

RMG WEEKLY #787

Markets dropped last week amid concerns over recovery of the global economy, despite promising data on European growth and increased consumer confidence in the US. The FTSE 100 lost 1.0% and the S&P 500 fell by 3.8%. The RTS Index, which had resisted negative trends on main world markets until last week, lost 4.3% as oil prices moved down: prices for WTI brand lost 6.5% w-o-w to \$75.4 per barrel, following growth of the dollar by 4% against the euro.

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INTERNATIONAL MACRO INDICATORS AND FINANCIAL MARKETS

by Ruslan Yunusov

FRS to continue securities investment

The FRS decided to leave the federal funds rate at 0.25% and said that it will keep FRS investments in securities at the current level by reinvesting principal payments. The further investment in the economy suggests that the FRS is dissatisfied with the pace of recovery, and the decision disappointed investors.

The Consumer Confidence Index, calculated by Michigan University, rose from 67.8 to 69.6 points and the European economy expanded by 1% q-o-q in 2Q 2010, thanks largely to 2.2% growth in Germany. However, the positive data proved insufficient to put markets back on track.

OIL & GAS

by Constantin Yuminov

▲ ▼ Lukoil shows mixed 2Q operational results

Lukoil (RTS: LKOH, LSE: LKOD) posted mixed operating results for 2Q 2010. Total daily hydrocarbon production slumped by 1.7% q-o-q to 2.24 mboe due to 4.2% q-o-q fall of natural and petroleum gas output, while crude oil production remained stable. Downstream business continued to perform well: total throughput at company refineries grew by 11.3% q-o-q to 17.07 mt.

We expect that financial results for 2Q 2010, due by the end of August, will not bring any major surprises and recommend to focus on share buyout from ConocoPhillips (Lukoil must exercise its option by September 26), possible participation in a tender for the large Trebs and Titov oilfields (application must be made by September 20), and possible tax holidays for the company's Caspian projects.

► We expect Gazprom Neft 2Q figures in line with Rosneft

Gazprom Neft (RTS: SIBN) is due to publish its 2Q 2010 GAAP financials on Wednesday this week. We expect the company to show neutral figures in line with Rosneft and TNK-BP International Ltd., which have already published. Margins should improve slightly thanks to growing refining profitability, but higher export duties will take away most of the positive effect.

▲ Gas condensate-to-gasoline boosts Yakutgazprom results

Yakutgazprom (RTS: YAKG) published healthy 1H 2010 RAS results. Revenue increased by 49% y-o-y to \$56m, EBIT was 66% higher at \$25m, and net income grew by 6% to \$14m. EBIT margin was 45%, outperforming the 1H09 result by 4 p.p. The strong results reflect launch of a new business: refining of gas condensate into gasoline. We are pleased by the results and reiterate our BUY recommendation with target price of \$0.21 per share.

METALS & MINING

by Andrey Tretelnikov

▲ Raspadskaya may restore half of lost production in 3Q 2010

Raspadskaya (RTS: RASP) may restart a part of its mine, which was closed in May after an accident, within one month from now, according to Aman Tuleyev, the governor of Kemerovo Region where the company is based. The mine will produce half of the volumes, which it produced before the explosions in May.

We see the news as quite positive, as we did not expect recovery of production before 2011. Government support for mine reopening is clearly important.

POWER UTILITIES

by Vladimir Samorodov

▲ Quadra (TGK-4) outperformed in 2009

We expect MSCI Barra to restructure weights in the MSCI Russia Index this Tuesday, and the Russian electricity distribution holding company, MRSK Holding, may be included in the Index. If changes occur, they will be implemented on September 1.

Quadra (RTS: TGKD), former TGK-4, posted 2009 IFRS results showing revenue increase of 8.3% to R31.6b (\$995m), which is higher than our forecast, but in line with market consensus. EBITDA rose by 2.4 times to R5.2b (\$163m), also exceeding our forecasts. Net loss of R3.2b (\$90m) was due to the fixed asset revaluation, which gave paper losses of R6.9b (\$216m). Net income adjusted for the non-cash loss was R2.2b (\$83m), which is above our forecast and market consensus.

We treat the results as positive, since increase in revenues, EBITDA and adjusted net income are all larger than we had expected. However, the company trades at EV/EBITDA (10E) multiple of 7.4, which exactly equals the industry average, and we consider the current share price as fair. We keep our HOLD recommendation for the stock.

CONSUMER & RETAIL

by Ekaterina Andreyanova

► WBD buys its shares from Danone

Wimm-Bill-Dann (RTS: WBDF; NYSE: WBD) said last week that it will buy back an 18.4% stake in itself from Danone for \$470m, representing \$58 per share and \$14.5 per ADR (the stake is a mix of shares and ADRs). Market reaction was modest, as WBD has not said what it will do with the treasury shares. We also view the news as neutral, as the deal price is close to the market and only 4% above our fair price.

Cherkizovo (LSE: CHE; RTS: GCHE) reported 1H 2010 operational results in line with expectations. Production was close to our forecasts, and we expect prices for Cherkizovo's products to rise further in 4Q, achieving our full-year financial forecast.

► X5 proceeds with M&A deals

X5 Retail Group (LSE: FIVE) asked FAS for permission to acquire Ostrov, a 19-store supermarket chain in Moscow. We believe that X5 will proceed with further M&A deals if FAS reaction is favorable (it was reported earlier that the company is interested in the Kopeyka chain). We expect pricing of the Ostrov purchase to be favorable for X5.

CHEMICALS

by Constantin Yuminov

▲ Healthy 1H financials from Acron

Acron (RTS, LSE: AKRN) published 1H 2010 financial results under IFRS. Revenue rose by 28% y-o-y to \$726m vs. \$722m forecast by us. EBITDA gained 36% y-o-y and reached \$151m (\$140m by RMG), while net income more than doubled to \$83m (\$92m by RMG). The results were positively affected by increasing share of NPK in sales mix and gradual improvement of the market for organic and non-organic compounds. Net debt increased by less than 5% q-o-q to \$837m as increase of working capital reduced borrowing needs for the Oleniy Ruchey project. Ratio of net debt to EBITDA (12M trailing) was thus 3.1x. We view the Acron financials as strong, and are particularly impressed by EBITDA growth above forecast.

▲ **Foreign strategics interested in Uralkali** Media reported that mining giant Rio Tinto and the world's biggest potash producer, Potash Corp., want to buy a 10-15% stake in Uralkali (RTS, LSE: URKA). Both companies estimate value of Uralkali at \$15b, which is roughly 50% more than current market prices. An undisclosed Russian buyer and an international financial group are also reportedly interested in purchasing some stake in Uralkali.

We doubt that current owners (Suleiman Kerimov and associates) will want to sell shares and lose control, but bids are possible for the 10% stake kept by former owner, Dmitry Rybolovlev, or shares could be bought on the open market (free float is up to 35%). Above-market valuation of Uralkali by potential buyers should have positive impact on the share price.

▲ **Silvinit changes key owner** Last Saturday Silvinit (RTS: SILV, SILVP) reported that 20% of its shares were bought by Fenguard Ltd., which is controlled by the president of Sibuglemet Anatoliy Skurov, while another 25% stake was acquired by Forman Commercial Ltd., the key beneficiary of which is Duma's deputy Zelimkhan Mutsoev. According to media, the total price was about \$2.5-3b, which is 11-33% higher than close market price on Friday. By hearsay the deals were run on behalf of Suleiman Kerimov, which already owns about 25% of Silvinit. In our view, merger of Silvinit with Uralkali (or unification of their trading subsidiaries) is now highly possible by the end of this year. We believe that the news is positive for Silvinit quotations due to high offer price, and a 25% discount to Uralkali stocks will diminish.

TRANSPORTATION

by Ekaterina Andreyanova, Constantin Yuminov

FESCO (RTS: FESH) reported 2009 IFRS and operational results for 1H 2010 last week. Revenue in 2009 was in line with our expectations, although profitability was disappointing. FESCO showed strong increase of turnover in all segments in 1H 2010 and beat pre-crisis 1H 2008 results in rail and port container services (only container shipping turnover remained 11% below 1H 2008, following 45% y-o-y contraction in 1H 2009).

CONSTRUCTION & DEVELOPMENT

by Ruslan Yunusov

▶ **VTB expands Sistema Hals financing** Sistema Hals (RTS: HALS) expanded its credit facility from VTB to \$472m (R14.5b). Management said that the extra financing will be spent to maintain the current project portfolio and restructure a part of short-term debt. We treat the news as neutral, since the credit facility was already increased from R2.7b to R5.3b at the end of last year and the further increase will not have immediate impact on financial results of the company. Sistema Hals is currently in VTB ownership.

▶ **RTS suspends trading of Mostotrest for share split** The RTS Exchange suspended trading in shares of Mostotrest (RTS: MSTT) from last Thursday due to a share split. Trading will recommence when the company registers a share prospectus. Mostotrest will split shares in 1:200 ratio, which will improve market liquidity.

	Ticker	Fair price, \$	Market bid-ask range, \$	Up / down, %	Reason to BUY
Blue Chips					
Gazprom com	GAZP	9.00	5.23-5.40	69%	gradual gas consumption revival; diversified asset portfolio; strong government support; steady rise of domestic prices
Lukoil com	LKOH	81.0	53.6-55.3	49%	developed downstream; low debt; strong corporate governance
Norilsk Nickel com	GMKN	221	162-166	35%	strong price environment on main company's metals
Sberbank com	SBER	3.10	2.57-2.68	18%	leveraging on its broad distribution network; client diversification; state support; stable interest margins
Oil & Gas					
Gazprom Neft com	SIBN	7.70	3.93-3.93	96%	strong M&A opportunities; Gazprom support; potential free-float growth
Giprospetsgaz com	GSGZ	3 550	700-900	344%	gains from Gazprom huge transportation capex; undervalued by peers; high expected dividends
Metals & Mining					
Chelyabinsk Zinc Plant com	CHZN	5.80	3.45-3.89	58%	demand recovery; own resource base; no debt; tolling to hold back margins
Raspadskaya com	RASP	7.40	4.70-4.76	56%	highest profitability in the sector; low debt load; expectation of price increase on coking coal
Mechel com	MTLR	32.3	17.0-33.0	29%	steel segment positioned for construction sector recovery; exposure to growing coal segment
Evraz GDR	EVR	35.6	24.9-24.9	43%	leveraged play on recovery of construction and infrastructure spending
Uchalinsky GOK com	UGOK	20.6	10.0-12.0	87%	strong financial performance YTD; diverse resource base; low leverage and attractive relative valuation
Uralsktromcom com	UELM	90.0	47.0-50.0	86%	modest leverage; significant improvement in operating profitability in 1Q10
Financials					
Vozrozhdenie com	VZRZ	45.0	33.0-34.0	34%	SME specialization; large branch network and high capital adequacy
Power Utilities					
Moscow united electricity distribution company com	MSRS	0.094	0.044-0.047	106%	undervalued to peers on EV/RAB multiple
MRSK South com	MRKY	0.011	0.0043-0.0065	104%	undervalued to peers on EV/RAB multiple
MRSK Urals com	MRKU	0.017	0.0075-0.013	69%	undervalued to peers on EV/RAB multiple
Telecoms & Media					
Center Telecom com	ESMO	1.05	0.600-0.775	53%	RTO commons to gain most from merger to Rostelecom
Far-East Telecom com	ESPK	4.34	2.50-3.20	52%	RTO commons to gain most from merger to Rostelecom
North-West Telecom com	SPTL	0.993	0.669-0.740	41%	RTO commons to gain most from merger to Rostelecom
Siberia Telecom com	ENCO	0.088	0.057-0.063	47%	RTO commons to gain most from merger to Rostelecom
South Telecom com	KUBN	0.210	0.138-0.155	43%	RTO commons to gain most from merger to Rostelecom
Ural Svyazinform com	URSI	0.047	0.0000-0.033	185%	RTO commons to gain most from merger to Rostelecom
Volga Telecom com	NNSI	4.57	2.97-3.30	46%	RTO commons to gain most from merger to Rostelecom
Consumer & Retail					
Dixy com	DIXY	15.6	9.75-10.9	51%	clear expansion strategy; undervalued by EV/S; expect margins improvement; has arranged refinancing of its debt
Chemicals					
Apatit com	APAT	550	320-325	71%	exposure to the value-added DAP market; change from cost to profit center; corporate actions of Phosagro ahead of its IPO
Kazanorgsintez com	KZOS	0.300	0.180-0.190	62%	new favorable pricing arrangements with Gazprom; strong domestic demand for polyethylene; regional government support; debt restructuring
Metafrax com	MEFR	1.50	0.655-0.690	123%	price restoration in Russia and abroad; reduction of tolling is on the track; continuing business diversification
Nizhnekamskneftekhim com	NKNC	0.620	0.450-0.520	28%	focus on China and SEA; localization of automobile production in Russia; support from regional government
Pharmaceuticals					
Veropharm com	VRPH	48.4	34.5-42.0	27%	strong financials; low debt; ownership risks are exaggerated

	Ticker	Fair price, \$	Market bid-ask range, \$	Up / down, %	Reason to BUY	
Engineering						
	Kovrov Mechanical Plant com	KVMZ	92.0	63.0-67.0	42%	a rare producer of equipment for uranium enrichment; low multiples; diversified product portfolio
	Ulan-Ude Aviation Plant com	UUAZ	2.28	1.27-1.37	73%	highest profitability among helicopter companies, lowest debt, presence of military jet planes in its production portfolio
Transport						
	Aeroflot com	AFLT	2.80	1.96-1.98	42%	strong financials; fast fleet renovation; growing market share; possible gains from obtaining Rosavia assets
	Globaltrans GDR	GLTR	19.0	14.0-14.0	36%	well-balanced cargo mix; organic growth accompanied with value-proved acquisitions; strong balance sheet and low debt offering scope for further M&A growth
	Novorossiysk Commercial Seaport GDR	NCSP	17.9	11.0-11.0	63%	well-balanced product portfolio; growth of high-margin containerization; gains from handling for Sochi-2014
	UTair com	TMAT	0.600	0.300-0.500	50%	large share of growing helicopter transportation; market expansion; low multiples
	PRISCO com	PRIM	0.380	0.160-0.215	103%	strong operational due to orientation on oil transportation; growth potential from participation in Sakhalin projects; modern fleet
Construction & Development						
	Metrostroy com	METP	900	300-600	100%	main contractor of the St. Petersburg subway and several non-core projects
	Mostootryad #19 com	MSOT	2 206	1 400-1 575	48%	builder of Western High Speed Diameter in St.Petersburg
	Mostostroy-11 com	MSTS	1 971	500-1 230	128%	Constructor of M4 Don Highway; potential synergy and new projects from last acquisition

Note: no

	Ticker	Fair price, \$	Market bid-ask range, \$	Up / down, %	Reason to SELL
Power Utilities					
TGK-5 com	TGKE	0.0003	0.0005-0.0008	-52%	approved capacity payments are below previous expectations
TGK-6 com	TGKF	0.0003	0.0004-0.0007	-43%	approved capacity payments are below previous expectations
TGK-7 com (new)	TGKG	0.051	0.078-0.083	-36%	speculative demand for the stock from majority shareholder which is expected to calm down
TGK-9 com	TGKI	0.0001	0.0002-0.0002	-38%	approved capacity payments are below previous expectations

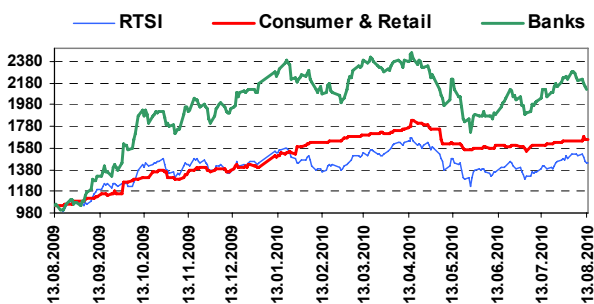
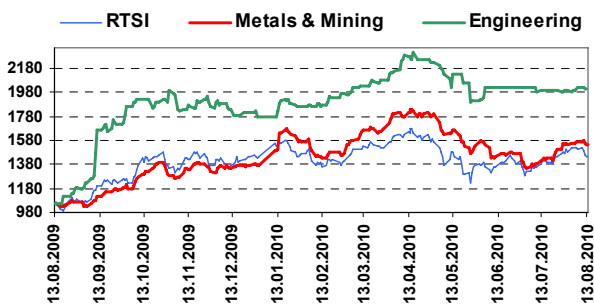
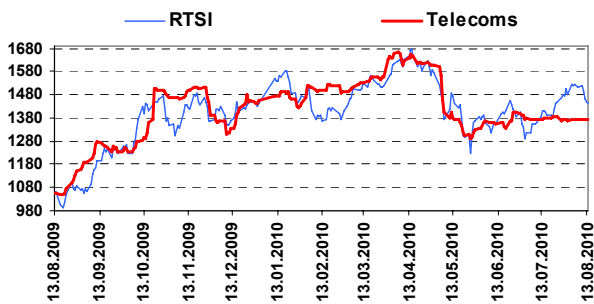
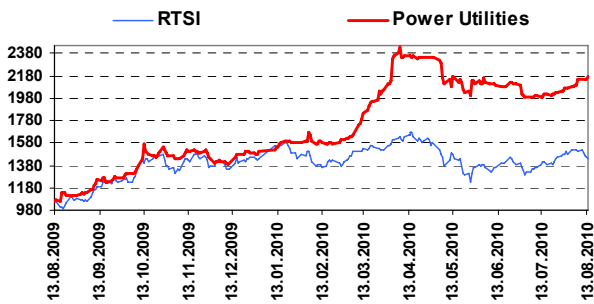
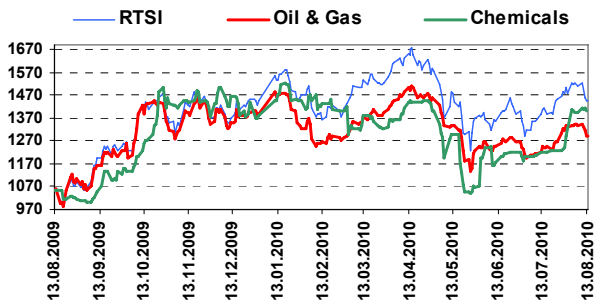
Note: no

Stocks	Value	-1W, %	-1M, %	-3M, %	-1Y, %
National					
RTS	1 445.4	-4.3%	2.4%	0.3%	37.1%
Fair RTS (RMG estimate)	1 950				
MICEX	1 371.5	-2.3%	0.9%	1.4%	24.6%
Europe					
FTSE 100	5 275.4	-1.1%	0.4%	0.2%	10.9%
Xetra DAX 100	6 110.4	-2.4%	-1.6%	0.9%	13.1%
CAC 40	3 610.9	-2.8%	-0.6%	1.4%	2.5%
Asia Pacific & Australia					
ASX 100	3 646.4	-2.3%	-0.2%	-3.3%	0.4%
Hang Seng	21 071.6	-2.8%	2.5%	4.6%	1.0%
Nikkei 225	9 253.5	-4.0%	-5.5%	-11.6%	-12.0%
SENSEX	18 167.0	0.1%	1.3%	6.9%	17.1%
Middle East					
ISE National 100	58 479.9	-2.1%	0.3%	4.3%	31.5%
Americas					
DJ Industrial	10 303.2	-3.3%	-0.6%	-3.0%	9.6%
S&P 500	1 079.3	-3.8%	-1.5%	-5.0%	6.6%
NASDAQ	2 173.5	-5.0%	-3.4%	-7.4%	8.2%
BOVESPA	66 264.4	-2.7%	4.4%	4.5%	16.2%
MERVAL	2 368.0	-2.4%	2.5%	7.0%	31.9%
MSCI Indices					
Russia	768.1	-4.8%	1.6%	-0.1%	21.9%
EM Europe	449.7	-5.4%	1.7%	1.5%	17.4%
EM Asia	400.2	-2.6%	1.4%	1.1%	12.7%
EM Latin America	3 994.4	-2.9%	3.2%	4.6%	17.4%
EM World	980.5	-3.0%	2.0%	2.2%	14.6%
World	1 103.6	-4.2%	-0.9%	-1.8%	3.0%
Commodities					
Brent (ICE futures), \$/b	75.1	-6.3%	-2.2%	-2.7%	2.2%
Urals (MDT spot), \$/b	72.9	-6.7%	-2.6%	-0.5%	-0.5%
Gold (LME spot), \$/oz	1 215.5	0.8%	0.6%	-1.4%	27.3%
Silver (LME spot), \$/oz	18.1	-1.7%	-0.9%	-6.2%	20.7%
Platinum (LME spot), \$/oz	1 524.3	-3.2%	0.0%	-11.3%	20.2%
Palladium (LME spot), \$/oz	478.3	-2.8%	2.6%	-9.1%	73.1%
Aluminum (LME spot), \$/mt	2 101.3	-3.7%	5.6%	1.1%	3.7%
Copper (LME spot), \$/mt	7 132.3	-2.9%	6.4%	3.5%	11.7%
Lead (LME spot), \$/mt	2 031.0	-4.9%	12.3%	6.3%	5.9%
Nickel (LME spot), \$/mt	21 207.5	-3.8%	9.7%	-1.3%	3.3%
Tin (LME spot), \$/mt	21 000.0	1.5%	16.9%	20.1%	34.5%
Zinc (LME spot), \$/mt	2 018.3	-3.9%	10.6%	-0.3%	7.2%
Steel HR Europe (spot), \$/mt	567.5	1.8%	3.7%	-20.6%	3.7%
Steel CR Europe (spot), \$/mt	672.5	0.0%	2.7%	-17.7%	10.2%
Currencies					
USD/RUB (spot)	30.60	2.6%	0.3%	-0.2%	-3.7%
EUR/RUB (spot)	39.08	-1.1%	0.3%	3.5%	-13.8%
EUR/USD (spot)	1.28	-4.0%	0.1%	2.9%	-10.8%
GBP/USD (spot)	1.56	-2.2%	2.1%	7.7%	-6.0%
USD/JPY (spot)	86.20	0.8%	-2.5%	-6.9%	-9.7%
Bonds					
US Treasuries 10 YTM, %	2.67	2.82	3.04	3.49	3.60
US Treasuries 30 YTM, %	3.85	3.99	4.03	4.36	4.43
Russia 10 YTM, %	4.61	4.64	5.20	n/a	n/a
Russia 30 YTM, %	4.51	4.53	5.06	5.34	6.06
EMBI+	552.6	0.7%	4.8%	8.1%	20.5%

Source: Bloomberg, RMG estimates

Russian Economy	Value	Date	-1Y
Money & Banking			
RTS total MCap, \$b	756	16.08.10	563
M0, \$b	139.8	июнь 10	113.1
M2, \$b	550.3	июнь 10	422.6
CBR refinancing rate, %	7.75	13.08.10	10.75
One-day MIACR, %	2.63	13.08.10	6.64
Cash of banks at the CBR, \$b	16.4	26.02.10	14.0
CBR reserves, \$b	478.3	06.08.10	403.4
GDP & Investments			
GDP chng (YoY), %	-7.9%	2009	5.6%
Fixed investments, \$b	24.3	июнь 10	20.9
Foreign investments, \$b	13.1	март 10	12.0
- FDI, \$b	2.6	март 10	3.2
Foreign Trade (monthly)			
Exports, \$b	32.3	июнь 10	24.5
Imports, \$b	19.9	июнь 10	15.4
Trade balance, \$b	12.5	июнь 10	9.2
Budget & Debt			
Stabilization Fund, \$b	128.8	июль 10	178.6
CBR foreign debt, \$b	464.4	2 кв. 10	468.3
FM foreign debt, \$b	41.7	2 кв. 10	39.3
Budget revenues, \$b	154.1	июль 10	121.0
Budget expenditures, \$b	172.0	июль 10	150.4
Budget balance, \$b	-17.8	июль 10	-29.4
Inflation			
CPI (YTD), %	4.8%	июль 10	8.1%
- food (MoM)	0.3%	июль 10	0.6%
- non-food (MoM)	0.3%	июль 10	0.6%
- services (MoM)	0.6%	июль 10	0.8%
PPI (YTD), %	6.2%	июль 10	11.9%
- mining (MoM)	1.9%	июль 10	7.1%
- manufacturing (MoM)	0.2%	июль 10	0.6%
- utilities (MoM)	0.3%	июль 10	0.7%
Russia Credit Ratings			
Standard & Poors	BBB	08.12.08	
Fitch	BBB	04.02.09	
Moody's	Baa1	16.07.08	
US Economy			
M2, \$b	8 635.5	02.08.10	8 427.1
GDP chng (YoY), %	2.4%	2 кв. 10	-0.7%
Debt / GDP, %	91.2%	12.08.10	83.1%
IPI (MoM), %	0.1%	июнь 10	-0.2
Trade balance, \$b	-49.9	июнь 10	-27.1
Budget balance, \$b	-165.0	июль 10	-180.7
Current Account balance, \$b	-109.0	1 кв. 10	-95.6
CPI (MoM), %	0.3%	июль 10	0.1%
PPI (MoM), %	-0.5%	июнь 10	1.8%
Michigan Index of Confidence	78.3	авг. 10	66.6
Leading Composite Indicator	109.8	июнь 10	101.3
ISM Manufacturing	55.5	июль 10	49.1
Major Foreign Bank Rates			
USA, %	0.25%	13.08.10	0.25%
United Kingdom, %	0.50%	13.08.10	0.50%
European Community, %	1.00%	13.08.10	1.00%
Japan, %	0.10%	16.08.10	0.10%

SECTOR INDEXES VS. RTSI (1Y)



WINNERS (WoW)

NizhnekamskNKh com	11.5%
Dorogobuzh pref	8.3%
Uralkali com	2.7%
Bashneft pref	2.5%
Ufaneftekhim com	0.5%
-	-

TGK-7 com	14.3%
RusHydro com	7.1%
Center MRSK com	7.0%
TGK-5 com	5.9%
North-West MRSK com	3.6%
Kubanenergo com	1.1%

-	-
-	-
-	-
-	-
-	-
-	-

Southern Kuzbass com	0.7%
-	-
-	-
-	-
-	-
-	-

Veropharm com	10.9%
Baltika com	2.5%
Bank St-Petersburg com	1.2%
-	-
-	-
-	-

LOSERS (WoW)

YaroslavNOS com	-4.5%
Gazprom com	-3.9%
Lukoil com	-3.9%
YaroslavNOS pref	-3.1%
Bashneft com	-1.2%
Kazanorgsintez com	-0.7%

Irkutskenergo com	-5.7%
FGC UES com	-4.3%
Lenenergo com	-2.6%
Lenenergo pref	-2.4%
-	-
-	-

Armada com	-3.0%
-	-
-	-
-	-
-	-
-	-

Sollers com	-5.5%
Uralsmash plants com	-4.8%
VSMPO-Avisma com	-4.5%
GMK Norilsk Nickel com	-3.5%
Kazan Helicopters com	-1.4%
Vyksa Metal Plant com	-0.1%

Rosinter Restaur. Com	-11.1%
Razgulay Group com	-9.5%
Sberbank com	-5.4%
Wimm-Bill-Dann com	-4.9%
M-Video com	-4.3%
Dixy com	-4.0%

Note: winners and losers refer only to the RTS-Classic market

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