RESEARCH DEPARTMENT
EQUITY STRATEGY

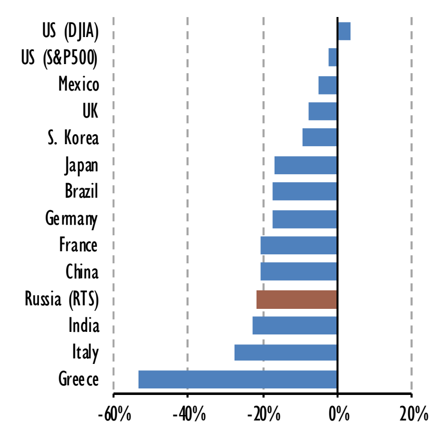
Equity strategy 2012
Fears and opportunities

Research Department
+7 (495) 988 23 44

Equity strategy 2012: fears and opportunities

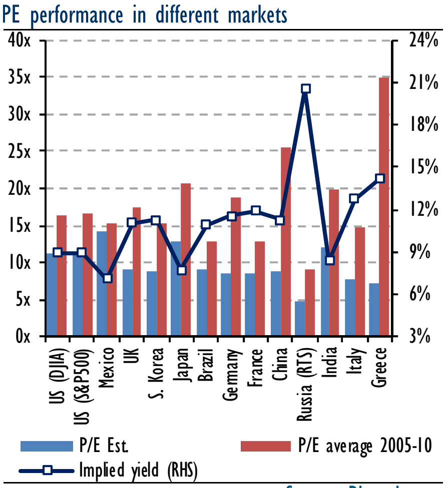
GAZPROMBANK

World primary indices YTD performance in 2011



Source: Bloomberg

PE performance in different markets



Source: Bloomberg

Russian economy: key parameters

	2008	2009	2010	2011E	2012E
GDP, RUB bln	41,276.8	38,786.4	44,939.2	51,386.8	56,946
GDP, YoY	5.2%	-7.8%	4.0%	4.0%	3.5%
Urals, $/bbl, p. av.	95.1	61.3	78.3	109	104
CPI, % YoY	13.3%	8.8%	8.8%	7.3%	6.0%
Core CPI, YoY	13.7%	8.5%	6.6%	6.2%	5.0%
PPI, % YoY	-7.0%	13.9%	16.6%	13.7%	8.7%
RUB/USD, p. av.	24.9	31.7	30.4	29.1	30.9
CBR basket, p. av.	30.1	37.3	34.8	34.4	35.9
RDI, % YoY	3.8%	1.2%	4.2%	1.5%	4.5%
Retail trade, YoY	13.5%	-4.9%	6.3%	5.3%	5.0%
Unemployment rate, %	6.4%	8.4%	7.5%	6.2%	6.0%
Industrial production, YoY	0.6%	-9.3%	8.2%	4.8%	3.5%
Capital investment, YoY	9.9%	-16.2%	6.0%	6.0%	6.5%

Source: Rosstat, CBR, MinFin, Gazprombank estimates

Our in-house view on the markets in 2012 is cautiously optimistic, as our base scenario does not envision a recession in the eurozone, or its breakup, which will make markets pay more attention to fundamentals and valuations. From this angle, Russia looks extremely cheap with P/E 2012E at 4.9x. This is 31% lower than 7.1x in the troubled Greece, which, in our view, is unjustifiable. Still, we expect very high volatility in 2012, especially in the first half of the year.

- We see the fair levels of MICEX and RTS Indices at respective 1,919 and 1,962, which imply 39% and 41% upsides from the current levels of 1,378 and 1,387. However, we stress that these "fair levels" could only be reached under the "normalized" markets situation, which has a considerable chance not to materialize in 2012.
- In Russia, we would recommend to concentrate on liquid dividend stories and "special situations", such as preferred stock of Rostelecom. In terms of sector allocations, we anticipate oil & gas sector to outperform the market on the back of expected sector performance catch-up to oil price. We also note the sector's stronger resilience to macroeconomic volatility compared to other sectors, due to taxes linked to the oil price and flexibility of ruble-denominated costs.
- Starting from this report, we are officially changing our ratings methodology. In order to provide our clients a more useful tool for making their investment decisions, we are switching to the relative recommendations that will enable to compare a stock's projected performance versus the general market. As a result, we are introducing 3 stocks ratings: OVERWEIGHT [Over the next 12 months, we expect this stock to outperform the average total return of the stocks in the MICEX Index], NEUTRAL [Over the next 12 months, we expect this stock to perform in line with the total return of the MICEX Index] and UNDERWEIGHT [Over the next 12 months, we expect this stock to underperform the total return of the MICEX Index].

Our top picks for 2012

- Oil & gas is our top-pick sector in 2012. We have a positive view on the oil price ($106/bbl for Brent). Russian oils have underperformed oil price dynamics in 2011. Due to the new taxation scheme, Russian oils' export netbacks would increase by 10% YoY in 2012, which should be reflected in share price appreciation. Also, ruble-denominated expenses provide additional protection against oil price drops.
- Top picks. In oil & gas sector, together with prefs with high dividend stories, we like Transneft preferred, NOVATEK, and Eurasia Drilling Co. In banking, we recommend Sberbank and Nomos Bank. Our top picks in metals and mining are Raspadskaya, Polyus Gold International and Polymetal International. In utilities, our top picks are E.ON Russia and Federal Grid Co. In TMT sector, we prefer AFK Sistema and MTS. In transportation, we pick TransContainer and Globaltrans.
- Dividend-play names. For 2011, we expect a few companies to pay significant dividends: Mechel preferred (MTLP, we expect dividend yield of 12.0%), Tatneft preferred (TATNP, 10.1%), Bashneft preferred (BANEP, 14.3%), TNK-BP preferred (TNBPP, full-year yield 11.1%), Surgutneftegaz preferred (SNGSP, 8.1%), Bank Saint-Petersburg preferred (BSBPP, 14.3%), MTS (MBT, 8.6%), Vimpelcom (VIP, 8.2%), Rostelecom preferred (RTKMP, 8.2%).
- Liquid names. As global situation stabilizes and risk aversion shrinks, liquid undervalued stocks should receive maximum inflows. From this perspective, we recommend Sberbank, Gazprom, NOVATEK and Uralkali.

CONTENTS

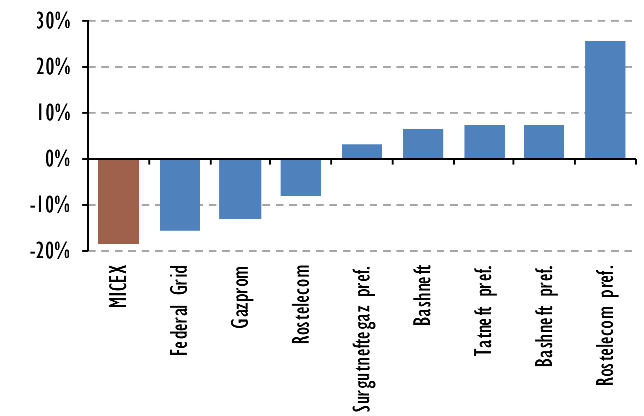
CONTENTS

Investment summary

- Our in-house view on the markets in 2012 is cautiously optimistic, as our base scenario does not envision recession in the eurozone, or its breakup. Therefore, markets will put more attention into fundamentals and valuation. From this angle, Russia looks extremely cheap with P/E 2012E of 4.9x. This is 31% lower than 7.1x in the troubled Greece, which, in our view, is unjustifiable.
- Nevertheless, we expect very high volatility throughout 2012, especially in the first half of the year, mostly due to the continuing uncertainty in the eurozone.
- In Russia, we would recommend to concentrate on liquid dividend stories and "special situations", such as preferred stock of Rostelecom. In terms of sector allocations, we anticipate oil & gas sector to outperform the market on the back of expected sector performance catch-up to oil price. We also note the sector's stronger resilience to macroeconomic volatility compared to other sectors, due to taxes linked to the oil price and flexibility of ruble-denominated costs.
- We see the fair levels of MICEX and RTS Indices at respective 1,919 and 1,962, which implies 39% and 41% upsides from the current levels of 1,378 and 1,387. However, we stress that these "fair levels" could only be reached under the "normalized" markets situation, which has a considerable chance not to materialize in 2012. We do not yet predict full recovery of the Russian investment case before the global situation stabilizes and long-term return to riskier asset classes as a result. However, valuation attractiveness should be enough to push the Russian market from the current lows, in our view.

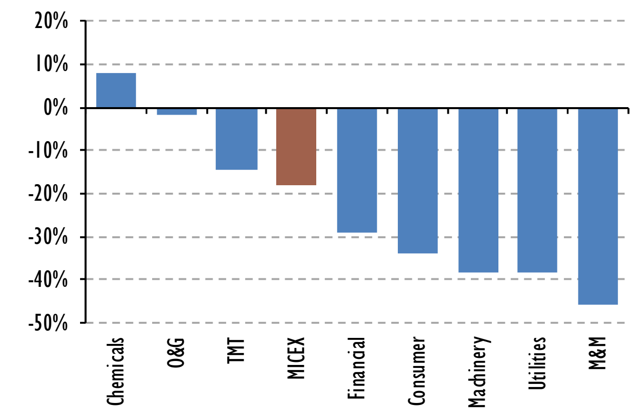
Year 2011 was tough for equities worldwide. Realization of certain risk factors in developed countries led to reallocation of portfolios (1) from EMs to DMs and (2) from equities into fixed-income instruments. Flight to quality also justified greater volatility in the markets for risky assets with fundamental factors playing less important role in determination of asset values as compared to the general market sentiment. As a result, not every one of our stocks recommendations for 2011 has actually performed as expected: albeit fundamentally undervalued and attractive, they were pressured by external factors and overall market dynamics, which in some cases led to declines in value. However, on the backdrop of 20% MICEX decline, most of recommendations have outperformed the market, quite substantially in some cases (e.g., Rostelecom preferred).

Gazprombank top picks 2011 performance



Source: Bloomberg

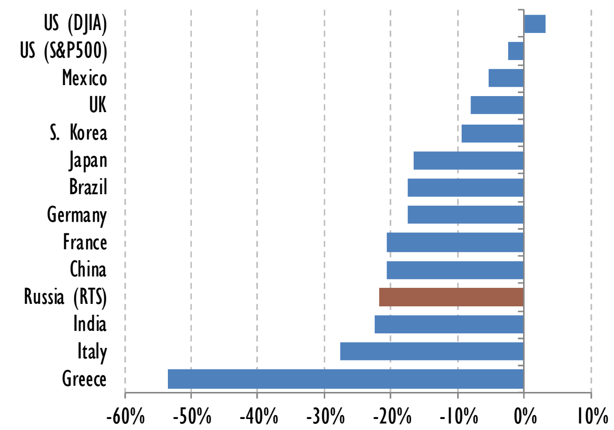
Relative performance by sector (MICEX)



Source: Bloomberg

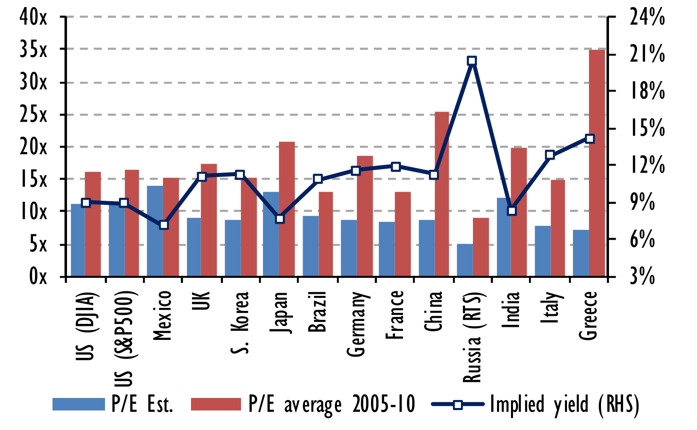
Although very few markets are showing YTD growth at the moment, Russia has been one of the worst-performing markets, with only a few countries (Ukraine, Kazakhstan, and Greece, among others) lagging behind. By mid-December, the primary Russian indices were losing 19% and 23% (MICEX and RTS respectively). Given that domestic stocks were already underpriced at the beginning of the year, their plunge in 2011 added to upside potential as underlying fundamentals, in our view, remain strong. Russia is currently priced at 4.9x P/E 2012E, which is one of the lowest valuations globally. Paradoxically, Russia is currently even cheaper than Greece (which has the P/E ratio of 7.1x). Russian stocks therefore will provide one of the most appealing yields the global markets can offer at the moment.

World primary indices YTD relative performance



Source: Bloomberg

Prospective and historical P/E valuations for selected markets



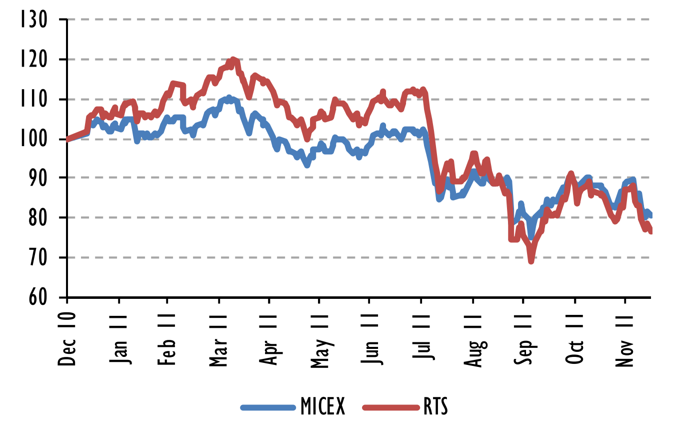
Source: Bloomberg, Gazprombank calculations

The realization of existing upside potential, however, is, in a lot of ways, subject to improvement in external environment. As long as risk-aversion remains high, and there is high uncertainty over further developments in Eurozone debt crisis resolution, Russia is unlikely to attract strong demand from foreign investors, while domestic players might be unable to provide enough support to stock valuations. Moreover, we expect volatility to remain high throughout 2012. At present, RTS implied volatility index is currently 4 times lower than its 2008 peak (200 points), however, its value is about twice as high as the 'normal' level and we don't expect this to change much in the coming year.

RTS implied volatility index

Source: Bloomberg

Relative stock market indices performance



Source: Bloomberg, Gazprombank calculations

Looking into 2012 prospects we would like to highlight several basic assumptions.

- Volatility will remain high on the backdrop of market turmoil. We expect news flow in 2012 will be mixed, that will keep volatility high. Especially, we do believe that the first half of the year will be weaker and more volatile than the second due to the continuing uncertainty from the Eurozone at the international front and election period in Russia.
- Drastic scenario is marginally possible. We do not expect any major negative events in the global economy, such as the breakthrough of the Eurozone, but "never say never". Nevertheless, our base-case scenario does not envision a recession in the Eurozone (with a few countries exception, however), but rather a growth slowdown.
- Russian macro picture to remain decent. We anticipate real GDP to grow by 3.5% in 2012 given our base case scenario of oil price dynamics (average Urals price of $106/bbl). We anticipate Russian ruble to modestly appreciate during the 1Q12: the lack of external factors favoring appreciation is expected to be compensated by the CBR's support prior to March 2012 presidential elections. Further dynamics is likely to be characterized by ruble weakening against the USD, while dual-currency basket may remain stable due to euro/dollar exchange rate decline. We expect RUB/USD to average 30.9, while dual-currency basket will fluctuate within the 34.5–36.5 range with an average value close to 35.9 RUB. Inflation risks are likely to remain modest (roughly at 6.0% YoY).

TOP PICKS

We single out a few ideas that are expected to outperform the market next year.

- Oil & gas is our top-pick sector in 2012. We have a positive view on the oil price, our full-year Brent oil forecast stands at $106 per bbl. We note underperformance of Russian oils vs. oil price in 2011. On the back of the new taxation scheme Russian oils should earn more in 2012, which should be reflected in share price appreciation. We note tax flexibility and ruble-denominated expenses of oil sector, which is an insurance against any potential oil price drop, which we do not believe in.
- Top picks In oil and gas, together with prefs with high dividend yields, we like Transneft preferred shares, NOVATEK, and Eurasia Drilling Co. In banking universe we recommend to look at Sberbank and Nomos Bank shares, which propose attractive relative valuation along with resilient and profitable fundamental stories. Our top picks in metals and mining are Raspadskaya, Polyus Gold International and Polymetal International. We expect Raspadskaya strong production recovery after an accident in 2012 alongside with company-specific catalysts, might be realized as soon as in 1H12. We like Polyus and Polymetal for exposure to gold and silver together with strong growth profiles. Due to the high regulatory risks we are cautious over Russian electric utilities, but believe that liberalization of the electricity market allows the most efficient generators to increase their profitability. Our top pick in generation is E.ON Russia. Among grid companies, we favor the Federal Grid Co. as we believe it is more protected vs. MRSKs in the tightening regulatory environment. In TMT sector we prefer AFK Sistema and MTS. We believe that the advantages of Sistema's shift to 'financial investor' model, its solid cash position and attractive investment opportunities stemmed from the government's privatization plans makes current 42% holding's discount to its NAV unjustifiable. In MTS we like combination of its superior risk-return profile and cheap valuation. In transportation we point at TransContainer and Globaltrans. TransContainer provides both strong fundamentals and speculative drivers while Globaltrans is a major growth story in the sector due to well-positioning and continued deregulation of the industry. Acron is our top pick in fertilizers industry due to vertical-integration prospects and M&A target opportunity on the back of consolidation processes we expect next year.

- Liquid names. As global situation stabilizes (keeping the fingers crossed) and risk-aversion shrinks, the liquid undervalued stocks should receive maximum inflows. From this perspective, Sberbank, Gazprom, NOVATEK, and Uralkali would be the obvious beneficiaries, in our view.
- Dividend-play names For 2011 we expect following companies to pay significant dividends: Mechel pref. (MTLP, we expect dividend yield of 12.0%), Tatneft pref. (TATNP, 10.1%), Bashneft pref. (BANEP, 14.3%), TNK-BP pref. (TNBPP, full-year yield 11.1%), Surgutneftegaz pref. (SNGSP, 8.1%), Bank Saint-Petersburg pref. (BSBPP, 14.3%), MTS (MTS , 8.6%), Vimpelcom (VIP 8.2%), Rostelecom pref. (RTKMP, 8.2%).

Top picks for 2012

Name	Bloomberg ticker	Currency	Current price	12M TP	Upside
Oil & gas					
Transneft pref.	TRNFP RX	RUB	47,030.0	74,505.0	58%
Surgutneftegaz pref.	SNGSP RX	RUB	16.0	27.0	69%
NOVATEK GDR	NVTK LI	USD	122.8	170.7	39%
Tatneft pref.	TATNP RX	RUB	90.7	106.3	17%
Eurasia Drilling	EDC LI	USD	24.0	42.6	78%
Metals & mining					
Raspadskaya ordinary	RASP RX	RUB	102.1	163.4	60%
Polymetal Intl. ordinary	POLY LN	GBp	1,026.0	1,487.7	45%
Polyus Gold Intl. GDR	PLGL LI	USD	2.9	4.6	58%
Banking					
Sberbank ordinary	SBER RX	RUB	82.7	120.0	46%
Nomos bank GDR	NMOS LI	USD	9.8	18.4	88%
Transport					
TransContainer GDR	TRCN LI	USD	7.6	11.2	47%
Globaltrans GDR	GLTR LI	USD	12.2	19.7	61%
Fertilizers					
Acron ordinary	AKRN RX	RUB	1,274	1,960.0	54%
Phosagro GDR	PHOR LI	USD	8.6	13.8	60%
Utilities					
E.ON Russia ordinary	EONR RX	RUB	2.2	3.2	45%
FSK UES ordinary	FEES RX	RUB	0.3	0.5	66%
Telecoms					
MTS ADR	MBT US	USD	14.5	32.0	120%
AFK Sistema	SSA LI	USD	16.9	35.8	112%

Source: Bloomberg, Gazprombank estimates

Change in rating methodology

- With this report, we are officially changing our ratings methodology. Extremely volatile and nervous markets widen the gap between stocks' fair and market prices to the point when, unfortunately, traditional ratings not always work. Hence, in order to provide our clients with a more useful tool for making their investment decisions, we are switching to the relative recommendations that will enable to compare the stock's prospective performance against the market. As a result, we are introducing 3 stocks ratings, with the explanations below.
- OVERWEIGHT - over the next 12 months, we expect this stock to outperform the average total return of the stocks in the MICEX index.
- NEUTRAL - Over the next 12 months, we expect this stock will perform in line with the average total return of the MICEX index.
- UNDERWEIGHT - Over the next 12 months, we expect this stock will underperform the average total return of the MICEX index.

We hope that this change will make our recommendations more useful and help evaluate their performance more precisely.

Global environment: "safety standards" reestablished

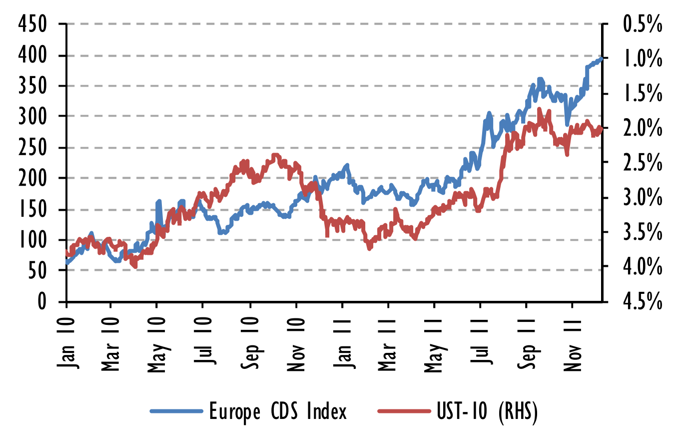
Year 2011 has challenged a number of common stereotypes about global economic relationships: the concept of a risk-free asset has been put to test.

Year 2011 has challenged a number of common stereotypes about global economic relationships. One of the key concepts – a risk-free asset – has been put to test as S&P downgraded US sovereign rating by one notch to AA+. The unprecedented rating action, triggered by the lack of political consensus on new public debt limit and fiscal tightening, led to a massive reassessment of global risks with a seemingly paradoxical outcome: the demand for US Treasury securities has become stronger in spite of the rating downgrade, with 10-year yields plunging below 2.0% and hitting the all-time low at 1.719% on September 22. We believe this to be justified for two reasons:

First, the US rating downgrade coincided with the intensification of risks in Europe, where debt problems remain largely unresolved. Although there are a number of countries in the eurozone that retain the top-level ratings from the major agencies (Germany, France, and a few others), their debt securities do not satisfy all the requirements of a risk-free asset to substitute the US Treasuries in that role. For one thing, their debt is denominated in the European currency, exposing investors to potential exchange rate risk that would materialize in case of a collapse in other eurozone economies. Moreover, S&P recently positioned sovereign ratings of 15 eurozone states on overview with the risk of potential downgrade. Although EU leaders (with the exception of UK) have generally agreed on automatic sanctions for eurozone members in violation of budget deficit regulation and approved a new fiscal rule on balanced budgets to be written into national constitutions, the requirement of country-by-country ratification of proposed measures may lead to their limited timeliness and failure to improve the region's creditworthiness.

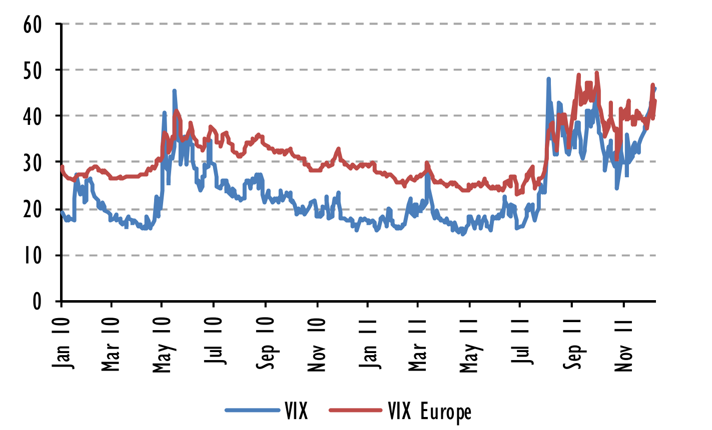
The following charts illustrate the current attitude towards risk among global investors.

10-year UST yield dynamics and cost of sovereign default insurance in Europe, bps



Source: Bloomberg

Implied volatility indices in Europe and the US



Source: Bloomberg

We are entering into 2012 in a new environment, characterized by higher risk aversion and greater requirements to assets' returns and liquidity. Moreover, the risks themselves are higher than they used to be (as captured by greater volatility in the markets).

Second, besides possessing the low-credit-risk characteristic the US Treasuries are considered to be almost equivalent to cash in terms of their liquidity. While several assets could be named as being virtually default-risk-free in the long run, very few of them could boast the same degree of liquidity as the US Treasuries. Gold, for example, has limited physical supply, and is therefore prone to the risk of bubbles. Restrictions imposed in other markets (e. g., interventions by the central banks of Switzerland and Japan to contain franc and yen appreciation) have limited their attractiveness for investors, although have failed to fully divert flows of capital away from them.

As a result, we are entering into 2012 in a new environment, characterized by higher risk aversion and greater requirements to assets' returns and liquidity. Moreover, the risks themselves are higher than they used to be (as captured by greater volatility in the markets), the most acute of which, in our view, are listed below:

- Widening of global imbalances and worsening fundamentals (for further details, see the section *Vicious cycles all over again*);
  - ✓ Internal imbalances are likely to exacerbate the contractionary impact of austerity measures in developed countries;
  - ✓ External imbalances are likely to result in a slowdown of developing counties growth.
- Further deterioration of sovereign credit quality (for futher detail, see the section *Eurozone 2012: the 13th anniversary*);
- Solvency and liquidity of the banking sector (for further detail, see the section *European banks: survival of the fittest*).

Vicious cycles all over again

Most of external imbalances that exacerbated the consequences of the 2008 crisis, which originated from the US, have not been eliminated. In addition to that, some internal imbalances within particular countries and regions intensified in 2010-2011.

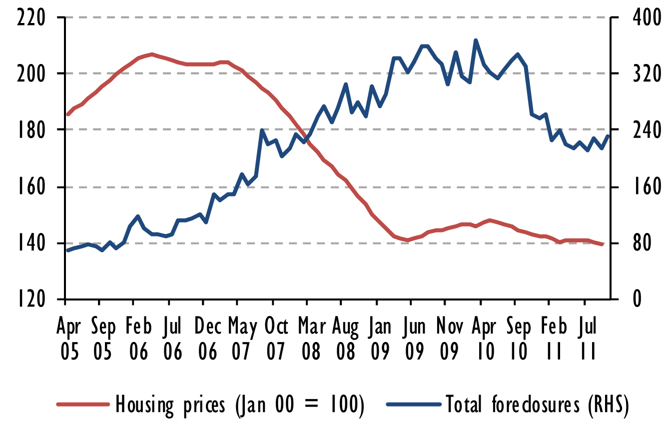
Almost two years into the post-crisis era, the developed world is still facing a great number of challenges. Most of external imbalances that exacerbated the consequences of the 2008 crisis, which originated from the US, have not been eliminated, with the Asia-Pacific region hosting the largest trade surpluses and accumulated foreign exchange reserves, while the US and the European Union remain net importers of goods and services. In addition to that, some internal imbalances within particular countries and regions intensified in 2010-2011. Most notably, as governments throughout the world are struggling to cut budget deficits, it becomes more evident that internal private demand in most of developed states is not strong enough to replace government spending as a means of sustaining growth. Tight lending conditions, depressed housing markets and heavy debt load have all played their roles in restricting consumption.

Vicious cycle No. 1

In the US, residential real estate prices are still 31% below their pre-crisis levels, creating the ‘negative equity’ problem for homeowners. This places a lower limit on a number of mortgage foreclosures, preventing them from further decline to their pre-crisis levels, and increases supply in the secondary market as banks are struggling to sell assets previously pledged as collateral. Although the latter does not constitute the predominant share of sales in the secondary markets, the accumulated stock of unsold houses has increased (as a result of mortgage foreclosures only, not taking into account new construction) by almost 8.0 mln since the end of 2007, the equivalent of some 20 months’ sales (if current monthly sales volumes persist).

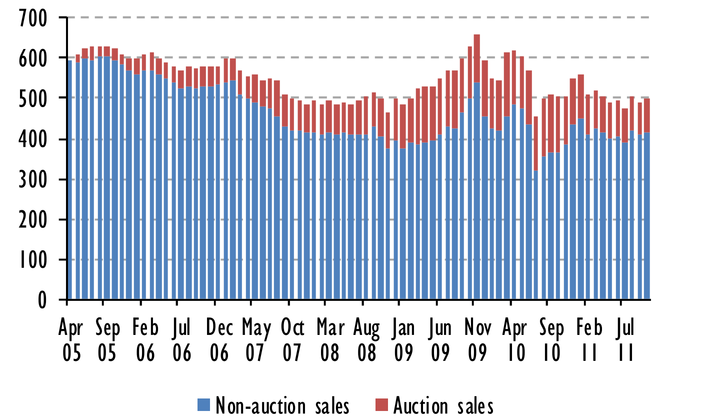
If prices continue to linger or are depressed further, the stream of new foreclosures will continue to drag the housing market and consumer wealth into a vicious cycle. On average, by the end of 3Q11, almost 8% of all mortgage loans were delinquent, while in the subprime section, the share of NPL was still above 22%. With incomes growth decelerating and consumer confidence stumbling, the situation is unlikely to improve radically in the near future.

Housing prices and foreclosures in the US



Source: Bloomberg

Monthly auction sales vs. non-auction sales in the secondary housing market, mln



Source: Bloomberg

Another problem faced by the US policymakers is the economy stuck in liquidity trap. Nominal interest rates are already close to zero, but they have so far failed to spur investments and spending: despite low borrowing costs, real rates of return are negative, which discourages investments. Monetary contraction is still out of question: FRS has pledged to sustain the federal funds rate at 0.25% throughout 2012 and 1H13 and will likely continue to reinvest principal redemptions of its balance sheet assets into USTs until at least mid-2012. Meanwhile, introduction of new stimulus measures is doubtful unless the global downturn intensifies. Moreover, the capacity of the Fed to influence economic growth is limited due to the extremely low interest rate environment.

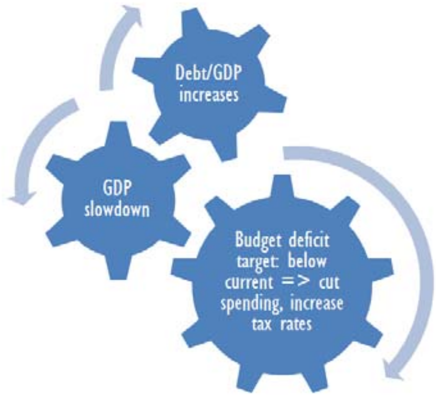
This, together with a potential slowdown in other developed countries (see the next section for more detail on the eurozone) also poses a threat to developing economies due to their strong reliance on external demand. China, which receives more than 36% of its export revenues from the US and Europe, may face thinning demand from the indebted regions in 2012. However, the "soft landing" scenario so far seems more plausible: the IMF forecasts China's GDP growth to slow down next year by only 0.5 pps to 9.0% from 9.5% in 2011.

Vicious cycle No. 2

The ongoing debt crisis in the eurozone represents a sound argument in favor of greater budget discipline, but fiscal tightening leads to slower economic growth.

The ongoing debt crisis in the eurozone represents a sound argument in favor of greater budget discipline, as the current debt burdens across the region are unsustainable. On the other hand, fiscal tightening leads to slower economic growth, restricting the budget revenues despite legislated tax hikes. As a result, more austerity is needed to meet fiscal targets, but they are likely to slow down economic growth even more, and so on. As a result, developed economies find themselves stuck in a vicious cycle: they cannot sustain their current debt/GDP ratios, with the denominator growing at a slower pace than the numerator regardless of the attempts to contain budget deficits.

The vicious cycle of fiscal austerity measures



Source: Gazprombank

The decline of economic activity during the crisis in 2008-2009 positioned the developed world at the low start for recovery. The depressed base effect allowed growth rates to pick up significantly soon after real GDP hit the local bottom, but the rebound seems to have been losing momentum recently, and further slowdown is anticipated, given the austerity measures to be implemented. However, the expected average annual growth for the eurozone in 2010-2016 is expected to be at 1.5–1.6%, which is only 0.5 pps below the CAGR for 2000-2008 (see the table *Eurozone snapshot*). Thus, we believe that fears of a global downturn may be somewhat exaggerated.

Eurozone 2012: the 13th anniversary

Back in mid-2011, prospects of potential changes in the composition of the eurozone seemed overly pessimistic and unrealistic. Now the integrity of the monetary union is challenged as the third largest economy, Italy, has passed the "point of no return" when yields on its 10-year debt securities topped 7%. Although the Italian economy is obviously in a better shape than any of those countries that eventually applied for help from the EU and the IMF, and it is running a primary budget surplus, the surge of interest rates on its debt, given its refinancing needs, may actually lead to the state's insolvency. The paradox here is that a rather sound economy may collapse as a result of market participants' self-fulfilling expectations, and the EU doesn't have enough capacity to fix Italy's funding needs in full.

Two possible scenarios for 2012:

- *developing an exit option for eurozone members leading to formation of a smaller and – presumably – more integrated monetary union,*

OR

- *struggling to maintain integrity within the existing union and a gradual shift to common fiscal policy.*

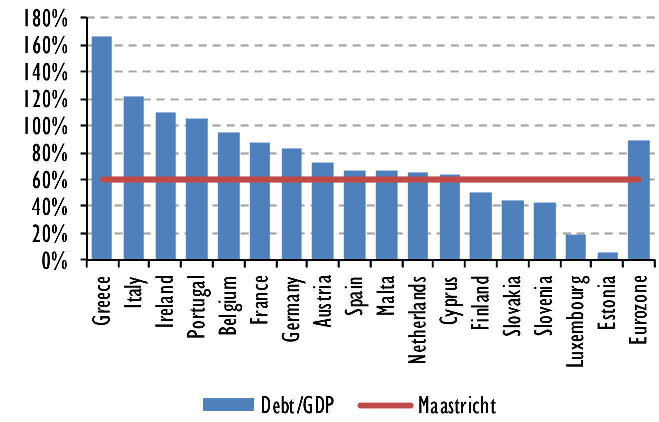
We see two possible scenarios for 2012:

- Developing an exit option for eurozone members leading to formation of a smaller and - presumably - more integrated monetary union.

The Maastricht criteria (those that governed the transition from local currencies to the euro) throughout the last decade were widely violated.

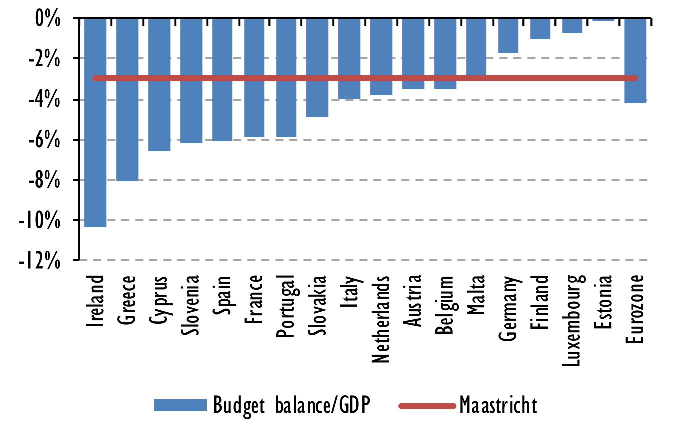
When euro was officially adopted by several EU member states in December 1998, no provision allowed for a country to exit the monetary union or be expelled from it unless the country left the EU as well. In other words, eurozone implied no exit option for its members. However, the Maastricht criteria (those that governed the transition from local currencies to the euro) throughout the last decade were widely violated: only 5 countries (Finland, Slovenia, Slovakia, Luxembourg and Estonia) out of 17 Eurozone members currently comply with the 60% debt/GDP limit while Finland and Luxembourg are the only ones whose budget deficits are within the 3% of GDP limit and Estonia is the sole country running a marginal government surplus (0.2% GDP).

Eurozone member states: debt load…



Source: Bloomberg, IMF

…and budget deficit (2011 estimates)



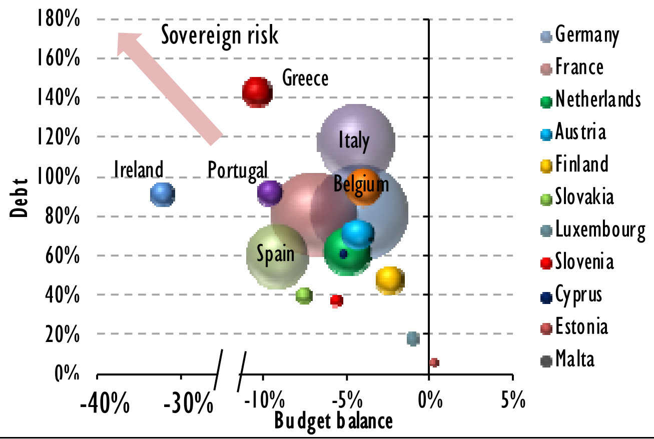
Source: Bloomberg, IMF

Extremely high debt burdens, or unsustainable deficit levels, or the combination of the two eventually led to the inability of a number of countries to service their debts and borrow in the market and, consequently, forced them to apply for external help.

Extremely high debt burdens (in Greece, the debt/GDP ratio is close to 150%, and in Italy, it is nearing 120%), or unsustainable deficit levels (in Ireland, the deficit amounted to 31.3% of GDP in 2010), or the combination of the two (Portugal had the debt burden of 93.3% GDP by the end of 2010 while running the deficit of almost 10% GDP) eventually led to the inability of a number of countries to service their debts and borrow in the market and, consequently, forced them to apply for external help. At first, larger states considered bailouts of their less fortunate neighbors to comply with their own interests by sustaining stability and credibility of the region as a whole. But as the debt crisis spread, and measures adopted to tame the contagion proved to have limited efficiency, substantially increasing the costs of financial support. As a result, their benefits became less obvious. Moreover, the capacity of the European Financial Stability Fund is simply not enough to safeguard larger economies if the debt crisis spreads further.

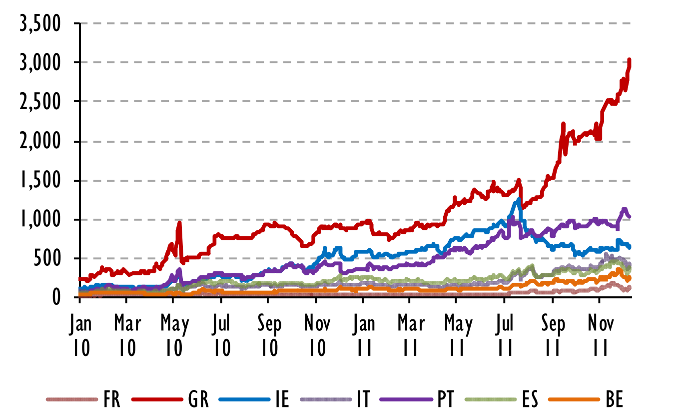
Expulsion of countries for not complying with the Maastricht Treaty, although technically unregulated, seems to be the most straightforward way to address the problem. The consequences, however, may vary significantly depending on the circumstances of individual members.

Summary of the Eurozone members' fiscal positions, % of GDP (as of end-2010) (bubble area indicates the relative size of the economy within the Eurozone)



Source: Bloomberg

Spreads between selected 10-year sovereign bonds yields and German bunds yields, bps



Source: Bloomberg

Greece (and whoever might follow) would most likely face a severe devaluation of domestic currency from the exchange rate fixed at the inception of the eurozone. The ultimate result in this case would be soaring nominal debt, which inevitably would lead to default. As for the effect of devaluation on the real economy, the impact might be less than perceived: although domestic goods and services would obviously become more price-competitive, the failure to honor the obligations to creditors would most likely divert capital flows and potential investments from the defaulted country (-ies) for a long period of time.

As for those states, which would remain in the eurozone, they might be better off if confidence in the common currency is restored after the region gets rid of the fiscally undisciplined members. Yet, although the competitiveness of some countries' (e.g., Germany) might be immune to the appreciation of the euro (at least, to a certain extent), other member states might find it increasingly difficult to sustain long-term growth rates in a strong currency environment. Therefore, the region's growth might slow down. Moreover, once the integrity of the monetary union is questioned, there is no guarantee that its creditworthiness would be enhanced. In this case, however, the negative impact of capital outflow will probably outweigh any competitive advantage granted by the weaker currency.

- Struggling to maintain integrity within the existing union and a gradual shift to common fiscal policy.

An alternative scenario is implementation of a common fiscal system, just like it has been with the common monetary system at the inception of euro. This requires creation of a pan-European fiscal body that would decide on common tax policies and expenditures while monitoring the fiscal discipline in the region. In other words, individual countries in the eurozone would have to give up discretionary decision-making on fiscal issues.

Transition to a common fiscal policy requires convergence of business cycles across potential participants, which is far from being the case at the moment.

There are a number of obstacles to this, however. First of all, transition to a common fiscal policy requires convergence of business cycles across potential participants, which is far from being the case at the moment. Economic cycle stages differ a lot within the eurozone, with the German GDP growing at a pace of 0.5-0.8% per quarter, while the Italian economy is stagnating and Greece and Portugal are in recession. Second, the transition mechanism creates disincentives for the wealthier countries to perform well as redistribution of income is likely to favor poorer nations unless a certain limit on spending is imposed. Finally, even if a decision on transition towards the united fiscal system were reached, the actual implementation might take up to several years under the best-case scenario. Therefore, it is unlikely to have an immediate impact on fiscal discipline and debt levels of the eurozone members.

At the EU summit December 8-9, the majority of the member states (with the exception of UK) confirmed their intention to participate in the new fiscal compact and engage in significantly stronger coordination of economic policies. The main elements of the compact include a requirement for national budgets to be balanced or run with a surplus (structural deficit is constrained by the new rules to 0.5% of GDP), which has to be incorporated into national legal systems. Countries with deficits in excess of this limit would be obliged to submit their deficit-reduction plans to the European Commission, and those who breach the Maastricht Treaty (the maximum deficit of 3% GDP) would face "automatic consequences" unless a qualified majority of the euro area member states vote against.

It is, however, still unclear whether (and how) excessive debt burdens would be actually punished, and how the necessary reduction of debt loads can be achieved. Moreover, as the proposed plan (supported by 26 out of 27 EU members) has yet to be ratified by national parliaments, the process of its implementation is likely to be time-consuming and might face a number of legislative obstacles.

These developments might prepare the foundation for issuance of common eurozone bonds. However, this measure is viciously opposed by Germany, whose borrowing costs would inevitably rise in case of implementation. Furthermore, the actual ability to raise funds necessary to finance the bailout programs through the issue of these common debt instruments might be limited. Although some countries in the AP region might potentially be interested in diversifying their forex reserves, they are unlikely to devote a large share of their portfolios to euro-denominated instruments (unless they offer a decent premium, which is undesirable from the eurozone members' point of view).

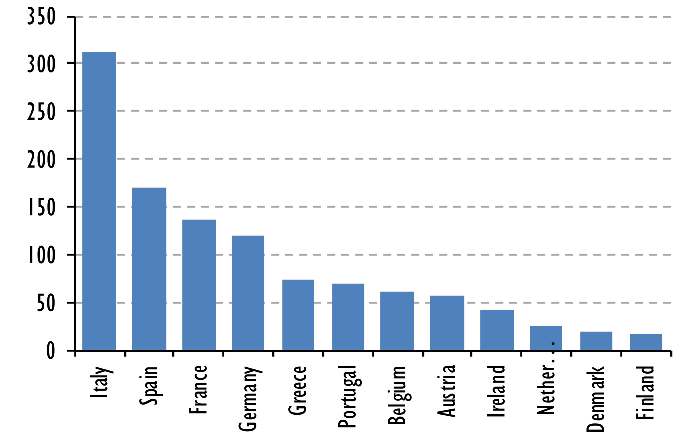
Euro is likely to remain under pressure: US Treasuries, in our opinion, will face very limited competition as a 'safe haven' for global investors, therefore justifying higher values of the US dollar.

In either case, however, euro is likely to remain under pressure. We believe that US Treasuries will face very limited competition as a "safe haven" for global investors, therefore justifying higher values of the US dollar. We believe that an average exchange rate of $1.25–1.30 per unit of European currency would be justified from the fundamental point of view. If the interest rate differential between Europe and USA narrows more than it is currently anticipated (consensus implies at least one more cut of the ECB main refinancing rate, to 0.75%, over the next 12 months), euro might drop to $1.20–1.25.

European banks: survival of the fittest

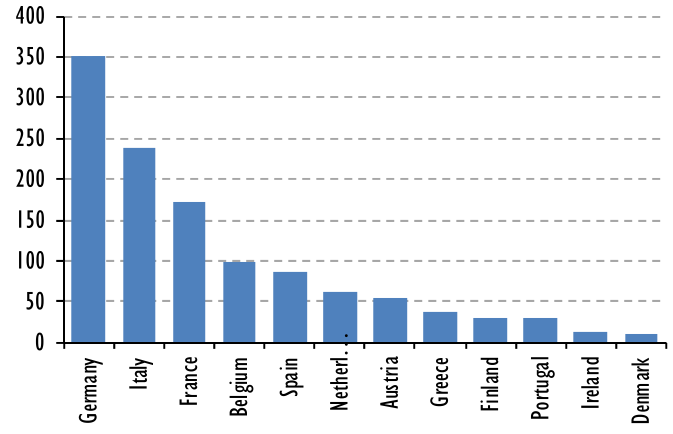
The pan-European stress test results, published in July, failed to reassure investors in the soundness of the banking system. The European Banking Authority (EBA) reported a capital shortfall of only 2.5 bln euro under the adverse scenario, if banks are obliged to sustain their core Tier 1 capital at no less than 5% of the risk-weighted assets. However, despite the fact that direct exposure of European banks to sovereign debt obligations of Greece, Portugal and Ireland is relatively small, the surge in Italian and Spanish bond yields may expose credit organizations to far more serious losses. Moreover, the banking system in the US might not be immune to such developments in the eurozone due to a large amount of CDS issued on European sovereigns.

Direct exposure of European banks to sovereign risk (nominal value of bonds on BS as of end of June 2011), $ bln



Source: BIS

Indirect exposure of global banks (gross notional amount of CSD on European debt), $ bln



Source: DTCC Trade Information Warehouse

Stricter banking regulation is likely to be implemented sooner than initially anticipated: according to latest EBA's estimates, European banks would need to raise 114.7 bln euro of additional capital to bring their Core Tier I (CT1) capital to 9% of their risk-weighted assets by the end of June 2012.

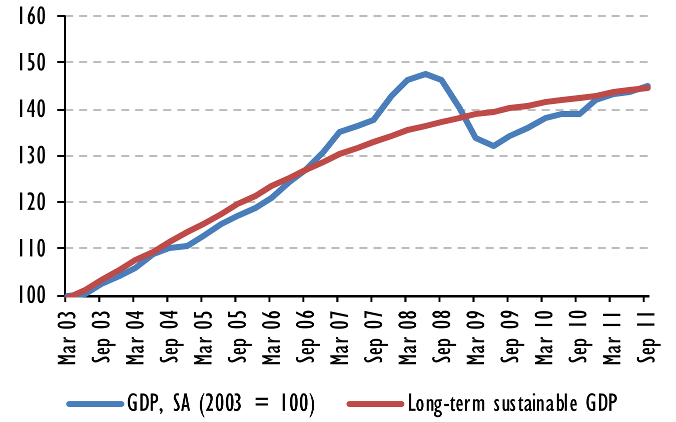
Apart from that, stricter regulation is likely to be implemented sooner than initially anticipated. The EBA, following the summit of European leaders, updated its stress-test results to assess the impact of greater capital requirements. According to latest EBA's estimates, European banks would need to raise 114.7 bln euro of additional capital to bring their Core Tier 1 (CT1) capital to 9% of their risk-weighted assets by the end of June 2012. However, the current market valuations of sovereign debt, as quoted on Bloomberg, suggest hefty haircuts (in present-value terms) on the debt of Greece (75–77%), Portugal (40–50%), Ireland (20–25%), Spain (2–3%) and Italy (5–10%). Taking this into account, the total capital shortfall can amount to 290 bln euro (estimate obtained using Reuters simulation tool based on the same sample of banks as the European stress-test).

Although the capital adequacy ratio of 9% is currently not a requirement, but rather a strong recommendation to European banks, the impact of this measure can adversely affect the region's economy. Instead of raising new capital in the amount calculated above, banks may choose to diminish the scale of operations or, in the worst-case scenario, sell off part of their assets/business. As a result, lending activity might shrink, inhibiting economic growth.

Russian economy: nearing the end of a 2-year recovery, but with limited potential to accelerate growth

After reaching the local bottom in mid-2009 (based on seasonally adjusted estimates) it took the Russian economy 9 quarters to recover to the pre-crisis production levels. According to the latest data published by the Russian statistics authority Rosstat, the country's seasonally adjusted GDP (in constant prices of 2008) rose to RUB 10376 bln in 3Q11, the level last observed in 3Q08. However, output is still 1.7% below the pre-crisis peak (reached in 2Q08).

Russian GDP: struggling to top pre-crisis level



Source: Rosstat, Gazprombank estimates

The paradox of the new reality for Russia became the most evident in 2011, when upward revisions of oil price forecasts were not accompanied by any increase in real GDP estimates (in fact, most GDP forecasts were downgraded). While the severe plunge of commodity prices was to be blamed for the 7.8% decline if the Russian GDP in 2009, the rebound in prices appeared to be insufficient to propel the economy back to the pre-crisis thrust. In other words, the sensitivity of Russian economic growth to oil price dynamics appears to be greater when commodity prices exhibit downward trends. Therefore, even if oil prices surge next year, the impact on Russian economy would be limited as higher profits in the O&G industry are likely to divert investment from other sectors, postponing modernization and structural reforms.

The sensitivity of Russian economic growth to oil price dynamics appears to be greater when commodity prices exhibit downward trends.

Moreover, according to our estimates, the Russian economy is currently operating at its full-employment level (meaning that the gap between the actual and the potential GDP is virtually zero). This implies that the *current level* of production is sustainable in the long run, but there can be *no growth* in the long run without increasing the productive capacity. The latter is a function of productivity and capex, but companies seem to be reluctant to increase their investment activity as a result of uncertainty of future demand for their products. Notably, investments in working capital throughout 2011 exhibited high volatility of growth rates, but the seasonally adjusted trend remained almost flat at some 5.0–6.0% YoY - barely enough to maintain the existing capacity.

According to our estimates, the Russian economy is currently operating at its full-employment level, implying that the current level of production is sustainable in the long run, but there can be no growth in the long run without increasing the productive capacity.

Increase in capex, however, should not be considered as a universal cure for economy. Due to the low competitiveness of Russian manufacturing goods (for more detail, see the section on WTO below) an increase in investments is likely to spur a proportionate increment of imports. The latter can be partially offset by ruble depreciation, which would artificially increase attractiveness of domestic products, but the latter requires either external pressure (e.g., capital flight as a result of global financial turmoil), or political will (priority of balanced budget over social obligations on the eve of presidential elections) - or the combination of the two. For more details, see the section on Russian ruble.

We anticipate real GDP growth to decelerate to 3.5% in 2012, given that capital expenditures keep increasing at least at the same pace as in 2011 (approximately 6.0%).

As a result, we anticipate real GDP growth to decelerate to 3.5% in 2012, given that capital expenditures keep increasing at least at the same pace as in 2011 (approximately 6.0%). In fact, in order to increase capacity investment growth should outpace that of the actual output as some part of it is likely to finance the maintenance and replacement of current productive facilities. We would also like to point out the risk of further slowdown in case of adverse developments in external environment. A drop in average oil price to $90–95/bbl (a relatively small safety margin) may lead to stagnation, although recession scenario (at average prices of $80 or below) currently seems unlikely.

WTO accession

As Russia enters the final stage of negotiations on its admission to the World Trade Organization, there is no ultimate consensus on potential consequences of the long-awaited accession for the economy and financial markets.

Average GDP growth rates prior to and after the WTO accession for a sample of countries provide no clear evidence of improvement, and we believe that the impact of WTO on the Russian economy is unlikely to become evident in the near future as the transition period might take up to 7-9 years.

Average GDP growth rates prior to and after the WTO accession for a sample of countries provide no clear evidence of improvement, even if we exclude certain outliers, such as Ukraine, where the growth rate change might have been affected by the timing of accession: shortly before the crisis. Moreover, the post-accession period for the country is probably too short to make a reasonable judgment based on it. We believe that potential benefits in external trade were partially offset by squeezing out less competitive domestic producers (as would likely be the case with Russia). Although this should benefit the world economy on the global scale, the impact on individual countries could be mixed. Yet, we believe that the impact of WTO on the Russian economy is unlikely to become evident in the near future as the transition period might take up to 7-9 years.

There are very few developing countries, whose history of stock market performance is available for a considerable period prior to WTO accession. Hence, in order to assess the impact of membership in the organization (via liberalization of trade and capital flows) we took a sample of developed countries with long-established equity markets. The summary of results is presented below with average yearly returns for 10 years preceding the WTO accession and for 10 years that followed. It is also worth noting that since all countries listed in the table have the same admission date, market yields are perfectly comparable since we are looking at periods of similar market environment.

Growth rates compared: prior and after the entry to WTO

Country	Year of accession	10 years prior to WTO	10 years since WTO	Change in growth
Brazil	1995	2.9%	2.5%	-0.4%
China	2002	10.3%	10.6%	0.3%
India	1995	5.2%	6.1%	0.9%
Mexico	1995	2.6%	2.5%	-0.1%
South Africa	1995	0.8%	3.1%	2.3%
Turkey	1995	4.1%	4.2%	0.1%
Ukraine*	2008	5.7%	-1.2%	-6.9%
Venezuela	1995	2.6%	1.0%	-1.6%
Average	–	–	–	**-0.7%**
Average (ex Ukraine)	–	–	–	**0.2%**

Source: IMF, Gazprombank estimates

Stock market performance compared: average yearly market yields

Country	Index	8 years prior to WTO	8 years since WTO	Change in growth
France	CAC 40	10.9%	11.5%	0.6%
Germany	DAX	12.9%	12.2%	-0.7%
South Korea	KOSPI	10.1%	8.7%	-1.4%
Great Britain	FTSE 100	11.1%	3.9%	-7.2%
USA	DJIA	13.5%	10.7%	-2.8%
Canada	S&P/TSX	6.0%	8.5%	2.5%
Japan	Nikkei 225	2.1%	-5.1%	-7.2%
Austria	ATX	15.6%	7.1%	-8.5%
Average	–	–	–	**-3.1%**

Source: Bloomberg

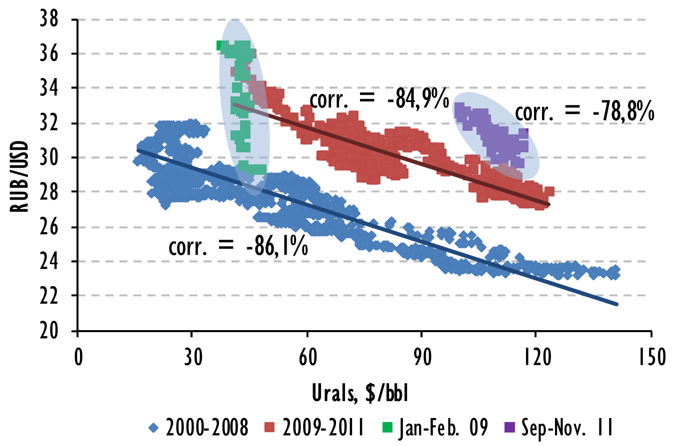
Although we cannot conclude that the deceleration of stock market growth was the result of WTO accession, there is no clear evidence that the latter has provided any support for equities.

Although we cannot conclude that the deceleration of stock market growth was the result of these countries' WTO accession, there is no clear evidence that the latter has provided any support for equities. Only two countries (out of those included in the sample) actually exhibited higher yields during the post-WTO era (France and Canada).

Russian ruble: more freedom or a "new equilibrium"?

The general long-term relationship between USD/RUR exchange rate and the price of Urals oil has been quite strong. The correlation ratio has varied only slightly around the value of minus 86 and the actual sensitivity of the Russian currency value to changes in the price of oil has remained almost constant at an average of minus 7 kopecks to the nominal exchange rate per one-dollar increment in Urals price.

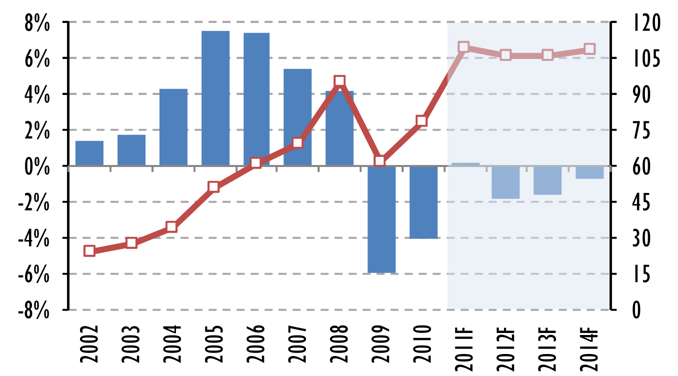
Ruble and oil: relationship and irregularities



Source: Bloomberg, Gazprombank calculations

Federal budget deficit/surplus: historical dynamics and projections (% GDP)

LINK Excel.Sheet.12 "C:\\Users\\Mike\\Desktop\\!STRATEGY\\2_Macro\\111213_Support updated\\Russia MACRO Graphs.xlsx" "Budget deficit![Russia MACRO Graphs.xlsx]Budget deficit Диаграмма 1" \a \p



Source: Minfin, GPB estimates

Two noteworthy observations

1. *There were two periods (on the horizon 2000-2011) when the conventional relationship between the two variables broke down: in January- February 2009 and in September-October 2011.*

In the beginning of 2009, there was a sharp devaluation of ruble despite the fact that oil prices have reached their local bottom and ceased falling. In autumn 2011, ruble weakening was accompanied by a decline in commodity prices, but the sensitivity was greater than 7 kopecks per $1 drop in oil observed on average.

Both these deviations from long-term equilibrium can be justified by speculative capital outflow, which intensified in the times of global economic and financial turmoil. The average daily turnovers in the forex market during the two outlined periods were comparable and stood at $6.5-6.8 bln, exceeding the mean value for 2005-2011 more than twice.

After the peak of the crisis, the conventional relationship between foreign currency and oil price dynamics was restored, but each level of exchange rate became sustainable at a higher market price of oil.

2. *After the peak of the crisis, the conventional relationship between foreign currency and oil price dynamics was restored, but each level of exchange rate became sustainable at a higher market price of oil.*

This, in turn, requires a closer examination. As the cluster of compatible oil price/exchange rate pairs shifted upwards leaving the sensitivity and the correlation figures intact, there must have been other fundamental factors playing a role in exchange rate determination.

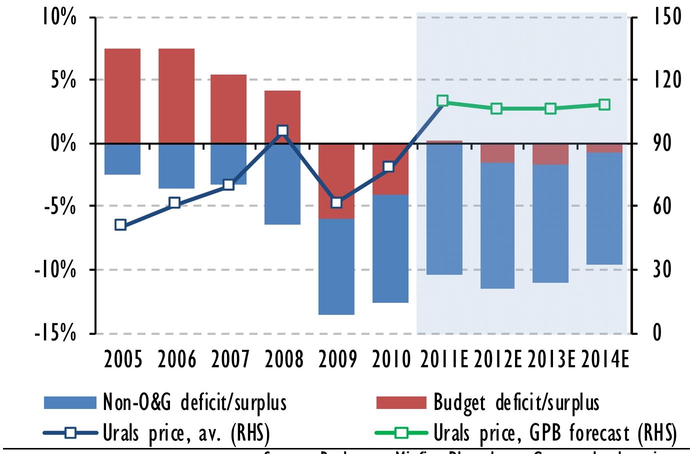
One of the possible reasons for this might be the increased risk aversion among investors. Another possible explanation is the switch to expansionary budget on the verge of 2008-2009.

One of the possible reasons for this might be the increased risk aversion among investors. As the crisis hurt portfolio values worldwide, managers became more cautious with respect to developing markets as a whole, and Russia in particular. Another possible explanation is the switch to expansionary budget on the verge of 2008-2009. The Russian state ran budget surplus throughout 2000-2008, implying that the latter was an instrument of ruble liquidity absorption. During the crisis, the attitude towards government finances changed, both as a result of diminishing revenues (due to lower commodity prices and tax receipts) and persistently high expenditures (as a means of stimulating economic recovery and fulfilling social obligations). Since 2009, despite growing oil prices, the government has been running the federal budget deficit, which has become a net source of ruble liquidity, weakening the domestic currency, all else equal.

Ruble exchange rate would act as a built-in stabilizer for the government finances through utilizing the currency structure of the federal budget.

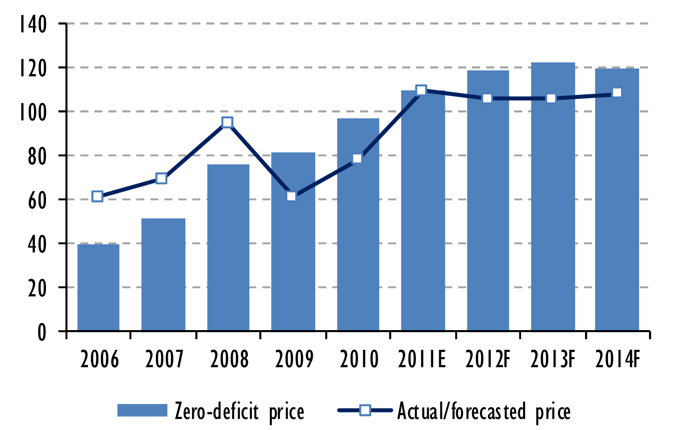
The Budget Law for 2012 and the planned period 2013-2014 implies deficit to persist during the next three years despite oil price projections close to or slightly above $100/bbl (except 2013, when Urals price is expected to average $97/bbl). We presume that the post-crisis relationship between ruble/dollar exchange rate and oil price dynamics will therefore persist in the near future unless capital outflows eliminate the trade surplus sooner than we anticipate. Given the current structure of government revenues (at least 45% of total revenues comes from the O&G sector) and expenses that are downwards sticky, the price of oil that balances the federal budget in 2012-2013, according to our estimates, is approximately $120–122/bbl. It should also be noted that non-O&G deficit is unlikely to fall below 10% GDP during the next two years, making Russia highly vulnerable to oil price shocks (especially now that Reserve fund has been depleted to only $25.6 bln as compared to $140 bln 3 years ago). Therefore ruble exchange rate would act as a built-in stabilizer for the government finances through utilizing the currency structure of the federal budget, which receives a large share of revenues from export duties (foreign currency inflows) but executes most of the expenditures in the local currency. Therefore, weaker ruble (all else equal) would ensure a smaller budget deficit.

Non-O&G and Total budget deficit



Source: Roskazna, Minfin, Bloomberg, Gazprombank estimates

Oil price that balances the federal budget vs. actual/forecasted price



Source: Minfin, Gazprombank estimates

CBR policy

A number of factors (including economic slowdown, high base effect, and ruble appreciation in 1H11) have all contributed to the slowdown of inflation while the CBR continues to actively intervene in the forex market.

The CBR continues to claim inflation targeting as its key priority while gradually abandoning exchange rate targeting. The data for 2011 (with the Russian CPI YoY growth likely to be the slowest in the modern history) are likely to be presented as supportive evidence of the shift in policy objectives. There are, however, a number of factors (economic slowdown, high base effect, and ruble appreciation in 1H11) that we believe have all contributed to the slowdown of inflation while the CBR continues to actively intervene in the forex market.

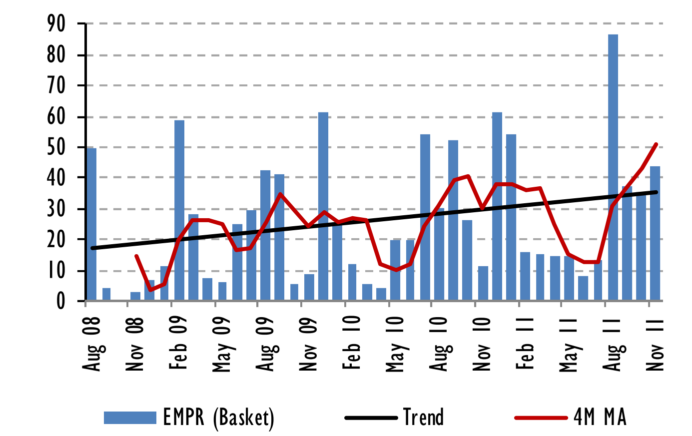
The retail sales turnover has by far been the only macroeconomic indicator that has demonstrated stable growth rates despite the stagnating (and even declining) real disposable incomes and high unemployment rates. However, producers are cautious in their forecasts of future demand, as indicated by manufacturing confidence index (PMI). Inflation rates also seem to be quite sensitive to ruble exchange rate fluctuations due to a large share of imported goods in consumer basket. In spite of the serious outflow of capital from Russia in the first 10 months of 2011 (-$64 bln), high oil prices (Urals averaged at $109.5/bbl) secured positive balance of payments over the period. However, the domestic currency lost 9.1% against USD and 4.7% versus the CBR's dual-currency basket since the end of August despite CBR's interventions to counter depreciation (net sales of foreign currency totaled 14.2 bln in USD equivalent in September-November 2011), negating the modest appreciation in the first 8 months of the year. The low competitiveness of domestic manufacturing goods and limited import substitution might negatively affect price level dynamics in the future.

Furthermore, CBR continues to play in important role as a source of liquidity for the banking sector. Skewness of government expenditures towards the end of the year, combined with higher tax revenues throughout the year, drained a significant part of liquid assets from the banking system, with the shortage being financed by the CBR. However, greater supply of ruble liquidity prompted speculation in the forex market, forcing the CBR to sterilize its supply of liquid funds. Our index of Exchange Market Pressure (EMPR) suggests that apart from August (when CBR interventions hit an all-time minimum), the regulator's role in exchange rate determination remains high. The value of EMPR index of 100 points indicates the national currency's free floating while the value of 0 indicates a rigid peg to some benchmark.

Unless external factors change to favor ruble appreciation, the CBR's policy is unlikely to become a net source of liquidity for the Russian banking sector, limiting inflationary pressure. However, potential ruble weakening might negatively affect BoP, making imported goods relatively more expensive to purchase, which is likely to be captured by higher CPI.

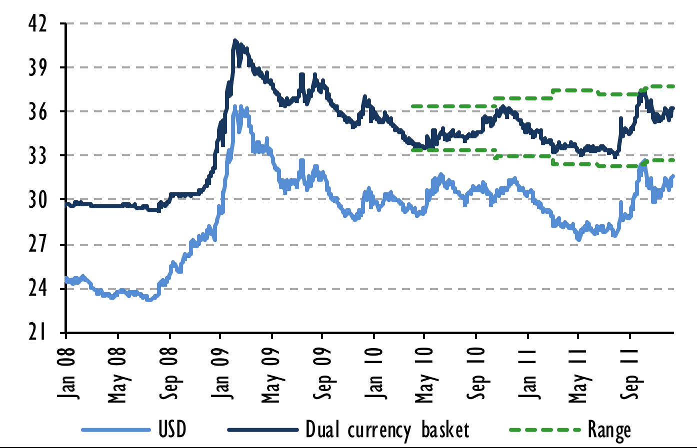
Unless external factors change to favor ruble appreciation, the CBR's policy is unlikely to become a net source of liquidity for the Russian banking sector, limiting inflationary pressure. However, potential ruble weakening might negatively affect BoP, making imported goods relatively more expensive to purchase, which is likely to be captured by higher CPI.

Ruble exchange rate freedom: EMPR index (100 = free float, 0 = peg)



Source: CBR, Bloomberg, Gazprombank calculations

Ruble dynamics against USD and CBR dual–currency basket



Source: CBR, Bloomberg

Next year's inflation is anticipated at 6.0% given sluggish economic growth throughout the next 12 months.

Finally, the last year's high base effect has contributed to the slowdown of inflation in 2011 (a factor that would probably be absent next year). This became the most evident during this summer, when overall prices stalled (due to seasonal factors) while non-zero prices growth rates in June-August 2010 pushed the base for YoY comparison higher, leading to deceleration of annual inflation to 7.3% by the end of September, and to 6.8% by the end of November. However, we expect prices growth rate to catch up a little in December (due to seasonal factors), contributing to CPI increase of 7.3% in 2011. Next year's inflation is anticipated at 6.0% given sluggish economic growth throughout the next 12 months.

Given our base-case oil price forecast, and anticipated import slowdown (due to sluggish economic growth) we expect Russia's trade balance to remain positive throughout 2012, which is likely to be sufficient to ensure a positive current account balance (ca. $31.3 bln). Although this is expected to provide some support to the ruble, financial account balance will remain the unknown (and highly volatile) factor affecting the exchange rate. Given that European leaders managed to reach an agreement on stricter fiscal rules and developed the framework for financial stability mechanisms, turbulence in international capital markets may subside in the coming months, but Russian ruble is unlikely to be the key beneficiary as investor sentiment is currently characterized by high degree of risk-aversion (see the section Global environment: "safety standards" reestablished for more detail).

We anticipate Russian ruble to modestly appreciate during the 1Q12: the lack of external factors favoring appreciation is expected to be compensated by the CBR's support prior to March 2012 presidential elections. Further dynamics is likely to be characterized by ruble weakening against the USD, while dual-currency basket may remain stable due to euro/dollar exchange rate decline.

We expect RUB/USD to average 30.9, while dual-currency basket will fluctuate within the 34.5–36.5 range with an average value close to 35.9 RUB.

We therefore anticipate Russian ruble to modestly appreciate during the 1Q12: the lack of external factors favoring appreciation is expected to be compensated by the CBR's support prior to March 2012 presidential elections. Further dynamics is likely to be characterized by ruble weakening against the USD, while dual-currency basket may remain stable due to euro/dollar exchange rate decline. We expect RUB/USD to average 30.9, while dual-currency basket will fluctuate within the 34.5–36.5 range with an average value close to 35.9 RUB.

Key macro parameters of the Russian economy

	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Key Macro parameters									
GDP, RUB bln	26,917.2	33,247.5	41,276.8	38,786.4	44,939.2	51,386.8	56,946	62,411	67,902
GDP per capita, $	6,938.8	9,142.1	11,683.1	8,610.9	10,420.4	12,435.1	12,987	14,349	15,489
GDP, % YoY	8.2%	8.5%	5.2%	-7.8%	4.0%	4.0%	3.5%	3.5%	3.7%
Urals, $/bbl, p. av.	61.2	69.5	95.1	61.3	78.3	109.0	104.0	104.4	106.5
CPI, % YoY	9.0%	11.9%	13.3%	8.8%	8.8%	7.3%	6.0%	5.3%	4.8%
Core CPI, % YoY	7.8%	11.0%	13.7%	8.5%	6.6%	6.2%	5.0%	3.9%	3.3%
PPI, % YoY	10.6%	25.2%	-7.0%	13.9%	16.6%	13.7%	8.7%	6.8%	5.1%
RUB/USD, p. av.	27.2	25.6	24.9	31.7	30.4	29.1	30.9	30.6	30.8
RUB/USD, eop	26.3	24.6	29.4	30.0	30.5	30.6	31.2	30.8	31.5
CBR bi-currency basket, p. av.	30.0	29.8	30.1	37.3	34.8	34.4	35.9	35.8	36.4
Average monthly wage, RUB	10,634	13,593	17,290	18,638	20,952	22,820	25,274	27,805	30,501
RDI, % YoY	14.1%	13.1%	3.8%	1.2%	4.2%	1.5%	4.5%	4.5%	4.7%
Retail trade, % YoY	14.1%	16.1%	13.5%	-4.9%	6.3%	5.3%	5.0%	5.0%	5.2%
Unemployment rate, %	7.2%	6.1%	6.4%	8.4%	7.5%	6.2%	6.0%	6.0%	6.0%
Industrial production, % YoY	6.3%	6.8%	0.6%	-9.3%	8.2%	4.8%	3.5%	3.5%	3.9%
Capital investment, % YoY	16.7%	22.7%	9.9%	-16.2%	6.0%	6.0%	6.5%	7.0%	7.0%
Government sector									
Budget revenues, % GDP	23.3%	23.4%	22.5%	18.9%	18.5%	21.6%	20.7%	20.4%	20.8%
Budget expenditures, % GDP	15.9%	18.0%	18.3%	24.9%	22.5%	21.5%	22.2%	22.0%	21.5%
Budget balance, % GDP	7.4%	5.4%	4.1%	-6.0%	-4.0%	0.2%	-1.5%	-1.6%	-0.7%
External sector									
Export, $ bln	303.6	354.4	471.6	303.4	400.1	526.5	536.7	551.1	558.3
Import, $ bln	164.3	223.5	291.9	191.8	248.4	340.7	412.4	479.7	476.7
Trade balance, $ bln	139.3	130.9	179.7	111.6	151.7	185.8	124.3	71.4	81.6
Current account, $ bln	94.7	77.8	103.5	48.6	70.3	92.9	31.3	-11.4	-21.6
Capital & financial account, $ bln	12.8	71.2	-142.5	-45.2	-33.5	-73.6	-39.4	0.0	5.0
Gold and FX reserves, $ bln	303.7	478.8	426.3	439.5	479.4	498.7	490.6	479.2	462.6

Source: Rosstat, CBR, Minfin, Gazprombank forecasts

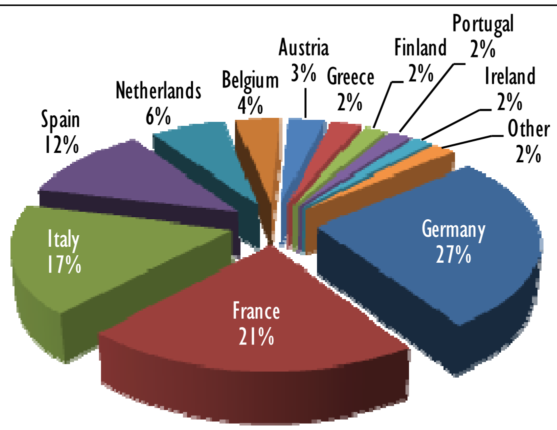
Eurozone snapshot

Country	GDP, % YoY 2010	2011E	2012E	Budget balance, % GDP 2010	2011E	2012E	Primary budget balance, % GDP 2010	2011E	2012E	Financing 2012, %	Government debt, % GDP 2010	2011E	2012E
Austria	2.1%	3.3%	1.6%	-4.6%	-3.5%	-3.2%	-2.5%	-1.3%	-0.9%	9.2%	7 .2%	72.3%	73.9%
Belgium	2.1%	2.4%	1.5%	-4.1%	-3.5%	-3.4%	-0.9%	-0.3%	0.0%	22.2%	96.7%	94.6%	94.3%
Netherlands	1.6%	1.6%	1.3%	-5.3%	-3.8%	-2.8%	-3.9%	-2.2%	-1.2%	16.0%	63.7%	65.5%	66.5%
Finland	3.6%	3.5%	2.2%	-2.8%	-1.0%	0.3%	-3.2%	-1.5%	-0.2%	8.3%	48.4%	50.2%	50.3%
France	1.4%	1.7%	1.4%	-7.1%	-5.9%	-4.6%	-4.9%	-3.4%	-2.1%	20.8%	82.4%	86.9%	89.4%
Germany	3.6%	2.7%	1.3%	-3.3%	-1.7%	-1.1%	-1.2%	0.4%	0.8%	10.5%	84.0%	82.6%	81.9%
Ireland	-0.4%	0.4%	1.5%	-32.0%	-10.3%	-8.6%	-28.9%	-6.8%	-4.4%	13.9%	94.9%	109.3%	115.4%
Italy	1.3%	0.6%	0.3%	-4.5%	-4.0%	-2.4%	-0.3%	0.5%	2.6%	23.5%	119.0%	121.1%	121.4%
Luxembourg	3.5%	3.6%	2.7%	-1.7%	-0.7%	-1.2%	-1.9%	-1.7%	-2.2%	1.9%	18.4%	19.7%	21.5%
Portugal	1.3%	-2.2%	-1.8%	-9.1%	-5.9%	-4.5%	-6.3%	-1.9%	0.1%	22.3%	92.9%	106.0%	111.8%
Spain	-0.1%	0.8%	1.1%	-9.2%	-6.1%	-5.2%	-7.8%	-4.4%	-3.1%	20.6%	60.1%	67.4%	70.2%
Greece	-4.4%	-5.0%	-2.0%	-10.4%	-8.0%	-6.9%	-4.9%	-1.3%	0.8%	16.5%	142.8%	165.6%	189.1%
Slovenia	1.2%	1.9%	2.0%	-5.3%	-6.2%	-4.7%	-4.1%	-4.8%	-3.2%	8.2%	37.3%	43.6%	47.2%
Cyprus	1.0%	0.0%	1.0%	-5.3%	-6.6%	-4.5%	N/A	N/A	N/A	26.2%	60.8%	64.0%	66.4%
Malta	3.1%	2.4%	2.2%	-3.8%	-2.9%	-2.9%	N/A	N/A	N/A	13.4%	67.1%	66.3%	66.1%
Slovakia	4.0%	3.3%	3.3%	-7.9%	-4.9%	-3.8%	-6.8%	-3.3%	-1.9%	14.2%	41.8%	44.9%	46.9%
Estonia	3.1%	6.5%	4.0%	0.2%	-0.1%	-2.3%	0.4%	0.2%	-2.0%	2.3%	6.6%	6.0%	5.6%
Eurozone	**1.8%**	**1.6%**	**1.1%**	**-6.1%**	**-4.2%**	**-3.2%**	**-3.6%**	**-1.5%**	**-0.3%**	**14.8%**	**85.8%**	**89.0%**	**90.0%**

* Financing needs = bond notional redemptions + budget deficit for 2012

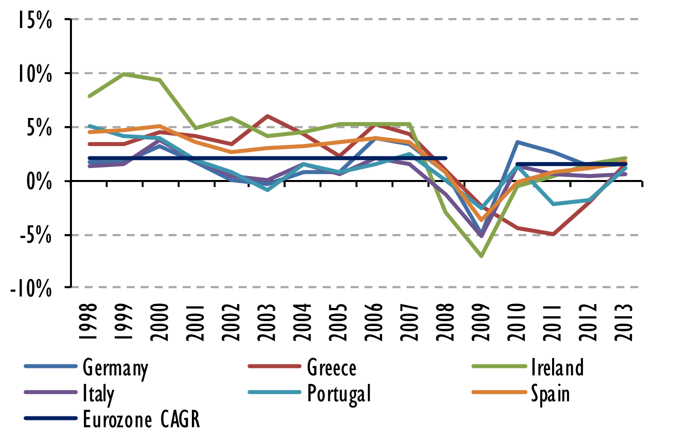
Source: IMF, Bloomberg, Gazprombank estimates

Eurozone GDP structure



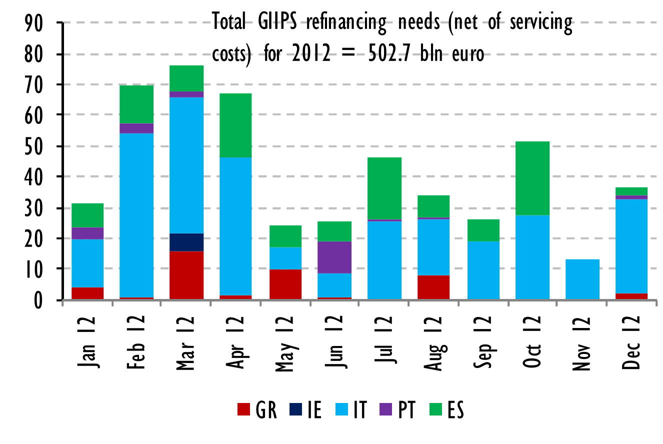
Source: Bloomberg

Largest Eurozone economies' growth rates



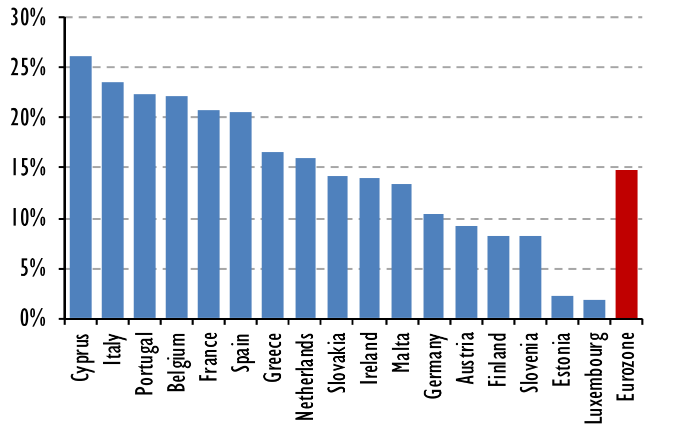
Source: IMF, Gazprombank calculations

Debt redemption schedule 2012, bln euro



Source: IMF, Gazprombank estimates

Financing needs of European countries, 2012, % GDP



Source: Bloomberg

Oil price to stay high in 2012, Brent to average at $106

We anticipate Russian oil and gas sector to outperform the market. We base this view on expectations of high oil prices, underperformance of oil producers' shares versus the oil price in 2011, as well as the tax flexibility of the sector and its ruble-denominated expenses.

We recap that both exports duty and MET for crude oil are hard-linked to the price of oil, which allows oil companies to sustain profitability even during periods of oil price decrease. We argue that scheme "60-66" benefits Russian oils, stimulating crude oil output at brownfields. Tax pressure has partially shifted from oils to gas producers, and from upstream to downstream.

The lion's share of oil producers' revenues is denominated in US dollars, while the majority of operating expenses and capital expenditures is ruble-denominated. Should the oil price substantially drop from the current levels (such a scenario seems unlikely to us in the near future), a correlated depreciation of the Russian ruble would lead to a substantial reduction of capex and operating costs, counterbalancing the reduction in revenues, which would make Russian oils a defensive play as compared to the rest of the market.

We note that in 2011 Russian oil and gas sector substantially underperformed the oil price dynamics due to the increased risk aversion and concerns related to the impact of the European debt crisis on emerging markets. Despite the outperformance of MICEX Oil and gas index over MICEX index in 2011 (- 2.7% vs. -18.3%), Russian oil and gas index significantly underperformed the oil price. MICEX Oil and gas declined by 2.7% alongside with a 15.2% increase in Brent price and a 18.1% increase in Urals price.

As we expect oil price to remain high in 2012, we think that the sector underperformance versus the oil price in 2011 will allow Russian oil and gas sector to catch up and outperform the Russian market again in 2012.

Tax reform to continue. WTO accession may eliminate prohibitive export duties for gasoline and fuel oil after 2015. We expect the tax reform to continue in 2012 with implementation of excess profit tax for greenfield projects as the next possible step. Although we do not expect this to affect financials of Russian oil companies in 2012, it could still prove an additional driver. We also point out the Russian government's initiative to introduce prohibitive export duties for fuel oil after 2015 at 90% of the crude oil export duty; such duties are already in place for automobile gasoline. We argue that after Russia joins WTO, such prohibitive export duties may be substituted by a uniform duty for all oil products, as elevated rates for some of them are currently creating barriers on free oil product exports from Russia.

Our top picks are Transneft prefs, NOVATEK, Eurasia Drilling, preferred shares of Tatneft, Bashneft, and Surgutneftegaz. We favor Transneft prefs as a rare combination of value and turnaround stories. We expect NOVATEK to outperform on intensive growth and new strategy realization. We like Eurasia Drilling Co. as it is one of the main beneficiaries of the 60-66 taxation scheme through increase of Russian onshore drilling market, at which EDC would holds about 32% in 2012. We favor Tatneft preferred shares on expectations of high dividends as a result of strong expected financial performance.

High oil prices to support the market

- Oil price: to stay high in 2012, Brent to average at $106;
- Gas price: to stabilize in 2012, oil-indexed contracts to remain in place;
- Russian oil sector is a defensive play due to the tax flexibility, and FX adjustments;
- Tax reform to continue, WTO accession may eliminate prohibitive export

duties for gasoline and fuel oil after 2015.

The key factors for the oil market for 2012 in our view would be the following:

- Global economic situation and the situation on financial markets
- The scale of economic stimulus provided by monetary authorities of the leading countries, specially FED and European Central bank
- The level of political and social stability in the EMEA region.
- The actions of OPEC

The pace of global economic growth and growth of oil demand specially in Asia-Pacific countries

High oil prices to stay. We expect oil prices to remain high in 2012, driven by the continued demand growth and limited availability of additional supplies. Our forecast of the average Brent price in 2012 is $106/bbl, 5% below the average 2011 YTD price. We note that the financial market volatility may have a significant effect on oil prices.

The oil market showed remarkable strength in 2011 despite higher volatility of financial markets and intensification of the European debt crisis.

Oil as a financial asset. Being the vital commodity for the world economy, oil at the same time remains one of the most liquid financial assets, and its price is highly sensitive to major trends on the global financial market. Futures contracts for crude oil and other commodities are widely held in portfolios of institutional investors, and daily trading volumes in these instruments exceed the annual global crude oil output more than 10 times. A sharp deterioration in the situation on the global financial markets, which we consider among other risk factors, would lead to selloffs across all markets around the globe and is likely to result in a significant reduction of long positions in oil futures and exert significant pressure on the oil price.

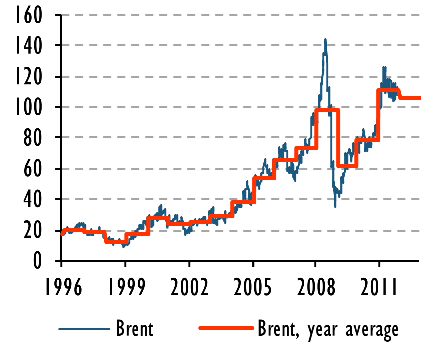
Demand may grow by 1.4 mbpd in 2012. We expect the global oil demand in 2012 to rise by 1.4 mbpd to 89.7 mbpd as compared to 1.5 mbpd increase in 2011. The key demand driver would be increase in consumption of developing countries, especially China.

Long-term demand trends are a challenge. Long-term demand trends represent a very serious challenge to the energy industry to keep supplying necessary volumes of energy to meet global energy demand. Increase of population and growth of energy intensity, especially in developing countries lead to steady increase in global oil demand that is set to rise by more than 20% by 2030. Crude oil production capacity is limited, incremental demand has to look at the available alternatives, largely increasing the role of gas in the energy balance as the closest substitute of oil.

Upstream costs are rising, brownfield production declines by 6% a year. Prices have to be high enough to provide an incentive for the incremental barrel to be produced and supplied, meanwhile production from brownfields declines by 6%/year. Non-OPEC production is declining and the production capacity is limited. At the same time OPEC is not in a hurry to boost production capacity. Increasingly expensive projects are required to balance the market and supply curve is still steep at the upper end. In addition to this, upstream costs are rising throughout the industry due to higher prices of steel, cement, contractor services and staff costs, shifting supply curve higher.

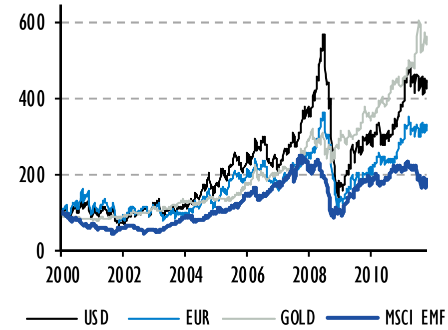
The impact of extraordinary factors, Middle East and Japan. The tragic events of the 1st half of 2011 - the earthquake in Japan, political instability and overall destabilization of the situation in the Middle East, the large-scale military operation in Libiya had long-term consequences for oil market as well as for other energy markets.

Oil price history and outlook for 2012, $/bbl



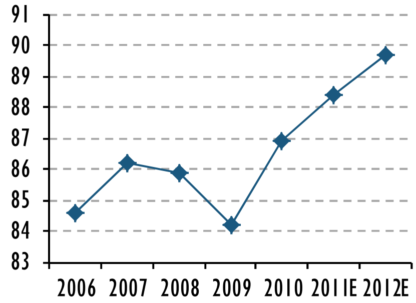
Source: Bloomberg, Gazprombank estimates

Oil price vs. MSCI EMF indes (Jan.2000=100)



Source: Bloomberg, Gazprombank estimates

Crude oil demand 2008-201, mmbbl/d (to update)



Source: IEA, BP, OPEC, Gazprombank estimates

The key risks

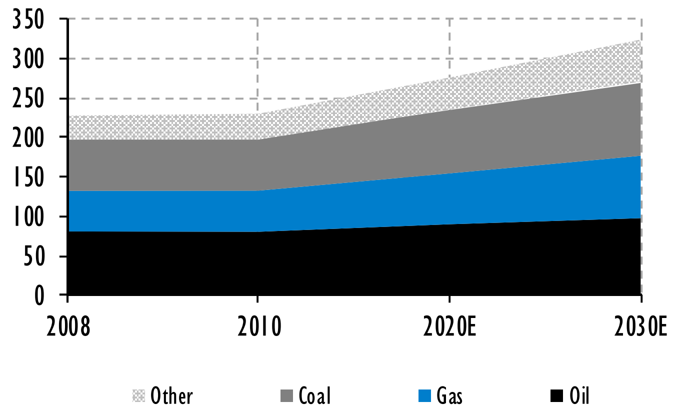
Downside:

- Significant deterioration of the situation on the global financial markets;
- Significant deterioration of the European debt crisis, intensification of speculations around the financial situation in at least one of the large European countries, risk of the reduction of the size of the Eurozone;
- Significant deceleration of economic growth in China, concerns on the reduction of Chinese demand on oil and other commodities;
- Faster-than-expected increase of production in Libiya and Iraq.

Upside:

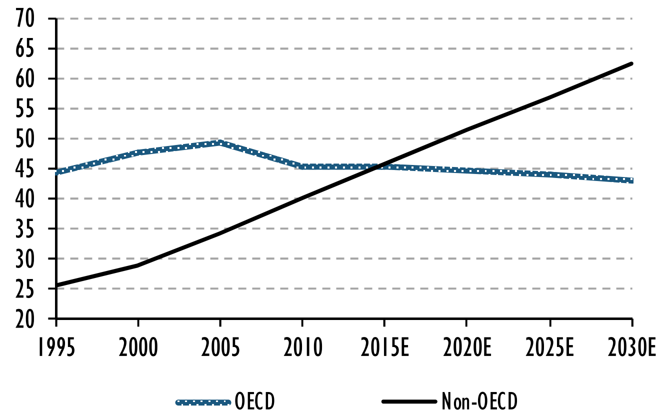
- Concerns over security of supply, specially from the Middle East countries;
- Continuation of demand growth in developing countries, brighter economic outlook;
- Acceleration of the rates of inflation in leading developed countries.

World primary energy supply to 2030



Source: IEA, BP, Gazprombank estimates

Global oil consumption OECD and non-OECD, mmbpd



Source: IEA, BP, Gazprombank estimates

External estimates

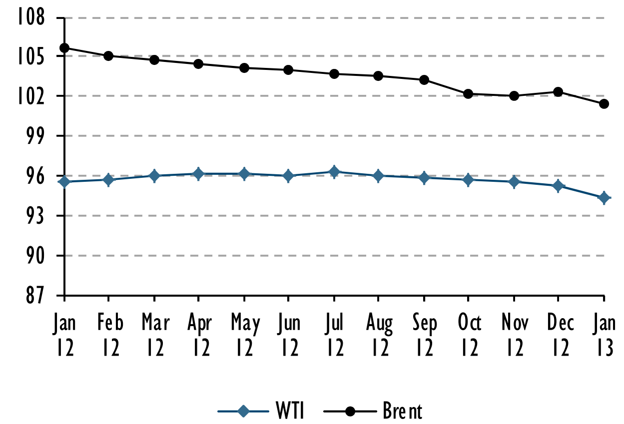
New Brent price forecast, $/bbl

	2011	2012E	2013E	2014E	Mid-cycle
New forecast	112	106	108	110	110
Bloomberg consensus	112	109	115	117	n a
Futures prices	**112**	**108**	**103**	**99**	**n/a**

Source: Bloomberg, Gazprombank forecasts and estimates

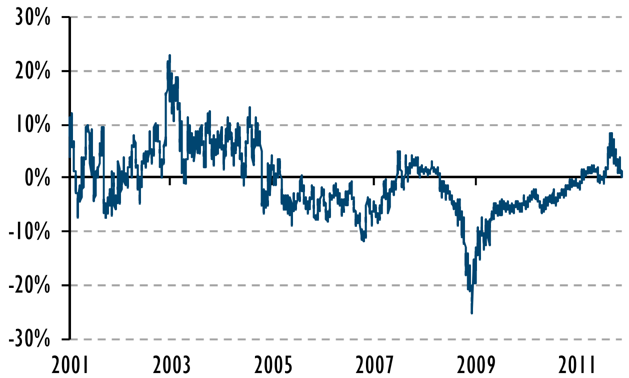
Futures prices. Current futures prices imply gradual decline of Brent oil price to $100/bbl. Futures for WTI also heading towards 90$/bbl by 2015.

Brent and WTI futures curves, $/bbl



Source: Bloomberg

Current Brent price premium/discount to 6M futures price, %



Source: Bloomberg

Consensus forecast. We are quite close this time to the consensus estimates of the oil price.

	2011	2012E	2013E	2014E	Mid-cycle
Gazprombank forecast	112	106	108	110	110
Consensus	112	109	115	117	n/a

Budgets of key oil producing countries. The average oil price, assumed in the budgets of the key oil producing countries is $81/bbl.

The majority of key oil producers, including key OPEC countries, are interested in keeping high oil prices. The Budget of Saudi Arabia assumes $85/bbl, Kuwait $90/bbl. We expect that OPEC would provide support for the oil prices in case of a serious price correction.

Oil price assumptions in budgets of the key oil producing countries, $/bbl

Country	Oil price assumption
Angola	77
Azerbaidjan	80
Ecuador	80
Iran	95
Iraq	85
Kuwait	90
Mexico	85
Nigeria	70
Norway	97
Russia	100
Oman	75
Saudi Arabia	85
Venezuela	50
Average	**80.7**

Source: Factiva

Gas prices to stabilize in 2012, oil-linked contracts to remain in place

Key industry trends for 2012

- Struggle against production decline on the brownfields, increase in upstream capex, specially by largest players.
- Shift to new regions: Eastern Siberia, Far East, continental shelf, international projects.
- Acceleration of investments in downstream.
- Discussion of taxation regime and preparation for a tax reform.
- New agreements with Ukraine and Belarus in gas field.
- Launch of Yamal gas fields in summer 2012, start of Yamal gas exports to Europe.

Oil-indexed prices are set to stabilize

We expect oil-indexed prices in long-term gas export contracts, applied to a majority of gas traded volumes in Europe to marginally reduce from the from the peak levels of winter 2011-2012 and stabilize in 2012.

We expect Gazprom gas export prices in Europe to average at $460-490/mcm. The negotiations with European customers on the revision of gas prices will continue, but would bring only limited price concessions in 2012, in our view.

LNG prices in Asia-Pacific region will still be trading at $100-150/mcm premium to oil indexed prices in Europe.

The average export price to the CIS countries will depend on the prices to Ukraine and Belarus, which we expect to be set on an individual basis until late 2012.

Spot prices: still at discounts to oil-indexed prices in Europe

We expect spot prices in Europe to remain at $320-400 / '000 cm throughout the winter with the subsequent decline to $290-370 / '000 cm in summer season. In winter seasons we expect significant narrowing of the spread with oil-indexed prices especially in case of cold winter. Futures for gas at leading European spot market - NBP stay at $321 / '000 cm for deliveries in January 2012, $314 / '000 cm in June 2012 and $374 / '000 cm in December 2012.

Russian oil and gas taxation in 2012 – what's new?

After the oil price, changes in taxation are the major driver for Russian oil and gas shares movements. Starting 1 October 2011, the new oil and oil products export taxation scheme was implemented, so called "60-66 scheme". Also, starting 1 January 2012 an indexation of the mineral extraction tax (MET) rates will be applied, both for oil and gas. Excises for oil products would be increased, as well.

In general, we estimate new tax rules would benefit industry, we estimate majority of oil majors would get additional 1-3% of 2012 projected EBITDA. Tatneft may become the main winner as a result of decrease in export duty for crude oil and specific company MET breaks. Gazprom would lose the most as a result of sharp increase in gas MET.

Adjustment of the crude oil export duty formula

This is the major change in taxation for the oil companies in monetary terms, which would bring Russian oil companies more than $ 5 bln in 2012, in our estimates. The base rate of oil MET was calculated as $29.2 per ton plus 65% from the surplus of Urals price under $29.2/bbl. Starting 1 October 2011 the base ratio of the crude oil export duty formula was decreased from 65% to 60%. As a result, we estimate, that average crude oil export for 2012 would decrease by $5 per bbl, or by 9%, compared to the old tax regime.

Crude oil export duty forecast, Gazprombank base case oil price forecast

	2010	2011	2012E	2013E	2014E
GPB Urals price forecast, $/bbl	78.3	109	104.4	104.4	106.5
Crude oil export duty, $/tonne	274	416	377	377	387
Crude oil export duty, $/bbl	37	57	52	52	53
Change		52%	-9%	0%	2%

Source: Gazprombank estimates.

MET changes

Changes in MET were expected since the end of 2010. Starting from 1 January 2012 the base rate in oil MET formula will be increased from current RUB 419 to RUB 446, or by 6.4% YoY, and further to RUB 470, or by 5.4% YoY starting 1 January 2013. That would effectively increase our projected 2012 crude oil MET rate from RUB 4,409 per ton ($20 per bbl) to RUB 4,693 per ton ($21 per bbl).

Crude oil MET forecast (GPB base case oil price forecast)

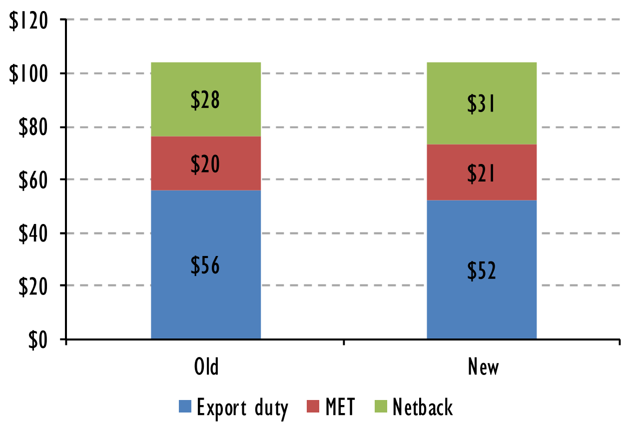
	2010	2011	2012E	2013E	2014E
MET, RUB/tonne	3,074	4,302	4,693	4,916	4,779
MET, $/tonne	101	149	156	164	168
MET, $/bbl	14	20	21	22	23
Change	–	48%	4%	5%	2%

Source: Gazprombank estimates

Crude oil export netback to increase by 10% to $31 per bbl

As a result of taxation changes, we estimate in 2012 Russian oil companies crude oil export netback (before transportation expenses and lifting costs) may increase by 10%, from 28$ per bbl to 31$ per bbl, compared to the old taxation scheme.

Crude oil export netback, old scheme vs. new, at Urals price of $104/bbl



Source: Gazprombank estimates

Oil products taxation changes

The main changes in oil products taxation consisted in export duties changes from 1 October 2011, being a part of 60-66 scheme. As a result, export duty for all oil products were set equal to 66% of the crude oil export duty, with the exemption of automobile gasoline, taxed at 90% of the crude oil duty.

Oil products export duty forecast, GPB base case oil price forecast used, $ per tonne

	2010	2011	2012E	2013E	2014E
Export duty, light products	197	295	249	249	255
% of crude export duty	*71%*	*71%*	*66%*	*66%*	*66%*
Change, % YoY	–	*50%*	*-16%*	*0%*	*2%*
Export duty, dark products	106	158	249	249	255
% of crude export duty	*38%*	*38%*	*66%*	*66%*	*66%*
Change, % YoY	–	*49%*	*58%*	*0%*	*2%*

Source: Gazprombank estimates

The key effects of the implementation of the "60-66" scheme.

- Increase in crude export margins. The higher the crude export volume and its share in total sales, the better. Benefits of lower crude export duties for crude oil counterbalance the losses from higher duties on refined products and part of the refining capex.
- Stimulus to upgrade refineries. Dark products will be no longer profitable. The more refining capacity a company has with the below industry average light product yield in Russia, the bigger the amount of potential losses. Changes in taxation provide strong motivation for Russian oils to upgrade refineries and increase share of light products in total product mix.
- Increase in export netback, higher costs of purchases in Russia for Bashneft, Alliance. The higher the share of oil purchases on domestic market – the worse. Due to lower duties on crude, the implementation of "60-66 scheme" leads to growth of crude oil export netback, which is the benchmark for oil prices at Russian domestic market. This development is a negative for companies, which have to buy crude in Russia for own refineries: Bashneft and Alliance oil.

Russian State Duma on 18 November 2011 has approved the compensation of losses from oil products export duties increase to Bashneft and Tatneft through specific MET breaks. Bashneft was awarded RUB 10 bln tax breaks for 5 years. Tatneft tax breaks was approved at RUB 38 bln for 5 years, accounting for about 6% of estimated EBITDA for 2012-2016. That compensates partially losses for Bashneft. The net effect of tax breaks for Tatneft may be close to zero as, according to the company, Tatneft will not be the final beneficiary of the lower duties.

Excises on oil products are set to increase in 2012, as well. That is not novation, excises increase was approved yet in 2010 for 2011, 2012 and 2013. The level of 2012 excises increase would average about 33% YoY, while 2011 the growth of excise rates was at least 40%, excise tax on diesel effectively doubled.

In 2012, excises would increase in two steps, starting January 1 and July 1. Partially, this excise increase would be transferred to the end-users, but we still note excises would further depress downstream margins. The increase in excise tax is differentiated by the quality of products, with higher rates for lower-quality products and lower growth rates for higher-quality products.

Excise taxes for oil products, RUB/tonne

	Hi-octane gasoline					Diesel fuel			
	Not classified	Class 3	Class 4	Class 5	Naphtha	Not classified	Class 3	Class 4	Class 5
2011	5,995	5,672	5,143	5,143	6,089	2,753	2,485	2,247	2,247
1H 2012	7,725	7,382	6,822	6,822	7,824	4,098	3,814	3,562	3,562
2H 2012	8,225	7,882	6,822	5,143	7,824	4,300	4,300	3,562	2,962
2013	10,100	9,750	8,560	5,143	9,617	5,860	5,860	4,934	4,334
2014	11,110	10,725	9,416	5,657	10,579	6,446	6,446	5,427	4,767

Source: State Duma

Gas MET changes – separate for Gazprom and others

In 2012 for the first time since MET introduction MET for gas would be differentiated for Gazprom-controlled production entities and other gas producers. The rationale behind that decision was that Gazprom has the gas export monopoly right and thus has higher average gas netbacks, which were additionally taxed. As a result, in 2012 gas MET for Gazprom would more than double to RUB 556 per mcm, a 135% YoY increase from 2011 (RUB 237 per mcm) vs. independent producers' 6% YoY increase to RUB 251 per mcm.

Gas MET forecast, RUB / '000 cm

	2010	2011	2012E	2013E	2014E
Gazprom	147	237	556	590	674
Change, %	–	61%	135%	6%	14%
Other gas producers	147	237	251	265	278
Change, %	–	61%	6%	6%	5%

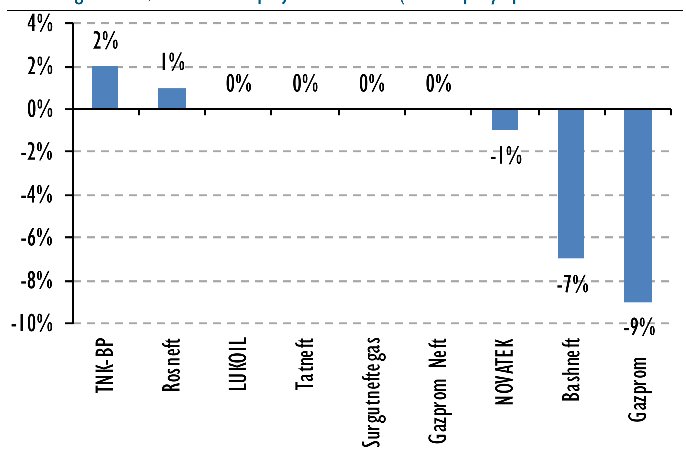
Source: State Duma, Gazprombank estimates

Effect to companies – TNK-BP and Rosneft are the winners, Gazprom and Bashneft - the losers

In general, the new scheme would benefit oil companies. Although oil companies would likely pay additional $3 bln of oil products duties and $0.5 bln of additional MET, they would save $5 bln in crude oil export duties. We estimate, the major part of excise tax increase would be transferred to end-customers through retail prices.

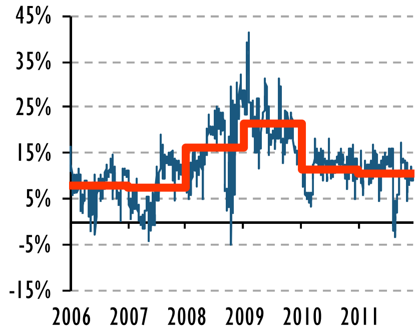
At the same time gas producers, especially Gazprom, are the net losers in 2012. As a result of changes in oil and gas taxation the tax pressure has partially moved from oil producers to Gazprom. NOVATEK would lose just 1% of EBITDA, as a result of 6% YoY increase of gas MET, mainly. We estimate all Russian oil majors do not lose much of the new oil taxation system with the exception of Bashneft. Gazprom may be the main loser, with the largest possible lost 9% of EBITDA in 2012, which is already priced in, we believe. Among oil companies, Bashneft loses the most - 5% of 2012 projected EBITDA, even though it receives company-specific MET breaks. Tatneft, as a crude exporter with low exports of oil products will benefit from scheme "60-66". Company-specific MET breaks may have no effect on Tatneft, as it would not be the final beneficiary of these breaks.

Tax changes effect, % of 2012 projected EBITDA (no company-specific breaks accounted)



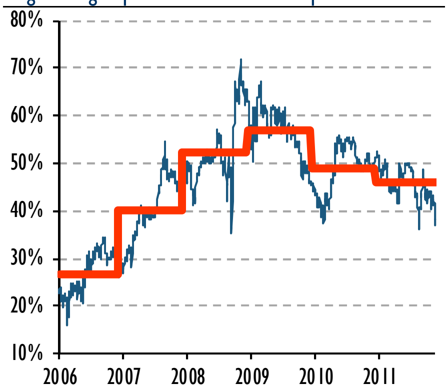
Source: Gazprombank estimates

TNK-BP Holding preferred shares spread to commons



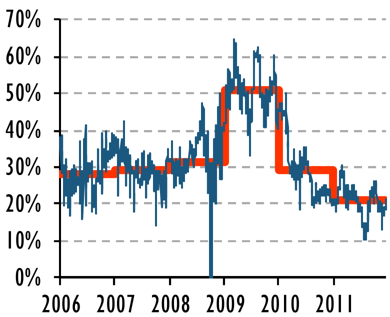
Source: Bloomberg, Gazprombank estimates

Surgutneftegaz preferred to commons spread



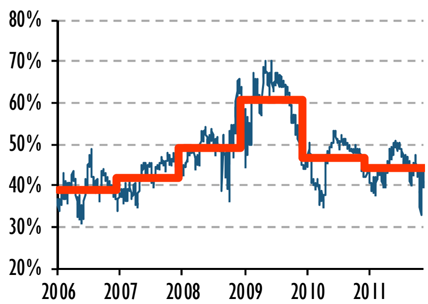
Source: Bloomberg, Gazprombank estimates

Bashneft preferred to commons spread



Source: Bloomberg, Gazprombank estimates

Tatneft preferred shares spread to commons



Source: Bloomberg, Gazprombank estimates

Top picks

Transneft prefs. Transneft prefs are a rare combination of value and turnaround stories, in our view. The key factors of Transneft's investment case are undervaluation, privatization of part of the government's stake, reconsideration of the dividend practices, and transition to RAB regulation. Preparation to the potential privatization is the most important driver of positive changes in the company. No less importantly, the management has seemingly understood the importance of higher company's valuations. Transneft has been included into the preliminary version of the privatization program, (4.0% of common shares), and we do not rule out a further extension of the privatizing stake up to further 21% of the company's common stock. The final decision on the privatization and its timing has not been made yet, but positive changes in the company are already obvious. The company initiated activities in investor-relations field, hired an IR-agency, initiated regular meetings with analysts, commenced disclosing MD&A reports, published the analyst's databook. Transneft's level of information disclosure and interaction with financial markets moves towards the level of other government-controlled companies. The market has not yet fully acknowledged this progress, that in our view creates a buying opportunity in a largely undervalued Transneft preferred shares. We have OVERWEIGHT recommendation for Transneft prefs, our TP for prefs is $2,388.

Preferred shares of Russian oils – Surgutneftegaz, Tatneft, Bashneft. We assign the OVERWEIGHT recommendation to preferred shares of these companies. This strategy can be enhanced by UNDERWEIGHTING common shares of the first 2 companies and OVERWEIGHTING preferred shares. From 4Q, over the last two years, there has been narrowing of the spread between common and preferred shares of these companies lasting until May next year (the record date). For Bashneft and, especially, TNK-BP having an owerweight on preferred shares looks more attractive vs. spread strategy due to much lower discounts of preferred shares of 20% and 7% correspondingly. For Bashneft we recommend profit-taking before the record dates, expected in May 2012. Key growth drivers: high dividend yield expectations, favorable seasonal factors, high discounts to common shares of Surgutneftegaz and Tatneft prefs.

NOVATEK: the new life starts in 2012

In 2011, NOVATEK was the leader of Russian oil and gas industry in terms of production growth – in 10 months 2011 NOVATEK gas production was up 46% YoY, liquids production – 15% YoY, an outstanding performance for a company of such scale.

In 2012 we expect NOVATEK would show production growth of about 8% YoY, making a break in a sharp extensive growth. We expect slowdown in the production growth rate is temporarily, and NOVATEK would resume a double-digit production growth in 2013.

At the same time we still expect company to remain one of the top performers in Russian oil and gas industry on the back of the high expected organic growth and intensive development of the company, as well as expected clarity with its major future project - Yamal-LNG.

We expect NOVATEK would increase its share of end-customer gas sales in its gas sales structure to at least 75% from 57% in 3Q 11 as a result of acquisition of Chelyabinsk regional gas trader. That would increase EBITDA margin by 2 ppt and provide more assurance for NOVATEK ability to sell all of its gas produced.

We also recap NOVATEK revenue structure provides protection against most of the macro risks, which could be important in 2012. While called a gas producer, NOVATEK generates over 30% of its revenues not from gas, but from sales of hydrocarbon liquids, mainly gas condensate and LPG. This keeps the company partially hedged against the risks associated with slower future gas price growth. At the same time, through regulated gas prices in Russia, NOVATEK is partially protected from the possible oil price decrease. Thanks to well-structured revenues and expenses, NOVATEK's valuation, in our view, is less sensitive to changes in macroeconomic factors than that of the majority of other Russian oil and gas companies.

We reiterate our TP of $170.7 per share, our recommendation is OVERWEIGHT.

Eurasia Drilling Co. to increase drilling, consolidate Slavneft assets

As a result of 60-66 scheme implementation, we expect a substantial increase in oil companies' capex at brownfields. This "maintenance capex", as we call it, may rise on the back of an increase in drilling volumes and quality, sidetracking, fracturing and technological services primarily. In 2011, oil companies are estimated to spend $24.5 bln, up 12% YoY. We expect EDC to become the main beneficiary of this increase, as drilling activities are more of the "maintenance" nature. We estimate the "development capex" to increase by just 8% YoY in 2011.

Acquisitions performed in 2010-2011 would entail impressive growth in 2H11-2012. In May 2011, EDC started consolidation of Schlumberger drilling assets, resulting in a 23% YoY and a 38% MoM increase in drilling volumes. We expect Slavneft's assets acquisition to be closed by the end of 2011, maybe as soon as in 1Q12. We expect this to ignite growth in both operational and financial results of EDC in 2012. Each quarter's financial report may prove an additional driver for EDC shares.

EDC financial calendar

Report	Date
2011 US GAAP	mid-April 2012
1Q12 operational update	mid-May 2012
1H 2012 US GAAP	mid-August 2012
9M12 operational update	end-October 2012

Source: company, Gazprombank estimates

We estimate that EDC would be able to generate about $0.5 bln of free cash flow annually starting in 2013, even assuming the annual capex of $300 mln. We argue that this money would be utilized, translating into reasonable dividend payments, or, more probably, further expanding both in Russia and abroad. EDC may embark on consolidation of the drilling market in Russia as 26% of this market is still comprised by in-house or small regional players, leaving enough room for further expansion of EDC. We estimate that in 2012 EDC may generate about $0.3 bln of free cash flow.

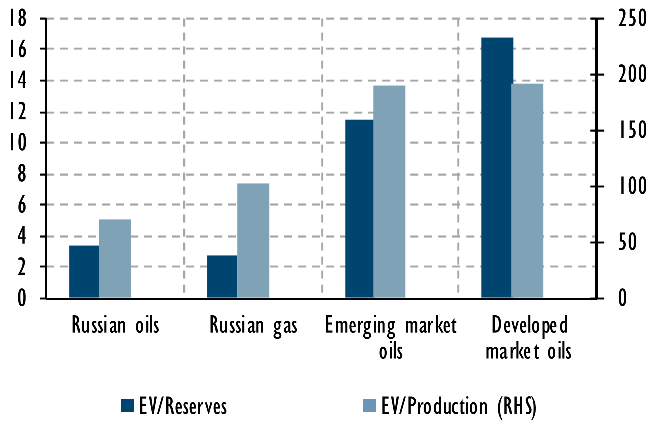
We reiterate our TP of $42.6 per share, our recommendation is OVERWEIGHT.

Growth matrix: outlook for 2012

	Value story	Growth story	Dividend story	Liquidity	IPO or other form of exit opportunity	Score
Bashneft	+	✓✓	✓✓✓		✓✓	7.5
Bashneft pref.	✓	✓✓	✓✓✓		✓✓	8.0
Eurasia Drilling Co.	✓✓	✓✓✓	✓	✓	✓	8.0
Gazprom	✓✓		✓+	✓✓✓		6.5
Gazprom neft	✓	✓✓	+	✓	✓?	5.5
Lukoil	✓✓		✓+	✓✓✓	✓	7.5
NOVATEK		✓✓✓+		✓✓	✓✓	7.5
Rosneft	+	✓		✓✓+	✓✓+	6.5
Surgutneftegaz pref.	✓✓✓		✓✓✓	✓✓		8.0
Tatneft	✓		✓	✓✓		4.0
Tafneft pref.	✓✓✓+		✓✓✓+			7.0
TNK-BP Holding	+	✓	✓✓✓	+	✓✓	7.0
TNK-BP Holding pref.	+	✓	✓✓✓	+	✓✓	7.0
Transneft prefs	✓✓✓+		+?	✓+	✓✓?	7.5

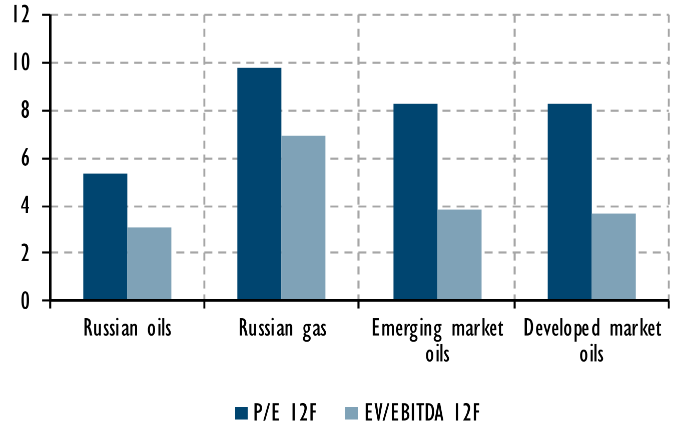
Source: Gazprombank estimates

Russian oils vs. peers on key operating multiples



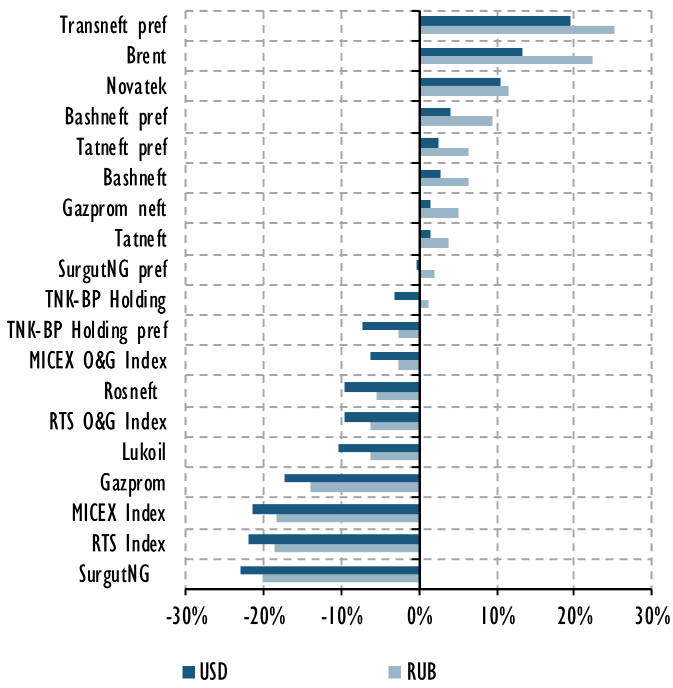
Source: Bloomberg, Gazprombank estimates

Russian oils vs. peers on key financial multiples



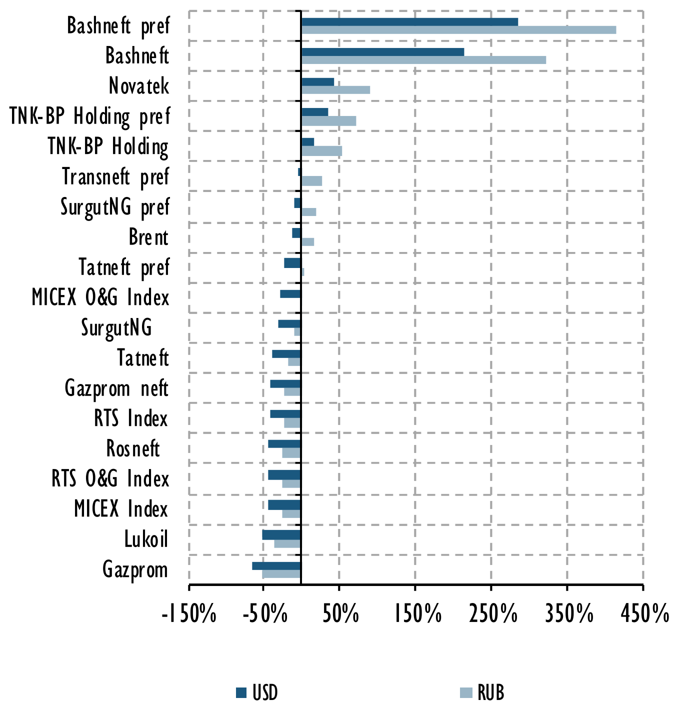
Source: Bloomberg, Gazprombank estimates

Russian oil and gas performance 2011 YTD (RUB, USD)



Source: Bloomberg

Russian oil and gas performance since pre-crisis highs (May 2008) (RUB, USD)



Source: Bloomberg

Russian oil and gas valuation and performance (6M, YTD)

Company	Share price, $	MCAP, $ mln	P/E 2012E	EV/EBITDA 2012E	EV/Reserves	EV/Production 2012E	Change 6M	Change YTD
Gazprom	5.4	126,611	2.9	2.5	1.4	48	-19%	-13%
Rosneft	6.5	69,267	6.5	4.6	3.9	95	-17%	-5%
Lukoil	51.6	43,862	4.1	2.9	3.0	63	-8%	-6%
TNK-BP Holding	2.6	40,072	5.1	3.4	4.0	70	-19%	-4%
TNK-BP Holding prefs	2.4	1,080	4.7	3.1	3.7	64	-11%	-2%
SurgutNG	0.8	32,768	6.9	2.0	2.0	32	-6%	-21%
SurgutNG prefs	0.5	3,927	4.3	1.3	1.3	20	10%	3%
NOVATEK	12.2	36,957	16.7	11.3	4.9	122	7%	15%
Gazprom neft	4.3	20,249	4.9	3.1	3.2	65	6%	5%
Tatneft	4.8	10,974	4.3	2.9	2.0	64	-9%	5%
Tatneft prefs	2.9	424	2.6	1.7	1.2	38	3%	7%
Bashneft	45.2	8,930	5.5	2.9	5.3	94	-6%	6%
Bashneft prefs	36.0	1,246	4.4	2.3	4.2	75	-8%	8%
Transneft prefs	1478.9	10,546	1.6	1.8	n/a	n/a	6%	25%
Russian oils average	n/a	n/a	5.3	3.1	3.4	69	n/a	n/a
EM average	n/a	n/a	8.3	3.9	11.5	191	n/a	n/a
Premium to Russia	n/a	n/a	55.7%	24.7%	245%	176%	n/a	n/a
DM average	n/a	n/a	8.3	3.7	16.8	191	n/a	n/a
Premium to Russia	n/a	n/a	55.9%	18.7%	401%	177%	n/a	n/a

Source: Bloomberg, Gazprombank estimates

Year 2012: is it a bottom or we will hear a knock from underneath?

Investment summary

- Sberbank and Nomos Bank are our recommendations for 2012. We choose Sberbank and Nomos Bank as our top picks with respective 12M target prices of RUB 120 per share and $18.4 per GDR, which imply 46% and 88% upside potentials, as well as OVERWEIGHT recommendations for both stories. Sberbank represents the safest and the most liquid play in the Russian financial sector with impressive room for NIM and ROE growth, sustainable and very cheap funding, as well as relatively low-risk business profile. Nomos Bank represents a dynamic market-oriented story with London listing, competitive NIM and ROE, assets quality higher than the market-average, and balanced ownership structure.
- External market environment leaves much to be desired, but record-low prices seem to be already pricing in many negative factors. There has recently been much turmoil around the sovereign debt problems in developed countries (European, above all). The issue threatens to paralyze economic recovery in both Europe and US, which keeps the market background rather gloomy, particularly for the banking industry. On the flip side of the coin, we note that the current valuations are the lowest since 2008, when markets faced a severe liquidity squeeze (not the case at the moment). The remaining abundant liquidity and regulators` readiness to pump in more money should prevent the banking system from disaster and provide good buying opportunity, we believe.
- Internal challenges seem to be handled well. The Russian banking system looks fairly balanced at the moment as it is likely to benefit from the good start of the year and sustain the positive momentum until the year end. More challenges are looming in 2012, as growth will likely slow down, and questions about asset quality will likely resurface. Net interest margins will be under pressure as funding rates are likely to grow faster than allocation rates in 2012. Nonetheless, banks could now feel more confident than in 2008 due to higher liquidity ratios, improved risk management procedures, renegotiated loans, and the shift in the term structure of liabilities towards longer-term instruments, as well as more agile and mature CBR policy
- Relative valuation votes in favor of local banks. Relative valuation suggests that the Russian banking sector is fairly cheaper than its peers as it trades with respective 10% and 30% discounts on P/BV and P/E. If we factor in the ROE and EPS CAGR advantage of Russian banks, their discounts to peers widen further, making a good buying opportunity.

Banking 2011 look back

Risks of revaluation-driven losses as a result of European sovereign debt deadlock.

The banking sector found itself in the epicenter of the financial hurricane in late 2011, which in turn resulted in considerably worse performance: (-20% YTD vs. -10% for the general market as measured by MICEX Index). We underline the number of negative points behind that, which are largely interrelated.

Worsening market conditions for banking business due to worse-than-expected global economic growth.

- European sovereign debt crisis is arguably the most serious and the most real threat at the moment for the whole market, regardless of the sector. The main risk factors include the huge scale of the issue and possible impediments on the rescue plan realization path. European banks, as the key holders of European sovereign debt, bear direct risks. The 50% haircut approved for Greece could trigger contagion through other problem countries, the biggest of which is Italy. The worst scenario could be as disastrous as one could imagine and may lead

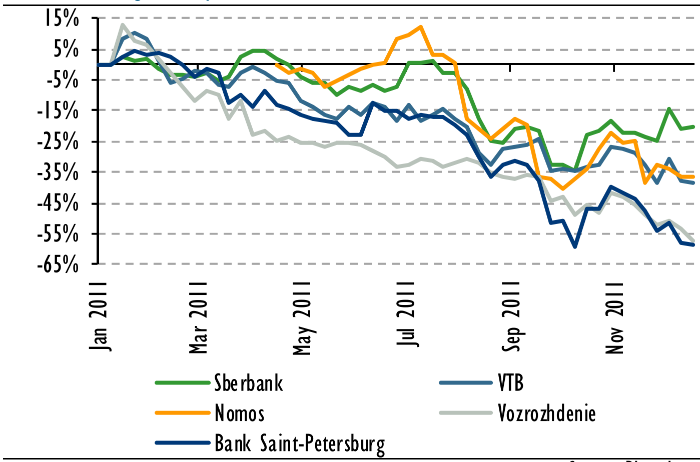
Basel 3 requirements despite prolonged implementation period will have deteriorating effect.

to a severe recession in Europe along with economic activity paralysis, which will have a devastating impact on other countries' rebound.

- More and more analysts have been recently revising economic growth forecasts for DM and EM countries. This reflects the challenges still faced by the global economy, as it needs to eliminate trade and capital imbalances, find new growth drivers, struggle with unemployment, strengthen the real estate market, and improve protection from future shocks.

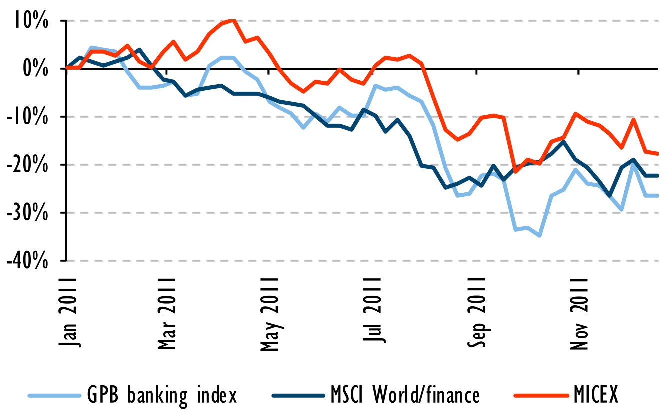
- The new regulation era, which is coming as the aftermath of the 2008 financial crisis, is taking its shape. Banks will have to raise their Tier 1 CAR up to 7%, while banks of core importance for the system will have to implement additional buffer ranging from 1% to 2.5%. All these steps, along with a number of other changes (e.g. stricter liquidity management), are meant to increase the resilience of the banking business, but will likely result in a decline of ROE and other key parameters, particularly on the backdrop of the negative market environment.

Russian banking stocks performance YTD



Source: Bloomberg

Comparative performance YTD



Source: Bloomberg

Our global sector view in 2012

We view banks as a generally lucrative investment opportunity despite ongoing risks, yet to materialize. In our view, the current valuations presumes lots of negative factors priced in at the moment, and we consider the risk/return ratio as favorable for investments. However, volatility is likely remain high in banking stocks in 2012.

Apocalyptic scenarios are unlikely to materialize.

Although there is a chance of testing new lows in case of the worst scenario spiraling down (an uncontrolled contagion of European sovereign debt haircut, further slowdown of global growth, European banks recapitalization issues), we think that it is hardly realistic to seriously allow for this path at the moment. The loose monetary policy by key money-emission centers (the Fed and the ECB), which likely to be maintained throughout 2012, should turn supportive for financial sector's short-term debt issue solvencies. Regulators' readiness to support the financial system with additional liquidity, if needed, rules out the scenario of sharp liquidity tightening, as we observed in 2008.

Upside risks are greater than downsides as the majority of negative factors have already been priced in.

We feel that the current low prices rather represent the level of uncertainty (about banks' business prospects, trading losses, capital requirements, etc.) than actual loss estimates. We believe that the upside potential is far greater than the downside at present, and we point to healthy recovery opportunity in 2012.

EM banks vs. DM banks: prospects or price?

By P/BV multiples, DM banks are currently valued 2-3 times lower than EM banks.

We note that a strong risk for EM banks in general and Russian banks in particular stems from the current exceptionally low valuation of DM banks. EM institutions are valued 2-3 times as high as DM on average (1.5 vs. 0.5). Let's take a closer look at whether this spread could actually narrow in 2012, exerting additional pressure on EM financial sector.

Looking back on the 5-year horizon, we note that EM banks have been running sustainable premiums over DM banks (with temporary narrowing in 2008 on the backdrop of the liquidity crunch) due to brighter growth prospects of the former (including higher EM GDP growth expectations), as well as higher margins and ROE. However, in 2011 the EM premium rose to the highest level over the last 5 years (300% on P/BV vs. the 5Y average of 200%), opening expectations of catch-up opportunities in DM banks.

However, a few reasons prevent us from assigning DM with an outright advantage.

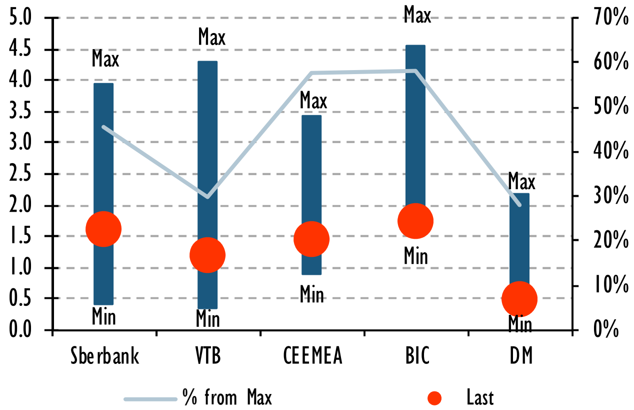
- The remaining advantage in existing and expected BS growth rates, ROE and NIM justify higher valuations of EM banks, in our view. Particularly, the average NIM of EM banks for 2010 is twice higher than that of DM banks (4% vs. 2%). We have adjusted the P/BV valuations for differences in CAR and ROE and received fairly straightforward results: both VTB and Sberbank are traded with discounts to DM peers. The normalized P/E valuation paints the same picture.

If the differences between DM and EM banks in terms of financial fundamentals are factored in, EM banks look more attractive to us.

- A lot of internal problems are peculiar to DM banks: negative revaluation of financials instruments (in particular, with European banks), general undercapitalization under new Basel 3 requirements, and scaling down of investment business. We point out that a few healthy DM banks (e.g. US-based Wells Fargo, Swedish banks) are traded relatively high (above 1x P/BV) in spite of the negative environment, which underlines the heavy impact of internal problems that many DM banks have and that play a fairly high role in the current valuation discounts.
- EM banks have traditionally been more heavily capitalized than DM banks, but stroke back due to higher NIM and growth rates. We note that the key advantage of DM banks (softer capital requirements) is gradually dissipating on the back of the recently adopted capital requirements, while the main edge of EM (higher margins and growth rates) is still there in spite of some pressure on this side as well. These trends make further expansion of ROE gap in favor of EM banks a likely outcome in the medium term (EM banks' average ROE 2011E is already almost 3 times bigger than that of DM banks: 20% vs. 7%).

To draw the bottom line in EM and DM banks comparison, we do not rule out competition for investors' money from the latter. However, we note that EM banks in general and Russian banks in particular have a clear competitive edge over DM peers and are heavily undervalued, with expected fundamentals difference even at the current prices.

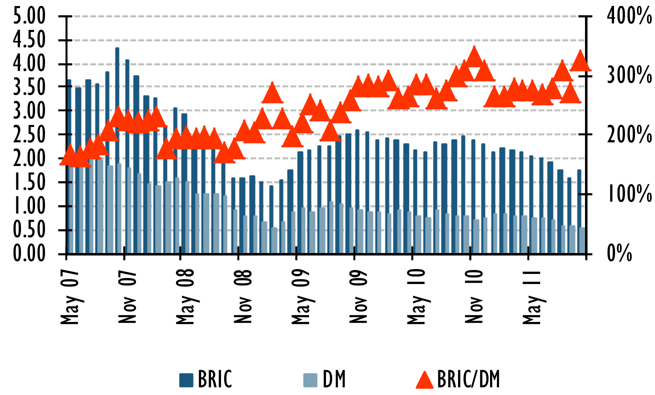
Historical 5YR P/BV valuation*



* used latest actual BV

Source: Bloomberg

Historical spread between BRIC and DM banks on P/BV



Source: Bloomberg

Russian banking sector overview

Year 2011 was healthy for Russian banks despite the late-year liquidity constraints.

Year 2011 is very likely to prove positive for the banking sector. Loans growth outpaced the initial expectations, while deposits also staged an impressive increase in spite of the low interest rates environment. There are visible improvements on the quality side as well: overdue loans share and LLP share have substantially decreased over 9M11 (the real LLP write-back wave observed early in 2011 was followed by LLP share drop, mainly due to the accelerating loans growth). The sector's NIM was generally stable throughout 9M11 according to our calculations, as the sharp drop in corporate loan rates was offset by stable retail rates, and trimmed both corporate and retail deposit rates.

The bottom line can also be attributed to the stronger part of 2011, as the banking sector's pre-tax ROE for 9M11 surged to impressive 17.3% from 12.3%.

However, the recent financial market turmoil has already left its footprint as ruble has substantially weakened (by 16% to the year-low in April), and liquidity squeezed as money market rates spiked (overnight and 3M rates jumped from the pre-crisis 3.8% and 4% to respective 5.5% and 6%).

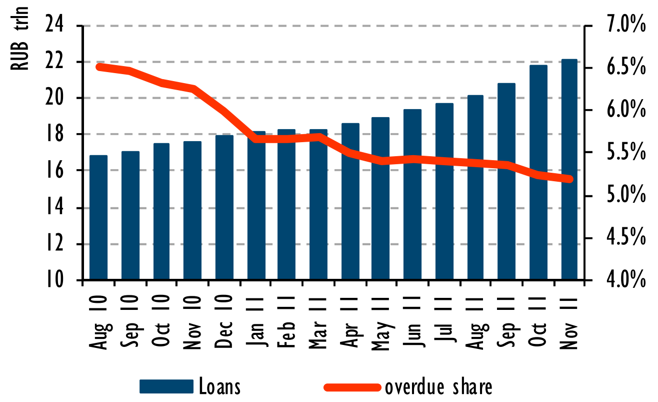
We have recently reshuffled our banking macro model and we expect year 2012 to appear tougher overall. However, we do not see any drastic scenarios to be realized. The two key points that we expect to deteriorate are loans growth and the pace of loans quality recovery, which partly stems from the former. In particular, we expect loans growth to slow down from the previously expected 13% to 10%.

In 2012, we anticipate a somewhat tougher, but still sustainable, environment.

As a result of slower growth and presumably weaker than expected LLP recovery we anticipate a slowdown of the sector's bottom line performance with the pre-tax ROE decreasing to 16% from 17% forecast for 2011.

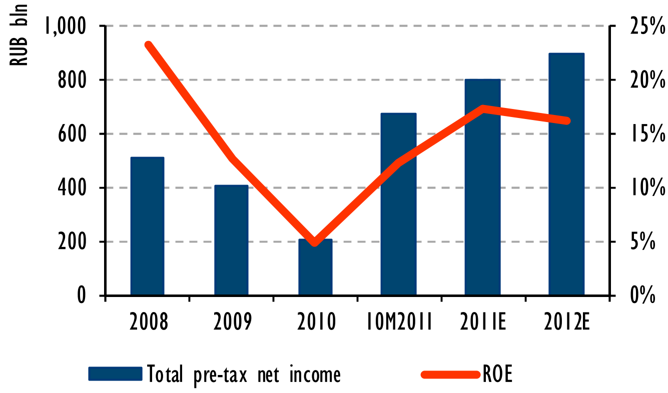
Overall, we see the market prospects for 2012 as fairly promising. Even a slight deterioration in growth figures under our basic macroeconomic assumption (3.5% GDP growth in 2012) would still represent fairly appealing performance. Furthermore, Russian banks currently look more resilient than in 2008 in terms of liquidity and capital position and are able to weather possible downturns.

Loans portfolio monthly dynamics



Source: CBR

Russian banking pre-tax NI and ROE



Source: CBR

Top picks

We highlight Sberbank and Nomos Bank as the most attractive stocks at the current prices. We recommend these stories as the key beneficiaries of expected recovery in the financial sector's investment appeal in 2012.

Sberbank

Sberbank represents the safest and the most liquid play in the Russian financial sector with impressive room for NIM and ROE growth, robust and very cheap funding, relatively low-risk business profile.

The permanent local leader has had a great year from both operating and financial standpoints and confidently looks into the future. Sberbank doubled its net income in the YoY comparison with 30%+ ROE and 20%+ loans growth rate (9M11 figures), and expects to improve its record-high 2011 bottom line (in absolute terms) and to grow faster than the market in 2012. Fundamentally, Sberbank's business model remains resilient even amid suppressed market conditions due to the hefty NIM, considerable F&C exposure, stable funding and conservative LLP policy. Our recently revised model stipulates fairly conservative development scenario for Sberbank and still provides impressive upside potential from the current levels. We note that Sberbank's relative valuation (P/BV and P/E) looks competitive among local peers (meaning superior ROE and NIM) and suggests healthy discounts (5-30%) to EM peers, supporting our bullish view on the story. We reiterate our OVERWEIGHT recommendation with the 12M target price of RUB 120 per share, which implies a 46% upside potential from the current levels.

Nomos Bank

Nomos Bank represents a dynamic market-oriented story with London listing, competitive NIM and ROE, higher than the market average asset quality, and balanced ownership structure.

The current valuation of Nomos provides healthy discount to local blue chips and even looks comparable with much less liquid second-tier representatives (i.e. Vozrozhdenie and Bank Saint-Petersburg). We underline the lucrative opportunity to enter into exposure to a Russian privately owned top-10 financial institution with balanced and self-protecting ownership structure, London listing with further liquidity increase prospects, robust business model with high growth potential, great ROE and high loans quality. We confirm our OVERWEIGHT recommendation for Nomos Bank with the 12M TP of $18.4 per GDR, implying a 88% upside potential.

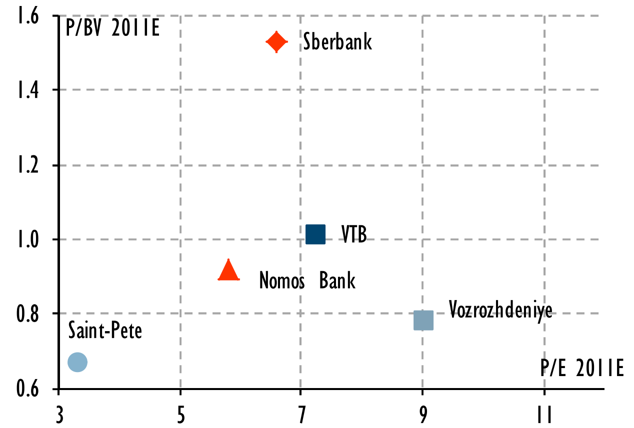
VTB

VTB prospects look fairly safe under our scenario; however, we point at a few reasons that make us assign a NEUTRAL recommendation to VTB shares.

- Relatively pricey. The relative valuation suggests smaller than historic average discount to Sberbank over the last 5 years (32% vs. 44% on P/BV), which does not look justified due to the remaining difference in NIM, ROE and funding structure.

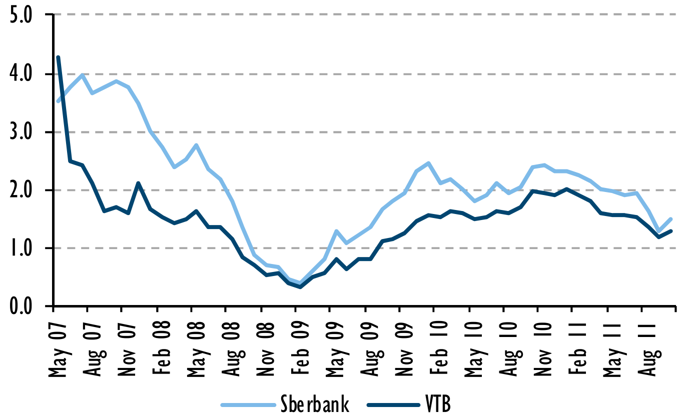
- Higher ROE through M&A but integration issues ahead. VTB should achieve higher ROE through greater capital utilization ratio after TCB and BoM consolidation. However, integration issues could offset this gains through probably higher integration costs.
- Top line volatility risk. The higher level of non-interest and non-commission income creates volatility in top line results, which can be particularly detrimental amid the current unstable market conditions. In particular, the recently released report for 3Q11 showed more than RUB 20 bln loss from financial instruments and FX operations.

P/BV11E and P/E11E relative valuation



Source: Bloomberg, Gazprombank estimates

Sberbank/VTB historic P/BV valuation*



* used latest actual BV

Source: Bloomberg

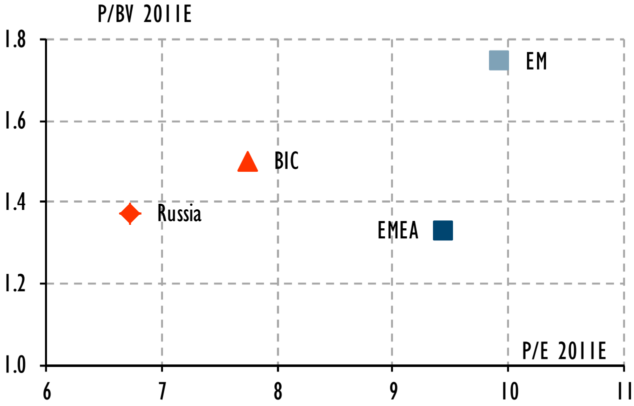
Relative valuation

Relative valuation puts Russian banks in attractive light as they are valued with healthy discounts on both P/BV and P/E ratios.

We note that the valuation under 5-year historic P/BV suggests that banks all over the globe are traded either at their 5-year lows or near them. Russian banks look a bit better in this regard, which reflects better capital positions, higher margins and faster growth rates. However, they are traded not far from the heat of liquidity squeeze in autumn 2008. The rapid NI growth of state banks has been behind the dynamic BV increase over last few years. Sberbank and VTB increased their assets volume from 2008 to 9M11 by respective 57% and 53%.

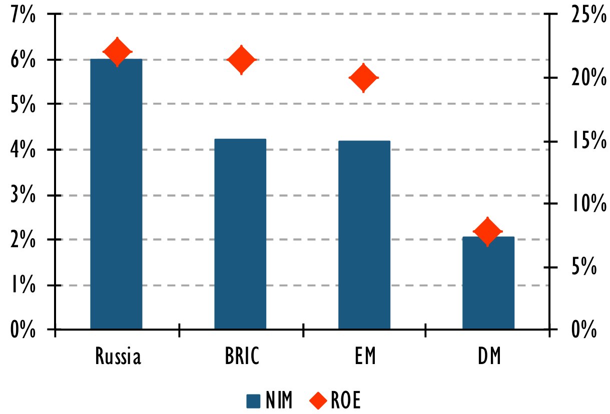
Overall, we do admit worsening business environment for financial sector and clear risks of growth slowdown, margins squeeze, and even business contraction for some banks. However, we highlight that the current multiples remind of the severe liquidity squeeze of 2008, but we are nowhere near such squeeze now nor are we going to face it in 2012 amid the current record-low rates and the QE emergency option at hands of the Fed. The current relative valuation supports our view: banks in 2012 have better chances to recover from the current levels than plunge deeper.

P/BV11E and P/E11E relative valuation



Source: Bloomberg, Gazprombank estimates

EM/DM banks KPI comparison

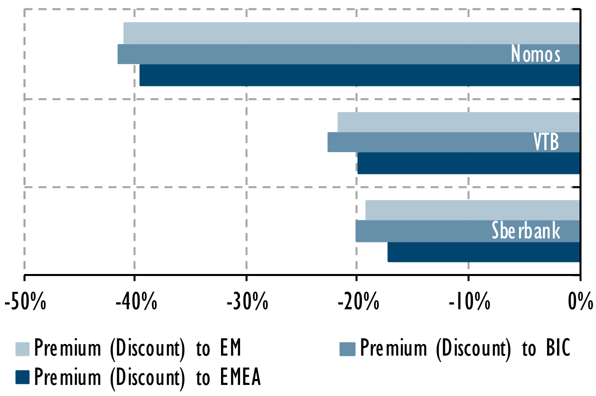


Source: Bloomberg

Besides conventional multiples, we have calculated normalized ratios, which again support and strengthen our positive view. For a detailed description of our normalization technique, please refer to our recent report on Nomos Bank "New Outright Move Of Success" issued on December 5.

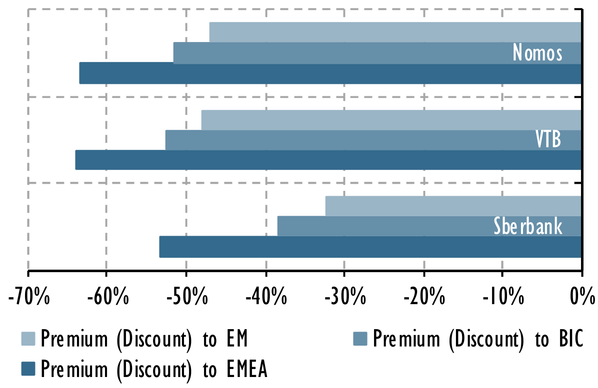
Normalized ratios stipulate a 40% discount for Nomos Bank and 20% discounts for both VTB and Sberbank (ROE-adjusted P/BV 2011E). The P/E 2011E multiple adjusted for EPS CAGR provides 40-50% discounts for Sberbank, VTB, and Nomos Bank.

ROE-adjusted P/BV11 discounts of local banks



Source: Bloomberg, Gazprombank estimates

EPS CAGR adjusted P/E discounts of local banks

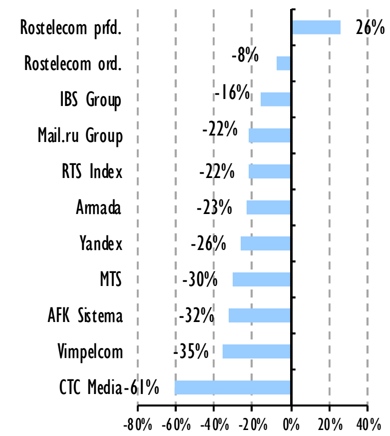


Source: Bloomberg, Gazprombank estimates & calculations

TELECOMMUNICATIONS, MEDIA & IT

Make a smart choice

TMT stock performance vs. RTS Index in 2011



Source: Bloomberg

Russian telecom, media and IT stocks remain cheap and offer a wide choice to investors. We like MTS, Sistema (both stocks have underperformed RTS Index by 9-11 pps in 2011) as well as Armada, which are likely to become a source of positive news next year. While the market could be expecting MTS to yield further improvements on the operational side, Sistema and Armada are likely to encourage investors with new value-accretive acquisition deals, which would provide them exposure to new market segments and boost revenues and EBITDA.

Rostelecom's preferred stock, which has outperformed the Russian market by 48 pps in 2011, is likely to remain a safe harbor for investors in 2012, given its attractive dividend yield, limited downside risk (the spread to ordinary shares remains substantial at 30%), as well as the potential of a buyout offer and conversion into ordinary shares as part of the second stage of Svyazinvest assets reorganization.

We also recommend investors to have a look at CTC Media shares, which have largely (by 39 pps) underperformed the market since the beginning of 2011. In our view, the stock deserves a major risk reassessment, given the potential for audience share improvements at CTC channel and our expectations of at least high single-digit growth of the Russian TV market next year.

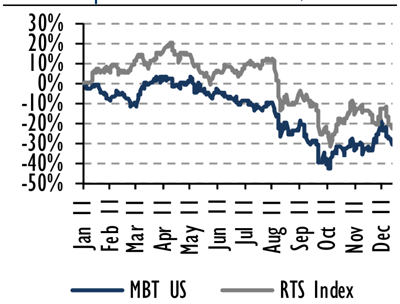
TMT recommendation summary

Company	Ticker	Price, $	Target price, $	Upside	Recommendation
MTS	MBT US	14.52	32.0	120%	OVERWEIGHT
Vimpelcom	VIP US	9.75	18.9	94%	UNDERWEIGHT
AFK Sistema	SSA LI	16.90	35.8	112%	OVERWEIGHT
CTC Media	CTCM US	9.17	24.9	172%	NEUTRAL
Armada	ARMD RX	8.99	22.0	145%	NEUTRAL
Rostelecom ord.	RTKM RX	4.57		Not covered	
Rostelecom pref.	RTKMP RX	3.18		Not covered	

Source: Bloomberg, Gazprombank

Mobile operators – we prefer MTS

MTS ADR performance vs. RTS Index, YTD



Source: Bloomberg

We prefer MTS of two mobile operators given its stronger operational outlook for 2012, better risk-return profile and cheaper valuation. The conservative market strategy of MTS in Russia is likely to continue delivering rewards to the company. These would be evident in a stronger top line dynamics as compared to the Big-3 rivals, improving EBITDA margin and better free cash flow visibility. Besides, the acquisition of a 29% stake in MGTS from Sistema substantially reduced the minority interest part of the net income and provided an additional growth driver for earnings in 2012. Combined with the low leverage and proven dividend track record, all these make MTS more appealing to investors than Vimpelcom, especially given the risk of an adverse macroeconomic scenario realization. We also do not rule out that speculations about Sistema seeking a big international partner to its telecommunications business could intensify next year, which would give investors an opportunity to play on expectations of above-the-market valuation of MTS.

Speaking about company-specific risks, the probability of Sistema's Indian cellular asset (SSTL) acquisition by MTS is low at the current stage. At the same time, there is still a chance of a positive outcome for the company in Belarus. The Belorussian government has postponed the auction on the 51% stake in OOO MTS (in which MTS holds 49%) from December 1 to December 23, which indicates a low interest in the asset from potential investors. The starting price of $1.0 bln implies a stretched valuation of 11x EV/EBITDA. We do not rule out that the auction price could be lowered going forward, which would increase the probability of MTS accumulating 100% in the Belorussian asset.

MTS remains heavily undervalued by the market, trading with 22-30% discounts to emerging market peers on 2012 forecast multiples and a strong 120% upside potential to our 12M target price of $32. Hence, we reiterate our OVERWEIGHT recommendation on the stock. MTS shares underperformed the Russian market by 9 pps in 2011, as investors were deeply concerned about the company's results in Russia. Now that the operating risk is declining, we think that MTS is well positioned to regain the market's interest and close the current gap with RTS Index. However, we do not rule out that a major rebound in the stock could be delayed until investors have better overall confidence and show stronger appetite for undervalued Russian assets.

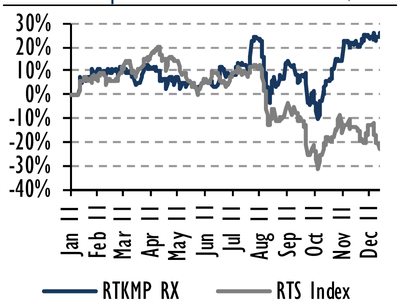
Comparative valuation: mobile operators (as of December 13, 2011)

				EV/EBITDA			P/E		
	price, $	Mcap, $ mln	EV, $ mln	2010	2011E	2012E	2010	2011E	2012E
MTS	14.52	15,002	21,090	4.3	4.2	4.0	10.9	10.2	8.8
Vimpelcom	9.75	15,875	40,303	7.8	4.4	4.1	9.2	8.8	7.4
Average	–	–	–	**6.1**	**4.3**	**4.0**	**10.0**	**9.5**	**8.1**
Emerging markets									
America Movil	1.13	59,700	103,956	5.2	5.7	5.3	7.9	8.6	7.8
Bharti Tele-Ventures	6.51	24,734	36,468	10.1	8.1	8.0	12.2	16.9	21.8
China Mobile	9.60	192,757	152,449	4.2	3.9	3.7	10.6	9.8	9.6
Mobinil	15.54	1,554	2,731	3.6	4.4	4.2	6.2	24.4	18.2
MTN Group	16.94	31,936	32,128	4.5	5.0	4.5	12.4	12.4	10.9
Orascom Telecom	0.49	2,591	6,675	3.7	3.9	3.7	4.8	3.6	5.5
Tim Participacoes	4.83	11,668	12,220	NA	4.8	4.2	NA	16.3	12.9
Total Access	2.48	5,872	5,753	7.2	6.6	6.8	18.1	15.7	16.3
Turkcell	4.73	10,404	9,174	4.8	5.9	5.4	9.0	15.9	10.6
EM average	–	–	–	**5.4**	**5.4**	**5.1**	**10.1**	**13.7**	**12.6**
Premium/(discount) to EM average				**15%**	**-10%**	**12%**	**-20%**	**-21%**	**-1%**
MTS/EM				-20%	-22%	**-22%**	7%	-26%	**-30%**
VIP/EM				45%	-18%	**-20%**	-9%	-36%	**-41%**

Source: Bloomberg, Gazprombank estimates

Rostelecom preferred – investment story could shift from dividends to buyout and conversion into ordinaries

Rostelecom preferred shares vs. RTS Index, YTD



Source: Bloomberg

Rostelecom preferred to ordinary spread, YTD

Source: Bloomberg

Rostelecom's preferred shares are likely to remain on investors' watch list in 2012 given that the stock offers a risk-friendly exposure to the ongoing Rostelecom transformation story. With the announcement of the new dividend policy, as well as the listing on LSE likely to happen as soon as in the next several weeks, we believe that the stock could enjoy an increased investors' demand at the beginning of 2012. We estimate the 2011 dividend yield on Rostelecom's preferred shares at 4.9% under the current charter (3.0% net income payout) with an upside potential to 7.4% (4.5% payout) under the new policy.

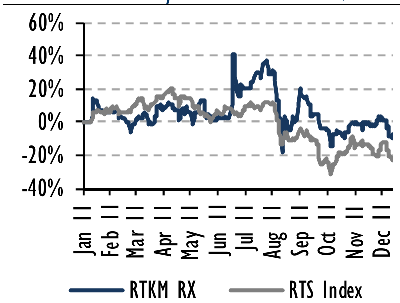
During 2012, the investment story in Rostelecom preferred shares could shift from dividends to the potential buyout and/or conversion into ordinary shares. The pref-to-ords conversion issue was raised during the initial stage of Svyazinvest asset reorganization in 2010. However, preferred stock were not included into Rostelecom and regional telecoms merger scheme. The discussion around the potential conversion could intensify next year, as preferred shares could be involved into the second stage of Svyazinvest asset reorganization, which should be decided upon in early 2012. In our view, a preferred share buyout from minorities and a swap into ordinaries would offer the government a relatively cheap mechanism of increasing its voting stake in enlarged Rostelecom, which is currently 53.3%. Initially, Svyazinvest could obtain quasi-treasury preferred shares of Rostelecom from the company's 100% subsidiary Mobiltel as part of the payment for certain telecom assets (SkyLink, Bashinformsvyaz, Central Telegraph and others). Going forward, it would be reasonable to accumulate the entire preferred share float on the state holding with the subsequent conversion into ordinary shares, which would increase the government's stake in the enlarged operator. Rostelecom's CEO Alexander Provotorov stated in November that preferred shares should be converted into ordinaries sooner or later, given their currently unclear economic status and additional dividend payment obligations they instill on the company.

While preferred shares represent 7.6% of the enlarged Rostelecom's capital and have the total market capitalization of RUB 24.5 bln ($772 mln), the actual share free float accounts for 5.4% of the capital and is worth RUB 17.3 bln ($547 mln) at the current market price, which is less than a half of the company's 2011 estimated net income under RAS. Rostelecom prefs continue to trade with a considerable discount to ordinaries (currently 30%) providing a cheap entrance into the company's capital. We note that the 21% preferred-to-common spread was applied to regional telecoms' shares during the merger with Rostelecom in 2010. We see a 14% upside potential in the company's preferred shares to RUB 114 should the same discount be applied in the future. Moreover, our estimates might even look conservative given that the state could value Rostelecom's ordinary shares with a premium to their current market price (RUB 145). We note that at the beginning of December, the board of directors of Deposit Insurance Agency approved the transfer of 7.43% ordinary shares of Rostelecom under the direct state ownership based on RUB 230 valuation per one share, which is 59% above the current stock market price.

Besides, we don't see any material downside potential in Rostelecom's preferred shares in 2012, as the stock is included into Rostelecom's share buyback program worth $500 mln along with its ordinary shares. Apparently, the company is likely to use any sharp drop in the share price to increase the volume of preferred stock on the balance.

Rostelecom ordinaries – we recommend a limited exposure

Rostelecom ordinary shares vs. RTS Index, YTD



Source: Bloomberg

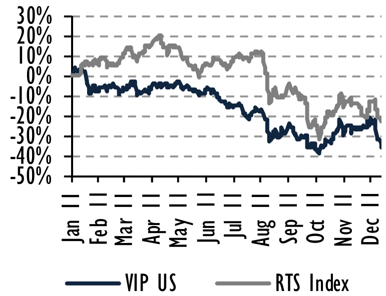
Rostelecom's ordinary shares would continue to attract vivid market's attention in 2012, as the government is set to announce the scheme and launch the second stage of Svyazinvest asset reorganization next year. In our view, the valuation of Rostelecom shares, which would be applied in asset transactions between the company and Svyazinvest (we believe the purchase of SkyLink and other assets from the state holding would include an equity component) and/or the potential merger of two, would become the major source of surprise for investors. We note that the current market price of Rostelecom's ordinary shares (RUB 145) is 37% below the price VEB and DIA paid for these shares in 2009 (i. e. RUB 230 per share). Our DCF-based valuation pegs the fair value of each Rostelecom ordinary share at RUB 176, which implies a 22% upside potential in the stock.

In our view, Svyazinvest's reorganization would dominate the newsflow around Rostelecom, so any corporate and operational developments are likely to attract less investor's attention in general. Among the main share price drivers next year we would point out the sale of 25%+1 share in Svyazinvest, which is likely to be beneficial for Rostelecom. We also do not rule out that the discussion of possible merger with Megafon could be resumed after the end of 2012 election season. The key corporate developments will include possible SPO, LTE license allocation and potential acquisitions of mid-sized regional telecom assets.

We recommend investors to have a limited exposure to Rostelecom's ordinary stock given its current 13% premium to emerging market peers (EV/EBITDA 2012E of 4.9x) and a moderate 12-month upside potential as compared to other telecom names. At the same time, Rostelecom remains one of the key names at the market, which opens investors the door to the Russian modernization story in the medium term. Besides, the stock seems to be protected from sharp price drops, given a $500 mln share buyback program, which was announced in late October.

Vimpelcom: mind the risk

Vimpelcom ADR vs. RTS Index, YTD



Source: Bloomberg

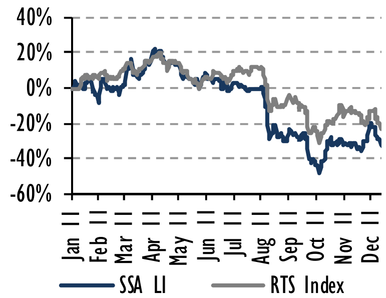
Despite the cheap valuation (20% discount to peers on EV/EBITDA and 41% on P/E), and the decent fundamental upside potential (94% to our $18.9 12M target price) we recommend a prudent approach to Vimpelcom's stock in 2012, as most risks which put pressure on the market price in 2011 are likely to remain in place next year. We highlight a few main concerns.

- Operational performance in Russia and Italy.
- Leverage: the company might require additional external financing for selective acquisitions, dividend commitments, and the capex program.
- The Algerian saga is not over: the risk of Djezzy's nationalization persists as long as there are no clear positive indications from the Algerian government. We note that the risk-sharing agreement with Naguib Sawiris on Algerian asset expired on November 15, which makes Vimpelcom eligible to 100% of the potential loss/profit resulting from the nationalization.
- The so-called "October 2012" risk. Forrielite Limited and Altimo will receive the right to convert their 128.5 mln preferred voting shares (6.2% of the total voting rights) into common shares at 1:1 for cash at the market price in the middle of October 2012, which suggests that they will be interested in cheaper market valuation of Vimpelcom's ADR during three months prior to the conversion.
- Altimo-Telenor dispute is ongoing.

We reiterate our 12-month target price of Vimpelcom at $18.9 and believe that the stock is likely to UNDERWEIGHT the Russian market in 2012.

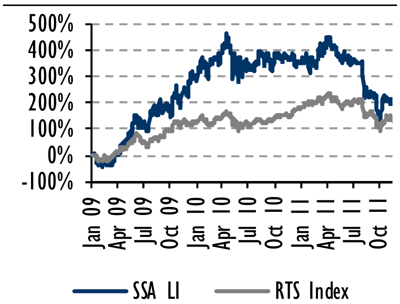
AFK Sistema: a bet on new Bashneft story

Sistema GDRs vs. RTS Index, YTD



Source: Bloomberg

Sistema GDRs vs. RTS Index in 2009-2010



Source: Bloomberg

In our view, the main investment idea about the shares of AFK Sistema in 2012 would be associated with the holding's expansion into new industries through acquisitions. In early 2011, Sistema announced a major shift from operational to financial holding development model, which suggested a more aggressive approach to asset portfolio management. In other words, Sistema's investment focus is about to shift from long to medium term with the company making profits from the growth in asset value as compared to the initial cost of investment. Under the new strategy, Sistema is supposed to exit MTS and Bashneft in a longer term, should it see the market price of these assets on the top and no substantial value accretion potential within the holding structure.

In the short to medium term perspective, the main priority of the holding will be to diversify its asset portfolio through large- and medium-scale acquisitions in new markets. Sistema targets assets worth $0.3-1.0 bln, which demonstrate substantial value growth potential in the medium term through synergy-driving consolidation, streamlining operational processes, optimization of ownership structure. The short list of potentially interesting markets includes logistics and infrastructure, natural resources, fertilizers, petrochemistry, agriculture, IT and media. Such inputs make us believe that Sistema is seeking to excite investors with "Bashneft story No. 2, 3, 4, etc". The acquisition of Bashkir oil assets in early 2009 was welcomed by investors and pushed the holding's share price by 50-120% ahead of the Russian market in late 2009 and 2010.

In our view, the overall market volatility and the government's privatization plans create good opportunities for value-accretive acquisitions for Sistema in 2012. Meanwhile, the holding has accumulated a solid cash position to finance its strategic moves.

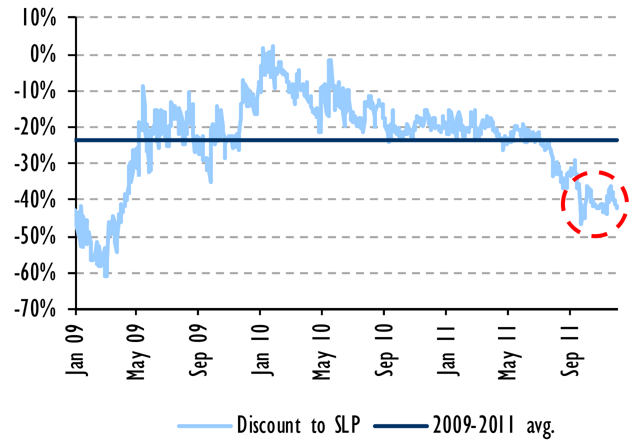
Sistema's GDR continue to trade with a substantial 42% discount to the sum of its listed parts. We see a vast 112% upside potential in Sistema's shares to our 12M target price of $35.8 and reiterate OVERWEIGHT recommendation on the stock.

Sistema discount to SLP calculation, $ mln

	Sistema interest	Market cap		Sistema value
	Ordinary	Ordinary	Preferred	
MTS	50.8%	15,002	–	7,621
Bashneft	69.2%	7,658	1,265	6,177
Sitronics	52.9%	115	–	61
Total	–	–	–	13,858
Net cash (4Q11E)	–	–	–	249
Equity value	–	–	–	14,087
MCap.	–	–	–	8,154
Discount	–	–	–	**-42%**

Source: Bloomberg, Gazprombank

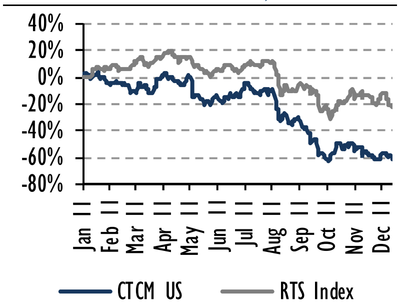
Sistema GDR discount to the sum of listed parts



Source: Bloomberg, Gazprombank

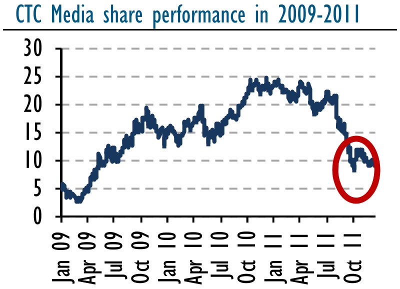
Media: CTC Media – deserves a major risk re-assessment

CTC Media shares vs. RTS Index, YTD



Source: Bloomberg

CTC Media share performance in 2009-2011

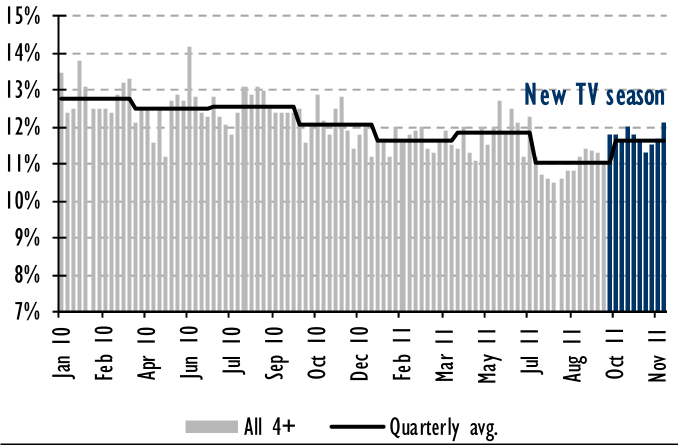


Source: Bloomberg

Although serious concerns about CTC Media growth outlook could prevail at the beginning of the next year, with limited visibility of Russian ad spending prospects in 2012, we believe that the company's stock deserves a major risk re-assessment by investors. The aggregate audience share of the holding's Russian channels is about to increase, driven by stabilizing performance of CTC channel and audience share gains by Domashny channel. Hence, the audience share risk is likely to diminish at the beginning of 2012. With the overall Russian economy positioned to grow by 3.5% in real GDP terms, the organic growth in demand for advertising should come to at least high single-digit. We currently project the total ad spending in ruble terms to grow by 16% from 2011 (to RUB 304 bln) with TV ads expanding 13% YoY to RUB 154 bln. We note that the growth could be shifted towards the second half of the year, as ad spending at the beginning of 2012 might be hit by weak advertiser confidence. Hence, TV market developments next year could resemble the situation seen in 2010, with a slow start, strong demand growth going on, and even TV inventory deficit by the year-end.

CTC Media shares look fundamentally very attractive trading at EV/EBITDA 2012E of 4.9x and a 38% discount to emerging European peers. We see a 172% upside potential in the stock and reiterate our NEUTRAL recommendation with the 12-month target price of $24.9.

CTC Media aggregated general audience share in Russia, 2010-2011



Source: Bloomberg

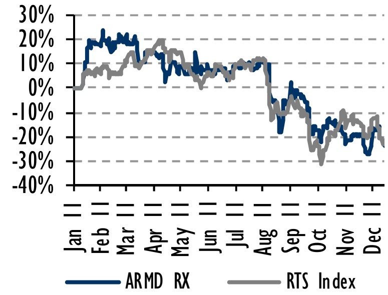
Comparative valuation: TV channels (as of December 13, 2011)

		Price	Mcap	EV	EV/EBITDA			P/E		
		$	$ mln	$ mln	2011E	2012E	2013E	2011E	2012E	2013E
CTC Media	Russia	9.17	1,443	1,361	5.3	4.9	4.4	9.4	8.6	7.6
CTC Media vs. EM average	–	–	–	–	*-42%*	*-38%*	*-35%*	*NM*	*-62%*	*-38%*
CTC Media vs. DM average	–	–	–	–	*-24%*	*-29%*	*-32%*	*-7%*	*-13%*	*-20%*
Emerging markets										
TVN	Poland	2.61	897	1,558	8.3	7.5	6.5	Neg.	22.3	13.5
CE Media Enterprises	–	7.53	428	1,621	10.0	8.3	7.0	Neg.	Neg.	10.8
Average	–	–	–	–	**9.1**	**7.9**	**6.7**	**NM**	**22.3**	**12.2**
Developed markets										
TF1	France	9.66	2,040	2,029	4.3	4.5	4.0	8.7	9.1	8.1
ProSiebenSat.1	Germany	18.03	1,973	8,393	7.5	7.7	7.4	4.0	3.8	3.6
Mediaset	Italy	2.73	3,230	6,275	3.9	3.9	3.6	8.3	8.8	7.7
MTG	Sweden	44.59	2,716	3,342	8.8	8.5	7.9	10.5	9.8	8.8
RTL Group	Austria	94.07	14,560	14,471	8.4	8.5	8.0	15.1	14.8	14.6
Antena 3	Spain	5.99	1,265	1,394	8.1	8.8	8.1	10.5	11.1	10.2
ITV Plc	UK	0.98	3,807	4,458	6.1	5.9	5.6	8.8	8.4	8.0
Telecinco	Spain	5.60	2,280	2,269	9.0	10.2	7.9	10.8	11.3	9.7
Television Broadcast	Hong	5.73	2,509	2,174	6.7	6.5	6.2	12.1	11.6	11.0
LIN TV	USA	3.83	126	828	7.0	5.5	NA	6.5	2.6	NA
NTV	Japan	146.27	3,710	3,109	6.3	6.1	5.3	13.4	13.8	12.2
Ten Network	Australia	0.93	969	1,299	7.4	7.4	6.7	12.4	12.7	10.7
Average	–	–	–	–	**7.0**	**7.0**	**6.4**	**10.1**	**9.8**	**9.5**

Source: Bloomberg, Gazprombank estimates

IT – Armada: all growth catalysts remain in place

Armada shares vs. RTS Index, YTD



Source: Bloomberg

We see a substantial 145% fundamental upside potential in Armada's stock and believe that the market is strongly mispricing the company's medium-term growth prospects. Armada's shares fell by 31% since the company's SPO in April and now trade with a 38% discount to emerging market peers on EV/EBITDA 2012E. In our view, Armada should benefit from the ongoing Russian IT market expansion, which is supported by the government's efforts to promote modernization of the economy, and would demonstrate healthy double-digit revenue growth along with profitability improvements in the coming years. The announcement of new acquisitions should help Armada regain investors' interest over the next six months. The company targets controlling stakes in small-sized software and service companies with \$10-20 mln in annual revenue and above 10% net profit margin, which have leading positions in their market segments and are complementary to the group's existing business. The priority market segments include transportation, public utilities, corporate cloud services and other. The list looks reasonable, given the historical IT underinvestment in these industries and strong growth prospects, which should ensure Armada's top line expansion above the average market rates in the medium term.

We reiterate NEUTRAL recommendation on Armada with the 12M target price of \$22.0.

Comparative valuation: small- & mid-cap IT companies (as of December 13, 2011)

		Price	P/S			EV/EBITDA			P/E		
		$	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Armada	Russia	9.0	0.8	0.6	0.5	4.8	3.5	2.6	9.0	6.4	4.8
IBS Group	Russia	20.6	0.6	0.6	0.5	8.7	8.4	6.6	23.3	19.7	13.3
Average			0.7	0.6	0.5	6.7	6.0	4.6	16.2	13.1	9.0
Armada vs. EM average			*-27%*	*-35%*	*-36%*	*-37%*	*-38%*	*-47%*	*-32%*	*-29%*	*-43%*
IBS Group vs. EM average			*-40%*	*-34%*	*-30%*	*13%*	*48%*	*33%*	*74%*	*117%*	*57%*
Emerging markets small & mid cap											
Asseco Poland	Poland	13.5	0.7	0.7	0.7	5.5	5.3	5.2	9.8	10.2	9.5
Century Software	Malasia	0.1	2.7	2.2	NA	8.4	6.5	NA	9.1	7.0	11.6
ComArch	Poland	14.8	0.4	0.4	0.4	5.5	4.3	3.9	14.8	9.6	7.9
Hexaware Technologies	India	1.5	1.6	1.3	1.1	7.7	6.0	5.5	9.6	8.8	8.0
MindTree	India	7.4	0.9	0.8	0.7	6.4	5.8	4.8	12.2	9.6	8.4
Mphasis	India	6.3	1.3	1.2	1.1	7.0	6.7	6.3	8.3	8.8	8.3
Patni Computer Systems	India	8.3	1.7	1.5	1.4	8.4	6.8	6.3	14.6	12.4	11.6
Polaris Software Lab	India	2.3	0.7	0.6	0.5	4.1	3.7	3.2	5.2	5.6	4.9
Positivo	Brazil	3.0	0.2	0.2	0.2	15.1	6.4	5.0	NA	8.1	5.4
Satyam Computer Services	India	1.2	1.3	1.2	1.1	9.3	4.9	4.1	19.3	9.0	8.5
Sygnity	Poland	4.6	0.4	0.3	0.3	6.9	5.9	5.3	30.6	10.7	9.0
Average			**1.1**	**1.0**	**0.7**	**7.7**	**5.7**	**5.0**	**13.3**	**9.1**	**8.5**

Source: Bloomberg, Gazprombank estimates

Looking for the gems

We recommend a selective investment approach.

During 2011 a very unfavorable combination of the global conditions prevailed for metals: a slowdown in the developed economies combined with the tightening policy in China. We do not expect the situation will repeat in 2012, and we do not anticipate a hard landing in China. We believe that metals demand and prices are mostly close to their lows, and expect a gradual recovery in 2012 (from the current low point), which will become reflected in equity valuations. The global conditions are expected to be difficult, but improving. We assume the European and global authorities will take measures to ameliorate the economic environment. However, the process will be difficult and painful, especially for the eurozone. Usually, there is a lag between economic measures and their influence on the real economics. Thus we believe the first half of 2012, and especially the first quarter, will be volatile and challenging. We expect that the upside potential will be mostly locked for Russian metal equities in the beginning of 2012, and we see relatively high downside risks in this period. We recommend investors to be careful with cyclical metal equities, and to implement a selective approach.

Steel prices to decrease 7% in 2012

Local prices demonstrated relative resilience, better performance may follow.

By the day, Russian export/domestic steel prices decreased approximately 15-25% from 2011 highs. The benchmark export prices are approximately close to 2010 average levels excluding rebars and billets, which are 10% higher. Rebar and billet's prices outperformed the other key steel types decreasing softer and later. Additionally, in general the local prices demonstrated relative resilience to the global weakness. And some positions like domestic galvanized steel were especially strong – no significant price decrease from the achieved highs.

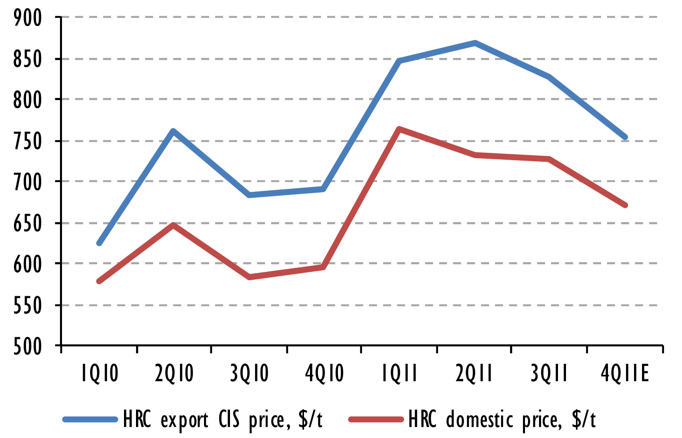
However given a low season in Russia and the weak global economic environment, we believe that domestic steel prices will underperform CIS export ones in 4Q11-1Q12. Meanwhile we expect steel demand in Russia fueled by healthy oil prices will recover relatively fast in the medium run, and domestic steel prices will demonstrate better dynamics compared to the export markets levels, positively influencing Russian steel producer's profitability.

We believe in the longer run global steel producers progressively will improve their profits per tonne of output.

According to Bloomberg, starting from August 2011 European BOF integrated steel producers on average have been posting losses on per t of steel basis, or just tiny profits. We believe that the "trough" level of the global steel producer's profitability is close at this point, and expect improvements from here. Given our general view on the global trends, we think 1H12 will be weaker than 2H12 for global steel producers, and rather challenging. In particular, we forecast 2H12 CIS export steel price ~10% higher than 1H12 levels. We believe in the longer run, thanks to the gradual global recovery, steel producers progressively will improve their profits per t moving to the average historical levels. Relatively low pricing power in the world steel industry on average backed by a low capacity utilization rate represents a key risk.

Based on the described price path, we expect benchmark HRC export prices to decrease 7% in 2012E and domestic HRC to decrease 6% on average. However, the forecasted 2012E benchmark export HRC prices are higher compared to the current price. The weakened steel demand backed by improved supply situation (especially with coking coal production recovering from floods) will result in lower steelmaking raw material prices in 2012E compared to 2011.

HRC: export and domestic CIS price, $/tonne



Source: Metal Expert, Gazprombank estimates

Price assumptions, $/tonne

	2010	2011E	2012E
Hot-rolled sheet, CIS exports	615	698	651
YoY change	*35%*	*13%*	*-7%*
Iron ore concentrate, domestic	78	113	102
Iron ore pellets, domestic	105	147	133
Coking coal, domestic	134	190	160

Source: Gazprombank, Metal Expert

In our view oversold Russian steel producers have good chances to outperform the global peers on average.

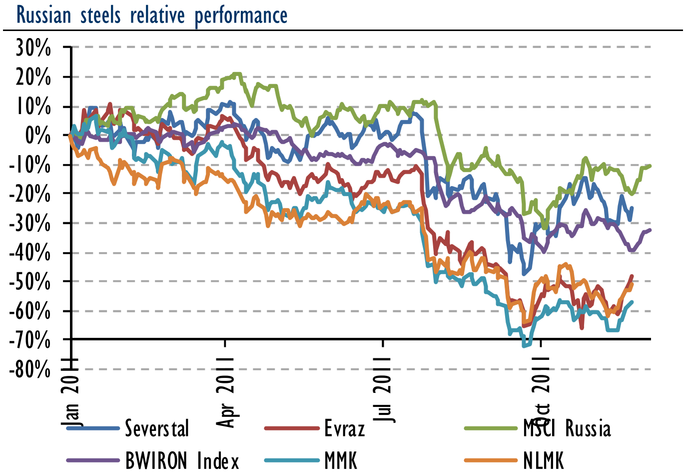
Russian steels have strong advantages to rely on.

In our view Russian steels have strong advantages to rely on:

- Low costs and high profit margins;
- If the global situation deteriorates further, Russian steels have good opportunities to increase export sales and to outperform the global peers in terms of capacity utilization dynamics;
- Local demand is expected to grow relatively fast in the medium term allowing to increase margins.

Russian steels trade at 4.2x 2012E EV/EBITDA versus 6.25x EV/EBITDA 2012E for the global peers and look relatively cheap.

Russian steels relative performance



Source: Gazprombank, Bloomberg

Steel companies peer valuation

	EV/EBITDA			P/E		
	2010E	2011E	2012E	2010E	2011E	2012E
Emerging markets						
Posco	5.9	6.5	6.0	8.3	9.0	7.8
Usiminas	6.5	15.1	10.3	9.5	56.3	30.2
China Steel	10.1	14.4	13.2	11.9	18.9	17.7
Gerdau SA	5.7	7.0	6.1	10.7	12.5	10.2
Erdemir	7.3	6.5	7.0	7.8	8.6	8.5
Angang Steel	6.6	7.6	6.7	17.5	64.0	25.5
Maanshan I&S	5.5	5.9	5.3	18.7	33.2	19.2
Wuhan Steel	8.6	7.0	6.2	19.8	11.6	8.7
CSN	5.0	5.4	5.1	8.8	7.8	9.1
Dongkuk Steel	6.4	5.6	5.2	10.6	5.9	5.2
Tata Steel	11.4	5.2	6.5	n/m	5.4	7.3
Sail	3.4	4.0	5.7	6.2	5.6	8.1
Hyundai Steel	11.6	7.9	7.2	8.8	8.8	7.3
Ternium	3.1	2.8	2.8	5.8	5.6	5.4
Average	**6.9**	**7.2**	**6.7**	**11.1**	**18.1**	**12.1**
Developed Markets						
Nucor Corp	15.4	7.5	6.2	n/m	16.5	14.4
US Steel Corp	14.6	7.5	5.1	n/m	235.0	20.9
Arcelor Mittal	6.7	5.7	5.5	10.4	17.4	15.5
Nippon Steel	12.6	7.0	7.3	15.6		31.1
Thyssen Krupp	5.7	4.9	4.7	n/m	19.6	17.1
SSAB	10.3	7.7	6.9	n/m	22.5	19.7
BlueScope Steel	4.7	9.1	6.5	n/m		Neg.
Nisshin Steel	n/m	6.7	7.4	10.1		55.5
Daido Steel	n/m	7.5	6.7	10.3	15.1	16.1
Hitachi Metals	12.9	7.1	6.2	15.6	27.3	20.1
JFE Holdings	4.9	3.3	4.0	16.9	33.2	266.3
Kobe Steel	8.6	5.3	5.8	8.3		50.1
Sumitomo Metal	16.7	10.2	8.1	n/m		75.3
OneSteel	5.7	4.4	4.8	5.1	11.9	15.3
Acerinox	8.9	9.1	7.6	20.9	27.3	19.7
Salzgitter	5.3	3.6	3.3	n/m	13.8	11.4
Rautaruukki	9.1	8.8	7.4	n/m	57.9	30.7
Sidenor	11.6	12.4	0.0	n/m		0.0
Average	**9.6**	**7.1**	**5.8**	**12.6**	**41.5**	**33.2**
Russia						
Evraz	5.2	3.9	3.7	16.0	8.2	6.6
Severstal	6.2	4.2	4.0	Neg.	5.9	5.5
NLMK	7.3	7.0	4.8	11.6	9.5	6.6
MMK	6.0	5.2	4.2	14.9	9.1	6.1
Average	**6.3**	**5.0**	**4.2**	**5.3**	**7.4**	**5.7**

Source: Bloomberg, Gazprombank

Coal companies peer valuation

	EV/EBITDA			P/E		
	2010	2011E	2012E	2010	2011E	2012E
Emerging markets						
China Shenhua	7.9	6.3	5.6	14.0	11.3	10.1
China Coal Energ	7.0	6.4	5.3	12.1	11.8	10.3
Bumi Resources	7.7	6.0	4.9	18.4	11.5	8.0
Yanzhou Coal	8.9	7.1	6.6	13.7	11.3	10.5
Pingdingshan	7.2	7.0	6.3	12.7	13.4	11.7
Indo Tambangraya	8.8	6.0	4.9	15.7	10.1	8.0
Tambang Batubara	12.1	7.5	6.2	17.8	11.6	9.7
Banpu Pub Co Ltd	11.9	7.5	6.3	9.1	10.1	9.6
Hidili Ind Intl	8.4	7.3	6.4	7.1	6.6	5.6
Average	**8.9**	**6.8**	**5.9**	**13.4**	**10.9**	**9.3**
Developed Markets						
Peabody Energy	6.3	5.3	4.1	13.3	9.6	7.4
Consol Energy	8.6	6.7	6.0	20.3	14.4	11.3
Alpha Natural Re	10.2	6.3	4.4	23.2	20.1	13.4
Arch Coal Inc	10.0	7.7	4.7	20.4	18.9	6.2
Coal & Allied In	16.5	10.8	7.9	27.9	17.9	12.9
Macarthur Coal	23.3	18.5	12.4	45.1	31.6	19.7
Patriot Coal	11.6	7.2	3.4	n/m	-8.3	14.0
Average	**12.4**	**8.9**	**6.1**	**25.0**	**14.9**	**12.1**
Russian coal miners						
Raspadskaya	6.7	5.3	4.2	11.1	9.2	6.7
Mechel	8.0	5.6	5.4	6.9	13.2	13.4
Belon	4.6	3.7	3.3	5.1	7.5	6.4
Kuzbasskaya Toplivnaya Kompania	8.0	4.6	3.4	18.0	8.2	6.4
Average	**6.8**	**4.8**	**4.8**	**10.3**	**9.5**	**8.2**

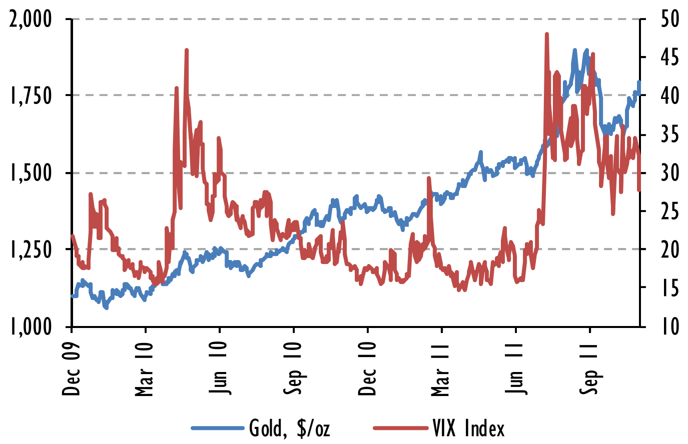
Source: Bloomberg, Gazprombank

Gold price will test $2000/oz in 2012

Main bullish arguments come from the European debt crisis.

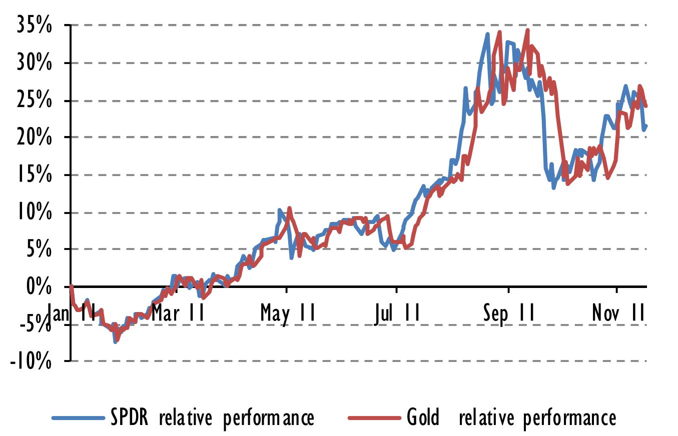
Gold was obviously one of the few assets globally demonstrated positive performance this year: the price climbed to its historical high of $1,900/oz in August, gradually sliding to the current level of $1,590/oz. However we still see a potential for further gold price growth. We do not exclude that gold will break $2000/oz in 2012. The main supportive arguments come from the European debt crises resulting in risk aversion. Moreover, the continuing saga with the US Federal debt has not yet finalized. Reserve diversification into gold will remain on the front burner. That said, the market consensus on 2012 gold price is $1850/oz, and our forecast is slightly higher.

Gold vs VIX Index



Source: Bloomberg

Relative performance of S&P vs. Gold

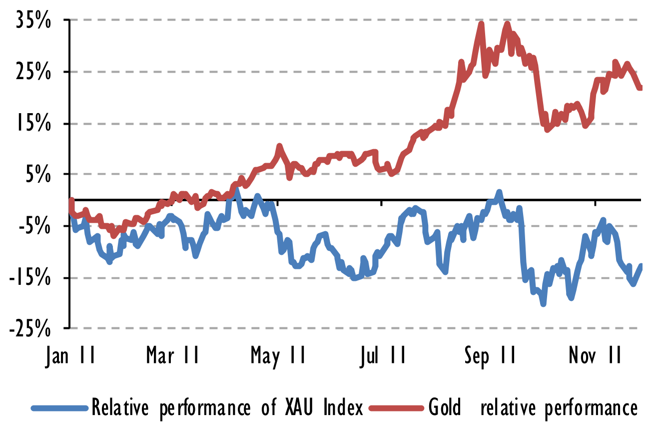


Source: Bloomberg

Investments into gold were more profitable – the gap with equities are expected to decease.

We note that investing into gold was much more profitable compare to investing into the most of gold stocks globally. Gold price demonstrated 20% YTD growth in 2011. We expect the lag between gold equities and gold performance will decrease in 2012.

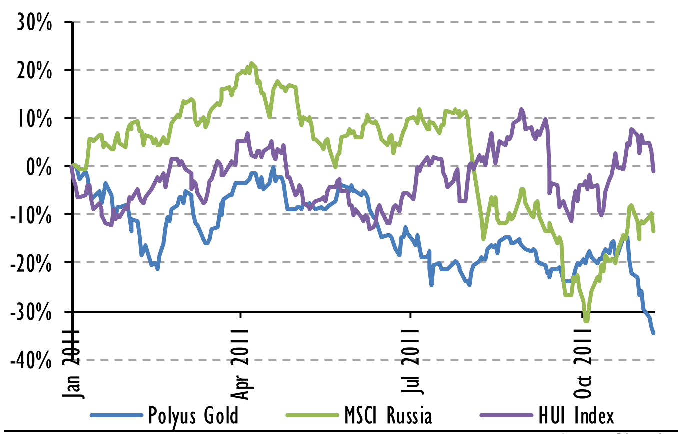
Relative performance of Gold vs. XAU Index



Source: Bloomberg

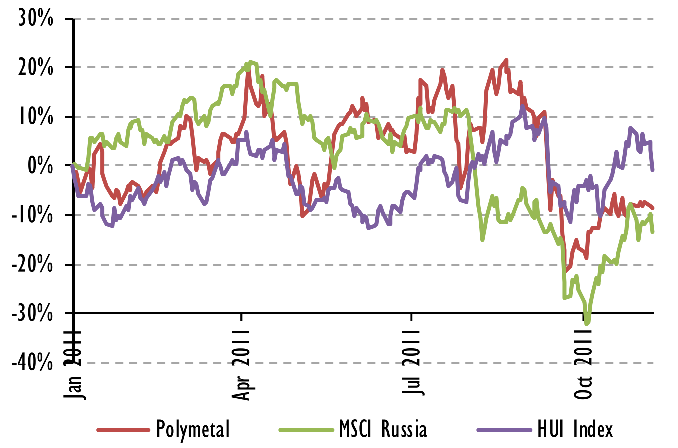
In the gold equity universe, both Polyus Gold International and Polymetal International are our top picks. On the relative valuation basis, we prefer Polyus.

Relative performance of Polyus vs. MSCI Russia vs. HUI Index



Source: Bloomberg

Relative performance of Polymetal vs. MSCI Russia vs. HUI Index



Source: Bloomberg

Precious metals prices

	2007	2008	2009	2010	2011E	2012E
Gold, USD/oz	**834**	**882**	**1,097**	**1,421**	**1,563**	**1,900**
change		*6%*	*24%*	*30%*	*10%*	*22%*
min	602	882	1,097	1,421	–	–
max	846	1,033	1,227	1,431	–	–
Silver, USD/oz	**14.8**	**11.2**	**17.0**	**30.9**	**35.9**	**38.0**
change		*-24%*	*51%*	*82%*	*16%*	*6%*
min	11.1	8.5	10.3	14.7	–	–
max	16.2	21.4	19.5	30.9	–	–

Source: Bloomberg, Gazprombank estimates

Comparative valuation: gold companies

	EV/EBITDA			P/E			EV/Reserves	EV/Resources
	2010	2011E	2012E	2010E	2011E	2012E		
Global Senior Gold Miners								
Newmont	6.7	6.8	5.1	17.2	14.4	9.9		–
AngloGold	9.6	6.9	4.5	36.0	13.1	7.7	262.2	776.2
Barrick Gold	8.7	5.9	4.7	15.7	10.4	8.1	441.7	888.1
Gold Fields	7.2	5.2	3.4	21.7	12.3	6.3	67.4	734.4
Harmony Gold	17.5	16.4	6.9	75.5	43.4	13.7	32.2	126.6
Average	**10.0**	**8.2**	**4.9**	**33.2**	**18.7**	**9.1**	**200.9**	**631.3**
Median	**8.7**	**6.8**	**4.7**	**21.7**	**13.1**	**8.1**	**164.8**	**755.3**
Global Mid-Cap Gold Miners								
Agnico-Eagle	11.1	8.9	6.2	25.1	21.1	12.3	487.7	396.6
DRDGold	8.5	3.7	1.7	62.1	17.4	6.2	479.3	1308.7
Eldorado	21.5	14.5	9.6	43.0	27.7	0.0	366.2	280.9
Goldcorp	19.0	12.7	8.9	41.3	22.6	15.4	232.4	817.9
IAMGold	12.9	8.2	6.6	28.8	15.9	12.3	–	–
Kinross	10.0	7.5	5.5	27.7	16.0	10.6	–	–
Newcrest	22.3	12.1	8.8	45.1	24.4	15.9	–	–
Randgold Resources	50.6	14.3	8.9	77.8	24.2	15.3	385.4	577.0
Northgate Minerals	4.0	5.3	2.6	–	–	–	–	–
Average	**17.8**	**9.7**	**6.5**	**43.9**	**21.2**	**11.0**	**308.9**	**697.5**
Median	**12.9**	**8.9**	**6.6**	**42.1**	**21.9**	**12.3**	**385.4**	**577.0**
CIS Gold Producers								
Centerra	11.2	8.9	6.4	18.6	13.8	9.4	–	–
Highland Gold Mining	6.9	4.5	3.5	12.7	7.7	6.0	–	–
Peter Hambro Mining	10.2	4.8	4.0	14.4	7.5	6.5	–	–
Polymetal	**18.4**	**10.2**	**8.6**	**31.4**	**15.4**	**10.9**	450.4	239.4
Polyus Gold	**12.0**	**8.5**	**7.0**	**26.4**	**13.5**	**11.2**	110.4	96.8
Average	**11.7**	**7.4**	**5.9**	**20.7**	**11.6**	**8.8**	**280.4**	**168.1**
Median	**11.2**	**8.9**	**6.4**	**18.6**	**13.8**	**9.4**	**417.9**	**408.2**

Source: Bloomberg, Gazprombank

We forecast a mixed picture for base metals in 2012

Fundamentally, we prefer aluminum to nickel.

We are cautiously optimistic on aluminium and believe that its average price will increase in 2012 versus 2011. We don't exclude a slight downward correction in the beginning of the next year. Meanwhile fundamentals for the metal will remain relatively strong. We think the Chinese consumption will support aluminum. Moreover, supply problems from a number of Chinese domestic smelters may fuel a deficit in the market, which, in turn, will support prices additionally. We forecast the average aluminium price at $2482/t in 2012 which is 0.5% higher compared to the average level in 2011. Based on the stainless steel trends, we are slightly less optimistic on nickel consumption in 2012. At the same time, a few new nickel projects are expected to be launched in the next year, which we expect will create a surplus. That said, we do not forecast a significant supply as a number of high cost capacity will quit. We forecast the average nickel price at $ 21600/t, which is 8% lower on average compared to 2011.

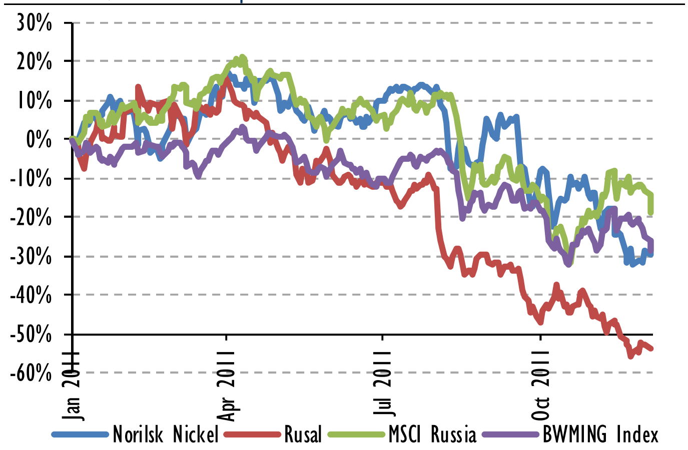
Base metal prices

	2007	2008	2009	2010	2011E	2012E
Nickel, USD/t	**26,400**	**11,825**	**18,822**	**24,950**	**23,479**	**21,600**
change		*-55%*	*59%*	*33%*	*-6%*	*-8%*
min	24,800	8,850	9,250	16,975		
max	51,800	35,150	21,325	27,595		
Copper, USD/t	**6,700**	**3,080**	**7,405**	**9,690**	**8,989**	**9,100**
change		*-54%*	*140%*	*31%*	*-7%*	*1%*
min	5,250	2,817	3,025	6,038		
max	8,335	8,940	7,424	9,687		
Aluminium, USD/t	**2,410**	**1,544**	**2,247**	**2,478**	**2,470**	**2,482**
change		*-36%*	*46%*	*10%*	*0%*	*0.5%*
min	2,375	1,431	1,279	1,828		
max	2,932	3,380	2,305	2,500		

Source: Bloomberg

In the base metal equity universe we do not see a Russian company with a level of risk and return to be a top pick at this stage. But we prefer Rusal to Norilsk based on (1) its expected production growth (2) our more positive view on aluminium fundamentals compared to nickel fundamentals.

Norilsk Nickel, Rusal: relative performance



Source: Bloomberg

Comparative valuation: base metals and diversified companies

	EV/EBITDA			P/E		
	2010	2011E	2012E	2010E	2011E	2012E
Diversified						
Vale	5.6	4.0	4.0	7.7	5.1	5.6
RIO Tinto	4.7	4.3	4.2	7.4	6.5	6.6
BHP Billeton	7.8	5.1	4.7	14.4	8.3	8.1
Xstrata	5.8	4.8	4.4	9.3	7.8	7.0
Anglo American	5.4	4.5	4.1	10.3	7.9	7.1
Teck Resources LTD	5.8	4.7	4.5	12.2	8.9	8.6
ENRC	4.5	3.8	3.7	6.9	6.4	6.1
Average	**5.6**	**4.4**	**4.2**	**9.7**	**7.3**	**7.0**
Nickel Producers						
Panoramic Resources	1.8	2.0	2.5	5.8	7.3	10.7
Minara Resources	6.1	8.5	7.4	15.6	24.4	20.8
PT Internatonal Nickel Indonesia	4.8	4.9	5.0	8.3	8.1	8.3
Eramet	3.1	3.3	3.5	7.1	10.8	9.7
Norilks Nickel	4.3	4.4	4.8	6.7	7.0	7.9
Average	**4.0**	**4.6**	**4.6**	**8.7**	**11.5**	**11.5**
Copper producers						
Vedanta	8.7	5.6	3.9	8.2	5.0	3.9
Antofagasta	6.7	5.1	4.1	16.1	13.6	10.1
Freeport-McMoran	4.0	3.8	3.8	9.1	8.3	8.5
Grupo Mexico	5.9	4.7	4.4	12.9	9.2	8.4
Southern Copper	9.2	6.8	6.5	16.6	11.2	11.0
KGHM	3.8	2.4	4.0			
Jiangxi Copper	10.9	7.3	6.9	16.6	9.5	8.7
First Quantum Minerals	9.3	6.6	4.6	22.0	14.4	9.1
Kazakhmys	5.1	4.4	3.9	5.2	5.2	4.7
Average	**7.1**	**5.2**	**4.7**	**13.4**	**9.6**	**8.1**
Aluminum producers						
Alcoa	8.1	6.4	5.9	20.4	12.0	10.4
Alumina	33.0	33.9	44.6	47.1	24.7	27.9
Chalco	15.6	14.0	12.7	76.4	63.8	48.8
Hindalco Industries	7.4	5.3	6.1	11.8	7.2	8.4
Yannan Aluminium	39.4	18.8	10.6	62.0	60.1	23.5
Norsk Hydro	10.5	4.5	5.4	33.1	10.3	13.0
Century Aluminum	6.2	7.4	5.4	13.8	37.8	13.1
China Zhongwang	1.1	2.0	1.5	4.4	12.2	8.1
RUSAL	8.6	8.6	6.0	5.5	5.2	5.7
Average	**14.4**	**11.2**	**10.9**	**30.5**	**25.9**	**17.6**

Source: Bloomberg, Gazprombank estimates

Top picks

Raspadskaya

Recommendation OVERWEIGHT, target price RUB 163.4.

Currently Raspadskaya's investment case is mostly driven by a post-accident recovery of its key "Raspadskaya" mine. Mostly based on the recovery, Raspadskaya plans to produce 10.5 mt of raw coal in 2012E compared to 6.4Mt in 2011E (+64% YoY). Production is expected at about 17 mt in the longer run. Unfortunately the recovery moves forward much slower compared to the initial plan. However the medium term production target (13-15 mt of coal) looks achievable to us. Thus we consider Raspadskaya as a strong growth story, even taking into account the recovery delays. Moreover, the growth will be accompanied by better product mix and mine diversification, and the diversification will soften possible negative effects from mine accidents in future.

Key Raspadskaya's owners (EVRAZ/management, 40%/40%) have expressed intention (the management – only reportedly) to sell up to 80% in the company, but postponed the sale due to unfavorable market conditions. We believe the owners considered the sale only with a solid premium. In our view, if the global situation improves, a sale of a large stake might be on a radar again, and it might be beneficial for minorities according to a number scenarios (or at least not harmful).

Raspadskaya announced a share buyback (10% of the stock) in November 2011 with the buyback price of 150 RUB per share (a 64% premium to the market price at that time). The orders are accepted until January 31, 2012 and the buyback will support the price in the short run. Moreover, we do not exclude other buybacks in future.

Raspadskaya trades at 4.2x EV/EBITDA 2012E and versus 5.9x 2012E EV/EBITDA for the global peers. Raspadskaya's key risk is represented by high uncertainty related to its key mine's recovery after the accident. Within a number of scenarios, decrease in liquidity is another risk. However, in our view, the non-demanding valuation incorporates risks excessively. Fundamentally the company has a limited downside risk and a large upside potential. Given the recent management's conference call, the management's intention to be more open to investors will be welcomed by the market. Raspadskaya plans to increase its coal production to 2.35 mt (+36% QoQ) in 1Q12, and the growth might be a strong catalyst in the short run.

Polyus Gold International

Recommendation OVERWEIGHT, target price $4.6.

Polyus Gold International (Polyus) gives an exposure to unique growth opportunities, and delivery of the growth is key in its investment case. According to its ambitious strategy (published just in 2011) gold production will double from 1.4 moz in 2011E to 2.8 mn oz in 2015E and will boost to 4.4 mn oz by 2020E (by 57% from 2015E-2020E). The production CAGR in 2011E-20E is planned to be an impressive - 13%. To achieve the growth, Polyus plans to invest up to $8.7 bln by 2020, including $4.7 bln by 2015. We see risks that the long term growth will not be carried out exactly in line with the plan as we have concerns regarding certain projects. Our concerns are based on a number of challenges related to the projects backed by a relatively low visibility at this stage. However even adjusting this grown to more conservative, we still expect a robust production increase (73% by 2015 based on a conservative scenario, not an our case). In addition to the promising organic growth, in the long run, Polyus may enter a M&A deal with one of the global gold majors. As for the short term drivers, we expect 13% production growth in 2012 YoY accompanied by increasing gold prices, financial strengthening and profitability improvements. Moreover, Polyus plans to receive a premium listing on the LSE, which, we believe, will attract new investors and improve liquidity (that said, it needs an improvement from the government at this stage). Polyus trades at and EV/EBITDA 2012E of 7.0. While it trades with a premium to international peers, in our view the outstanding production/financials growth profile justifies a higher valuation.

Polymetal International

Recommendation OVERWEIGHT, target price GBp 1,488.

Polymetal International (Polymetal) also offers a rapid growth of production. The company is at an upward stage of its production cycle: in 2012 Polymetal will mine up to 1200 k oz of gold equivalent (41% YoY up). Through 2011-2013 the production CAGR is expected at 13%, and the company will reach total production of 1400 k oz. We note that Polymetal has several projects with relatively high implementation risks and low visibility, especially in the long run. We believe in 2012-13 Polymetal may announce acquisitions (greenfield or brownfield) to increase its resource base and to expand the business. The company trades at and EV/EBITDA 2012E of 8.6x. However, we do believe that Polymetal's outstanding production/financials growth deserves a higher premium to the global peers.

Under pressure from regulation

2011 saw significant regulatory tightening with authorities capping electricity and capacity prices, revising previously approved long-term tariff plans for grid companies and putting pressure on supply companies' margins.

Regulatory issues coupled with a global financial market meltdown caused massive sales in electric utilities' stocks losing 34% YTD.

Regulatory issues coupled with a global financial market meltdown caused massive sales in electric utilities' stocks. As a result, electric utilities' stocks substantially underperformed the market this year with Micex POWER Index losing 38% YTD vs. Micex being down 19%.

Regulation tightening will continue to be on agenda given that electric utilities continue to be highly exposed to regulatory decisions.

Regulation tightening will continue to be on agenda in the next several months as the government has decided to postpone traditional annual tariff revision campaign by six months. This suggests a high degree of uncertainty given that electric utilities (not only grid and supply companies, but generators as well) continue to be highly exposed to regulatory decisions. Consequently, we do not recommend investors to increase their exposure on the electric utilities stocks.

Government decides to cap electricity prices

The government has been gradually tightening regulation to address the issue of rising prices. This increased risks of investment in the shares and was the major reason of underperformance. We expect regulatory issues to prevail in 2012 as well.

Annually, electricity bills in Russia have been rising as a result of fuel appreciation, high inflation and needs to finance companies' capital expenditures. Additionally, in 2011, prices were driven by the full liberalisation of the electricity markets and RAB regulation roll-out amongst distribution grid operators. To address the issue of rising prices, the government has been gradually tightening regulation throughout the year by introducing multiple new measures. A Permanent change to the game rules substantially raised risks of investment in the shares and was the major reason of underperformance of the sector on the stock market. In 2012, we expect regulatory issues to prevail, at least, in the first half of the year, until the annual adjustment of tariffs is complete.

HPPs in Siberia have been excluded from the capacity market starting 2011. Later the government released a list of measures aimed to limit electricity price growth, decided to shift annual tariff adjustment by half a year and proclaimed RAB reload. In November, a decree was issued to reduce power SupCos' extra profits.

Starting in 2011, hydro power plants in Siberia have been excluded from the capacity market. Alternatively, they have to sell capacity under tariffs set by FTA, which are substantially lower than rates for other generators' capacity in the region. By February, the government released a full list of measures aimed to limit electricity price growth and by October, the Ministry of Economy decided to shift annual tariff adjustment by half a year to 1 July 2012. Furthermore, the Ministry proclaimed RAB reload implying an even a harder scenery regarding revision of long-term regulation parameters for grid operators. More recently in November, the government issued a decree aimed at reducing power supply companies' extra profits. Currently, the Market Council develops a new market model, providing a switch to a single tariff, covering both capacity and electricity. However, the Ministry of Economy is against this initiative.

The key factors accounting for electricity price growth in 2011 were further liberalization of the electricity market, implementation of RAB policy and launch of the long-term capacity market.

According to the analysis conducted by the Market Council, the key factors attributing towards rising electricity prices in 2011 were the following:

- the full liberalization of the electricity market (with regards to the supplies to households – around 80%), which entailed unregulated sales volumes growth and efficient thermal power plants' earning on the day ahead market thanks to the marginal pricing;
- introduction of the RAB-regulation across electricity transmission and distribution companies, particularly, mass migration of MRSKs to the new tariff regime which required rapid tariffs expansion to cover companies' operating expenses as well as return on invested capital. Besides, in a number of cases, an investment component was included in tariffs which was a previously separate connection fee not paid by all of the consumers; and
- launch of the long-term capacity market which is aimed at guaranteeing

generation companies the payment for all the capacity which has passed the competitive bidding. Particularly, it is referred to the launch of CPAs, which like RAB-regulations, guarantee the return of the invested capital. Capacity tariffs for projects under CPAs are much higher than for the existing capacity. Also, HPPs and NPPs receive an investment component incorporated into their capacity tariffs. Finally, the forced generation received special tariffs, exceeding price caps and prices following the competitive bidding.

The decree #1172 stipulates cancellation of inflation adjustment of capacity rates, forced generation tariffs revision, reduction of investment components, extra revenue smoothing for grid companies and reduction of supply fees.

On 1 April 2011, the government released decree #1172, which formed a legal framework for earlier proposed measures to limit electricity price growth for end consumers by 15% – this threshold was exceeded in many regions. The proposed measures included:

- cancellation of inflation adjustment for price-caps on the capacity market. The estimated loss of generation companies is RUB 12 bln;
- revision of tariffs for forced generation. The total loss is estimated at RUB 7 bln ;
- reduction of investment components for HPPs and NPPs by RUB 15 bln in total;
- extra revenue smoothing for the Federal Grid Company reducing its tariff revenue by RUB 5 bln in 2011;
- capex timeframes prolongation for MRSKs and downline grid operators reducing their combined tariff revenue by RUB 25 bln; and
- reduction of supply services fees.

Market participants believe that fight against electricity prices growth is explained by elections. But we also note that high prices for industrial consumers put pressure on their competitiveness on the global markets.

Market participants believe that fight against electricity prices growth is associated with the parliamentary and coming presidential elections.

This idea is confirmed by the government's decision to shift annual tariff adjustment. However, in our view, there is another reason. Due to the rapid tariffs expansion, electricity prices for industrial consumers reached the levels of other countries (see the chart below), which is not true for households, thanks to cross-subsidization. High electricity prices put pressure on the competitiveness of national enterprises on the external markets.

The MED prepared a scenario implying that tariffs for electric utilities would grow in line with inflation in 2012-2014, which forced the government to announce RAB reload – a total revision of previously approved parameters.

Apparently the imposed measures turned out to be insufficient, especially in light of the government's new plan to limit natural monopolies' tariffs. The Ministry of Economy prepared a scenario according to which tariffs for monopolies including the electric utilities should be increased in line with projected inflation, i.e. by 5-7% in 2012, 6-8% in 2013 and 6.5-8.5% in 2014. This new stricter approach requires regulators to further review grids' tariffs, however extra revenue smoothing would not help. Therefore, government officials announced RAB reload suggesting a total revision of previously approved RAB parameters and long-term tariff plans. In fact, this ruined the investment story associated with the shift to a brand new rate policy based on guaranteed returns and long-term decisions.

In November 2011, government signed decree #877 regulating supply companies' operations on electricity markets.

More recently, in November 2011, government signed decree #877 regulating supply companies' operations on electricity markets. Electricity supply companies due to inefficiency in regulation and lack of competition have been earning several times more than they were expected to in accordance to their tariffs set by the FTA. The decree:

- scrutinized information disclosure by supcos (including reporting actual data on peak `capacity usage both on the wholesale and on the retail markets);
- cancelled penalties for consumers with connected capacity below 750 KVA, effective since 1 December 2011 (they had to compensate over/under-consumption of electricity); and

- abandoned capacity utilization adjustment ratios which let supply companies manipulate tariffs starting 1 April 2012

The MED estimated unjustified revenues of the supply companies at RUB 160 bln in 2011.

According to the Ministry of Economy estimates, unjustified revenues of the supply companies totalled RUB 100 bln in 2010 and RUB 160 bln in 2011. The Minister of economy, Elvira Nabiullina believes that the decree would help reduce electricity bills for smaller business by 6-7%.

The measures will substantially affect supply companies' profits and may somewhat reduce the general tariff pressure on industrial consumers.

We expect that the measures stipulated in the decree would somewhat reduce the general tariff pressure on industrial consumers and substantially affect supply companies' profits. Hence, this is moderately negative for Inter RAO (which controls several supcos, including the most profitable Mosenergosbyt) and IES Holding having large exposure on electricity supply business in the region of operation of its TGKs. However, we see little benefits for other participants such as generators and grid companies.

We believe that the tightening of regulation is not a one-off factor, we expect a continuation of the tough regulation environment.

Overall, we believe that the recent tightening of regulation is not a one-off short-term factor. On the contrary, we expect a continuation of the tough regulation environment in the electric utilities market to be implemented over the next coming years. Electricity price growth is a fundamental process associated not only with inflation, but also stemming from a change in rate policy regarding grids and capacity (and probably heat business as legislation requires switch to long-term regulation). In part, this point of view was supported by the energy minister, Sergei Shmatko, saying that the situation would not get easier in 2012.

Grid operators, power generators and supply companies are still exposed to regulatory risks and will be in a period of high uncertainty at least in the 1st half of 2012.

Multiple measures to limit electricity price growth introduced by regulators throughout 2011 suggest that long-term planning is very complicated. Grid operators, power generators and supply companies are still exposed to regulatory risks and will be in a period of high uncertainty at least in the 1st half of 2012 (before new tariff decisions are taken). Generation companies have a certain degree of protection stemming from market liberalization and Capacity Provision Agreements which are aimed at guaranteeing a certain return on capital invested into power plants construction. Unlike RAB tariffs, CPA terms were not subject to meaningful amendments. However, regulatory risks cannot be ruled out as generators are the largest contributor to the retail electricity price.

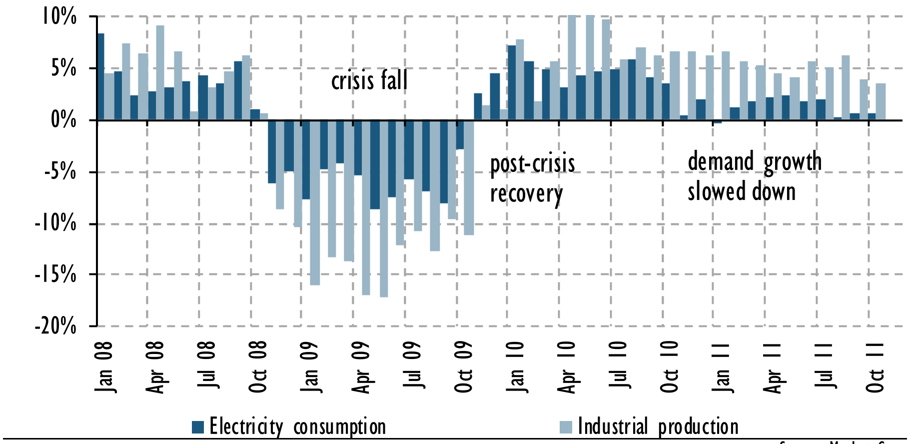
Sluggish demand affects electricity price dynamics

Power consumption growth rates slowed down putting pressure on generators and questioning the payback of investments.

Another risk for electric utilities comes from sluggish demand dynamics. Power consumption growth rates slowed down substantially in recent months depressing electricity prices on the free market. In the environment of growing competition (thanks to liberalization) and tightening regulation, this puts pressure on generators, especially, the least efficient, and may question the payback of investments into new capacity construction. We expect that generators' margins will not increase substantially over the coming year.

After a period of post-crisis recovery, electricity consumption dynamics in Russia have become flat with an average YoY growth rate falling to 1.3% for 12 months through November 2011 from 4.7% average for November 2009 - October 2010.

Electricity demand dynamics in Russia, % YoY



Source: Market Council

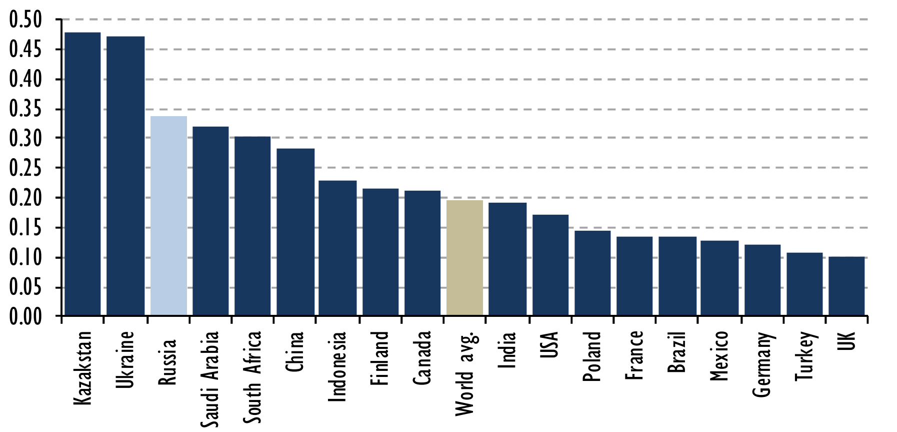
The largest industrial consumers exhausted the potential to further increase demand as after the economic downturn they cut investments dramatically.

Power saving initiatives will gain momentum if rapid electricity appreciation continues. Russia's high GDP energy intensity suggests a big room for savings.

Sluggish demand fluctuations may be partly explained by the fact that the largest industrial consumers exhausted the potential to further increase demand as after the economic downturn they cut investments dramatically. Industrial production statistics partly confirms this logic as the YoY growth rate is slowing down.

In fact, rapid electricity price growth encourages all types of consumers to save energy or in case of industries to build their own sources of power. In the housing sector, the power-saving technologies implementation is encouraged by special state programs in line with recently adopted laws on power savings and heating. Large energy-intensive industrial enterprises started to face risks of deterioration of competitiveness as the domestic electricity prices for industries approach those in other countries. Nethertheless, given the prospects of further rapid electricity appreciation power saving initiatives will only gain momentum especially taking in account that Russia's high GDP energy intensity relative to developed countries and the majority of emerging markets (excluding CIS).

Russia lags in terms of GDP energy intensity, koe/$2005p



Source: Enerdata, Global Energy Statistical Yearbook 2011

We believe that the regulators may be overly optimistic regarding expected energy demand growth rates. This may question the extensive capex programs.

All the projections including the official long-term strategies by the Ministry on Energy based on the assumption of a moderate growth of at least 2-3% a year. This suggests that the companies and the regulators may be overly optimistic and that the actual consumption volumes and market prices may be below projections in the following years. This may question the extensive capex programs (40 GW until 2017 under CPAs only, including thermal, hydro and nuclear units).

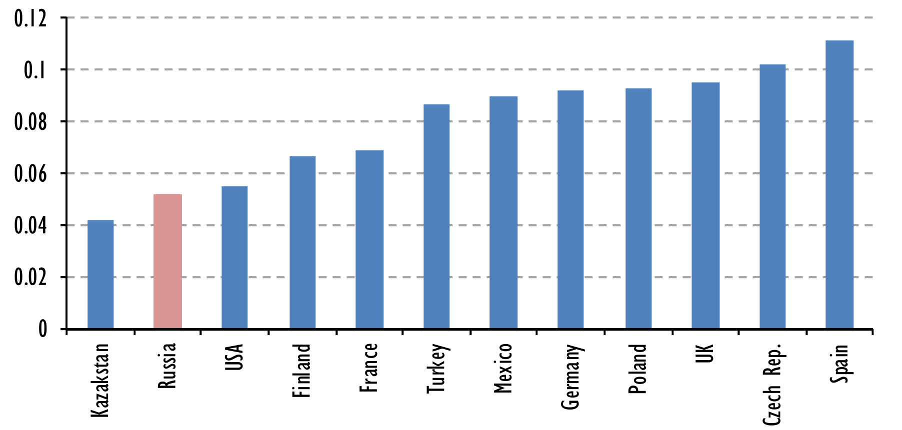
Slow demand negatively affects electricity markets. According to the Market Council, in the first half of2011, free electricity prices on the day ahead market grew on average 23.5% YoY in the first pricing zone and 12.0% in the second zone. In the period of July – October 2011, rates fell to an average of 1.5% and 9% correspondingly.

Free electricity prices were negatively affected by sluggish demand and regulation tightening.

But not only weak demand negatively affects free electricity prices. Another reason is regulation tightening with the majority of measures being introduced since the second half of 2011.

Moreover, we believe that room for further electricity price growth is limited as domestic prices for industrial users approach global levels reducing exporters' competitiveness on the external markets.

Electricity prices for industrial consumers in Russia have reached the global levels, EUR/kWh



Source: Eurostat, US Energy Information Administration

We expect electricity consumption growth rates in 2012 to stay low, which would affect electricity price dynamics.

All in all, current trends in demand and on the markets suggest that at least in 2012 electricity consumption rates will continue to be sluggish affecting electricity price dynamics. This will put pressure on generators, especially on the least efficient ones as the liberalization process suggests the toughening of a competitive environment for generators. Most efficient generation companies will be in a more advantageous position, especially those with a high share of new capacities launched under the CPAs as they enjoy priority over existing power plants on the capacity market and are much more competitive on the electricity market.

Only the most efficient generators with a high share of new capacities under the CPAs will be able to increase margins.

Thus, we expect that the majority of generation companies will not be able to increase their margins, whereas the leading companies will manage to do so as capacity under CPAs will enjoy much higher rates. We cannot However rule out regulatory risks regarding CPA parameters (which so far has not suffered meaningful changes), especially in light of Market Council initiative to abandon capacity market.

CPA parameters haven't being changed, but this cannot be totally ruled out, in our view.

Although demand weakness affects all the electric utilities, we believe that some of them are less vulnerable. In particular, hydro generators (as their output is immune to demand fluctuations and depends on water flows) such as RusHydro, Krasnoyarskaya HPP, TGK-1 and Irkutskenergo as well as the most efficient thermal gencos, including E.ON Russia and Enel OGK-5.

We believe hydro and the most efficient thermal gencos are less vulnerable in the environment of weak demand.

Electricity grids – defeat of hopes

RAB regulation contributed to an overall electricity price growth and regulators decided to reduce tariffs via smoothing and later announced total revision of basic parameters. This ruined the investment story in MRSKs.

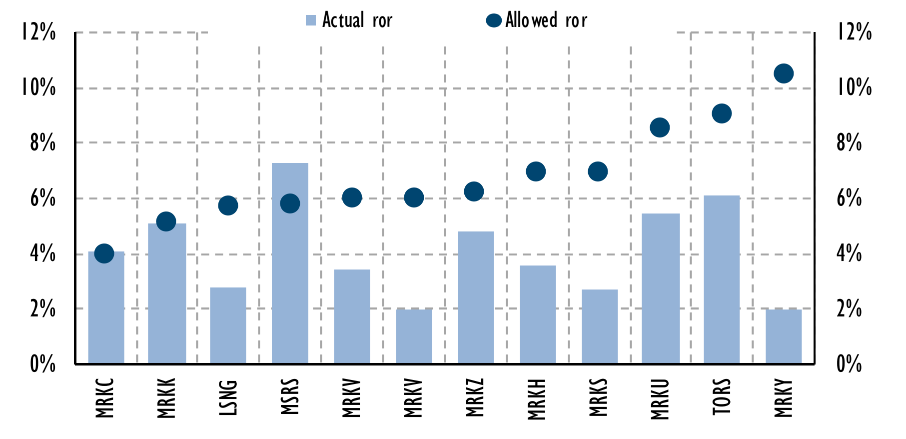
Starting 2011, RAB regulation has become a widely-used practice after adoption of this policy throughout MRSKs. However, this contributed to an overall electricity price growth and regulators decided to reduce tariffs via smoothing mechanisms. Later, they announced RAB reload, suggesting total revision of the previously approved RAB parameters and long-term tariff plans. This ruined the investment story associated with the shift to RAB as regulators' actions proved absence of long-term visibility and justified returns. MRSK shares plunged to their two-year lows. At the moment, stocks look relatively cheap, but we do not recommend buying them yet due to high uncertainty related to RAB revision.

The first regulatory period under RAB had been declared introductory, implying possibility of tariff adjustments through revenue smoothing mechanism. This was used after the government decided to contain electricity price growth.

From the very beginning of the introduction of RAB policy in the Russian electricity grids, the regulators declared that the first regulatory period would be transitional, suggesting a possibility of further adjustments. It was implied that the FTA would use the revenue smoothing mechanism to shift excessive tariff burdens on consumers to consecutive years. In general, such approach complies with the basic principles of RAB regulation (long-term predictability and guaranteed return on invested capital) as soon as reduced revenues will be compensated within the same regulatory period with account of inflation.

Earlier this year, the government introduced a list of measures to contain electricity inflation, which among other measures, stipulated correction of the grids' tariffs via smoothing mechanisms. This implied CAPEX timeframes prolongation. This also accounted for the fact that the actual rates of return on invested capital turned out to be substantially lower than allowed rates (see the chart below).

Real returns on invested capital vs. allowed rates



Source: companies' data, Gazprombank estimates

We believe that infeasibility of future reimbursement of extra revenue smoothing forced government to declare RAB reload.

Market participants called future reimbursement of current extra smoothing into question as this would entail steep tariff hikes in the future. Probably infeasibility of such compensation in future tariffs forced government officials to review the initial parameters of RAB regulation.

To limit excessive growth in electricity prices regulators had to review grid operators' tariffs as they were the key factor triggering electricity price growth.

Besides, the government prepared an overall plan to contain inflation through tighter regulation of natural monopolies, including electric utilities. To remind, the key factors triggering electricity prices growth in 2011 were the grid companies' tariffs hikes as well as the fuel appreciation and the fixed costs increasing in line with inflation. Therefore, to limit excessive growth in electricity prices, regulators have to contain fuel inflation and review tariffs of the grid companies. According to the socio-economic forecast released by the Ministry of Economy in September, distribution and transmission tariffs will grow 11% from the second half of 2012, which corresponds to a mere 5.5% YoY growth.

GridCos' revenues are totally regulated, making their shares the most exposed to regulatory risks. Before new tariff parameters are announced we expect MRSKs to be under pressure, especially those with the highest tariff hikes.

Unlike generation companies, grid operators' revenues are totally regulated, depending on official tariff decisions. This suggests that their shares will be exposed to regulatory risks to the fullest extent. As far as the government decided to shift annual tariff adjustments by half a year, MRSKs will continue to be under pressure of uncertainty over the next several months until new RAB parameters and long-term tariff plans are decided.

We believe that initial RAB parameters revision will mostly hurt MRSKs with highest tariffs growth rates approved for 2011-2012 and those where revenue smoothing volumes were the most significant, in particular, MRSK North-West, MRSK Volga, MRSK Center and Volga. MOESK seems to us to be less vulnerable.

Corporate structure reshaping

M&As are gaining momentum with state-controlled Inter RAO, Gazprom and RusHydro being the major consolidators. This creates bigger companies, however, minority shareholders in most cases do not directly benefit from consolidation deals.

In 2012, we expect a reshaping of the market due to M&As which gained momentum on the back of Inter RAO, Gazprom and RusHydro deal.

Year 2011 saw consolidation in the electric utilities industry in Russia with state-controlled Inter RAO and RusHydro acquiring large stakes in other companies and Gazprom merging its OGK-2 and OGK-6 and planning an even larger scale deal with IES Holding, one of Russia's largest private investors in the industry. In the coming 2012, we expect a reshaping of the market.

Consolidation releases synergies and brings all the advantages of a big company such as lower borrowing interest rates and higher stock liquidity. However, in most cases, minority shareholders do not have direct benefits, which can be executed through buy-out offers or shares appreciation for example. We believe that the potential stemming from consolidation may take a longer time than previously anticipated to be unlocked. Thus, we currently have a cautious view on Inter RAO and RusHydro.

We believe that in most cases minority shareholders do not have direct benefits from consolidation. The potential stemming from consolidation may take a longer time.

Inter RAO acquired dozens of assets via additional share issue placement increasing its capital 3.4 times. A number of non-strategic entities became Inter RAO's large stakeholders, which creates a risk of shares overhang.

Inter RAO completed an additional share issue placement, which helped the company to absorb dozens of assets, mainly from the state and state-controlled companies. As a result, the company's charter capital increased by 3.4 times and its shareholder structure changed dramatically. A number of non-strategic entities became Inter RAO's large stakeholders, which means that in the next year (after their lock-up periods expire) they will examine ways to capitalize their stakes. This would create a serious risk of shares overhang as only four of the largest non-strategic companies (Federal Grid, Norilsk Nickel, RusHydro and Rosneft) hold over 40% of Inter RAO shares. Another 12.7% of its shares are quasi-treasury (held by the 100% subsidiary).

We are cautious over RusHydro's additional share issue as it receives assets in some of which control cannot be obtained. Besides, RAO ES of East, where RusHydro acquired control, is chronically loss-making and fully regulated.

We are also cautious over RusHydro's case, but for different reasons. Firstly, the company holds an additional share issue to receive assets which would not allow the company to obtain control – 40% stake in Irkutskenergo and dams of Irkutskenergo's HPPs. RusHydro plans to swap these assets together with a blocking stake in Krasnoyarsk HPP for a non-controlling stake in their parent company Eurosibenergo. For now, benefits of such a deal financed through RusHydro's share issue, are not clear. Secondly, RusHydro acquired RAO ES of East – vertically-integrated company in the Far East region of Russia, where electricity market does not exist. This is a chronically loss-making entity which, after acquisition by RusHydro will negatively affect its consolidated financials. Management of RusHydro sees benefits from the acquisition stemming from financial and operational optimization (increasing load of HPPs at the expense of the least efficient thermal power plants) and modernization. However, we believe that the potential from the unlocking of the far eastern company will take years.

But we believe that OGK-2 will benefit from merger with OGK-6.

We are more positive on Gazprom energoholding merging its two electricity generation companies – OGK-2 and OGK-6. The united company will benefit on synergies and we expect its shares to be more liquid and subsequently included in

MSCI indices. The united company also has a chance to become a core for a larger transaction, including other Gazprom's power companies and IES Holding's TGKs.

Top picks

We recommend investors to be cautious over Russian electric utilities given the high regulatory risks which will continue to be on the agenda until the end of the first half of 2012 – the new deadline for annual tariffs adjustment. Fully regulated grid and supply companies as well as generators which sell electricity on the free market are all exposed to regulatory decisions. 2011 saw severe tightening of regulation sparking underperformance from the sector on the stock market. However, recent actions by the officials suggest that new measures may be introduced at any time to contain prices. Therefore, we cannot rule out the possibility of a new round of regulatory tightening in the next coming year.

We believe that thanks to the liberalization of the electricity market, the most efficient generators have material chances to increase their profitability even in such a hostile regulatory environment. We pick E.ON Russia (former OGK-4), (EONR, TP of RUB 3.23, 51% upside potential, OVERWEIGHT) as it is the most efficient thermal generator demonstrating best practices of cost optimization. This company implements one of the largest CAPEX programmes under the CPA.

Among grid companies, we favour the Federal Grid Company as we believe it is more protected vs. MRSKs in terms of regulatory tightening. Its share in the final electricity bill is only 7%, suggesting a lower possibility of asset base revision and more room for tariff increase. Our TP of RUB 0.48 suggests a 57% upside.

Russian generating companies valuation

Company	Ticker	Last price, RUB	YTD, %	Mcap. $ mln	P/E 2011E	P/E 2012E	EV/EBITDA 2011E	EV/EBITDA 2012E	EV/IC, $/kW
Generating companies					**8,7**	**9,2**	**3,8**	**3,2**	**176**
OGK-1	OGKA	0.75	-38%	1 093	5.2	6.8	2.7	3.0	90
OGK-2	OGKB	1.13	-37%	1 479	5.7	4.7	3.4	2.7	87
OGK-3	OGKC	1.06	-38%	1 390	16.7	15.7	4.4	3.1	61
E.ON Russia	EONR	2.20	-25%	4 257	8.6	5.2	5.6	3.5	420
Enel OGK-5	OGKE	2.08	-26%	2 200	15.3	8.6	8.4	6.0	333
TGK-1	TGKA	0.010	-55%	1 187	4.7	3.9	3.8	3.2	317
TGK-2	TGKB	0.003	-65%	135	Neg.	Neg.	5.3	6.0	228
Mosenergo	MSNG	1.915	-41%	2 396	6.7	6.7	2.3	2.2	166
Quadra	TGKD	0.008	-51%	488	5.7	4.1	2.3	1.6	139
TGK-5	TGKE	0.007	-62%	267	8.7	neg.	3.6	4.1	90
TGK-6	TGKF	0.008	-54%	457	3.4	3.3	0.6	0.5	36
Volga TGK	VTGK	2.170	-4%	2 050	12.8	11.0	5.3	4.7	298
TGK-9	TGKI	0.003	-30%	829	14.0	2.0	3.6	4.0	232
TGK-11	TGKK	0.009	-55%	139	6.5	7.6	2.9	2.5	122
Kuzbassenergo	KZBE	0.249	-38%	553	13.9	Neg.	2.2	2.6	83
Yenisei TGK	ETGK	0.068	-48%	343	Neg.	46.2	6.6	3.9	215
TGK-14	TGKN	0.002	-60%	72	2.5	2.6	0.8	0.8	76
Hydro generators					**8.0**	**8.3**	**4.6**	**4.6**	**309**
RusHydro	HYDR	1.068	-35%	9 951	8.0	8.3	4.6	4.6	485
Irkutskenergo	IRGZ	15.23	-42%	2 285	n/a	n/a	n/a	n/a	211
Krasnoyarskaya HPP	KRSG	125.5	-38%	1 545	n/a	n/a	n/a	n/a	231
Integrated utilities					**12.1**	**9.5**	**6.5**	**5.5**	**355**
Inter RAO	IRAO	0.031	-35%	9 539	12.1	9.5	6.5	5.5	339
RAO ES of East	VRAO	0.321	-20%	433	n/a	n/a	n/a	n/a	193
Bashkirenergo	BEGY	34	-49%	2 468	n/a	n/a	n/a	n/a	534

Source: Reuters, Bloomberg, Gazprombank estimates and forecasts

Russian electricity distribution and transmission companies valuation

Company	Ticker	Last price, RUB	YTD, %	Mcap. $ mln	EV/RAB 2011E	P/E 2011E	P/E 2012E
Federal Grid	FEES	0.31	-17%	11,854	0.39	9.7	8.8
Holding MRSK	MRKH	2.40	-55%	3,346	0.36	3.2	3.2
MOESK	MSRS	1.56	-7%	2,384	0.49	5.4	5.7
Lenenergo	LSNG	11.03	-58%	391	0.28	5.2	4.7
MRSK Center	MRKC	0.67	-50%	889	0.25	5.0	4.6
MRSK Center Volga	MRKP	0.17	-45%	594	0.28	6.0	6.0
MRSK North-West	MRKZ	0.08	-63%	255	0.41	6.1	25.8
MRSK Urals	MRKU	0.22	-35%	622	0.31	5.7	7.0
MRSK Siberia	MRKS	0.13	-56%	403	0.36	9.3	10.4
MRSK Volga	MRKV	0.10	-47%	540	0.22	10.5	9.0
MRSK South	MRKA	0.08	-57%	122	0.58	7.1	4.5
MRSK North Caucasus	MRKK	60.25	-66%	56	0.11	1.6	2.0
Kubanenergo	KUBE	78.29	-57%	44	0.19	Neg.	Neg.
Tomsk Distr. Co	TORS	0.37	-43%	51	0.20	4.7	2.6

Source: Reuters, Bloomberg, Gazprombank estimates and forecasts

Key highlights and outlook

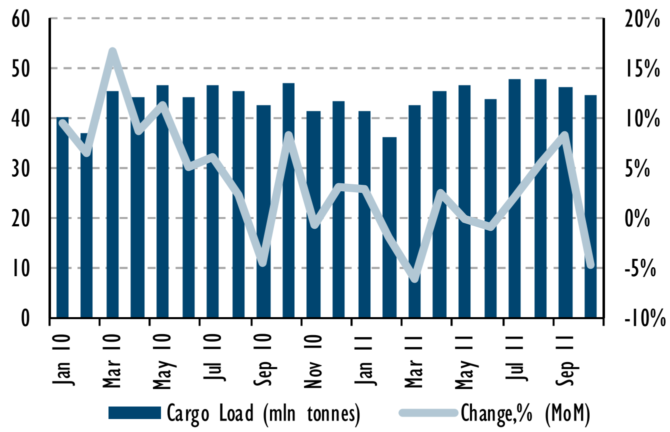
Year 2011 turned out to be quite successful for Russia's transportation industry: over 10M11 freight rail turnover grew by a solid 5,4%, air traffic elevated by impressive 13,6%.

Year 2011 turned out to be quite successful for Russia's transportation industry. Though over the course of 10 months 2011 cargo turnover at sea ports increased only by 0,8% to 443,7 mt, freight rail turnover grew by a solid 5,4% reaching 1,75 trln tkm and air traffic elevated by impressive 13,6% to 127,3 bln pkm.

Sea

Quite modest performance of stevedores is mostly explained by "high-base" effect. Stevedoring industry was one of the few that demonstrated exceptional operational performance back in 2009 growing by 9,2% and solid track record in 2010 with 5,9% increase. Taking into account decline in oil transshipment due to unfavorable oil export tariffs, restrictions in grain export, limited transshipment capacities in major sea hubs located in north-west and south basins and that no major facilities were commissioned in 2011 we view sector performance as quite robust.

Russia's sea ports cargo turnover, mln tonnes, 2010-2011



Sources: Sea trade ports association, GPB estimates

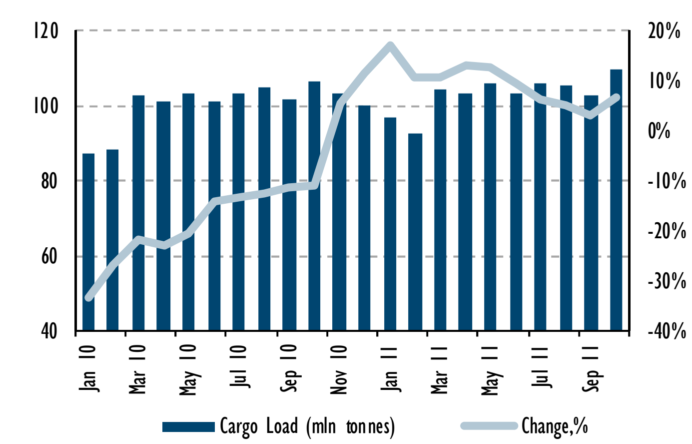
Freight rail turnover growth was mostly driven by positive economic backdrop, increasing foreign trade flows and continued deregulation of the sector.

Rail

Contrary to stevedoring companies freight rail operators demonstrated solid numbers over the 10M11 signalizing a strong operating performance by the year end. We believe that industry growth was mostly driven by positive economic backdrop and increasing foreign trade flows, but also greatly benefited from continued deregulation of the sector, which was marked with Freight One privatization.

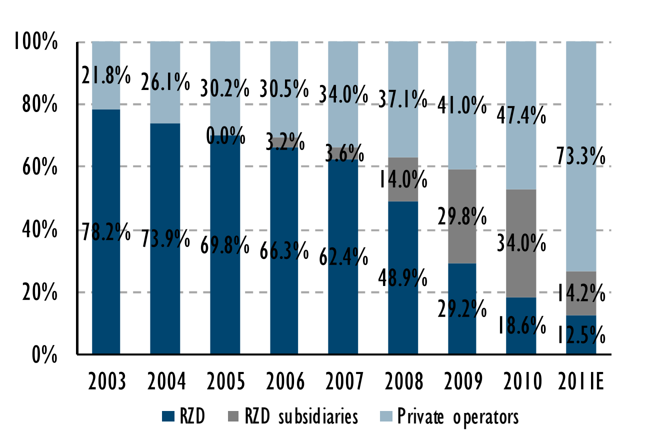
The auction for 75% stake in RZD's largest subsidiary was held on Oct 28 2011 and won by Vladimir Lisin's Independent Transport Company with $4,2 bln bid. The deal gave Lisin control of 235,000 railcars or about 22% of Russia's freight rolling stock fleet (the biggest transfer of railways assets into private hands) and close to a 25% share of the domestic rail cargo traffic.

Russia's rail cargo turnover, bln tkm, 2010-2011



Sources: RZD, GPB estimates

Russia's railcar market distribution by cargo turnover, 2004-2011E



Sources: RZD, GPB estimates

We believe that freight tariffs growth is set to outstrip inflation over the next 2-3 years as a result of excess demand for freight services and tight railcar production market.

Almost 75% of country's entire fleet in now owned by private operators. Private operators' tariffs are not subject to the Federal Tariff Service regulations whether RZD is obliged to charge regulated tariffs and cannot provide discounts or set premiums. Shortage of rolling stock capacities led to situations when private operators' tariffs for some cargo classes (coal, iron ore) were 20-30% higher than those of RZD in 2011. We believe that freight tariffs growth is set to outstrip inflation over the next 2-3 years as a result of excess demand for freight services and tight railcar production market.

The initiative of the government to grant access to locomotive traction for private operators provides another powerful investment case for the whole industry.

The initiative of the government to grant access to locomotive traction for private operators provides another powerful investment case for the whole industry. It has been estimated that the locomotive charge comprises around 30% of the average railway tariff. It is borne by consignors and paid by private operators to RZD (or by consignors directly to RZD omitting private operators' accounts). If private operators gain access to locomotive traction it would provide for a significant increase in their net revenues and margins.

Changes in the regulatory framework and tariff regulation are becoming increasingly relevant due to changes in the configuration of the rail freight market. Alignment or harmonization of tariffs is another important measure to be implemented over the next year. Under the current regulations, tariffs that private operators pay RZD for empty runs depend on the class of cargoes transported and the type of rolling stock used. RZD is currently developing legal framework to align the cost of empty trips for private operators irrespective of rolling stock and cargo involved.

Air

Finally, air transportation industry continued to show remarkable performance even after almost a 30% increase in air traffic demonstrated last year.

Finally, air transportation industry continued to show remarkable performance even after almost a 30% increase in air traffic demonstrated last year. The increase in personal incomes, low saturation of air services across the country and state subsidies on selected destinations still drive the demand for air transportation. At the same time we stress that the industry won't be able to sustain double-digit growth in the long run and we see it gradually sliding down to its normal growth rate over the next several years. It has been estimated that the worldwide demand for air transportation is linked to the global growth with a multiplier effect of 1.5-2, which is true both for developed and emerging markets during economic growth cycles and downturns.

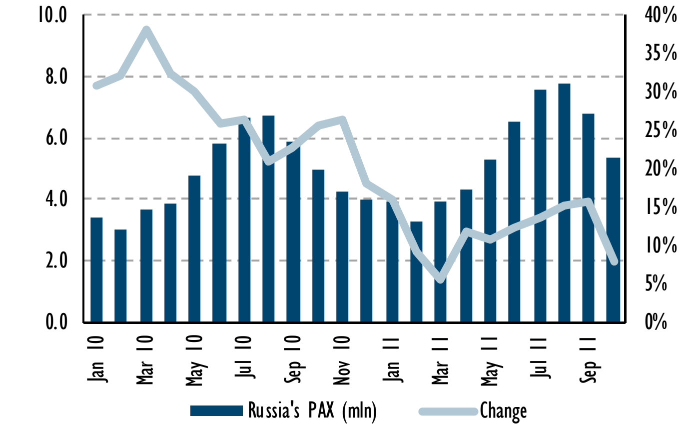
We also noticed an unusual industry trend unveiling since the beginning of the year. Top industry players (five out of top-10) managed to maintain a 20%+ increase in RPK while the rest airlines, by and large, demonstrated mostly flat, or even negative, performance. This contrasts with last year's dynamics, when all air carriers flew in line with the general industry's route.

At the same time we stress that the industry won't be able to sustain double-digit growth in the long run and we see it gradually sliding down to its normal growth rate over the next several years.

We see two major factors explaining such uneven dynamics - high leasing costs and escalating jet fuel prices. Despite the booming demand for passenger travel domestic airlines simply cannot afford to expand their fleet under the current market conditions. Monthly leasing payments for Airbus A-320 are now as high as $360,000, and as higher as $430,000 for Boeing 737-800. Coupled with the cost of jet fuel, which has already left behind the $1,000/tonne level, these factors make fleet expansion impossible for major domestic airlines.

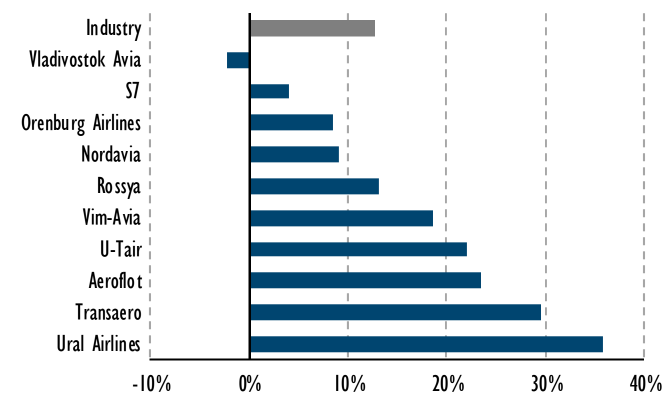
Only few players where able to expand their capacities and gain market share at the expense of the small airlines. Most of those players delivered double digits growth only through fleet expansion thanks to firm orders for aircraft delivery placed with major producers several years ago.

Russia's air passenger traffic, mln passengers, 2010-2011



Source: Rosaviacia, Gazprombank estimates

Top-10 airlines performance, 9M11, mln passengers



Source: Rosaviacia, Gazprombank estimates

Among the three sectors of the transportation industry (rail, air, ports) we believe that only rail operators can deliver above market-average growth over the mid-term.

Among the three sectors of the transportation industry (rail, air, ports) we believe that only rail operators can deliver above market-average growth over the mid-term due to the following catalysts:

- Tight rail car production market and continued deregulation created a perfect market backdrop for private operators which could charge a solid premium on top of RZD tariffs.
- Changes in the regulatory framework that set to align the cost of empty trips irrespective of rolling stock and cargo involved will lead to further improvements in railway logistics positively affecting independent operators' revenues and margins.
- The initiative to grant access to locomotive traction for private operators (where private operators are expected to provide locomotive traction services on limited number of routes) will allow private operators to collect locomotive charge which currently constitutes about 30% of total RZD tariffs.

Tariff regulation limits the upside for major stevedoring companies.

Finally, strong interest in Freight One expressed by large industrial groups (Gennady Timchenko's Transoil was also among major contenders for the asset) also confirms our positive view on the industry future prospects.

Airline industry performance next year will be pressured by high jet fuel prices and leasing costs.

As for stevedoring companies and air carriers we don't see any strong catalyst here. Most tariffs for sea ports are set by the state which limits their top line growth. Airline industry performance next will be pressured by high jet fuel prices and leasing costs.

Top pick: TransContainer

Why invest?

TransContainer is well positioned to capitalize on Russia's increasing involvement in the global trade and booming volumes of transit shipments on Asia-Europe routes.

The company is the next in line to be auctioned off after Freight One. The RZD's BoD approved the sale of a 25% stake in TransContainer valuing the company at $1,43 bln., which already provides almost 40% premium to the current TransContainer MCap. In our view, it is highly possible that RZD will revise its initial valuation upwards as was the case with FreightOne.

In our view, the auction will take place in 1H12 and RZD will divest the remaining 50% stake in the container subsidiary (not a 25% stake as was initially approved by RZD's BoD). The sale of a 50% stake is being actively lobbied by the Ministry for Economic Development, which aims to intensify the battle for the lucrative asset between major transportation groups by putting controlling stake on the table. FESCO, Globaltrans, UCL Holding, NTS, and Summa have already expressed their interest in TransContainer if the state decides to divest the controling interest in the company.

Amid a clear speculative driver we also stress strong industry-wide and company-specific factors, which we believe are not fully reflected in the company's valuation and are still to be realized by market participants

Drivers

TransContainer long-term expansion will be supported by the rising level of cargo containerization in Russia.

Growing international trade. Most export/import shipments are carried in containers and their share is growing. TransContainer is well positioned to capitalize on Russia's increasing involvement in the global trade and booming volumes of transit shipments on Asia-Europe routes. According to WTO data, global trade has risen by 13.5% in 2010 (this was the fastest year-on-year expansion of trade ever recorded since 1950). In 2011 and 2012 the organization expects global trade to expand by further 7% per year, or almost double the world's GDP growth rate, driven by sustainable growth in developing countries, as their integration into the global economy deepens.

Low level of cargo containerization in Russia. TransContainer long-term expansion will be supported by the rising level of cargo containerization in Russia. The current containerization level of general cargoes at ports in Russia is close to 35%, while the average level for other BRIC countries is about 60%, and is near 70% in developed countries. The difference in rail cargo containerization is also significant. Less than 3% of goods in Russia are transported in containers while it is 5-6% in developing countries and above 15% in developed countries. We believe that global trends will gradually roll over to Russia contributing to sustainable growth in containerized cargo volumes.

TransContainer controls over 60% of the country's flatcar fleet and a 34% share of total container terminal throughput.

Unique asset base and large operational scope. TransContainer controls over 60% of the country's flatcar fleet and 46 container terminals with a 34% share of total container terminal throughput handled in 1H11. TransContainer's unique asset base, which combines the largest flatcar and container fleet and extensive network of rail-side terminals, allows the company to capture a significant portion of the container supply chain and provide additional high margin services. The dominance provides TransContainer with certain pricing power, as most industry players are small in operating scope and have to follow TransContainer tariff policy.

Risks

As for risk factors, we see two industry-wide risks for TransContainer that could lower our valuation:

- Slower growth in country's GDP and consumer spending will limit expected rail transportation market development;
- Faster growth in price of rolling stock will require additional expenses to execute investment program.

Also in focus: Globaltrans

Why invest?

We see Globaltrans as a major growth story in the sector. Globaltrans is well positioned to outperform the industry in the mid-term as many small-scale private operators lack the capacities and expertise to satisfy the needs of large industrial customers, while RZD is loosing its dominance in rail cargo transportation. Currently, Globaltrans is virtually the only vehicle to play the industry, and it is still cheap on multiples trading with almost 30% discount to major global peers.

Drivers

Growing global appetite for raw materials, in our view, will extend Globaltrans presence in this segment. Metalloinvest, for instance, is targeting an increase of its iron ore export sales by at least 20% in 2011 and most of these increased shipments will be transported via rail.

Globaltrans is virtually the only vehicle to play the industry, and it is still cheap on multiples trading with almost 30% discount to major global peers.

Increased infrastructure spending will be positive for Globaltrans as domestic industrial consumption is a big revenue driver for the company. We expect further budget increases in the medium term given the APEC summit, the Winter Olympics and FIFA World Cup.

The liberalization of locomotive traction, which is on RZD's strategic rail reform agenda for the next five years, could boost Globaltrans value. The company has a strong presence in locomotive market through its subsidiary BTS, which operates the fleet of 56 locomotives (as of the end of 1H11). Hence, Globaltrans could be the first one to step into lucrative locomotive traction market and get the biggest slice of the pie.Decrease in empty-run ratio due to an advanced logistic schemes and increasing number of block trains which will drive up utilization

Major drivers for the company are growing global appetite for raw materials, Increased infrastructure spending and the liberalization of locomotive traction.

Risks

As for risk factors, we believe that the whole industry and Globaltrans, in particular, are exposed to two general risk factors as TransContainer does:

- Slower growth in country's GDP and consumer spending will limit expected rail transportation market development;
- Faster growth in price of rolling stock will require additional expenses to execute investment program.

Relative valuation table

Company	MCap, $mln.	EV/EBITDA 2011E	EV/EBITDA 2012F	P/E 2011E	P/E 2012F	P/S 2011E	P/S 2012F
Globaltrans	1,868	4.1	3.6	6.3	5.3	1.2	1.1
TransContainer	1,056	5.2	4.2	10.4	7.6	1.2	1.1
Fesco	741	2.5	2.0	7.7	5.4	0.7	0.6
NCSP	1,815	6.5	5.8	5.7	4.5	1.6	1.5
Aeroflot	1595	4.6	3.9	6.7	5.8	0.3	0.2
Global Rail							
Canadian Pacific Railway	10,714	9.1	8.0	15.2	13.0	2.0	1.9
CSX Corp	21,451	6.1	5.6	10.7	9.5	1.7	1.6
Norfolk Southern Corp	24,001	6.8	6.2	11.8	10.6	2.0	1.9
Union Pacific Corp	48,399	6.9	6.2	13.0	11.5	2.3	2.1
Genesee and Wayoming	2,487	10.2	9.5	17.9	15.4	2.7	2.5
RailAmerica Inc	697	6.6	6.2	16.0	13.7	1.2	1.1
Kansas City Southern	7,037	9.8	8.8	18.4	15.7	3.0	2.8
America Latina Logistica	3,460	6.3	5.6	18.8	14.0	1.8	1.6
China Railway Tielong	2,000	10.5	8.3	15.0	11.1	3.2	2.4
Daqin Railway	17,104	5.6	5.2	7.7	7.0	2.2	2.0
JB Hunt	5,067	8.0	7.2	17.6	15.5	1.0	0.9
Container Corp of India	2,139	8.0	7.9	11.9	11.1	2.7	2.5
Average	–	**7.6**	**6.8**	**14.2**	**12.0**	**2.2**	**2.0**
Freight Forwarders and Container Rail Operators							
Expeditors Int of Washington	8,572	9.8	8.8	19.8	17.6	1.3	1.1
Kuehne+Nagel	13,404	10.9	9.8	18.0	16.0	0.6	0.6
Panalpina Welttransport	2,397	7.1	6.3	15.9	13.7	0.3	0.3
Uti Worldwide Inc	1,373	6.8	6.1	16.7	13.6	0.3	0.3
JB Hunt	5,067	8.0	7.2	17.6	15.5	1.0	0.9
Pacer	161	4.8	3.5	11.8	9.1	1.1	0.9
Container Corp. of India	2,139	8.0	7.9	11.9	8.7	2.7	2.5
Average	–	**7.9**	**7.1**	**16.0**	**13.5**	**1.0**	**0.9**
Global Ports							
Port of Tauranga	1,010	13.3	12.4	19.6	18.0	6.1	5.8
Lyttelton Port Company	156	7.1	6.8	15.1	13.6	2.1	2.0
Santos Brasil	1,780	6.8	6.3	13.2	11.0	2.5	2.4
Rizhao Port	1,168	6.1	4.9	11.6	9.9	1.8	1.7
Hamburgen Hafen	1,959	5.1	4.5	15.3	12.8	1.2	1.1
Vopak	6,571	10.3	9.5	15.4	13.5	4.0	3.7
Tianjin Port	847	6.1	5.7	8.4	7.6	0.4	0.3
DP World	8,466	9.6	8.6	16.7	13.5	2.7	2.5
Cosco Pasific	3,160	11.6	10.3	7.9	7.1	4.8	4.3
Int Container term Services	2,330	7.4	6.6	16.7	15.1	3.2	2.8
Average	–	**8.3**	**7.6**	**14.0**	**12.2**	**2.9**	**2.7**
Global Aircarriers							
Aer Lingus	455	4.9	4.3	9.4	6.6	0.3	0.2
Turk Hava	1409	5.7	4.7	7.5	5.5	0.2	0.2
Lufthansa	5108	2.4	2.0	17.8	7.7	0.1	0.1
Qantas	3465	3.1	2.6	10.6	7.3	0.2	0.2
British Airways	4170	5.0	4.1	15.2	7.1	0.3	0.2
Airfrance-KLM	1513	6.4	4.4	N/A	- N/A	0.3	0.2
Delta Airlines	6769	3.8	3.6	3.6	2.9	0.2	0.2
Ryanair	7116	6.6	6.4	12.0	11.3	1.3	1.1
Thai Airways	1499	5.1	4.6	9.4	7.2	0.2	0.2
Air China	11325	5.7	5.3	8.5	8.3	0.7	0.6
China Southern	6666	4.8	4.1	8.8	7.3	0.4	0.4
Cathay Pacific	6651	5.8	5.3	8.3	7.4	0.5	0.5
Average	–	**4.9**	**4.3**	**10.1**	**7.2**	**0.4**	**0.3**

Sources: Bloomberg, Gazprombank estimates

Key highlights and outlook

The fertilizer industry was enjoying extremely positive market backdrop in 2011 as depleted inventories and exceptional farmers' economics lifted fertilizer prices to new highs over the last 2 years.

Since the start of the year ammonia prices have soared by almost 50%, urea and ammonia nitrate advanced by 30% and 20% respectively. Phosphate and complex fertilizers prices also gained by 15% and 25% respectively on the back of growing demand from developing markets, production curtailment and concerns over possible imposition of export duties on several types of mineral fertilizers in China. Since 2009 when fertilizer market hit the bottom prices for most types of nitrogen and phosphate fertilizers have doubled.

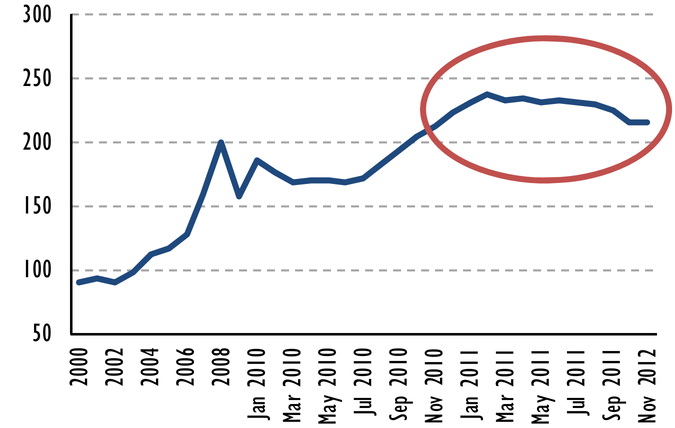
Potash prices have been following a similar path after nitrogen and phosphate fertilizers prices. In January 2011, BPC (joint export trader for Russian Uralkali and belarusian Belaruskali) signed a six-month contract with China at $400/tonne, or a $50/tonne increase over the last year. At the time the agreement was reached South-East Asia and Brazil consumers were paying from $430 to $450 per tonne of potash. Over the course of the year BPC elevated output prices for Brazil and SEA markets several times. Currently BPC is selling potash at $550 per tonne in Brazil and $535 in SEA.

Most importantly, BPC has managed to extend Chinese contract at $470 for 2H11 deliveries and sign long-awaited Indian contract at $490 per tonne for 4Q11-1Q12 delivery.

With almost 2-year consistent price increase in finished fertilizers the industry is gradually reaching saturation point and the industry's upward trend is likely to slow down. Despite recent turmoil with Indian buyers and rising uncertainty over next year volumes we believe the likelihood of the major price correction looks slim. We highlight several factors that are likely to support modest market backdrop for fertilizer industry next year:

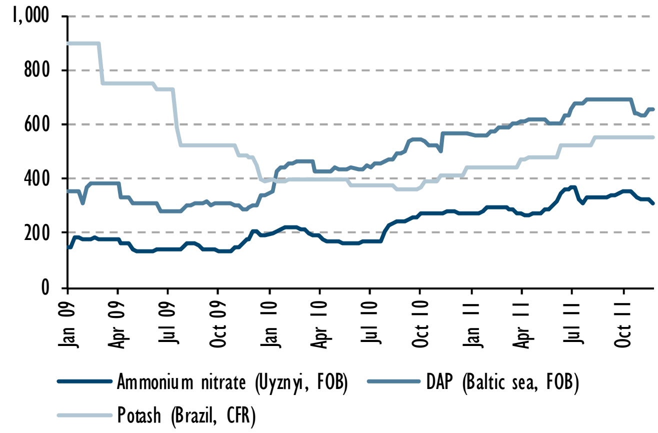
- FAO food price index representing the monthly change in international prices of a basket of food commodities has been hovering close to historic highs since the beginning of the year. The Dow Jones Soft Commodities Index and CRB Foodstuff Index also hit their highest levels in nearly three years. Though slight correction in soft commodities prices has been witnessing over last couple months farmers are still enjoying record high yields. 2011 is forecasted to be another record year for farmers' revenues in almost all regions of the world suggesting substantial support for fertilizer consumption next year.
- In 2011, soft commodities prices have reached historic highs, while mineral fertilizer prices are still 30-40% below their pre-crisis levels. Should the prices for soft commodities decline, we forecast much lighter decrease in fertilizer prices. On the flipside, if the current conditions prevail fertilizer prices will gradually rise.

FAO food price index, 2000-2011E



Sources: FAO, GPB estimates

Finished fertilizer prices, 2007-2011E



Sources: Bloomberg, GPB estimates

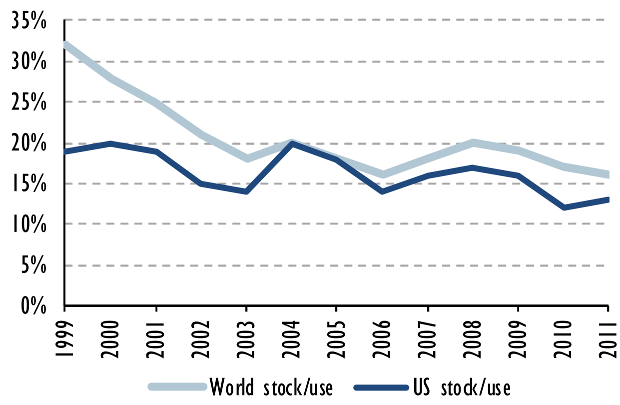
- Despite increased volatility in grain and corn prices the global inventories are still below their 5-year average suggesting low stock-to-use ratios across major soft commodity groups, which means that anything bought by farmers is directly applied to the soil.
- Domestic gas market liberalization is likely to be postponed. Recent comments from state officials suggest that slower gas tariff increase would be implemented following recent government initiatives to curb inflation, which gives natural advantage to domestic producers of N-fertilizers over international rivals in the medium term.

Over the last couple of weeks we saw a decline in major fertilizer names across the board. We believe that market overreacted to a stream of negative news coming from India where major importers are threatening to slash fertilizer purchases from oversees next year as rising fertilizer prices of the soil nutrients deter farmers profits. In response on the recent substantial rupee devaluation that has caused a dramatic price increase in imported fertilizers for India's consumers Phoagro has agreed to provide IPL/IFFCO a discount on current contract phosphate fertilizer prices. Potash producers, on the other hand, had turned down the request of their customers from India to reconsider the raw material import deals.

To our view current turmoil in India does not reflect the global industry trend and is mostly caused by country's monetary issues. We also believe that the current price level creates an excellent entry point for major stocks in the sector. As such, we like Acron and Phosargo, which could outperform the broader market next year as both companies are trading with deep discounts to global majors, and both are positioned at the lower end of the global production cost curve enjoying favorable prices for major inputs. We assume Acron will be self-sufficient in phosphate rock in the short-run after the launch of the phosphate project in 3Q12. Next year performance of nitrogen and phosphate industry could also be driven by consolidation process.

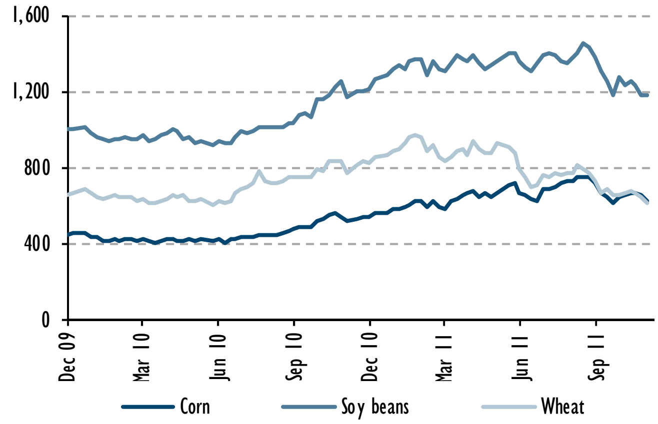
However much we like the potash industry because of its strong underlying fundamentals and oligopolic structure, we do not see much upside for it as we believe the industry drivers have already been priced in.

Corn stocks-to-use-ratio



Sources: USDA, GPB estimates

Crop prices



Sources: CBOT, GPB estimates

Top pick: Acron

Why invest?

We see a great chance that the company will be sold next year as the industry is gradually reaching the top of the cycle. We stress several factors that might signal future change in shareholders structure. The company implemented buy-back program to resolve the cross ownership issue with Dorogobuzh. The long-standing issue with YARA regarding "Nordic Rus Holding" joint-venture was successfully resolved while Phosagro served as an intermediary in the dispute. The company's BoD has recommended to payout almost all 9M11 net income as dividends. We also need to remind that sale of Rossoshanskie minydobrenia was initiated at much higher multiples that Acron has.

Amid a clear speculative driver we also stress strong fundamental factors.

Drivers

Back to pre-crisis volumes and margins. Acron has recently released very strong 9M11 results with revenues up by 43% to $1,6 bln and EBITDA up by a factor of 2.2 year to $0,5 bln. The company reached profitability level somewhat close to the levels seen in pre-crises 2007/08.

Oleniy Ruchey project to be launched in 3Q12. The launch of Oleniy Ruchey project is scheduled for 3Q12. The company is planning to achieve self-sufficient production level of apatite rock by 2014 and begin exports of apatite concentrate in 2016, after the second stage of the project is completed. With launch of the project the company will control apatite rock input, but also become one of the few global vertically integrated mineral fertilizer producers.

Deep discounts to foreign peers. The company's attractiveness is also supported by deep discounts on relative valuation metrics to major foreign peers.

Also in focus: Phosagro

Why invest?

Phosagro is positioned at the lower end of the phosphate rock and finished fertilizer (DAP, MAP, NPK) global production cost curve. The group can produce di-ammonium phosphate (DAP) at roughly a 25% lower cost than Brazil and a 60% less than India (both regions being the key global consumers) thanks to its high-quality rock supplies, favorable logistics and efficient production cycle. As a result, the company enjoys above-average mid-cycle margins.

Drivers

Devirsified product mix. Excess supply of phosphate rock concentrate not only make Phosagro a vertically integrated producer but provides the company with such important benefits as diversified product mix and sales flexibility. The group can either use the maximum possible amount of phosphate rock to produce fertilizers, particularly when prices of fertilizers are high relative to phosphate rock prices, or sell more phosphate rock externally and accordingly reduce the amount of fertilizers produced by the group when fertilizer prices are low relative to phosphate rock prices.

Flexible production cycle. Flexible production lines allow the company to easily switch between MAP/DAP and NPKs production to promptly react to evolving market environment and demand conditions. The company greatly benefited from stable demand for DAP in shaky 2009 (supported by growing purchases from India) when demand for other types of fertilizers slumped significantly. We consider such flexibility as one of major advantages against peers as it allows the company to change its product mix virtually in 1-2 days depending on the demand and pricing environment.

Focus on high growth domestic market. Russia is the largest market for the group, accounting for 27.5% of Phosagro sales in 2010. According to ChemExpert, the group controls over half of MAP production and 44% of NPK production in Russia. Currently, changes in the domestic price for phosphate rock are directly regulated by the Federal Antimonopoly Service (FAS). Certain price caps are usually announced twice a year, keeping growth under control during the sowing season. As a result, domestic prices are far less volatile than international ones, which turned to be a competitive edge during the recent crisis, when global prices collapsed to as low as $320 per tonne, while domestic prices remained intact and above international benchmarks.

Relative valuation

Company	MCap, $ mln.	EV/EBITDA		P/E		P/S	
		2011E	2012F	2011E	2012F	2011E	2012F
Uralkali	20,667	6.7	6.2	9.2	7.7	4.3	3.6
Phosagro	3,431	3.4	3.8	4.3	4.8	0.9	0.9
Acron	1,895	5.6	6.2	6.7	7.2	1.0	0.9
Nitrogen Producers							
CF Indusrties	9,488	3.3	4.0	5.8	7.4	1.5	1.6
Yara	11,817	5.0	5.2	7.0	7.1	0.8	0.8
SAFCO	11,186	10.9	10.8	11.5	11.5	8.7	8.5
Rashtriya Chem	532	5.1	4.5	9.5	8.3	0.4	0.4
Namhae	506	4.4	3.2	5.0	3.6	0.4	0.4
Average		**5.7**	**5.6**	**7.8**	**7.6**	**2.4**	**2.3**
Diversified Producers							
PotashCorp	38,742	6.8	7.0	9.1	9.4	3.5	3.4
Mosaic	19,508	5.2	4.9	9.6	9.0	1.9	1.9
Agrium	12,104	4.8	5.3	6.8	7.7	0.6	0.7
K+S	8,619	5.1	4.8	8.7	8.0	1.2	1.2
Average		**5.5**	**5.5**	**8.5**	**8.5**	**1.8**	**1.8**
Pure Potash Producers							
ICL	12,960	5.3	4.9	6.9	6.0	1.6	1.5
APC	4,446	8.4	8.3	11.3	11.0	4.3	4.3
Intrepid Potash	1,447	5.5	5.0	11.7	10.6	3.2	3.0
SQM	14,060	12.0	12.1	19.5	20.1	5.2	5.1
Average		**7.8**	**7.6**	**12.4**	**11.9**	**3.6**	**3.4**

Source: Bloomberg, Gazprombank estimates

Gazprombank

HQ: 16/1 Nametkina St., Moscow 117420, Russia
(Office: 63 Novocheremushkinskaya St.)

Research Department

Andrei Bogdanov
Head of Research
+7 (495) 988 23 44
Andrei.Bogdanov@gazprombank.ru

Equity Research

Equity Strategy
Andrei Bogdanov
Anna Bogdyukevich
+7 (495) 983 18 00 ext. 540 85

Banking
Andrey Klapko
+7 (495) 983 18 00 ext. 21401

Oil & Gas
Ivan Khromushin
+7 (495) 980 43 89
Alexander Nazarov
+7 (495) 980 43 81

Metals & Mining
Natalia Sheveleva
+7 (495) 983 18 00, ext. 21448
Sergei Kanin
+7 (495) 988 24 06

Macroeconomics
Anna Bogdyukevich
+7 (495) 983 18 00 ext. 54085

Transport & Industrial
Alexei Astapov
+7 (495) 428 49 33

Chemicals
Alexei Astapov
+7 (495) 428 49 33

Utilities
Dmitry Kotlyarov
+7 (495) 913 78 26

Telecoms, Media & IT
Anna Kurbatova
+7 (495) 913 78 85
Andrei Bogdanov
+7 (495) 988 23 44

Market and equity technical analysis
Vladimir Kravchuk
+7 (495) 983 18 00 ext. 21479

Production team
Tatyana Andriyevskaya
+7 (495) 287 62 78
Tatiana Kurnosenko
+7 (495) 983 18 00 ext. 54084

Fixed Income Research

Alexey Demkin, CFA
Head of FI
+7 (495) 980 43 10
Alexey.Demkin@gazprombank.ru

Credit research
Yakov Yakovlev
+7 (495) 988 24 92
Yury Tulinov
+7 (495) 983 18 00 ext. 2 14 17

Equity product department

Konstantin Shapsharov
Director
+7 (495) 983 18 11
Konstantin.Shapsharov@gazprombank.ru

Equity Sales & Trading

Sales
Maria Bratchikova
+7 (495) 988 24 03
Artyom Spasskiy
+7 (495) 989 91 20
Svetlana Golodinkina
+7 (495) 988 23 75

Trading
Alexander Pitaleff
+7 (495) 988 24 10
Denis Voynikonis
+7 (495) 983 74 19
Anton Zhukov
+7 (495) 988 24 11

Equity Capital Markets

Alex Semenov, CFA
Director
+7 (495) 989 91 34

Electronic trading

Maxim Maletin
Head of Electronic trading
+7 (495) 983 18 59
+8 (800) 200 70 88
broker@gazprombank.ru

Sales
Alexandr Lezhnin
+7 (495) 988 23 74
Nikita Ivanov
+7 (495) 989 91 29
Anna Nifanova
+7 (495) 983 18 00 ext. 21455

Trading
Denis Philippov
+7 (495) 428 49 64
Damir Terentev
+7 (495) 983 18 89
Timur Zubairaev, CFA
+7 (495) 913 78 57

Regional sales
Alexander Pogodin
+7 (495) 989 91 35

Debt product department

Pavel Isaev
Head of DPD
+ 7 (495) 980 41 34
Pavel.Isaev@gazprombank.ru

Debt capital markets

Igor Eshkov
Head of DCM, ED
+ 7 (495) 913 74 44

Fixed Income Sales & Trading

Andrei Mironov
Head of FI S&T, ED
+7 (495) 428 23 66

Sales
Ilya Remizov
+7 (495) 988 23 73
Dmitry Kuznetsov
+7 (495)) 428 49 80
Vera Yaryshkina
+7 (495) 980 41 82
Sebastien de Prinsac
+7 (495) 989 91 28
Roberto Pezzimenti
+7 (495) 989 91 27

Trading
Elena Kapitsa
+7 (495) 983 18 80
Dmitriy Ryabchuk
+7 (495) 719 17 74