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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.

Tuesday, December 12, 2006

Volume 1 Issue 33

RUSSIAN EQUITIES REMAIN HOT



The Russian Equity story remains a hot topic — not just in Moscow, but throughout Europe and the United States. And with good reason.

Russia's equity market is among the five best performing markets in the world — up 40 percent in 2006. Already in 2006, 18 Russian companies have gone public, raising more than \$21 billion in primary and secondary offerings. Most of these IPOs have been substantially over-subscribed, and as many as five more companies may go public before year's end. (Look for the second edition of *The PBN Company's IPO Pioneers Report* publishing in early 2007.)

Lukoil Investor Conference

Russia's explosive capital markets activities have catapulted The PBN Company's growing financial communications practices. Throughout the fall, PBN was intensely busy with high-profile financial communications and investor relations activities for our Russia-based IPO, M&A and banking clients,

Lukoil's 10-Year Investment Strategy Unveiled

Investor Conference Organized by PBN

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Russia: New Role in a Changing World

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including Lukoil's global investor conference in New York City. The PBN Company managed the conference, which attracted more than 400 participants, including buy- and sell-side analysts, institutional investors, fund managers and members of the media (200 in person and 200 who signed on to the webcast) to learn of Lukoil's Q2 financial results and 10-year development and investment strategy.

Later that week, The PBN Company managed media coverage for Renaissance Capital's 5th Annual Equity Conference, also in New York. Former U.S. Federal Reserve Chairman Alan Greenspan was the keynote speaker at the conference held at Manhattan's Waldorf Astoria, which attracted more than 200 analysts, investors and others interested in Russian, Ukrainian and other CIS equities. PBN's Senior Vice President Blake Marshall and Senior Political Advisor Vyacheslav Nikonov also appeared on a panel debating the up- and downsides of Russia's economic and political landscape. Renaissance Capital is the leading independent investment banking firm operating in Russia and the CIS.

Raspadskaya IPO

November began with the highly successful float of OAO Raspadskaya, the first public listing of a Russian coal company. The PBN Company, with its partner Finsbury, served as the IR and communications counselor, and continues to advise the company on its positioning in the domestic and international media and financial markets. Raspadskaya, which priced in the middle of the announced range, raised \$317 million, valuing the company at close to \$2 billion.

Earlier this month, The PBN Company announced Prof-Media's \$550 million acquisition of TV3, one of Russia's largest independent broadcasters and a client of the firm, and received new mandates from Magnetogorsk Metal Kombinat and TGK-1.

In this issue of *Access PBN*, we provide highlights of the investor presentations delivered by Lukoil and excerpts of the speech by Stephen Jennings, CEO of Renaissance Capital. Also included are excerpts of an interview in *Vedomosti* with Raspadskaya's co-owner Gennady Kozovoy and a story on Prof-Media's acquisition of TV3.

Read more about PBN's Financial Communications capabilities and clients: www.pbnco.com

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Lukoil's 10-Year Investment Strategy Unveiled

At its New York Investors Conference in October, attended by more than 400 investors and analysts, Lukoil unveiled its H1 financial results and an ambitious 10-year development and investment strategy valued at between \$78 billion and \$112 billion, depending on fluctuation in world oil prices.

The company's H1 financial results beat market expectations, partially on the strength of continued high oil prices. Lukoil's net profits rose 65 percent in the second quarter, with revenues of \$18.4 billion.

Even more interesting to conference participants was the company's plan to double production in the next 10 years. As part of this plan, Lukoil will increase its share of natural gas in its overall hydrocarbon production portfolio from 6 percent in 2005 to 33 percent by 2016. Oil refining capacity is projected to increase by more than 70 percent to 2 million barrels a day. The company is also planning a number of acquisitions in gas deposits and reserves in Eastern Siberia, the Russian Far East, Central Asia and Iraq.

Analyst and Media Comments

More than 200 analysts and media attended the conference in person, with another 200 participating in the video webcast. Below are excerpts of analysts' reports and media coverage of Lukoil's Investors Conference:

"...2Q06 results again demonstrated how Lukoil's integrated global business model allows it to promptly respond to changing market dynamics by capturing the highest margins across products and regions. The results are positive for the company, and came against the positive background of the unveiling of Lukoil's new long-term strategy in New York."

— *ATON Capital*

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Vagit Alekperov, President of OAO LUKOIL, reveals the company's H1 2006 results and 10-year strategic plan during the New York Investors Conference.



A full house of investors, analysts, and media packed the conference site at the St. Regis Hotel, with an almost equal number of participants opting for the simultaneous video webcast. Afterward, Alekperov and other members of the OAO LUKOIL management team answered additional questions during a post-presentation luncheon.

"The program shows Lukoil's commitment to above-industry growth, aggressive expansion of its gas business and maximization of the downstream value chain...We find all of this appealing and maintain our positive view on Lukoil. We see Lukoil providing the best exposure to the developing Russian independent gas industry among Russian integrators as well as successfully capturing strong domestic refining margins."

— *Citigroup Global Markets*

"We believe that LUKOIL's message was well delivered, and that it went down well. Investors are bound to appreciate the clear objectives that were set out, and management's clear attention to shareholder value and the share price in particular."

— *Renaissance Capital*

"Lukoil has had phenomenal success with its investment programme in refining in the last five years, in particular in Russia. The quality and the quantity of Lukoil's existing refining base are the main reasons why Lukoil has been the most profitable Russian oil company for some time now."

— *Merrill Lynch*

"Lukoil's investments have expanded... Even if oil prices remained constant, the company should see substantial revenue growth as it plans to double its output of oil and gas from the present equivalent of 2 million barrels a day in the next decade. Lukoil remains vastly profitable."

— *Forbes*

"Considering the company's improving financial muscle and its clout as Russia's top oil producer, it appears only a matter of time before LUKOIL establishes its downstream presence elsewhere in Europe. With its ambitious output growth plans and a proven track record of aggressively pursuing acquisitions, the name Lukoil is sure to become more of a household word in Europe — and, indeed, in the global energy market — over the course of the next decade as the company establishes its credentials beyond Russia."

— *International Herald Tribune*

"No oil company in this country has ever announced such bold plans. But [Lukoil President Vagit] Alekperov has a good reason to have these plans. Lukoil admits that the goal of the program is to 'boost the share value of the company.' And investors will very likely believe that multibillion production

investments will pay off because Alekperov has a good reason to make his plans a reality."

— *Vedomosti*

Download the Lukoil financial presentations:

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Russia: New Role in a Changing World

Excerpts of speech by Stephen Jennings, CEO, Renaissance Group

There are few absolute truths when it comes to Russia. One day, conventional wisdom says Russia is an economic miracle, blessed with political stability. The next, the country has taken ill with rabid Dutch disease and is verging on a return to autocracy.

Much of what we read in the Western press about Russia is very black and white, terribly myopic — or both. While the specific facts are generally correct, context and nuance are missing. Generalizations are far too broad.

Yes, it is true that Gazprom abruptly closed foreign participation in Shtokman. Yes, the government uses the pretense of environmental abuse and the reality of multibillion-dollar cost overruns to leverage a stake in Sakhalin 2. And yes, TNK-BP's license for Kovykta is at severe risk unless Russian and foreign shareholders agree to share with Gazprom.

The facts are true. The West views them as evidence of Russia's abandonment of free market principles, as the triumph of state capitalism, as further backsliding on Russia's commitment to the global economic system. But in Russia, these very same facts are viewed quite differently. Russians embrace these actions as wise.

Realities of a New Russia

Russia is increasingly asserting its national interests not only in geopolitical terms, but also in its domestic and international economic policies. Unfortunately, many in the West, including investors, have failed to come to grips with the realities of a "new" Russia.

Russia is awash in cash. Its stabilization fund tops \$70 billion. Its gold and foreign exchange reserves are the world's biggest after Asia. The economy is nearly one trillion dollars, with an investment grade rating. More than this, Russia is a net creditor nation — an amazing feat

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Stephen Jennings, founder and CEO of Renaissance Group, addresses the 5th Annual Investor Conference at the Waldorf Astoria Hotel in New York City.



The keynote speakers were followed by two panel discussions: one on the current state of Russian politics and economy and another on the prospects of a stable Ukraine. Panelists included such notables as the Director of Stanford University's Center of Democracy Michael McFaul and Former Prime Minister of Ukraine Yuriy Yekhanourov, among others.

when you consider the state of the economy in 1998 and its aftermath. The equity market is now valued at \$850 billion with daily turnover of more than \$5 billion.

Some of the biggest IPOs in recent years have been Russian, including Rosneft's \$10 billion listing earlier this year. The fevered pace of IPOs is not letting down, even though investor appetite is, appropriately, more discerning. About 80 Russian companies are at various stages in their plans to float. The cumulative value of IPOs in the pipeline approaches \$20 billion.

Russian Companies Rebuffed

Yet, Russian companies are rebuffed when they attempt to acquire western companies. They are seen as too "aggressive" in their international expansion plans. Severstal's failed attempt to acquire Arcelor still stings — not only for the company but also at the highest levels in the Kremlin. Just imagine the backlash when Russian companies begin buying more U.S. assets. And the question is not "if" but "when." You can hear it now, "The Russians are coming! The Russians are coming!" A five-percent stake by Vneshtorgbank in EADS, parent of Airbus, set off dread and alarm in European capitals about a "Russian takeover."

Each of these reactions is symptomatic of the West's failure to come to grips with a new and strong Russia.

Yet despite these negative views reported by Western pundits and media, foreign investors are increasingly turning to Russia with confidence. Foreign investment for the first six months of this year has risen 42 percent to more than \$23 billion. Investors already in the market are reporting performance beyond their greatest expectations. The country's macroeconomic outlook remains robust. So investors are engaging with Russia in record numbers, despite the real risks and dire warnings by pundits.

Yes, it is a different Russia than a few years ago.

New Generation of Russians

There is an emerging and completely new generation of Russians. This new generation is the crucial social, political and economic vector in Russia's future development, including as an investment destination. They include a growing, viable middle class with income to spend and to save. By some estimates, it is now 25 percent of the population. This new generation includes a new breed of Russian business owners, investors and managers — executives who are infiltrating all segments of Russia's economy. They are young and progressive, ambitious and smart.

They are both nationalist and internationalist. Proud of their country and of their growing influence and role in Russia's future.

After years of seeing so many Russians disillusioned and

dispirited, it is invigorating to look into the faces of this new generation who have such a strong sense of pride, determination and optimism for their country, for themselves and for their families. That is why I am fundamentally optimistic about Russia. In spite of all the real and perceived challenges. Investors take note: the country's risks are manageable while the opportunities remain exceptional.

There are no absolute truths when it comes to Russia. The country is neither backsliding toward communism and a controlled economy nor is it pursuing democracy and free markets under conditions entirely comfortable or understandable to those in the West. It is growing an economy and a society in a truly Russian way — whether we always like it or not.

Read the full speech by Stephen Jennings:

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"I Am Sure That We Will Succeed"

Excerpts from the October 16, 2006 *Vedomosti* article by Ksenia Rybak

Gennady Kozovoy, head and co-owner of Rospadskaya, is preparing the company for the first coal IPO in Russia. This spring, the company was converted into an open joint-stock company from a closed joint-stock company and saw its assets almost triple over the summer. In his interview to *Vedomosti*, Kozovoy spoke about the partnership with Evraz and plans for Rospadskaya's future.

Rospadskaya became the first private mine in Russia. How did that happen?

The first miners' strikes began in the USSR in 1989 in the Kuzbass, Donbass and Vorkuta regions. In 1991, the first leaders of young Russia came and said, "We will give you as much freedom as you need."

And you accepted the offer?

Yes, in December 1991 Rospadskaya became one of the first joint-stock companies – a "people's" company. The shareholders elected me Chairman of the Council of Shareholders, which was what the Board of Directors was called then. How were we to begin? No one had any experience of this type. There weren't really any laws or documents regulating this. And so we began working.

What did you decide to do with the company?

I set a goal of creating a world-class company. We went with a group of specialists to Poland, Great Britain, Germany and the United States. I saw how coal producers worked and understood that our people could work with a similar level of productivity, but only if the technology was changed and the production process modernized. We worked out a program for the company's development for 10 years – from 1995 to 2005 – which included concentration of the mining work, comprehensive retooling and organizational and technical changes.

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Managing Director of Eurasia Mining Plc Christian Schaffalitzky is flanked by Rospadskaya Chairman of the Board of Directors and Deputy General Director of Rospadskaya Coal Company Alexander Vagin (L) and Rospadskaya General Director Gennady Kozovoy (R) during a tour of operations with other new members of the Board of Directors.



A bird's-eye view of operations at Rospadskaya's MUK-96 mine, where annual capacity exceeds one million tons of coal and reserves total 311 million tons of coal.

What are the most important strategic decisions that have been made recently?

The program for the long-term development of the company for 2006-2015 has been adopted. It foresees investment of \$327 million from 2007 through 2010. This is on top of the \$360 million of our own and borrowed funds that were invested in the development of the business from 2004-2006. We plan to put these funds in the construction of the Rospadskaya Koksovaya Mine. The K brand coal, which internationally is classified as hard coking coal and is in high demand, to be produced at the mine will allow us to strengthen our position on the local market and expand our exports. We plan to increase the production capacity of the MUK-96 and Razrez Rospadsky mines to 3 million tons annually at each enterprise.

Over the past one or two years Russian coal companies have been announcing their plans to increase exports. Is this also true for Rospadskaya? What regions interest you?

Right now, we are increasing deliveries to Eastern Europe, namely, Hungary, Romania, Bosnia and Slovenia. We are seriously developing possibilities for delivering our coal to countries of the Asia-Pacific region — India, Japan and South Korea, among others. The reaction at the coal conference in Tokyo in late September...confirmed international interest in Rospadskaya's coal.

Rospadskaya has approved the underwriting agreement with Deutsche Bank and Credit Suisse, the shares of the company have been included on the RTS list and rumors are flying around the market that the IPO will take place very soon. So when?

Everything will come in due time. I'm not going to comment on the parameters and date of a possible placement. The IPO is not a goal in and of itself; it is one of the methods of attracting investment on the market. Right now, we are improving our corporate management so that it is understandable for the market. Our production technologies are world class and our corporate standards must also correspond to international standards.

For example?

Rospadskaya has been preparing its annual financial reports according to International Financial Reporting Standards for three years already and the reports are audited. Starting this year, independent directors with tremendous experience working in the mining industry and the financial sector have joined our board of directors. We created an audit committee within the board of directors. We recently completed the process of consolidating the enterprises of the company into one group.

Do you plan to work at Rospadskaya for long?

For as long as my health will allow.

And then what? Have you thought about selling the business?

On multiple occasions, there have been offers to buy out my stake. But everyone knows that I won't sell out. It was too difficult to get this far. And besides, there is much left to do at Raspadskaya and I am sure that we will succeed.

Read the full translation at: www.pbnco.com/eng/news

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Prof-Media Acquires TV3

Prof-Media, a leading Russian diversified media company, recently acquired 100% of Independent Network Television Holding Ltd. (INTH), the holding company of Russia's TV3 network. The transaction was announced on December 4, 2006. The PBN Company helped to announce the transaction, having provided financial communications support to TV3 throughout 2006.

Since its formation in 1997, Prof-Media has risen to become Russia's largest and most diversified media holding entity. The company targeted TV3 as a means to expand its multi-media advertising market presence. TV advertising currently comprises nearly half of the total Russian ad market.

Prof-Media sees even further growth potential ahead for the Russian television advertising market.

"TV3 is a high-growth, high-margin business," said Prof-Media CEO Rafael Akopov. "We are confident that the combination of TV3's existing infrastructure with Prof-Media's content and management expertise will enable us to significantly increase the company's market share and reach as well as realize sizeable synergies for our group."

From its roots as a single television station in St. Petersburg, TV3 Russia has grown into a national television network operating via 290 stations in 250 cities and towns in Russia, with a 2.8% average share of its target television audience in 2006. The station's growth represents the culmination of a 10-year investment and management project in TV3 by Act III Communications, the controlling shareholder in INTH.

"When Act III Communications asked me to join them in building a television business in Russia ten years ago, we were venturing into unknown territory," said Tim McDonald, CEO of INTH. "Yet, today we have come full circle and are passing on a healthy, thriving business, built on the best principles of commercial transparency and corporate responsibility."

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Prof-Media has risen to the top of the Russian media industry in less than 10 years. The acquisition of Independent Network Television Holding Ltd. and TV3 Russia, cements Prof-Media's place as Russia's largest and most diversified media holding entity.

Prof-Media is a major private investor in Russian media sectors. The company operates a nationwide chain of multiplexes under the brand Cinema Park and also owns a controlling stake in Central Partnership, a top Russian film production and distribution company. The company is also involved in the Russian radio business, operating FM-frequency radio stations in Moscow and St. Petersburg.

"The TV3 acquisition is a key element of Prof-Media's strategic development as a unique, privately-owned media company in the region," said Akapov.

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News From PBN Worldwide

Important Assignment. PBN•Ukraine developed the strategic plan for the continuation of a public awareness campaign to stop human trafficking in Ukraine. The program will be implemented by the Organization for Security and Co-operation in Europe (OSCE) in 2007.

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Done Deal. While the bilateral agreement between Russia and the United States on Russia's admission into the WTO is finally a done deal, the firm's work on intellectual property is not. With the certain passage of Part IV of the Civil Code, PBN has been meeting with government officials, industry groups and its clients on IP implementation and future multilateral WTO talks in both Washington and Moscow.

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Rolling Along. PBN•DC has been busy generating favorable editorials to support the position of a coalition of six major American auto manufacturers (DaimlerChrysler, Ford, GM, Honda, Nissan, and Toyota) to eliminate the duties on imported corrosion-resistant steel. The U.S. International Trade Commission's final decision is expected in December.

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Weathering the Storm. The PBN Company concluded a series of crisis training sessions for Lafarge Roofing in Estonia. The Lafarge team can now weather any storm of bad news that might hit them. However, for the time being, it is the warmest winter in the last 70 years in Estonia!

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You Rang? PBN•Moscow has been retained by the Mobile Manufacturers Forum (MMF) to ensure that international health and safety standards for mobile phones are introduced in Russia. In early December, the firm helped MMF with its participation in a workshop entitled

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NISSAN

DAIMLERCHRYSLER



TOYOTA



FERRERO



"Harmonizing Russian and International Standards and Methods for Measuring Non-Ionizing Radiation Levels of Mobile Communication Devices."

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Very Yummy! PBN•Moscow has also been hired by Ferrero (a.k.a. Ferrero), one of the largest confectionery companies in the world, which produces not only candies and chocolate but also bakery products and beverages. The firm is providing strategic communications services to Ferrero.

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Burning the Midnight Oil. PBN•Baltics was hired by Statoil to conduct a public affairs program in Latvia designed to help the company achieve its business objectives in the Baltic country. Statoil is a long-term client of The PBN Company's a Moscow and Washington offices.

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Two New Mandates. PBN's latest financial communications new business wins are with Magnitogorsk Iron and Steel Works, the 15th largest steel producer in the world, and TGC-1, a power generating company servicing markets from the Baltic Sea to the Barents Sea.

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Hot Off the Presses. In a recent *Russia Profile* article, Dmitry Polikanov, PBN•Moscow Director of Marketing and Opinion Research, analyzed the reasons behind Mercer Investment Consulting's designation of Moscow as the world's most expensive city. Dmitry also published an article in *Vedomosti* on crisis management and the procedures a company should have in place to turn the crisis into a benefit, or, at least, to mitigate its consequences.

Read the articles: [Russia Profile](#) and [Vedomosti](#)

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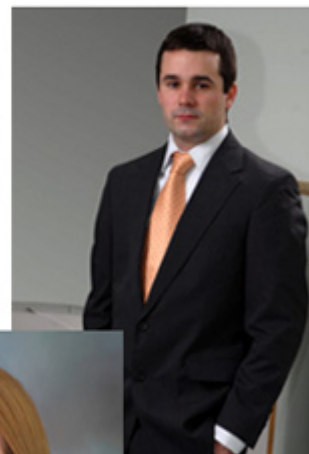
Helping Hand. PBN•London has been providing pro-bono services to the Russo-British Chamber of Commerce to raise the organization's profile.

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Officially Onboard. Blake Marshall has officially joined PBN. Blake, the former Executive Vice President of the U.S.-Russia Business Council, is PBN's new Senior Vice President—International based in Washington DC. Within days of his November 15th debut at PBN, Blake was off on a road trip to London and Moscow, where he had a number of speaking engagements, client assignments and new business initiatives.

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The PBN Company's team of professionals grows in accordance with the firm's lineup of world-class clients calling on our expertise. PBN•Ukraine Account Manager, Peter Vanderwall, and PBN•DC Associate Account Manager, Amanda Lahan, are the newest additions to the PBN family.



Yes, Another Peter. Every PBN office needs at least one Peter. Now PBN•Ukraine has Peter Vanderwall, who joined as a new Account Manager.

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Full-Time Work. We also want to congratulate Amanda Lahan, who was officially hired in November after working as a temporary Associate Account Manager in the DC office. Amanda lived and worked in Russia under the Alfa Fellowship Program, sponsored by Alfa Bank.

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