

Daily Market Watch

US Dollar		23.8116
Euro		36.7699
RTSI	-0.07%	2,351.78
MICEX	+0.01%	1,842.98
Brent (ICE)	+4.46%	127.54
Urals	+4.96%	122.26
Dow Jones	+1.73%	12,604.45
NASDAQ	+1.87%	2,549.94
S&P500	+1.76%	1,401.39
DAX	-0.34%	6,941.828
FTSE-100	+0.42%	5,995.301
CAC-40	-0.16%	4,907.059
Nikkei-225	+1.41%	14,543.45
Bovespa	+3.73%	71,234.88

Overview:

Market Roundup

Thursday's move to the downside at the open was offset in the afternoon on the back of robust employment data out of the US and rallying demand on commodity markets. As a result, the RTS index dipped 0.07% while MICEX closed fractionally higher (+0.01%).

A number of metal stocks outperformed the market on Thursday, including Severstal (-0.7%), Norilsk Nickel (+0.3%) and NLMK (+0.9%). Meanwhile, oils were a mixed bag on stabilizing crude oil prices, with Lukoil dipping 0.4%, Gazprom shed 0.5%, Rosneft edged up 0.1% and Tatneft advanced 1.8%. It was another sluggish day for banking stocks, with Sberbank giving up 0.4% and BTV falling 0.5%. UES was flattish, easing 0.1%.

US equity markets locked in gains yesterday on stronger employment data, with the key benchmarks moving up slightly less than 2%. The overall upbeat mood spilled over to Asian trading platforms, where commodity plays are going strong this morning. Crude oil futures posted their biggest 1-day gains in the history of NYMEX trading, retracing to around USD 128. One of the factors driving this massive move to the upside was a weakening dollar against the backdrop of a potential interest rate hike in the Eurozone as early as July.

We view today's news flow as conducive to buying on the domestic market, and we expect to see upside across the board. Needless to say, yesterday's 4% surge in oil futures makes oils the top pick today. It's also noteworthy that today is the last day for trading in UES shares and the last chance for investors to take part in the power industry reform process.

Breaking News

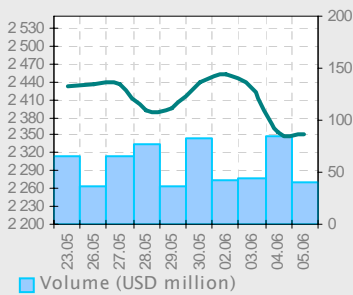
- In global petroleum market news, oil futures spiked by more than a whopping USD 5 on Thursday as the dollar nosedived against the euro in response to comments by the head of the European Central Bank. [\(page 2\)](#)
- Severstal, which has made an offer to acquire the US-based Esmark Incorporated, has withdrawn its request for the cancellation of an agreement between Esmark and Indian-based Essar Steel Holdings Ltd of 30 April 2008. [\(page 2\)](#)

Sector news

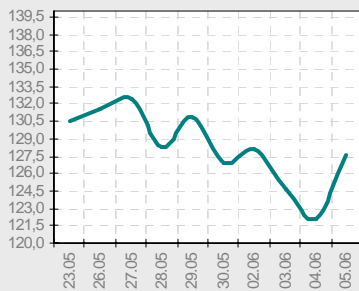
Utilities

- **UES:** Withdrawal of shares from exchanges. [\(page 3\)](#)

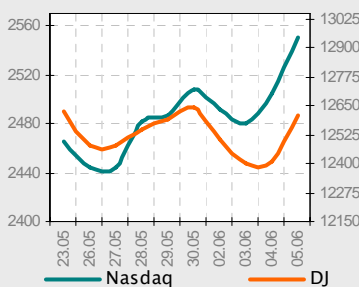
RTS



Brent (ICE)



World indices



Breaking News

In global petroleum market news, oil futures spiked by more than a whopping USD 5 on Thursday as the dollar nosedived against the euro in response to comments by the head of the European Central Bank. Light, sweet crude for July delivery rose USD 5.49 overnight – its biggest single-day price gain in the history of the NYMEX crude contract – to settle at USD 127.79 a barrel. Larger one-day percentage jumps have taken place in the past. July Brent crude rose 33 cents to USD 127.87 a barrel on the ICE Futures exchange in London. Midday in Singapore, the contract was up 53 cents at USD 128.32 a barrel in electronic trading. Yesterday's dramatic reversal in what had been a markedly bear market came after ECB President Jean-Claude Trichet suggested the bank could raise interest rates and the euro climbed against the dollar. When interest rates rise in Europe, or fall in the U.S., the dollar tends to weaken against the euro. As noted previously, many investors tend to buy commodities such as oil as a hedge against inflation when the dollar is falling. Also, a weaker greenback makes oil less expensive to investors dealing in other currencies, and market watchers believe the dollar's protracted decline has been a major reason why oil prices have nearly doubled in the past year. Trichet spoke after the bank left a key interest rate unchanged amid concerns about inflation. While Trichet said a change in rates was not a certainty, he said some of the bank's governors favor an increase. Earlier this week, Federal Reserve Chairman Ben Bernanke indicated that more interest rate cuts are unlikely in the U.S., sending the dollar higher and pushing oil prices lower. Oil's decline from the record USD 135.09 hit May 22, though, has come largely on concerns about demand, and the factors that slashed the prices by more than USD 10 are still present, we believe. Right now, we are not sure whether Thursday's trading could be the start of a new surge higher or just an exception. However, we tend to believe that Trichet's comments were merely an excuse to drive prices higher following the correction. Recent data show high prices have led consumers to cut their gasoline consumption. Meanwhile, many Asian nations are cutting fuel subsidies, effectively raising prices, which is expected to further dampen demand. Protests broke out in India and Malaysia on Thursday as consumers have reacted angrily to sharp fuel price hikes that could undermine governments in both countries. In the U.S. gasoline demand was down 1.4% last month from the same period a year earlier. Also, U.S. automakers are cutting production of gas-guzzling SUVs and trucks, and airlines are cutting capacity, both due to high fuel prices and the altered habits of consumers. Moving forward, we reiterate our short-term forecast for WTI and Brent at USD 140 with the hurricane season getting underway and on tightness in the supply side.

Some members of the European Central Bank's (ECB) board of governors advocate increasing interest rates, and the ECB could raise rates at its next meeting scheduled for July 3, said ECB's head Jean-Claude Trichet. "After thorough examination of the situation, we may make a decision to raise the rate slightly at our next meeting," Trichet said at a press-conference. "I do not say this for sure. I say that such a possibility exists". On Thursday, ECB kept the interest rate at 4%. According to Trichet, the members of the board of governance are undecided on the issue. However, at the press-conference opening, Trichet used the words carefully without implying that interest rates would increase at the next meeting.

Rosneft proposes that Gazprom jointly tap the Sakhalin shelf, said the company's head Sergei Bogdanchikov. "All Sakhalin fields usually have resources in a 50/50 proportion. These are complex fields. Their development is associated with risks, and it is better to arrange joint operations at these fields," he said. Bogdanchikov also reported that Rosneft kept in force the proposal that Gazprom jointly tap the Kirensky block. "This proposal remains in force. It has been sent to Gazprom in written form," he highlighted.

Rosneft is likely to use syndicated loans for refinancing, said the oil company's president Sergei Bogdanchikov on Thursday.

"Syndicated loans are a good instrument, which allows funds to be drawn for a relatively long period of time and at an acceptable value," he said. Rosneft's head also pointed out that part of the debt would be redeemed using the company's profit, as it was in the beginning of the year. Bogdanchikov also said it was possible that the company would utilize all financial instruments for these purposes, including ruble instruments and Eurobonds.

Rosneft is considering the acquisition of an oil refinery in Eastern Europe, said Sergei Bogdanchikov. "We are considering such a possibility; however, I cannot tell you about the final results," he added. It was earlier reported that, to modernize its oil refineries in Russia and bring them into compliance with fuel production standards, Rosneft would need more than RUB 72 bn in 2008-2012, according to preliminary estimates.

Rosneft would benefit from planned tax remissions, said the company's VP, Peter O'Brien. "The positive effect of tax remissions for Rosneft would exceed USD 1 bn next year," he said. However, he did not specify from what changes in tax legislation Rosneft would get additional income. Rosneft has started preparing those projects that would be subject to government tax privileges, Rosneft's president Sergei Bogdanchikov told journalists.

Novolipetsk Steel (NLMK) has received notification that the issue of the company's GDRs is to be renewed. According to NLMK's report, pursuant to Federal Law No. 57-FZ of 29.04.2007 "On the Procedure of Performing Foreign Investments in Companies that are Strategically Significant for the Country's Defense and the State Security, NLMK is a common strategic enterprise (i.e. is strategically significant for the country's defense and state security)".

Severstal, which has made an offer to acquire the US-based Esmark Incorporated, has withdrawn its request for the cancellation of an agreement between Esmark and Indian-based Essar Steel Holdings Ltd of 30 April 2008, the company said in its report. However, all terms and conditions of the offer remain unchanged. As was reported earlier, Severstal's offer depended, among other things, on the cancellation of a memorandum between Esmark and Essar Steel, and on the termination of other agreements between the two companies if they had been signed before the expiry of Severstal's offer. As was reported, Severstal filed an offer to Esmark's shareholders to acquire all the company's shares at USD 17 per share. The offer should be valid until June 26, 2008. Essar's offer to acquire the company's shares at the same price is also valid, and the offer conditions are set in the memorandum signed by the companies.

TMK will supply the main electric-welded pipes for the 'Malay-Bagtyarlyk' gas pipeline in Turkmenistan. According to TMK, it has signed a deal with Stroytransgaz. TMK plans to supply Stroytransgaz with 28,000 tons of large diameter pipes during June-September. At present, Turkmenistan, the largest exporter of natural gas in Central Asia, limited export routes to Russia's Gazprom gas pipes. The pipeline is expected to be 188 kilometers long and is part of the Turkmen 'Central Asia-China' gas pipeline, the total length of which will be 7,000 kilometers.

UES: Withdrawal of shares from exchanges

June 6 is the last day of trade in UES shares. We recommend selling the shares today to investors with a short investment horizon who are not prepared to wait for the spinoff companies' shares to be listed on stock exchanges and their potential market value to be disclosed.

June 6 is the last day of trade in UES shares on the RTS and MICEX. After the session closes, a list is to be compiled of those entitled to shares in the companies to be spun off from UES. Depending on the date the shares were bought, and the position adopted at the UES AGM in October 2007, those registered as UES shareholders on June 6 will get a different number and basket of shares in the spinoff companies, following the holding company's wind-up. Calculation of the number and structure of shares in the newly formed companies a UES shareholder will get after the company's reorganization can be found on the company's website at the website address: <http://www.rao-ees.ru/ru/reorg/show.cgi?calc1.htm>. It is noteworthy that investors who buy UES shares after June 6 will only be entitled to shares in the Federal Grid Company (Russian acronym, FSK) at swap ratios of 2.3 shares in FSK per one common share in UES and 2.1 FSK shares per UES preferred share. UES management does not recommend buying the company's shares after June 6.

Estimates by UES management show that 99% of those registered as UES shareholders as of June 6 will get shares in the targeted structure companies on July 14. By that date, shares in nearly all of the spinoff companies should be traded on Russian stock exchanges. The only exceptions will be MRSK Holding and Far East Energy Systems, whose shares are to appear on domestic stock exchanges in the autumn. According to our estimates, shares in these two companies should constitute about 20-22% of the value of a share package a former UES shareholder would be entitled to.

We offer alternative strategies for investors that could be applied after June 6, 2008. The first option is to become a UES shareholder with a view to participating in its reorganization. Second, those registered as UES shareholders as of June 6, 2008, may lock in their gains (or losses) and then sell the shares. The choice of a specific investment strategy will hinge on investment horizon and inclination towards risks. We believe that a share package that a UES shareholder (as of June 6) will be entitled to will gain in value in the 30-40% range by year-end 2008, as compared with its price on June 5 when UES is to be wound up. Shares in the spinoff companies may correct down in July and August as some former UES shareholders may opt to sell UES shares on stock exchanges immediately after getting these shares.

Schedule of Upcoming Events

Date	Event	Analysts Comments
UTILITIES		
June 6, 2008	Final cutoff date for UES	Entities listed in the shareholder's register as of the cutoff date are to receive the target structure companies' shares in exchange for their UES stocks. UES securities would stop being traded at the stock exchange on the same day. After the cutoff date, UES's shares would continue to circulate on the OTC market; however, they would not enable the stockholders to receive target structure assets. Those who buy 1 UES's share after June 6 would receive only 2 FGC's shares.
June 24, 2008	Auction to sell off St. Petersburg Supply Company	A 49% stake in Saint Petersburg Supply Company (RTS: PBSB) was valued at RUB 5 bn. The bid increment is RUB 100 mn.
June 25, 2008	Auction to sell off UES's stake in Kuzbassenergo (TGC-12, RTS: KZBE)	The share package at auction amounts to 19% of the company's charter capital, the initial price is RUB 10.03 bn, and the bid increment is RUB 10 mn. Bids are to be accepted from June 9 till June 19.
CHEMICALS AND PETROCHEMICALS		
June 25, 2008	Hearings in a claim to deprivatize a 20% stake in Apatit	If a stake in Apatit is bought by the state, PhosAgro's control over the company will weaken. This will be favorable for Akron, which will attempt to soften the terms of the agreement on apatite concentrate supplies.
TRANSPORT		
June, 2008	Aeroflot is to release its FY 2007 consolidated financials audited to IFRS	In view of the growth rates in the air travel market in 2007 and the airline's active expansion on domestic routes, we expect the air carrier to post record high revenues. Sharp price spikes on jet fuel in the closing quarter of the year may eat into the company's profit margins.
METALS		
June, 2008	NorNickel publishes FY 2007 annual report	Given the favorable conditions on the non-ferrous metals market, we expect the company's net profit to be USD 7.5 bn. The company's EBITDA should amount to USD 11 bn, in line with our estimates, while revenue should exceed USD 15.5 bn.
CONSUMER		
June 16, 2008	A EGM of Lebedyansky shareholders	An EGM at the Lebedyansky company will consider restructuring the company's business. The goal is to spin off the company's juice division for the subsequent sale of more than 75% of its shares. In our view, most of the shareholders are likely to back the spinoff with a view to getting shares in the juice division (with the possibility of a buyout offer from PepsiCo), and the baby food and mineral water unit.
FINANCIAL SECTOR		
June, 2008	Publication of VTB financials for 3M 2008	Maintaining robust asset growth rates is critical for VTB. Our estimates show that the bank is capable of achieving the most impressive operating results in the retail credit segment. Control over operating expenses will be a priority task for the management.

MICEX Top Advancers

	Issuer	Close	Chng.	Chng. %	USD Turnover
06/05	BSP	169.98	18.480	12.20	2,247,395.69
06/05	MRSK NW 007	0.256	0.018	7.79	184,773.84
06/05	MRSK NW 002	0.255	0.018	7.59	238,962.31
06/05	UdmurtES-p	2.245	0.145	6.90	11,173.50
06/05	MRSK C 006	1.189	0.075	6.73	20,190.20
06/05	MRSK C 010	1.19	0.070	6.25	871,897.40
06/05	MRSK C 003	1.18	0.068	6.12	730,388.70
06/05	SmolEnSb	1.797	0.097	5.71	19,817.00
06/05	MRSK NW 003	0.2534	0.013	5.58	589,712.14
06/05	MRSK NW 001	0.2599	0.013	5.27	287,297.89

MICEX Top Decliners

	Issuer	Close	Chng.	Chng. %	USD Turnover
06/05	IvanEnSb-p	0.219	-0.024	-9.88	94,550.10
06/05	MRSK CP 012	0.2901	-0.029	-9.20	58,010.00
06/05	MRSK NW 011	0.255	-0.020	-7.27	2,550.00
06/05	TverEnSb	1.152	-0.068	-5.57	26,735.20
06/05	MosES	0.6	-0.031	-4.91	55,392,565.30
06/05	TambEnSb-p	0.099	-0.005	-4.81	70,604.60
06/05	CUM-2	140.0	-7.000	-4.76	58,100.00
06/05	TGK-11-001	0.0288	-0.001	-4.32	18,301.80
06/05	VEK 01	22.999	-1.000	-4.17	1,307,680.00
06/05	Tattel	0.237	-0.008	-3.27	2,429,122.90

RTS Top Advancers

	Issuer	Close	Chng.	Chng. %	USD Turnover
06/05	STBK	6.9	0.530	8.32	136,000.00
06/05	BANEP	10.9	0.500	4.81	126,650.00
06/05	BANE	16.6	0.700	4.40	65,450.00
06/05	URKA	12.4	0.300	2.48	700,480.00
06/05	TATN	7.64	0.110	1.46	226,400.00
06/05	GAZA	185.0	2.000	1.09	209,800.00
06/05	ROSN	11.55	0.100	0.87	1,399,820.00
06/05	SNGS	1.17	0.010	0.86	1,103,200.00
06/05	NMTP	0.21	0.002	0.72	56,700.00
06/05	NVTK	8.45	0.050	0.60	17,001.40

RTS Top Decliners

	Issuer	Close	Chng.	Chng. %	USD Turnover
06/05	PIKK	28.0	-1.700	-5.72	171,400.00
06/05	UKUZ	140.5	-4.500	-3.10	42,300.00
06/05	PLZL	63.0	-2.000	-3.08	316,000.00
06/05	MRKZ	0.0105	0.000	-2.78	8,400.00
06/05	SIBN	7.2	-0.150	-2.04	72,000.00
06/05	SNTZ	100.0	-2.000	-1.96	30,000.00
06/05	KUBN	0.149	-0.002	-1.65	149,500.00
06/05	HYDR	0.089	-0.001	-1.44	3,096,150.00
06/05	TGKE	0.00071	0.000	-1.39	2,916.97
06/05	AFLT	3.9	-0.050	-1.27	121,500.60

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