's 9.4% stake in Rosneft
28-Mar	WBD 2006 U.S. GAAP financials
28-Mar	36.6 preliminary FY06 sales & op. indicators
April	Lukoil 2006 U.S. GAAP results
Early Apr	Seventh Continent 2006 IFRS financials
2-Apr	Severstal 2006 IFRS results
Early Apr	Surgutneftegaz dividend announcement
4-Apr	Auction of Yukos's 20% of Gazprom Neft
4-Apr	3rd auction for Yukos's assets (oil services)

Market

- The market firmed, with the RTS Index up 0.9% and U.S.-traded telecoms leading the advancers. The relief rally in the U.S. and surging oil created a favorable tailwind for Russia.

Top news and ideas

- Gazprom: Investors see next board meeting as pivotal.** Top management will discuss debt portfolio, independent gas producers' access to pipelines and cost cutting on March 28.
- Lukoil: Puts back plans to reopen Volgograd refining capacity.** This will lower our estimates for Lukoil's 2007 financials. We expect a 2% decrease in EBITDA, though much depends on management decisions for rectifying the situation.
- Transneft: May acquire Transneftproduct.** The purchase could be made with shares and by placing enough prefs to keep their charter share unchanged. We see the deal as positive and reiterate our Buy recommendation.
- MTS: Reports strong, above consensus 4Q06 U.S. GAAP results and ARPU,** demanding a further upgrade. Good news on the share buyback and dividend payments should help drive the stock price further.
- VimpelCom: Altimo raises its stake from 39.5% to 42.4%.** The move should give Altimo a majority on VimpelCom's board and greater leverage in asset swap talks.
- RBC: Preliminary 4Q06 results expected to show seasonal pick-up.** Given an effective advertising rate increase in October 2006, we would not be surprised if the results were to overshoot the company's forecast.
- Kalina: Consensus expects margins to recover in 2H06.** FY06 forecasts suggest 23% growth in EBITDA and a 24% increase in net income. Strong results may help the stock to recover.
- Sberbank: Finalizing the SPO results.** Sberbank said collecting SPO payments went as planned. The markets can now breathe freely again, but VTB's pending IPO may deprive Sberbank of its scarcity premium.
- Finance Ministry submits first three-year draft budget to the government.** In 2008 the surplus will fall due to a lower oil price and electioneering, including, in our view, a yet to be publicized tax cut.

>>> More news on page 10

Russian market in context

	Last Close	Performance/Trends				
		1D	1WK	1M	3M	12M
RTS Index	1,847	0.9%	3.8%	-4.5%	-0.8%	31.1%
MSCI EM Europe Index	610	1.1%	2.6%	-4.0%	-2.0%	10.1%
MSCI EM Index	909	1.2%	2.9%	-3.7%	1.8%	18.0%
S&P500 Index	1,435	1.8%	3.5%	-1.5%	1.7%	10.0%
OIX (Oil majors) Index	637	1.5%	2.9%	0.1%	-1.1%	15.1%
GSCI (Commodities) index	5,539	0.5%	-0.3%	-1.3%	-3.6%	-11.2%
Oil (WTI), USD/bbl	58.3	2.8%	1.0%	-2.0%	-6.0%	-3.7%
Nickel, USD/ton	47,150	-4.5%	-0.5%	10.5%	44.2%	219.5%
Steel (HR), USD/ton	553	0.0%	0.0%	1.8%	9.4%	30.0%
LT U.S. Treasury YTM	4.8%	4.8%	4.8%	4.9%	4.7%	4.8%
EMBI-Russia spread, bp	110	108	107	112	99	110
RUB/USD	26.04	26.04	26.19	26.20	26.28	27.66

Source: Datastream, Bloomberg

Gazprom: Investors see next board meeting as pivotal

Analysts: Nadia Kazakova, CFA, Andrey Gromadin, CFA e-mail: Nadia.Kazakova@mdmbank.com

Tel: + 7 495 795 2521

Bloomberg ticker	Price, USD	FV, USD	Rating	12M High/Low	1M Perf.	3M Perf.	12M Perf.
GAZP RU	9.73	14.70	Buy	12.8/8.12	-9.2%	-15.7%	20.1%
Financials, USD mn		2006E	2007E	2008E	Price performance, USD		
Revenue	76,337	81,937	84,810				
EBITDA	31,464	34,261	33,940				
Net income	20,342	21,233	20,450				
Revenue growth	44%	7%	4%				
EBITDA growth	36%	9%	-1%				
Net income growth	55%	4%	-4%				
EBITDA margin	41%	42%	40%				
Net margin	27%	26%	24%				
EV/Revenue	3.4	3.1	3.0				
EV/EBITDA	8.1	7.5	7.5				
P/E	10.9	10.4	10.8				
MCAP, USD mn	221,803	Com., mn	22,749				
EV, USD mn	256,203	Pref., mn					
Free float	39%	Total, mn	22,749				

Source: Bloomberg, MDM estimates

Source: Bloomberg

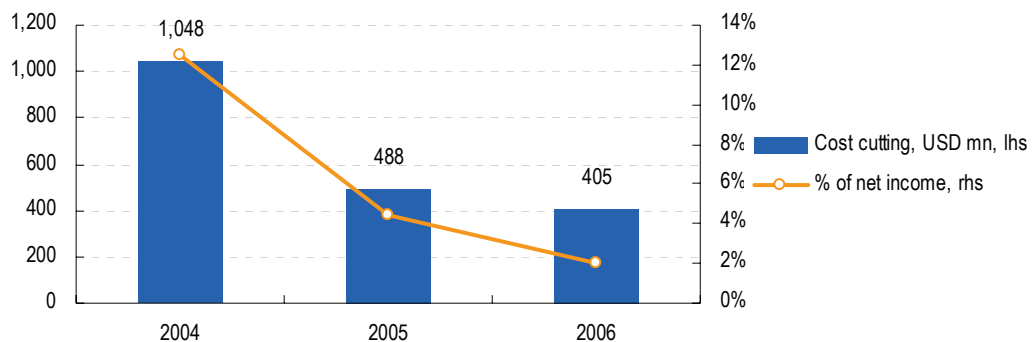
Board will meet on March 28. The agenda includes topics that will attract keen interest from Gazprom's investors: management of the company's debt portfolio, the activity of RosUkrEnergy, internal rules on non-discriminatory access for independent producers to Gazprom's pipelines, a cost-cutting program, and human resource policies. In our view, the discussions on pipeline access, RosUkrEnergy and cost cutting will be the most interesting parts of the agenda.

Third party access to gas transportation is essential in a liberalized gas market. We would expect Gazprom to formalize its internal policies on fair third party access to its transportation network. In our view, the company must define and strictly follow rules for allocating pipeline capacity to independent producers, which would encourage development of their reserves and provide additional volumes to the liberalized domestic market. We believe the current discretionary and non-transparent system set by Gazprom is not conducive to development of the domestic gas market.

RosUkrEnergy looks to increase share in Ukrainian gas distribution market. RosUkrEnergy is 50% owned by Gazprom through its daughter, Swiss-registered ARosgas Holding A.G. The company's key business is supplying Central Asian gas to Ukraine and Eastern Europe. In 9M06, RosUkrEnergy sold 36.4 bcm of gas to Ukraine and exported 4.87 bcm of gas. It is now expanding its business in Ukraine and through its subsidiary Ukgazenergo is looking to buy stakes in Ukraine's regional distribution companies. In our view, RosUkrEnergy might be allowed to re-export larger volumes of gas from Ukraine to finance its M&A activities in that country.

Cost-cutting program details are essential. In the last three years, Gazprom has cut costs by USD1.9 bn across the business. However, we believe there is some scope for improvement in the coming years. We believe Gazprom must increase its cost-cutting targets and continue to improve its efficiency, both to enhance cash flow generation and justify substantial domestic tariff increases approved by the government for the next five years.

Gazprom cost-cutting program in 2004-06, USD mn



Source: Gazprom

Lukoil: Puts back plans to reopen Volgograd refining capacity

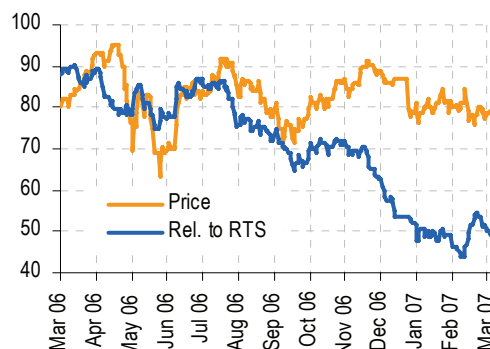
Analysts: Nadia Kazakova, CFA, Andrey Gromadin, CFA e-mail: Nadia.Kazakova@mdmbank.com

Tel: + 7 495 795 2521

Bloomberg ticker	Price, USD	FV, USD	Rating	12M High/Low	1M Perf.	3M Perf.	12M Perf.
LKOH RM	79.81	109.70	Buy	95.23/63.01	-2.0%	-8.1%	-6.8%

Financials, USD mn	2006E	2007E	2008E
Revenue	69,093	66,032	65,407
EBITDA	12,977	11,834	11,636
Net income	8,151	7,440	7,157
Revenue growth	65%	-4%	-1%
EBITDA growth	45%	-9%	-2%
Net income growth	52%	-9%	-4%
EBITDA margin	19%	18%	18%
Net margin	12%	11%	11%
EV/Revenue	1.1	1.1	1.1
EV/EBITDA	5.6	6.1	6.3
P/E	8.3	9.1	9.5
MCAP, USD mn	67,922	Com., mn	851
EV, USD mn	72,745	Pref., mn	
Free float	50%	Total, mn	851

Price performance, USD



Source: Bloomberg

Source: Bloomberg, MDM estimates

VGO unit at Volgograd refinery will be reopened in February next year. Lukoil first vice president Vladimir Nekrasov said yesterday that a vacuum gas oil unit destroyed last week by a fire at its Volgograd refinery will be replaced by February 2008. The company needs at least half a year to construct a new VGO unit, while primary distillation unit will be restarted in May. Last week Lukoil reported that the fire had reduced the refinery's capacity by about 4 mn tons from 10.5 mn tons. At the time Lukoil said it would repair the damage and restore throughput by May 1. The company also said there had been no ecological damage and the costs of repairs were fully covered by insurance.

Delay leads to downgrade in our forecasts for 2007. We initially estimated that this delay would decrease FY07 EBITDA by USD15 mn, or 0.2%. Losing the VGO unit until February next year means deterioration of Lukoil's refining slate in 2007. The company will now have to sell more fuel oil rather than diesel from its main refinery in Southern Russia. Excluding taxes, the price for diesel is twice as high as for fuel oil. Although Lukoil could redistribute crude throughput via other refineries, we believe the probable negative impact could be USD150 mn, or 2.0% of 2007 EBITDA, 10 times higher than previously estimated. We expect the company to announce exact plans how to rectify situation, and we will incorporate these management plans into the model, though they could not be positive for Lukoil's 2007 financials. The estimated loss has insignificant impact on our fair value of Lukoil and we retain our BUY recommendation on the stock with target price of USD109.7/share.

Transneft: May acquire Transnefteproduct

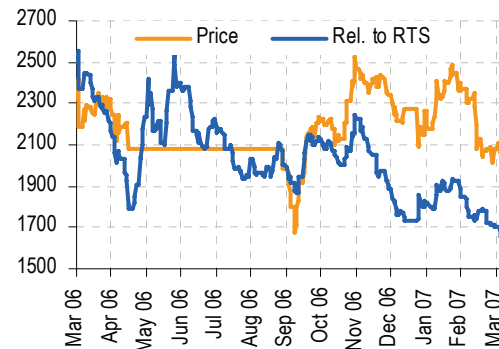
Analysts: Nadia Kazakova, CFA, Andrey Gromadin, CFA e-mail: Nadia.Kazakova@mdmbank.com

Tel: + 7 495 795 2521

Bloomberg ticker	Price, USD	FV, USD	Rating	12M High/Low	1M Perf.	3M Perf.	12M Perf.
TRNFP RM	2057.38	3019.28	Buy	2523.42/1669.71	-11.9%	-8.2%	-16.8%

Financials, USD mn	2006E	2007E	2008E
Revenue	7,481	8,989	10,211
EBITDA	3,973	4,895	5,533
Net income	2,406	2,921	3,216
Revenue growth	21%	20%	14%
EBITDA growth	25%	23%	13%
Net income growth	26%	21%	10%
EBITDA margin	53%	54%	54%
Net margin	32%	32%	31%
EV/Revenue	2.1	1.8	1.6
EV/EBITDA	4.0	3.3	2.9
P/E	6.0	5.0	4.5
MCAP, USD mn	14,514	Com., mn	4.7
EV, USD mn	15,918	Pref., mn	1.6
Free float	70%	Total, mn	6.2

Price performance, USD



Source: Bloomberg

Source: Bloomberg, MDM estimates

Decision in principle has already been made. The news was reported by *Vedomosti*, which notes that the government has not yet approved the final details. Transneft will likely pay for Transnefteproduct in common shares. At the same time, Transneft may issue an appropriate amount of preferred shares to keep their share in the charter unchanged. Preferred shares are supposed to be placed on the open market. In an interview a week ago, Transneft CEO Simon Vainshtock confirmed government plans to merge the two companies, but refused to provide any details.

USD1.2 bn deal could lead to prefs placement of USD340 mn. Based on Transneft's multiples, we calculate Transnefteproduct's approximate fair market value at USD1.2 bn. If a similar independent valuation is used for the merger, then USD340 mn (164,000 shares) worth of preferred shares (10.6% of the current preferred shares outstanding) could be placed on the market.

Deal is positive for Transneft. An enlargement of the balance sheet would mean Transneft's ability to borrow would be enhanced. This is important to support Transneft's projects (including the Far East Pipeline and Burgas-Aleksandropolis) and Transnefteproduct's plans (building multiregional oil product pipelines in northern and southern Russia). The deal's structure means Transneft's management is likely to retain their jobs: investors respect the company's leaders in spite of low dividend payouts, while Transnefteproduct's management is something of a "dark horse." Last but not least, a preferred share placement would raise liquidity, although investors are likely to require some discount to the current market.

Transneft remains a Buy. We believe the numerous positive factors will outweigh the risks connected with Transnefteproduct's valuation. We view this deal positively and retain our Buy recommendation on the shares with a target price of USD3,019. We reiterate our view that Transneft provides investors with a degree of protection against downside in the oil price while allowing for upside from steady growth in production and export of oil.

MTS: Reports strong, above consensus 4Q06 U.S. GAAP results and ARPU

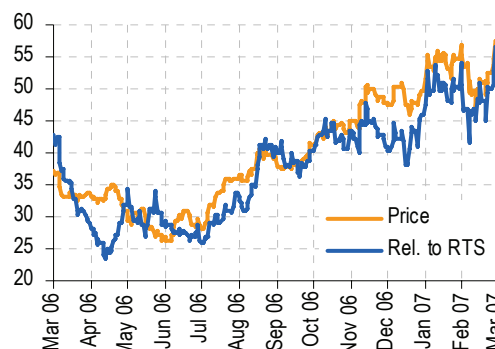
Analysts: Elena Bazhenova, Ekaterina Generalova e-mail: Elena.Bazhenova@mdmbank.com

Tel: + 7 495 795 2521

Bloomberg ticker	Price, USD	FV, USD	Rating	12M High/Low	1M Perf.	3M Perf.	12M Perf.
MBT US	57.54	67.30	Buy	57.54/26.22	7.8%	21.4%	55.3%

Financials, USD mn	2006E	2007E	2008E
Revenue	6,384	7,058	7,528
EBITDA	3,230	3,562	3,832
Net income	1,246	1,663	1,831
Revenue growth	23%	11%	7%
EBITDA growth	22%	10%	8%
Net income growth	32%	33%	10%
EBITDA margin	51%	50%	51%
Net margin	20%	24%	24%
EV/Revenue	4.0	3.6	3.4
EV/EBITDA	8.0	7.2	6.7
P/E	18.4	13.8	12.5
MCAP, USD mn	22,939	ADRs, mn	399
EV, USD mn	25,753		
Free float	47%	Total, mn	399

Price performance, USD



Source: Bloomberg

Source: Bloomberg, MDM estimates

4Q06 financials beat market expectations. MTS yesterday reported that 4Q06 revenue rose 0.4% q-o-q to USD1.806 bn, or 1% above consensus. EBITDA was up 5% q-o-q to USD898 mn, or 4% above consensus. EBITDA margin remained strong at 52%, or flat q-o-q vs. a sharp drop q-o-q in 4Q05. Net income fell 42% q-o-q to USD280 mn; however, adjusted for the Bitel asset write-off, the decline was only 12% q-o-q to USD430 mn, or 3% above expectations. We were ahead of consensus on revenue, in line at the EBITDA level and more conservative on net income.

ARPU above expectations in Russia. 4Q06 Russian ARPU was down only 1% q-o-q to USD8.5, helped by stable tariffs and usage, and was 5% above consensus. The only reported number below consensus was Ukrainian ARPU, which was USD7.2 (down 17% q-o-q, 4% below consensus), indicating tightening competition.

Good news on buyback program, dividends. The company also said that as of yesterday, it had bought back only 0.6% of its previously announced 10% share buyback program (which will run until August 2007) – this means buyback activity in the stock will be strong in 2-3Q07. Among other positives, the company promised to keep its dividend payout ratio unchanged. Given a 2005 payout ratio of 46%, 2006 net income implies dividends of USD1.6 per ADR, or an attractive 2.5% dividend yield at the current price.

Sistema should benefit from MTS's strong results. Sistema also stands to benefit from MTS's solid financials. Sistema shares were up 6% yesterday, while MTS rose 5%, although these gains coincided with a general rally in the U.S., where the shares are traded. We believe the results should add to investor enthusiasm around both stocks and warrant a further upgrade to our fair value and earnings estimates.

We view the results as strong. With earnings significantly ahead of our estimates we see scope for further upgrades to our estimates and fair value and reiterate our Buy recommendations on MTS and Sistema.

MTS 4Q06/2006 consensus, U.S. GAAP (USD mn)

	3Q06	4Q06	q-o-q, %	4Q06 - consensus	Actual vs. consensus	2005	2006	y-o-y, %	2006 - consensus	Actual vs. consensus
Revenue	1,798	1,806	0.4%	1,786	1%	5,011	6,384	27%	6,291	1%
EBITDA	896	938	5%	898	4%	2,539	3,230	27%	3,190	1%
EBITDA margin	52%	52%	0pp	50%	2 pp	51%	51%	0 pp	51%	0 pp
Net income	486	280	-42%	416	-33%	1,126	1,246	11%	1,381	1%
Adjusted for Bitel write-off (USD150 mn)	486	430	-12%	416	3%	1,126	1,396	24%	1,381	1%
ARPU Russia, USD	8.6	8.5	-1%	8.1	5%	8.5	7.9	-7%	n/a	n/a
ARPU Ukraine, USD	8.7	7.2	-17%	7.5	-4%	9.5	7.3	-23%	n/a	n/a

Source: Company data, Bloomberg, MDM estimates

VimpelCom: Altimo raises its stake from 39.5% to 42.4%

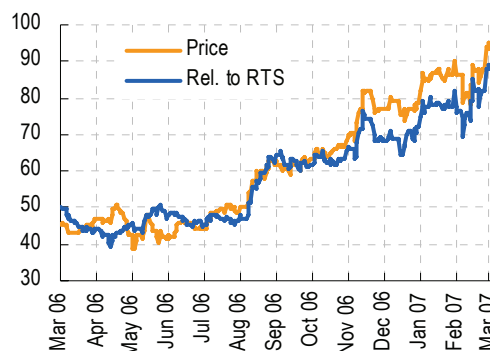
Analysts: Elena Bazhenova, Ekaterina Generalova e-mail: Elena.Bazhenova@mdmbank.com

Tel: + 7 495 795 2521

Bloomberg ticker	Price, USD	FV, USD	Rating	12M High/Low	1M Perf.	3M Perf.	12M Perf.
VIP US	94.97	102.70	Hold	94.97/38.59	10.3%	23.6%	108.8%

Financials, USD mn	2006E	2007E	2008E
Revenue	4,752	5,786	6,429
EBITDA	2,355	2,838	3,158
Net income	828	1,233	1,458
Revenue growth	47%	22%	11%
EBITDA growth	47%	21%	11%
Net income growth	45%	49%	18%
EBITDA margin	50%	49%	49%
Net margin	17%	21%	23%
EV/Revenue	4.6	3.8	3.4
EV/EBITDA	9.3	7.7	6.9
P/E	23.5	15.8	13.4
MCAP, USD mn	19,480	ADRs, mn	205
EV, USD mn	21,821		
Free float	34%	Total, mn	205

Price performance, USD



Source: Bloomberg

Source: Bloomberg, MDM estimates

Altimo buys additional 2.9% stake in VimpelCom. Reuters reported yesterday that Eco Telecom, a 100%-owned subsidiary of Altimo, bought 6.8 mn VimpelCom ADRs for USD618 mn from March 15-20. A 0.7% stake was bought on the open market, while the remaining 2.2% came from "significant shareholders," whose names were not disclosed. Altimo's stake in the mobile operator is now 42.4%.

Aggressive buying on the market to continue. Altimo has spent a total of USD1.6 bn to increase its interest in VimpelCom by 9.5% since November 2006, as a part of its fight with Telenor. As for Telenor, it never exercised its 3.6% option with ING, as this would involve crossing the 30% threshold, which by law requires the acquirer to make an offer to minorities.

Altimo is now better placed for any asset swap talks. We believe Altimo may continue to buy shares on the open market. In particular, a 44% threshold would give it a majority on VimpelCom's board and a better footing in case an opportunity to swap assets appears. Altimo is currently in asset swap negotiations with TeliaSonera and other large Western telecom companies. This should help it reduce political risk and gain exposure to other markets. We would regard a resolution of the prolonged dispute between Altimo and Telenor as positive for VimpelCom, which should reduce additional risk, adding 7% to our FV.

Altimo is dominating Telenor on another front, as well. Telenor said yesterday that it excluded Kyivstar, in which it owns 56.5%, from its 2006 financials after Ukrainian courts prohibited Kyivstar from providing its financials to auditors. Telenor will reflect proceeds from Kyivstar as non-operating income on an equity basis. We view the move as another victory for Altimo over Telenor and expect pressure on Telenor in Ukraine to continue.

RBC: Preliminary 4Q06 results expected to show seasonal pick-up

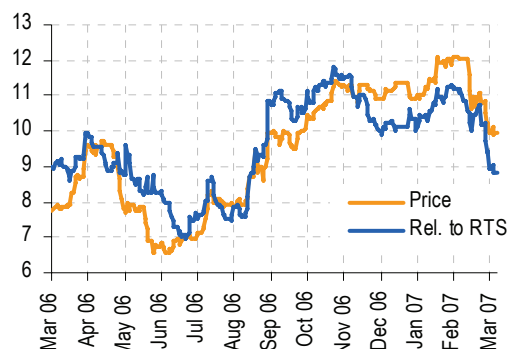
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Bloomberg ticker	Price, USD	FV, USD	Rating	12M High/Low	1M Perf.	3M Perf.	12M Perf.
RBCI RM	9.97	n/a	Not Rated	12.1/6.57	-17.7%	-11.6%	21.1%

Financials, USD mn	2006E	2007E	2008E
Revenue	189	248	304
EBITDA	55	81	100
Net income	33	47	67
Revenue growth	80%	31%	23%
EBITDA growth	76%	48%	23%
Net income growth	57%	41%	43%
EBITDA margin	29%	33%	33%
Net margin	18%	19%	22%
EV/Revenue	6.0	4.6	3.8
EV/EBITDA	20.9	14.1	11.4
P/E	35.8	25.4	17.8
MCAP, USD mn	1,189	Com., mn	119
EV, USD mn	1,141	Pref., mn	
Free float	46%	Total, mn	119

Price performance, USD



Source: Bloomberg

Source: Datastream, IBES consensus

RBC to post preliminary 4Q06/2006 results today. RosBusinessConsulting is scheduled to release preliminary results for 4Q06 and 2006 today. We expect a seasonal pick-up in revenue growth in 4Q06 following a decline in the previous quarter. There is no consensus available, but company guidance for FY06 implies that revenues will rise from USD42 mn in 3Q06 to USD65-72 mn in 4Q06, with the company's IT operations showing a higher rate of growth, from USD17 mn in 3Q06 to USD30-35 mn in 4Q06. RBC's guidance tends to be conservative, so given an effective advertising rate increase of 18% in October 2006, we would not be surprised if the results were to overshoot the company's forecast.

No surprises expected. We do not expect any surprises as the company included in its guidance all its new projects (a newspaper and magazines) and two IT companies acquired in 2005. Management will hold a conference call later today at which we expect it will discuss the launch of its new non-business on-line project and IT spin-off.

RBC: 2006 interim IFRS financials and guidance, USD mn

	1Q06	2Q06	3Q06	q-o-q change	4Q06, implied, based on guidance	9M06	y-o-y change	RBC FY06 guidance	2005
Media	12	18	16	-6%	14-19	46	38%	60-65	51
TV	6	10	9	-10%	5-10	25	26%	30-35	24
IT	10	18	17	-6%	30-35	45	115%	75-80	30
Total revenue	28	46	42	-2%	65-73	116	57%	170-178	105
EBITDA	n/a	n/a	n/a		n/a	n/a		50-55	34
EBITDA margin	n/a	n/a	n/a		n/a	n/a		30%	32%
Net income	n/a	n/a	n/a		n/a	n/a		32-35	23

Source: Company data, MDM estimates

Kalina: Consensus expects margins to recover in 2H06

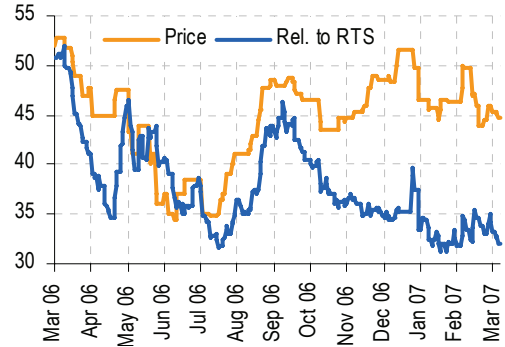
Analyst: Elena Afonina, e-mail: Elena.Afonina@mdmbank.com

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Bloomberg ticker	Price, USD	FV, USD	Rating	12M High/Low	1M Perf.	3M Perf.	12M Perf.
KLNA RU	44.80	n/a	Not Rated	52.75/34.5	-10.0%	-7.2%	-13.8%

Financials, USD mn	2006E	2007E	2008E
Revenue	350	397	437
EBITDA	53	63	72
Net income	31	37	41
Revenue growth	19%	13%	10%
EBITDA growth	36%	18%	14%
Net income growth	24%	19%	13%
EBITDA margin	15%	16%	16%
Net margin	9%	9%	9%
EV/Revenue	1.2	1.1	1.0
EV/EBITDA	7.9	6.7	5.8
P/E	11.6	9.8	8.6
MCAP, USD mn	358	Com., mn	8
EV, USD mn	421	Pref., mn	
Free float	5%	Total, mn	8

Price performance, USD



Source: Bloomberg

Source: Datastream, IBES consensus

Consensus forecasts suggest margin recovery... Russian cosmetics manufacturer Kalina is due to report full-year IFRS results this morning. Consensus numbers suggest an impressive 5.1 pp improvement in EBITDA and 2.4 pp in net margin in 2H06 vs. 2H05, when the company saw exceptionally high advertising and marketing expenses. For full-year 2006, revenues are expected to increase 23% to USD354 mn, EBITDA should climb 24% to USD50 mn, while net income is projected to reach USD28 mn, up 24% y-o-y.

...that should continue into 2007. In late 2006, Kalina shifted production of Dr. Scheller skin care products (11% of Dr. Scheller revenues) to Russia. We think that in 2007, this move will translate into a reduction of production costs, which will allow the group to improve margins. On another front, Kalina continues to dispose of non-core assets: in December 2006, the company sold Novoplast, a plastic packaging manufacturing plant. The company's focus on its core activity is a positive sign, suggesting there is potential for increasing operating efficiency in 2007.

Strong results may help stock to recover. At a 2007E P/E of 9.9 and EV/EBITDA of 6.7, Kalina trades at a 40-50% discount to international cosmetics producers, suggesting the stock is undervalued on a multiples basis. Since December 2006, the stock has fallen almost 12%. We believe that above-consensus results could potentially lead to an upward revision of financial forecasts and place the stock back on investors' radar screens.

Kalina 2H06 and FY06 consensus estimates (IFRS), USD mn

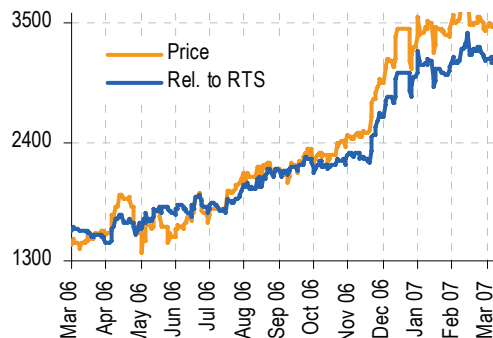
	2H05	2H06E Consensus	% change	2005	2006E Consensus	% change
Revenues	155.8	173.6	11%	288.0	353.9	23%
Gross profit	71.9	n/a	n/a	134.8	n/a	n/a
EBITDA	14.6	25.1	72%	39.9	49.7	24%
Net income	8.1	13.3	64%	23.0	28.4	24%
Gross margin	46.1%	n/a	n/a	46.8%	n/a	n/a
EBITDA margin	9.4%	14.4%	5.1 pp	13.9%	14.0%	0.2 pp
Net margin	5.2%	7.6%	2.4 pp	8.0%	8.0%	0.0 pp

Source: Company data, broker reports, MDM estimates

Sberbank: Finalizing the SPO results

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Bloomberg ticker	Price, USD	FV, USD	Rating	12M High/Low	1M Perf.	3M Perf.	12M Perf.
SBER RU	3470.00	3631.00	Hold	3780/1370	-6.0%	9.8%	139.3%
SBERP RU	54.10	65.36	Buy	60/21.5	-8.1%	5.4%	106.1%
Financials, USD mn	2006E	2007E	2008E	Price performance, USD			
Gross revenue	10,282	12,990	15,700				
Net income	2,924	3,827	4,548				
BV of equity	11,800	23,137	27,362				
Revenue growth	31%	26%	21%				
Net income growth	26%	31%	19%				
BV growth	47%	96%	18%				
Net interest margin	8.2%	7.9%	7.3%				
Net margin	28%	29%	29%				
ROE	28%	18%	18%				
P/E	23.5	17.9	15.1				
P/BV	5.8	3.0	2.5				
Mcap, USD mn	68,635	Com., mn	19				
EV, USD mn	68,635	Pref., mn	50				
Free float	39%	Total (adj), mn	20				

Source: Bloomberg, MDM estimates

Source: Bloomberg

Few cancellations recorded. Bookrunners have completed the collection of SPO orders, although the final figure has not been published yet. Sberbank said the last days of the payment period brought no surprises. Notably, the share price trajectory has become almost completely flat in recent weeks following a period of abnormal volatility, which evidently helped prevent cancellations. *Vedomosti* quoted an anonymous source close to the process as saying that Sberbank will be able to show RUB230 bn (USD8.8 bn), although earlier indications of total qualified orders were somewhat higher at RUB230 bn (USD9.5 bn). Collecting less does not look like a problem to us, as Sberbank in any case will remain overcapitalized for several years to come. A smaller amount would in fact be positive for ROE.

Shares now at the mercy of market forces. Sberbank's shares were visibly supported during the recent market turbulence, although management denied any meddling with the price. Many foreign investors were upset at the way the SPO was organized. However, now that the event is over, we doubt they will flock to buy shares given that the SPO price was in line with market levels. Neither do we see buying by Big Business or employees going forward. Moreover, the mega-issuance of VTB in several months will deprive Sberbank of its scarcity premium. While the parameters of VTB's IPO are still unknown, we do not expect a significant commitment of new funds to Sberbank.

Investors should hold out for a while. While in fundamental terms, Sberbank's shares look attractive to us, the supply/demand headwind presents a clear risk in the short run. The bottom line here is that while holders of Sberbank should remain on board, buyers may want to wait a quarter or two. We reiterate our Hold recommendation on the shares.

Finance Ministry submits first three-year draft budget to the government

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Budget surplus to fall to just 0.1% of GDP by 2010. The budget surplus will diminish rapidly over the next three years, Finance Minister Alexei Kudrin said yesterday, as he unveiled a draft budget for 2008-10 and submitted it to the government for consideration. Kudrin stressed that the likes of the 2006 budget surplus, which came in at 7.1%, will not be seen again. The draft budget envisages a surplus of a mere 0.1% of GDP by 2010 the, following an anticipated 0.5% in 2008 and 0.2% in 2009.

Two new funds to be created 2008. The Stabilization Fund will be split into two – a Reserve Fund and a Future Generations Fund – in 2008. Kudrin said he expects transfers from the Reserve Fund to the budget to equal 6.1% of GDP in 2008, 5.3% in 2009, and 4.5% in 2010. These transfers are to cover the non-oil deficit.

A decline in 2008 revenues likely a consequence of a tax cut. Judging from the budget forecasts produced (see the table below), revenues are expected to fall 4.1% in nominal terms in 2008, while spending is expected to increase 19%. This, in our view, looks like an election budget, with promises to be made during the election campaigns being honored during 2008. On average, nominal revenues have increased more than 30% per year over the last seven years. With an oil price forecast for 2008 only USD2/bbl lower than in 2007, the explanation must lie elsewhere. We think a tax cut, yet to be publicized, and expected to come into effect in 2008, is the most likely explanation, possibly in combination with initial over-optimism about VAT collection. And with Kudrin yesterday specifically stating that a decision to lower VAT has been postponed for at least a year, our money is on the profit tax being lowered from 24% to 20%. Although we believe this would be positive (particularly for corporate profits), the initial revenue shortfall in the budget, coupled with increased spending could add to inflationary pressure, thus creating a challenge for the Central Bank next year.

The 2008-10 budgets

	2007	2008	2009	2010
Revenues, RUB bn	6,965	6,676	7,421	8,035
Change, %	10.9%	-4.1%	11.2%	8.3%
Spending, RUB bn	5,460	6,500	7,361	7,995
Change, %	24.9%	19.0%	13.2%	8.6%
Surplus, RUB bn	1,505	176	60	40
Surplus, %/GDP	4.8	0.5	0.2	0.1
Oil price, USD/bbl	55	53	52	50

Source: Finance Ministry

News briefs

- **Rosneft Deputy CEO Nikolay Borisenko abruptly left the company** (*Vedomosti*). Borisenko was responsible for M&A and his departure could affect Rosneft's participation in the upcoming auctions for Yukos's assets.
- **Rosdravnadzor may cancel obligatory registration of medical substances for foreign pharmaceutical producers** (*RBC Daily*). Although positive, this may not be enough to encourage foreign firms to shift production to Russia.
- **The Kazakh government sold 0.9% of Kazakhtelecom on the market for EUR101/GDR, 2% above the current market price.** This raises free float to 18.8% from 17.9%, giving the stock greater liquidity.

Stock performance summary								
Company name	Last price, USD	1D	1WK	1M	3M	12M	YTD	12M High/Low
Oil and gas								
Gazprom	9.75	0.8%	0.7%	-9.2%	-15.7%	20.1%	-15.2%	12.8/8.12
Novatek	53.50	-0.9%	3.3%	-5.3%	-14.7%	56.9%	-15.7%	66/31.5
Rosneft	8.29	1.2%	5.1%	-8.6%	-11.1%	n/a	-11.5%	9.47/7.37
Lukoil	79.81	0.8%	3.2%	-2.0%	-8.1%	-6.8%	-9.0%	95.23/63.01
TNK-BP Holding	2.17	-1.6%	1.6%	-4.0%	-12.1%	-29.3%	-16.4%	3.47/2.09
Surgutneftegaz	1.17	4.4%	9.0%	-7.9%	-21.0%	-24.3%	-24.3%	1.85/1.07
Gazprom Neft	3.77	-0.5%	-1.6%	-17.0%	-14.3%	-21.6%	-18.0%	5.5/3.59
Tatneft	4.41	1.7%	8.5%	-2.9%	-7.1%	-22.3%	-6.0%	6.07/3.5
Bashneft	13.30	0.0%	0.0%	-9.5%	-16.9%	-20.4%	-16.9%	18.5/11.77
Transneft pref	2,057.38	-0.4%	1.9%	-11.9%	-8.2%	-16.8%	-10.6%	2523.42/1669.71
Ritek	9.00	0.0%	0.0%	-6.3%	-19.6%	-1.1%	-19.6%	11.2/8
Telecoms and technology								
MTS	57.54	5.2%	12.9%	7.8%	21.4%	55.3%	14.6%	57.54/26.22
AFK Sistema	29.94	5.9%	12.1%	-7.0%	-3.0%	16.5%	-6.4%	32.9/18.1
VimpelCom	94.97	1.5%	10.9%	10.3%	23.6%	108.8%	20.3%	94.97/38.59
Comstar	8.79	1.0%	4.9%	-6.0%	3.4%	22.9%	4.6%	9.7/4.9
Rostelecom	8.56	0.7%	3.2%	3.2%	17.5%	142.7%	12.2%	8.58/3.02
Golden Telecom	56.11	4.1%	11.8%	-5.0%	24.6%	93.3%	19.8%	59.05/21.73
MGTS	25.01	0.2%	1.0%	-2.2%	5.8%	20.8%	0.2%	27.23/16.64
Uralsvyazinform	0.07	0.4%	6.8%	-6.0%	-0.7%	48.1%	-0.8%	0.07/0.03
Volga Telecom	6.10	0.5%	6.1%	-1.6%	6.1%	45.8%	0.8%	6.6/2.85
Sibirtelecom	0.12	5.8%	7.3%	4.0%	10.3%	42.2%	4.9%	0.12/0.06
NorthWest Telecom	1.58	-0.6%	4.3%	1.0%	-0.1%	26.9%	-1.9%	1.61/0.78
Center Telecom	0.78	-0.1%	1.2%	8.3%	2.6%	22.4%	3.9%	0.78/0.4
Southern Telecom	0.18	0.0%	0.0%	-1.1%	5.0%	12.0%	-1.1%	0.18/0.1
Dalsvyaz	4.07	0.5%	4.4%	-0.7%	-5.3%	29.2%	-2.2%	4.3/2.5
Bashinformsvyaz	0.20	0.0%	0.0%	-13.2%	-14.1%	-7.8%	-14.1%	0.23/0.16
RBC	9.97	0.7%	-1.3%	-17.7%	-11.6%	21.1%	-13.4%	12.1/6.57
CTC Media	25.98	6.0%	3.3%	29.0%	8.3%	n/a	8.2%	27.25/14
Rambler Media	46.32	1.5%	-0.5%	-0.6%	38.8%	110.5%	37.2%	47.75/22
Utilities								
UES	1.33	3.1%	12.0%	6.2%	34.0%	103.4%	22.9%	1.33/0.54
OGK-2	0.16	0.0%	4.3%	0.4%	28.2%	n/a	17.9%	0.17/0.09
OGK-3	0.16	-0.1%	6.0%	3.6%	35.9%	140.9%	29.8%	0.16/0.07
OGK-4	0.11	4.4%	10.0%	9.5%	n/a	n/a	39.6%	0.12/0.05
OGK 5	0.14	-0.6%	4.3%	-3.5%	5.4%	68.1%	9.3%	0.14/0.07
OGK-6	0.16	-0.2%	6.3%	-3.1%	46.3%	n/a	46.3%	0.17/0.08
Metals and mining								
Norilsk Nickel	179.50	-2.3%	7.2%	-3.8%	18.9%	101.7%	14.3%	189/89
Polyus Gold	47.50	0.0%	-2.7%	-13.8%	-0.8%	n/a	-3.7%	67.5/37.5
Severstal	12.85	0.8%	2.8%	-6.0%	15.8%	-4.6%	14.7%	14/10
Evraz Group	31.30	0.6%	-4.3%	-9.3%	26.4%	30.7%	21.8%	35.1/20.5
Mechel	32.02	3.2%	6.7%	-2.2%	28.9%	22.0%	25.7%	33.8/19.01
NLMK	27.38	-1.2%	3.1%	-2.4%	17.8%	37.6%	17.8%	29.46/18
MMK	0.99	1.0%	4.8%	3.7%	17.9%	38.5%	13.8%	1.07/0.65
TMK	32.15	0.5%	1.7%	-8.9%	-1.1%	n/a	-8.1%	38/21.6
VSMPO	315.00	5.0%	5.0%	-1.6%	8.6%	48.6%	7.5%	330/170
Industrials, consumer, banks								
Sberbank	3,470.00	-0.7%	0.4%	-6.0%	9.8%	139.3%	0.6%	3780/1370
Rosbank	6.59	7.5%	7.2%	-3.2%	-2.9%	21.4%	-9.7%	7.54/3.84
X5	29.40	0.0%	3.2%	-0.7%	16.4%	77.1%	13.1%	29.9/14.5
Seventh Continent	27.55	0.2%	1.1%	-0.5%	6.8%	10.2%	3.2%	28.3/17.5
Magnit	42.40	0.7%	7.1%	3.5%	22.9%	n/a	18.8%	42.4/20.15
Wimm-Bill-Dann	69.37	3.1%	5.7%	3.9%	20.0%	156.9%	4.2%	69.37/26.25
Lebedyansky	79.00	0.0%	1.0%	-2.5%	-1.3%	16.2%	-1.3%	81.3/45
Baltika (euro)	36.96	0.0%	6.3%	1.7%	13.7%	22.3%	10.5%	36.96/26.14
Razgulay	3.89	1.6%	-3.2%	-6.7%	-1.3%	-24.9%	-2.8%	6.35/3.5
Severstal Auto	30.75	1.8%	0.8%	-6.4%	6.6%	28.9%	1.7%	33.8/17.75
AvtoVaz	101.00	0.0%	6.3%	26.3%	50.3%	65.6%	48.5%	101/35
Veropharm	37.50	0.0%	0.0%	-5.9%	25.4%	n/a	18.1%	39.85/23.5
Apteka 36.6	60.00	0.0%	0.0%	-4.8%	7.1%	71.4%	3.0%	63/30
Kalina	44.80	-0.9%	-2.6%	-10.0%	-7.2%	-13.8%	-13.0%	52.75/34.5
Oriflame (euro)	29.25	-0.4%	4.6%	-2.9%	-2.7%	0.7%	-3.5%	32.44/22.73
RTS Index	1,847.26	0.9%	3.8%	-4.5%	-0.8%	31.1%	-3.9%	1970.77/1234.82

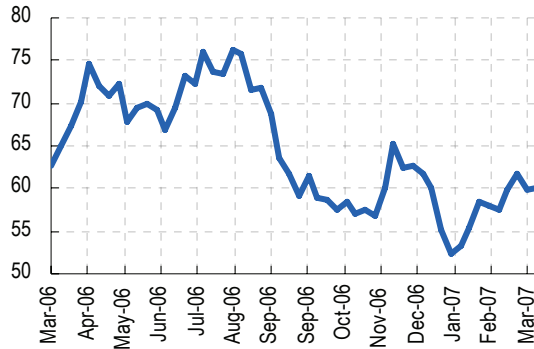
Source: Bloomberg

Stock valuation summary											
Company name	MCAP,		P/E			EV/EBITDA			EV/Revenue		
	USD mn	2006E	2007E	2008E	2006E	2007E	2008E	2006E	2007E	2008E	
Oil and gas											
Gazprom	221,803	10.9	10.4	10.8	8.1	7.5	7.5	12.6	3.1	3.0	
Novatek	16,243	30.8	23.7	17.2	2.3	1.9	1.4	3.0	0.7	0.5	
Lukoil	67,922	8.3	9.1	9.5	5.6	6.1	6.3	8.9	1.1	1.1	
Rosneft	87,848	22.9	27.8	30.8	12.6	14.7	15.7	25.6	2.9	2.9	
TNK-BP Holding	34,388	4.7	9.2	11.6	4.9	6.4	7.5	5.6	1.4	1.5	
Surgutneftegaz	47,757	10.8	13.4	12.9	4.4	4.9	4.7	7.7	1.3	1.3	
Gazprom Neft	17,890	5.2	5.4	6.7	4.5	4.5	5.3	6.5	1.2	1.2	
Tatneft	9,985	7.6	7.5	8.3	3.9	4.3	5.1	6.7	0.8	0.9	
Bashneft	2,261	4.6	4.0	4.7	2.4	2.2	2.5	3.9	0.7	0.7	
Transneft pref	14,514	6.0	5.0	4.5	4.0	3.3	2.9	6.6	1.8	1.6	
Ritek	898	8.3	8.1	8.6	4.8	4.5	4.6	9.5	1.0	1.0	
Aggregate - oil and gas	521,508	10.9	11.2	11.4	5.2	5.5	5.8	8.8	1.5	1.4	
Utilities											
UES	54,463	46.5	31.1	25.2	11.3	8.9	7.7	2.1	1.8	1.6	
Mosenergo	6,784	n/a	n/a	1596.3	28.5	18.7	16.9	3.1	2.5	2.3	
OGK-2	4,129	n/a	56.3	21.8	32.5	22.8	13.8	4.4	3.7	2.9	
OGK-3	4,689	n/a	90.8	51.6	45.9	35.9	24.5	6.3	5.4	4.4	
OGK-4	5,488	n/a	76.7	29.3	43.0	31.3	18.5	6.1	5.1	4.2	
OGK-5	3,184	50.7	35.3	21.7	21.4	15.7	12.0	3.2	2.7	2.3	
OGK-6	4,162	63.2	48.3	31.8	25.7	20.5	16.8	4.4	3.8	3.2	
Aggregate - utilities	82,899	19.2	27.5	111.0	15.3	12.4	10.0	7.0	2.3	2.0	
Telecoms and technology											
MTS	22,939	18.4	13.8	12.5	8.0	7.2	6.7	4.0	3.6	3.4	
AFK Sistema	14,446	17.6	15.1	13.8	7.2	6.2	6.2	3.0	2.7	2.4	
VimpelCom	19,480	23.5	15.8	13.4	9.3	7.7	6.9	4.6	3.8	3.4	
Aggregate - mobile telecoms	56,865	19.8	14.9	13.2	8.1	7.1	6.6	3.9	3.4	3.1	
Comstar	3,674	21.1	13.1	11.3	10.1	8.2	7.2	4.1	3.4	3.0	
Rostelecom	7,027	66.9	32.7	28.7	16.7	11.6	10.4	3.3	3.0	2.8	
Golden Telecom	2,056	24.1	16.6	12.1	9.2	7.1	5.9	2.4	1.9	1.5	
MGTS	2,363	13.6	10.0	9.5	8.5	6.3	6.0	3.6	2.8	2.7	
Uralsvyazinform	2,435	23.9	17.8	13.7	8.0	6.6	5.8	2.7	2.4	2.2	
Volga Telecom	1,832	15.4	13.8	11.5	6.5	5.6	5.0	2.5	2.1	1.9	
Sibirtelecom	1,728	14.2	10.0	8.6	7.6	6.0	5.3	2.3	1.9	1.7	
NorthWest Telecom	1,667	21.9	14.1	13.6	7.7	5.7	5.3	2.7	2.2	2.0	
Center Telecom	1,509	39.7	21.6	14.4	6.4	5.3	4.7	2.2	1.9	1.7	
Southern Telecom	653	20.4	16.3	14.5	6.9	6.0	5.5	2.3	2.0	1.9	
Dalsvyaz	520	13.0	10.8	7.4	5.3	4.4	3.5	1.9	1.4	1.2	
Bashinformsvyaz	192	33.2	25.1	19.9	5.2	4.8	4.4	1.4	1.3	1.2	
Aggregate - fixed line telecoms	25,658	25.6	16.8	13.8	8.2	6.5	5.8	2.6	2.2	2.0	
RBC	1,189	35.8	25.4	17.8	20.9	14.1	11.4	6.0	4.6	3.8	
CTC Media	3,936	26.9	20.1	16.3	16.8	12.5	10.4	7.8	5.8	4.8	
Rambler Media	696	93.2	34.6	21.2	65.0	26.7	16.2	15.4	10.2	6.9	
Aggregate - media	5,821	52.0	26.7	18.4	34.2	17.8	12.7	9.7	6.9	5.1	
Metals and mining											
Norilsk Nickel	34,285	6.6	7.3	8.2	4.1	4.6	5.4	2.8	3.0	3.2	
Polyus Gold	9,073	7.4	45.6	74.4	24.0	27.9	37.7	11.2	11.1	11.2	
Severstal	12,949	9.2	8.1	8.6	3.9	3.4	3.7	1.1	0.9	0.9	
Evrast Group	10,977	8.1	6.6	7.9	5.0	4.2	4.8	1.5	1.3	1.2	
Mechel	4,321	7.0	5.2	6.5	4.1	3.1	3.9	0.9	0.8	0.8	
NLMK	16,409	7.7	8.1	8.0	5.0	4.7	4.7	2.3	2.1	2.0	
MMK	10,061	7.0	7.1	7.5	4.6	4.5	4.7	1.5	1.4	1.4	
TMK	7,009	n/a	10.9	7.4	n/a	6.4	4.6	n/a	1.9	1.6	
VSMPO	3,780	15.1	11.9	n/a	9.9	8.0	n/a	3.8	3.1	n/a	
Aggregate - metals and mining	108,863	13.4	13.7	16.3	10.5	8.5	9.1	3.9	3.2	3.0	
Industrials, consumer, banks											
Sberbank *	68,635	23.5	17.9	15.1	5.8	3.0	2.5	6.7	5.3	4.4	
Rosbank*	4,743	32.5	21.7	14.7	4.6	3.2	2.6	5.5	4.2	3.2	
Aggregate - banks	73,378	13.7	11.1	10.2	5.9	4.9	4.5	3.0	2.4	2.0	
X5	6,365	60.8	28.3	18.1	24.9	13.6	9.5	2.1	1.5	1.1	
Magnit	3,053	43.2	26.3	19.8	25.3	15.9	11.0	1.3	0.9	0.6	
Seventh Continent	2,066	30.6	21.7	14.3	18.6	12.7	8.3	2.0	1.4	0.9	
Lebedyansky	1,612	18.9	15.6	13.1	12.9	9.7	8.0	2.5	1.8	1.4	
Baltika (euro)	6,230	22.6	14.1	11.7	13.1	10.2	8.4	4.4	2.9	2.5	
Wimm-Bill-Dann	3,052	34.2	21.2	15.9	15.5	10.9	8.7	2.0	1.6	1.3	
Aggregate - FMCG	22,378	35.1	21.2	15.5	18.4	12.2	9.0	2.4	1.7	1.3	
Razgulay	412	18.8	6.4	5.4	7.9	5.1	4.7	1.1	0.9	0.8	
Severstal Auto	1,046	19.0	13.8	9.2	8.1	6.1	4.3	1.1	0.8	0.6	
AvtoVaz	2,957	23.1	20.1	11.3	6.8	6.4	n/a	0.6	0.6	0.6	
Apteka 36.6	480	n/a	n/a	23.1	29.0	16.9	12.1	1.4	0.9	0.7	
Veropharm	375	19.9	13.9	10.9	13.8	9.8	7.9	3.9	2.9	2.4	
Kalina	358	11.6	9.8	8.6	7.9	6.7	5.8	1.2	1.1	1.0	
Oriflame (euro)	1,462	14.3	12.4	9.9	10.2	8.8	7.6	1.5	1.4	1.3	
Aggregate valuation	904,461	12.0	12.1	12.1	7.1	6.3	6.1	2.2	2.1	2.0	
FF-adj. MCAP W.A. valuation	253,395	14.7	13.4	13.4	7.7	7.0	7.1	9.1	2.9	2.8	

Source: MDM estimates, IBES consensus
*P/BV shown in EV/EBITDA columns

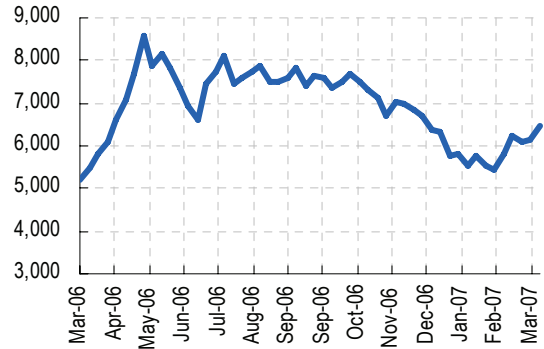
Key commodities

London WTI Crude Oil Index - PRICE INDEX, USD/bbl



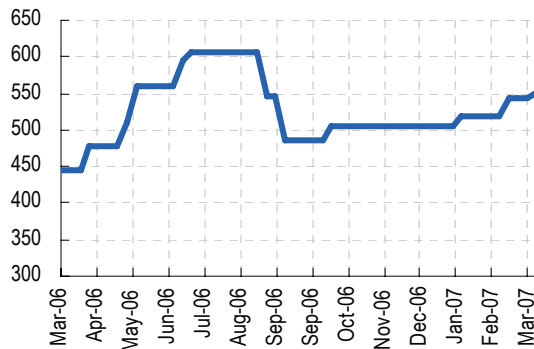
Source: Bloomberg

LME-Copper, Grade A Cash - A.M. OFFICIAL, USD/ton



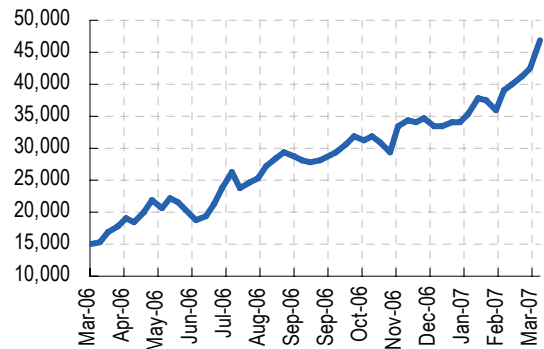
Source: Bloomberg

MB-Steel HR Coil CIS, USD/ton



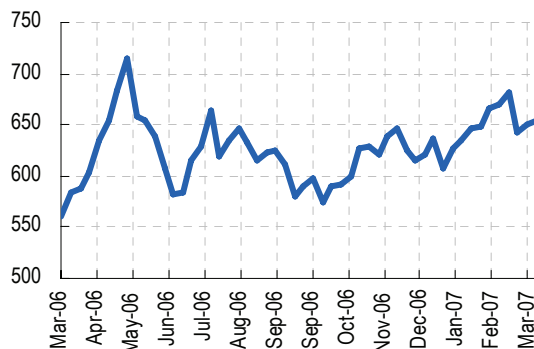
Source: Bloomberg

LME-Nickel Cash - A.M. OFFICIAL, USD/ton



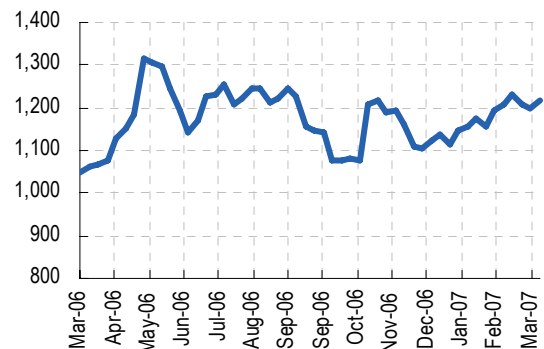
Source: Bloomberg

Gold Bullion, USD/oz



Source: Bloomberg

MB-Platinum Matthey, USD/oz



Source: Bloomberg



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