



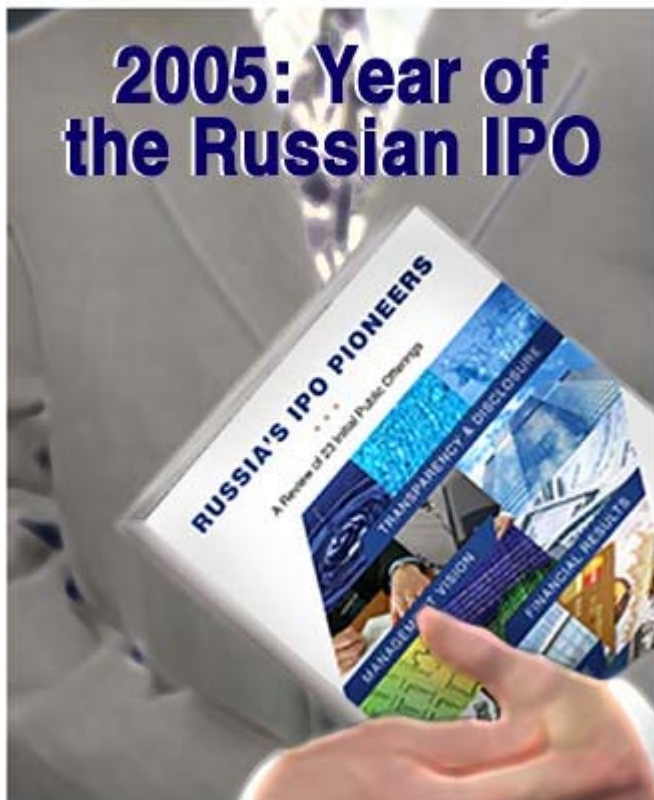
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THE PBN COMPANY is an international strategic communications, government relations and public affairs consultancy serving clients worldwide from offices in Washington, DC, London, Moscow, Kyiv, Riga, Almaty and Chisinau.

Wednesday, January 25, 2006

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In the world of business, 2005 will be remembered for airline bankruptcies, the retirement of U.S. Federal Reserve Chief Chairman Alan Greenspan, soaring fuel prices and steady (if not impressive) global economic growth despite devastating tsunamis, hurricanes, earthquakes and other natural disasters. It will also be remembered as the year the much-anticipated Russian IPO boom finally materialized.

In 2005, Russian companies raised nearly \$5 billion by listing their shares in Moscow and London. The companies, along with their earlier predecessors, are profiled in a new research report published by The PBN Company. The report, *Russia's IPO Pioneers*, profiles 23 Russian listings since 1996 and provides key data on the size and success of the offerings.

Russia's IPO Pioneers

From the First, VimpelCom, to the Largest, Sistema

[\[click here for full story\]](#)

Ukrainian Companies Follow the Russian IPO Boom

Three Companies List in 2005

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The Exchanges

London as the Preferred Destination

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PBN Execs Trade Places

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"2005 was definitively the year of the Russian IPO," says PBN Chairman and CEO Peter B. Necarsulmer. "Most companies that went to market were met with robust investor demand, because they offered investors an opportunity to capture a share of Russia's rapidly growing economy."

Ukraine and Kazakh Companies Issue IPOs

2005 also saw the first foreign listings of Ukrainian and Kazakh companies. In February, UKRproduct (UPG), Ukraine's leading branded foods company, raised nearly \$9 million by listing its shares on the Alternative Investment Market, the London Stock Exchange's (LSE) international market for smaller growth companies. Kazakhstan's largest producer of copper, Kazakhmys, raised over \$1 billion in October by listing its shares on the LSE. It was the third largest listing of an international company on the LSE in 2005, and by December, the company had entered into the FTSE 100.

"By all accounts, 2006 will be an even bigger year for Russian, Ukrainian and CIS companies offering their shares to investors to raise money for business expansion and development," explains Peter. "Analysts estimate that Russian IPOs in 2006 could be between \$15 billion and \$25 billion, while Ukrainian equity issues are going to grow exponentially."

However, the underlying trends of this IPO frenzy point to an inevitable correction in the market in the medium-term, warns PBN's Vice President Tom Blackwell. "Notwithstanding broad investor interest in Russian equities, demand is not inexhaustible and future issuers are unlikely to achieve the aggressive pricing that many of their predecessors did over the last year," explains Tom.

New Measures Encourage Listings in Russia

While the majority of companies turned to the London Stock Exchange for their IPOs, new regulations were introduced last week in Russia to ease the process of listing on the two Russian stock exchange and limit listings on foreign exchanges. The new measure would cap the amount of shares a Russian company can sell on a foreign exchange to 70 percent of an IPO and limit ADRs to 35 percent of the company shares. This could divert as much as \$5 - \$8 billion to the local exchanges — a significant increase from 2005's \$500 million in new listings.

PBN issued *Russia's IPO Pioneers* to examine the first wave of Russian companies to go public. Which companies succeeded and why? Which missed their price targets? How have investor preferences and demands changed over time, and what can be expected in 2006? And, most importantly, what are the lessons to be learned from the early IPO pioneers, as new Russian, Ukrainian and CIS companies prepare to tap the capital markets?

This edition of Access PBN summarizes the primary findings of *Russia's IPO Pioneers*. It also includes an analysis of the Russian and Ukrainian IPO markets — their similarities, differences, and growth opportunities yet to be realized for each.

Download a copy of *Russia's IPO Pioneers*:

<http://www.pbnco.com/eng/news>

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Russia's IPO Pioneers

In 2005, 12 Russian companies raised almost \$5 billion by listing their shares in London and Moscow. That's nearly 70 percent of the total \$7 billion raised by Russian issuers since the first Russian company, VimpelCom, listed on the New York Stock Exchange in 1996.

The 12 companies that went public in 2005 were telecoms holding Sistema; discount retailer Pyaterochka; steel producer EvrazHolding; search engine Rambler Media; automobile manufacturer Severstal Auto; grain processor Khleb Altaya; juice and food manufacturer Lebedyansky; independent gas producer Novatek; oil and gas company Urals Energy; the tire manufacturer Amtel; professional services company IMS Group; and finally Novolipetsk, one of Russia's largest steel producers.

Since 1996, Russian IPOs have come from the consumer and service sectors (11), telecoms and technology (6), energy and resources (5), and aviation (1).

The Largest and Smallest Listings

2005 also saw the largest and the smallest Russian listings to date. The February 9, 2005 listing of Sistema raised more than \$1.56 billion and was 2.5 times oversubscribed. The smallest was grain processor Khleb Altaya, which raised \$8 million by offering investors 10 percent of its share capital. Khleb Altaya simultaneously listed shares on Russia's MICEX and RTS.

"Market conditions for the Russian IPO boom were clearly right," says PBN Vice President of Client Services, Tatiana Nikulshina. "With developed equity markets generally in holding patterns, investors were willing to look further afield for attractive returns. Russia looked like a good bet, with its growing economy, political stability and normalization of business practices.

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Chief Executive of the London Stock Exchange, Clara Furse (center right), smiles as Sistema representatives ceremoniously open the trading day by starting the LSE's dynamic sculpture, "The Source." Sistema, Russia's largest private sector consumer services company specializing in mobile phones, was the largest Russian IPO to list on the LSE during 2005.



Viktor Beliakov, Director of Corporate Strategy at discount retailer Pyaterochka, stands before The Source with his hand on the starter. Pyaterochka was among a number of Russian companies invited to open the market on the days their IPOs floated.

"In early 2005, the choice of consumer plays was limited, and investors were willing to pay rich multiples for exposure to growth," Tanya notes. "In early 2005, IPOs by companies like Sistema and Lebedyansky were met with robust investor demand, as they represented some of the first opportunities for investors to tap into Russian consumer growth. And these companies didn't come cheap. But as the year passed, investors became more discriminating in their taste for Russian equities."

Tempered Market by Year's End

In the second half of the year, a degree of investor resentment emerged over the aggressive pricing of Russian equities, which left some institutional investors burned in the aftermarket. Amtel's IPO came at a time when investors were growing more weary — no longer willing to pay any price for exposure to growth. The IPO priced at \$11.00, well below the previously expected price range.

"Risks associated with investing in Russia are returning to the fore, with investors being reminded what lies behind the 'Risk Factors' in company prospectuses," explains PBN Vice President Tom Blackwell. "While the Russian IPO onslaught will continue in 2006, companies will be forced to revise their pricing targets downward, to make their investment case more compelling and to communicate it in a more convincing manner."

The number of Russian companies reportedly preparing for IPOs in 2006 is extensive. Some of the possible 2006 IPOs which will be sure to grab the headlines include Vneshtorgbank — one of the leading banks in the region — and Rosneft, whose IPO could be larger than all other Russian IPOs combined.

"The sense of urgency for Russian companies to list while market conditions remain broadly favorable will escalate in 2006," says Tom. "By the end of the year, the Presidential elections and surrounding political uncertainties will start to take center stage, and Russian equity issuance will be radically curtailed."

Download a copy of *Russia's IPO Pioneers*:

<http://www.pbnco.com/eng/news>

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Ukrainian Companies Follow the Russian IPO Boom

The market value of Ukrainian companies increased significantly in 2005. The Orange Revolution raised interest in the country in general. But it is the transparent and fair sale of Kryvorizhstal, the acquisitions of Ukrainian banks by foreign investors and the first successful Initial Public Offerings (IPOs) at the London Stock Exchange's Alternative Investment Market (AIM) by three Ukrainian companies that heated up the price for Ukrainian assets.

The most recent and largest IPO was completed in mid-December by XXI Century, a Ukrainian real estate developer and property manager. XXI Century raised nearly \$140 million by floating 32 percent of the company's shares on the AIM. The offering was 6 times oversubscribed.

The previous successful IPOs of Ukrproduct, a Ukrainian dairy company, and Cardinal Resources, an oil and gas company — which combined raised around \$30 million — has led to a number of other Ukrainian companies looking to the foreign exchanges to raise money in the coming years. More than a dozen Ukrainian companies have already publicly stated their intentions to list their shares, including Velyka Kyshenya, a leading supermarket chain; Industrial Union of Donbas Corporation (IUD), a major holding company with assets in the resource and engineering industries; and OJSC Galnaftogas, an oil and gas company.

Ukrainian Companies Turn to Foreign Exchanges

"2005 saw Ukrainian companies' first serious forays into the international capital markets," explains Oksana Monastyrskya, PBN's Deputy Managing Director of the Kyiv office. "These three companies' successes, as well as those of other companies from the former Soviet Union, have significantly increased the appetite and the interest of local companies to also make their shares available to outside investors."

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Real estate developer XXI Century and oil and gas company Cardinal Resources were among the Ukrainian companies that issued IPOs in 2005. XXI Century was the largest and most successful offering, raising \$140 million in mid-December. Following their lead, other Ukrainian companies have announced their own upcoming listings, including energy company OJSC Galnaftogas, among others.

Gross capitalization of all Ukrainian companies traded could reach \$35-40 billion by the end of 2006, with daily turnovers in the \$20 million to \$30 million range. By comparison, the Polish securities market has a net capitalization of \$80 billion and the Czech market is valued at \$50 billion. "These numbers clearly show that the Ukrainian market has considerable room for growth," says Oksana.

"As key sectors of the Ukrainian economy continue to grow, more and more companies are having to gain access to reasonable financing," Oskana observes. "An IPO can be financially more attractive than traditional bank financing or strategic investors. What's more, the development of Ukrainian companies makes it the right time to consider IPOs. A larger number of Ukrainian companies are embracing the principles of transparency, corporate governance and international accounting standards."

The option of listing on a local exchange is not a credible alternative for most Ukrainian companies. There are more than eight regional stock exchanges, but none with the technological sophistication or investor base for companies seeking to raise serious capital. Efforts are underway to consolidate and restructure these exchanges.

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The Exchanges

Of the 12 Russian companies that issued IPOs in 2005, nine of them listed on the London Stock Exchange (LSE), with the remaining three choosing to list domestically.

London is often the preferred listing location for many Russian and other CIS companies. In addition to its proximity, many regional companies believe London has an investor base more in tune with emerging markets in general, and Russia and the CIS in particular, than other global exchanges. There are 15 Russian and CIS companies listed on the LSE's main market and another 23 in the Alternative Investment Market (AIM), the Exchange's market for smaller growth companies.

First Russian Listing on NYSE

VimpelCom, the first Russian company to ever issue an IPO on a foreign exchange in 1996, listed on the New York Stock Exchange (NYSE). Since then, Russian companies listing on the NYSE have included Mechel, Tatneft, MTS, Rostelecom and Wimm Bill Dann. The total worldwide market capitalization of these companies exceeds \$26 billion.

NASDAQ has two Russian companies listed on its market: Golden Telecom, with a market cap of \$1.75 billion, and Moscow Cable Com, with a market cap of nearly \$90 million. NASDAQ is committed to the Russian market. It has signed two memorandums of cooperation with both the leading Russian stock exchanges.

However, in 2005, no Russian company listed on either the NYSE or NASDAQ. "The real and perceived burdens of Sarbanes-Oxley, along with the added distance across the Atlantic, have put the U.S. exchanges at a distinct disadvantage. That being said, the U.S. market is still the largest and there will certainly be opportunities for these exchanges in the future to attract Russian issuers," notes PBN Chairman and CEO Peter B. Necarsulmer.

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In less than 10 years, from 1996 to 2005, Russian companies' taste for IPO marketplaces swung from the United States, with its NYSE and Nasdaq exchanges, to the United Kingdom's LSE. Russia's native markets, the MICEX and RTS, are trying to capture their share of the IPO boom, with government regulations requiring domestic listings.

The preference for Russian, Ukrainian and CIS companies to turn to London as a venue for raising capital prompted The PBN Company to produce last year a guide to the UK Financial Markets. Written in both English and Russian, the guide is "intended to be of practical use to companies coming to the UK to raise finance, to find business partners, or perhaps to seek new markets for their products," says Trevor Barton, PBN Vice President and European Managing Director. "It is not a textbook, but a stepping stone to help Russian, Ukrainian and other CIS companies take their business to the international markets."

Measures to Encourage Domestic Listings

The trend toward foreign exchanges has also led to political pressure at home. Oleg Vyugin, the Russian financial markets regulator, has introduced regulation requiring Russian companies to list at least one third of an IPO on one of the local exchanges and cutting the percentage a company can trade abroad as derivatives to 35 percent from the previous 40 percent. It also simplifies the procedures for conducting IPOs in Russia.

The two Russian exchanges are the ruble-denominated Moscow Interbank Currency Exchange (MICEX) and the dollar-denominated Russian Trading System (RTS). MICEX is the leading stock exchange, with transactions totaling \$225.6 billion in 2005. RTS, during the same period, increased its volume 2.5 times.

The new measure will be a boom for the local exchanges. As much as \$5-\$8 billion could be placed on the Russian exchanges this year, compared to the \$500 million in 2005. The new rules are being reviewed by the Justice Ministry and, if approved, will go into effect within 10 days of approval.

"These new rules will be important to the development of Russia's capital markets," explains Peter. "At the same time, Russian companies, particularly those in sectors on the Kremlin's radar, will continue to see foreign listings as a way of increasing political cover at home and broadening their investor base."

Download a copy of *The UK and Its Financial Markets*:

<http://www.pbnco.com/eng/news>

Visit the exchange websites:

<http://www.londonstockexchange.com>

<http://www.micex.com>

<http://www.rts.ru>

<http://www.nyse.com>

<http://www.nasdaq.com>



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News from PBN Worldwide

A REAL HONOR. PBN has the honor of providing communications support to the family and legal counsel of Paul Klebnikov, the *Forbes Russia* editor who was murdered outside his office in 2004. The murder trial of three suspects began 10 January and is receiving international attention.

Email Tanya: tanya.nikulshina@pbnco.com

TRADING PLACES. Two PBN execs have decided to trade places for 2006. Tom Blackwell will be spending a year in Moscow, as Deputy Managing Director, and V.P. Tanya Nikulshina will conduct Client Services from our London Office. Tom was also promoted to Vice President. Congrats Tom and Tanya!

Email Tom and Tanya: tom.blackwell@pbnco.com and tanya.nikulshina@pbnco.com

RETURN ENGAGEMENT. Tom Thomson is back in D.C. as Senior Vice President, International Relations. Tom spent the past two years in Moscow as Managing Director (Tom's total years in Moscow: 9!). Welcome back Tom!

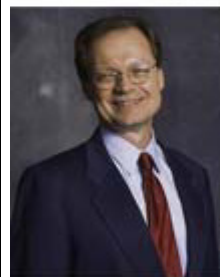
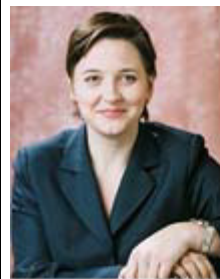
Email Tom: tom.thomson@pbnco.com

12-YEAR VETERAN. Vladimir Chernyavsky has been appointed Vice President, Business Operations and Head of the Moscow Representative Office. He will be in charge of business, legal, human resource, administrative, contractual, budgetary, economic security and other operations of the Moscow office.

Email Vladimir: vladmir.chernyavsky@pbnco.com

NEW ASSIGNMENTS. New clients include Russia's TV3; Norwegian telecom, Telenor; Estonian road construction company, TEEDE-REV2; and Dalkia, a European business-to-business provider of energy and integrated services management.

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PBN Senior Executives on the move include (from top): Vice President of Client Services, Tatiana Nikulshina, who goes to London; Vice President and Deputy Managing Director, Tom Blackwell, who leaves London for Moscow; and Senior Vice President for International Relations, Tom Thomson, who leaves Moscow and returns Washington, DC.

VISIONARY. PBN Vice President and Baltic Managing Director, Romans Baumanis, has been elected Chairperson of the Foreign Investors Council in Latvia (FICIL) Future Vision and Strategy Committee.

Email Romans: romans.baumanis@pbnco.com

EXPERT OPINION. PBN Vice President Tanya Nikulshina offered her expert advice on investor relations during an RBC-TV one-hour program called *Issuers*. Also on the panel were representatives of UFG, AFK Systema and Lebedyansky.

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GOOD ADVICE. This month's issue of *Crisis Times* features a front-page article by PBN•DC Senior Account Manager, George Felcyn, about the importance of preparedness in crisis communications.

Read the article: <http://www.pbnco.com/eng/news>

Email George: george.felcyn@pbnco.com

DR. ZHOG, I PRESUME? Congrats to Masha Zhog of PBN•Moscow! Masha earned her PhD in Psychology — no doubt with some useful practical experience at PBN! She was also recently promoted to Account Executive.

Email Masha: masha.zhog@pbnco.com

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