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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, June 5, 2007

Volume 1 Issue 34



2006: Year of the CIS IPO

"If 2005 was the 'Year of the Russian IPO' then 2006 should be known as the 'Year of the CIS IPO'," says PBN Chairman and CEO Peter B. Necarsulmer. While Russian companies raised more than \$17 billion in 2006, the year was marked by the debut of IPOs of companies from Kazakhstan, Ukraine and Georgia. "These listings, combined with another strong showing by Russian corporates, has left investors with a Chinese menu of sector and geographic choices," says Peter.

The PBN Company's *IPO Pioneers 2*, released in April, provides details on the 18 Russian listings of 2006 as well as the 11 additional CIS IPOs. This is the second year that PBN has produced this definitive review of IPOs from the region.

"So far, 2007 has not seen a slow down in IPOs from the region," says Trevor Barton, The PBN Company's Senior Vice President and Managing Director in London. "To date, Russian, Ukrainian and other CIS companies have raised more than \$26.1 billion. Several IPOs from the region have exceeded \$1

London Calling

The opportunities, and challenges, of listing in London
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IPO Pioneers 2

The Year of the CIS IPO
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PBN's IPO Expertise

MMK Float Raises More Than \$1B
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Sir Andrew Wood: PBN's New Board Chairman
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billion, with Russian bank giant VTB's \$8.2 billion May listing being the largest yet this year of any market around the world."

PBN Beefs Up London Team

The continued high level of activity in financial communications has also meant a stream of high-profile assignments for PBN's financial communications practice. To help manage these important projects, PBN has recruited the highly talented Stuart Leasor to join our London office. Stuart is one of London's most knowledgeable emerging markets and financial communications specialists with more than 20 years' experience. Prior to joining The PBN Company, Stuart was a partner at The Policy Partnership, Head of Developing Markets at M: Communications, and Head of Emerging Markets at Financial Dynamics. During the 1990s, Stuart managed public awareness campaigns on structural and fiscal reforms in Bulgaria, Moldova, Poland, Romania, Russia, Slovenia and Ukraine.

"Stuart's experience in financial and investor communications increases the depth of our London office's offering," says Peter. "His addition to PBN enhances our ability to provide comprehensive, first-class service in the London financial markets, and he joins at a time when we are delivering record results to our growing number of financial communications clients."

In this edition of *Access PBN*, Stuart offers insight into the challenges and opportunities for Russian, Ukrainian and CIS clients coming to the London financial markets. Also in this edition is a summary of PBN's *IPO Pioneers 2*, as well as a profile of the firm's financial communications work for the recent IPO by Magnitogorsk Iron and Steel Works (MMK).

"The continued run to the markets by CIS companies does not appear to be letting up," predicts Trevor. "By some estimates, more than 40 companies from the region will raise more than \$30 billion through initial offerings in 2007. Many more are making plans for 2008. PBN is ready to help."

Download IPO Pioneers 2: www.pbnco.com/eng/news



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London Calling

by Stuart Leasor, Senior Vice President and Managing Director

The last two or three years have seen London become a magnet for non-U.K. companies seeking equity listings of one sort or another. Fear of Sarbanes-Oxley in the United States, the development of London's junior market, AIM, into the world's premier growth market, and the confirmation of London as the centre for global financial operations of many international institutions has proved an almost irresistible mix. The trend continues. In the first four months of 2007, there have already been 19 companies listing and raising £2.8bn (c. \$5.5bn) on the main market and 76 admissions to AIM, 12 of them international, raising £4.7bn (c. \$9.3bn).

CIS Companies Head to London

Companies from Russia, Kazakhstan, Ukraine and other CIS countries have joined this trend. At the time of this writing, 39 CIS equities are traded on the International Order Book on London's main market, with a further 38 companies listed on AIM. VTB this year and Rosneft last year were two of the largest ever IPOs. A number of other sizeable offerings from both Russia and Kazakhstan have shown that London is the destination of choice for CIS companies seeking an overseas listing, of whatever size. The London markets therefore offer great opportunities for overseas companies wanting to raise capital.

But with these opportunities come new challenges. As more and more companies seek to raise funds in London, the market is becoming choosier. A few years ago, when CIS companies were still a rarity in London, few questions were asked by investors who felt confident of an excellent return. But more recent listings have not had such a smooth ride. Of the 77 CIS companies listed in London, 34 are currently trading lower than a year ago (or since admission, if more recent). Corporate governance and transparency have become increasingly important. It is no longer acceptable to merely put a CSR charter on the website and add a notable

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Stuart Leasor is a Senior Vice President and Managing Director based in The PBN Company's London office. Stuart provides senior level reputation management, financial communications and government relations consulting services. He has more than 20 years' knowledge of developing markets, including significant experience in litigation support and dispute resolution.

Westerner to the board. Investors want to see what lies below the surface. The listing of NLMK 18 months ago produced the memorable headline in *The Observer* newspaper, "You need balls of steel to invest in Novolipetsk." Investors had become wary of being taken for granted, wanted to see the full story, and felt they were not being allowed to. In NLMK's instance they needn't have worried too much; it is still ahead of its listing price, but others have not been so successful.

What does this all mean to companies considering the London markets? Can the challenges be switched back into opportunities? Too often it appears that companies are merely trying to take the money and run. Minimal information is given out, the equity story is not fully explained, the reasons for the fund raising are not convincingly outlined and, perhaps most importantly, there is little effort to maintain the momentum and support the aftermarket. If a company can challenge these perceptions and pay more than lip service to its communications requirements, investors are far more likely to commit to the issue and support it going forward.

Making the Equity's Case

So how can this be done? The primary task is to differentiate the company from the myriad of other IPOs emanating from both emerging and more developed markets. The company has to set out why it is seeking to raise capital via an IPO; investors want to see that the listing enables new developments for the company — they will not buy if they think there is little upside for them.

For obvious reasons in most cases, little if anything will be known about the existing management outside its home market, and sometimes little is even known there. All too often ownership structures can resemble a map of the London Underground. Therefore, a concerted effort must be made to educate the target audience about the business and its management team — the market must be given confidence that they know who the company really is, that it knows what it is doing, and that it is going to be a coming force in the future. The best way to do this is to start the education process early, before the tighter IPO legal communications restrictions cut in. Management must be seen to have a provenance before the fund raising starts in earnest.

It is easy to say that the equity story needs to be explained well, but doing it can be more difficult in practice. The company's current and target market dynamics need to be shown — how the company makes its money, and how it intends to grow in the future. Is it a convincing story? Can it show that there is real potential for expansion, particularly to new markets, even beyond the home state?

Another major concern for investors into markets such as the CIS is the perceived political risk. Potential investors want to be reassured. Does the company have the right

political contacts, and will they be sustained in the future? Are there any regulatory risks over the horizon, and, if so, how is the company positioned to weather them?

Most importantly, what are the investment prospects going forward? While no one can accurately forecast the movements of stock markets, investors want to see both likely upside in the shareprice after listing as well as sufficient demand and liquidity to allow them to exit at a time of their choosing.

Getting the Right Advice

Growth in the number of CIS companies listing in London has seen a growth of would-be communications advisors claiming ability to help in the process. It almost seems that passing the Aeroflot office in Piccadilly makes you an instant Russian expert. But this proliferation explains why some of the offerings have been less successful. One of the tasks of the communications advisor is to interpret both ways — the company to the market and, just as importantly, the market to the company. If the advisor cannot combine detailed knowledge of the characteristics of the home market with demonstrable expertise of the London media and investment community, the company will find it much harder to explain itself and achieve a successful and sustainable listing in London.

A company needs to get the process right, from the start. It will never get another chance to make its first impression. This year, VTB and MMK have shown how it should be done. At the same time, they have raised the bar for those who follow.

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Read PRWeek's article about Stuart:
www.pbnco.com/eng/news/written_about.php



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IPO Pioneers 2

When PBN issued the first *IPO Pioneers* in 2005, a total of 18 Russian companies were featured. This year's *IPO Pioneers 2* was distinguished by both the number and diversity of companies coming to the market — in terms of geography, sector and scale.

IPO Pioneers 2 provides details and analysis on 18 Russian listings and 11 additional CIS listings, including companies from Kazakhstan, Ukraine and Georgia. While 2005 saw an influx of consumer goods companies, 2006 witnessed surprising sector diversity. CIS companies that launched IPOs in 2006 ranged from those in telecoms and media, food and agriculture, metals and mining, property and development, energy, retail and financial services, among others.

2006 also saw one of the largest-ever listings from the region. The July offering of Rosneft's shares raised more than \$10.4 billion — more than all Russian companies that listed in 2005 combined.

"The sheer scale of Rosneft's listing represented a breakthrough for Russian capital markets and re-opened the 2006 IPO floodgates after a surprisingly slow start to the year," comments PBN's Senior Vice President and Moscow Managing Director Tom Blackwell.

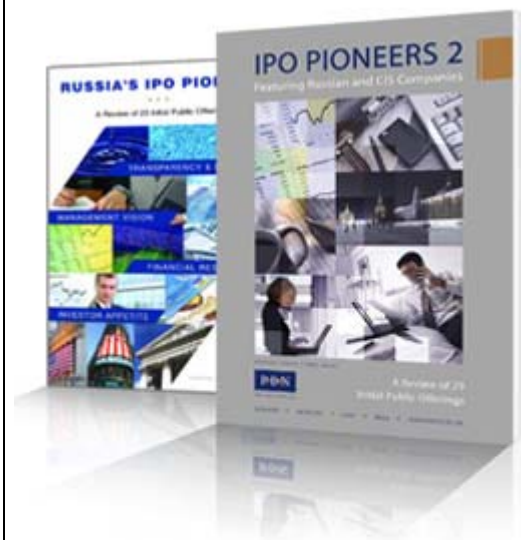
In total, companies from Russia, Ukraine and the CIS raised more than \$21 billion in 2006, compared with \$5 billion in 2005. Estimates for the amount to be raised by CIS companies in 2007 range upward from \$30 billion.

CIS Companies Go Public in 2006

Perhaps the greatest distinguishing factor in IPOs in 2006 was the emergence of companies from elsewhere in the CIS. In 2006, four companies from Kazakhstan, one from Georgia and one from Ukraine raised more than \$4 billion.

"Kazakhmys, the largest copper producer in Kazakhstan, became the darling of the London Stock Exchange in 2006," says Tom. "Since its October 2005 IPO on the LSE,

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The PBN Company's groundbreaking studies, *Russia's IPO Pioneers 1* and *IPO Pioneers 2*, chart the rise of Russian and CIS IPOs from the heady, exuberant and predominantly Russian flotations of 2005 to the well-scrutinized and geographically diverse offerings in 2006.

Kazakhmys's shares have nearly doubled in value, putting it at the head of the entire CIS IPO field in terms of value gained and making it the first CIS company to join the ranks of the FTSE 100."

London again hosted more CIS IPOs than any other market. However, in a shift from 2005 when 82 percent of companies from the region listed in London, only 62.5 percent chose to list in London in 2006. The decrease was made possible by a marked rise in the capacity and profile of domestic stock markets, particularly in Russia.

"Even putting Rosneft aside, companies like Magnit, Raspadskaya and OGK-5 — each of which raised more than \$300 million locally — helped to defy the conventional wisdom that you have to go abroad to access serious funds," notes Artem Dovlatov, PBN's Vice President for Financial Communications. "It's not surprising that an increasing number of leading investment bankers are talking about Moscow becoming the second most influential financial center in Europe after London."

In 2006, Russian companies that pursued domestic-only listings raised more than \$1.5 billion, compared to \$294 million in 2005. And with Sberbank already raising more than \$9 billion locally, 2007 will be another record-setting year for leading Russian exchanges RTS and MICEX.

2006 also saw Warsaw and Frankfurt emerge as IPO destinations, with the listings of Astarta Holding of Ukraine and C.A.T. Oil of Russia, respectively. New York also came back to the fold with the listing of CTC Media, one of Russia's largest commercial television networks.

Ukrainian Companies Targeting 2008/09

"For Ukraine, 2005 and 2006 should be characterized as a trial phase for IPOs because each of the four companies listed was a recent start-up with a dynamic management team," says PBN's Senior Vice President in Ukraine, Myron Wasylyk. "We expect Ukrainian blue-chips to begin raising capital through IPOs this summer, with the majority of Ukrainian companies targeting 2008 and 2009."

"The increase in the number of publicly traded companies from the region has allowed investors to adopt a more nuanced assessment of CIS offerings, along with a more stringent vetting of companies headed to the equities market," says PBN Senior Vice President and Managing Director Trevor Barton, who is based in London.

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PBN's IPO Expertise

More than \$1 billion raised, from high-quality institutional investors, and an \$11 billion market capitalization (the largest of any Russian steel company). These were just some of the noteworthy results of the most successful IPO of a Russian steel company to date — Magnitogorsk Iron and Steel Works (MMK) — in which PBN and Finsbury played key roles as PR and IR advisors.

Leading international investment banks Renaissance Capital, ABN Amro and Morgan Stanley acted as Joint Global Coordinators and Bookrunners for the offering, with Gazprombank acting as Co-Lead Manager.

MMK ranks 20th among the world's largest steel producers and is one of Russia's leading and most high-profile corporations. It produces a broad range of steel products and has a particular focus on steel products with high added value. In 2006, net revenue in accordance with US GAAP was \$6.4 billion and net income was \$1.4 billion.

Speaking ahead of the IPO, Victor Rashnikov, Chairman of MMK's Board of Directors said, "MMK is the largest single-site steel production facility in Russia and is a fully integrated steel making complex that encompasses all major production processes, from preparation of iron ore materials to high value-added processing of steel. We are looking forward to conducting an international IPO, and we believe that broadening our shareholder base in this way will strengthen our ability to seize the opportunities for our continued growth and development within the global steel sector."

PBN's Role in the IPO

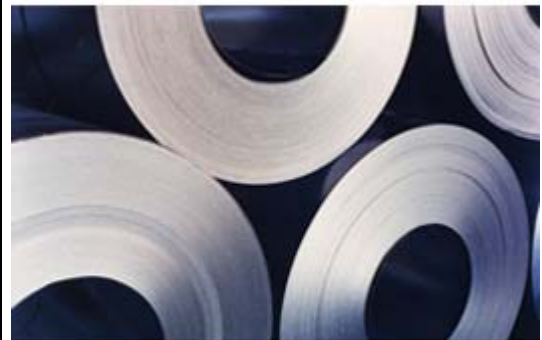
"We are proud to have contributed to the successful London listing of one of Russia's leading blue chips," says PBN Moscow's Managing Director, Tom Blackwell. "It once again demonstrated how PBN has emerged as the dominant IR player with a focus on emerging markets."

PBN's MMK project team was led by Artem Dovlatov, one of Russia's top IR professionals, and Oleg Kalinskiy, who prior

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Victor Rashnikov, Chairman of the Board of Directors of Magnitogorsk Iron and Steel Works (MMK), displays the certificate marking the close of the transaction at the congratulatory celebrations following MMK's successful IPO. The *Financial Times* reported that the issue for MMK in London and Moscow was two times oversubscribed and valued the company at \$11.22 billion.



Cold-rolled steel is one of the many value-added products offered by MMK. In 2006, MMK produced more than 12 million tons of rolled products, a 9.4 percent increase over the previous year.

to joining PBN worked for many years in the steel industry and in the RF Ministry of Industry. Their combined IR and industry expertise was key to PBN's success — and was put to excellent use throughout the process.

"I can truly say that it was a pleasure to work on this project," says Artem. "MMK has a world-class management team, and we were all pleased to have had an opportunity to work so closely with them on such an exciting transaction. We look forward to continuing to advise the company as it enters into a new stage of its development."

Looking ahead to the rest of 2007, Tom adds: "Things won't stop with MMK for PBN. Our pipeline for 2007 is rapidly filling up. We expect to announce another major IPO initiative of a leading Russian energy company in early June, with several more offerings to close before the end of the year."

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News From PBN Worldwide

Sir Chairman. Sir Andrew Wood, former UK Ambassador to Russia, has been elected Chairman of The PBN Company's Board of Directors. Sir Andrew has been a Board member for more than five years. He succeeds former Board Chairman Harold Mesriow, Of Counsel to the Law Firm of Troutman Sanders LLP, who will continue to serve on the Board.

Contact Sir Andrew: andrew.wood@pbnco.com

Also On Board. Also elected to PBN's Board of Directors is Igor Yurgens, Chairman of Bank Renaissance Capital and Vice President of the Russian Union of Industrials and Entrepreneurs. In addition to Andrew and Igor, other outside directors on PBN's Board include: Hal Mesriow; Robert Sheppard, Chairman of IPM Advisors and Member of the Board, TNK-BP; David Herbert, Managing Director and Head of Emerging Europe Corporate Finance at ING Bank; Richard Sermon, Chairman of the Board, Gryphon Corporate Counsel; and Victor Sachs, Chairman of Russia and CIS retailer Jonis and previously Director of Strategic Planning at Alfa Consortium Group.

More about the board: www.pbnco.com/eng/people

Sage Advisor. Also re-elected as Senior Strategist for Political Affairs to the Board of Directors and Management is Vyacheslav Nikonov, who is currently President of both the Polity and the Unity Foundations. Commenting on his service to the Board and the firm, Vyacheslav said, "I am glad to continue advising The PBN Company and its clients, helping them to navigate successfully and achieve results in Russia's extremely complex political environment."

Contact Vyacheslav: vyacheslav.nikonov@pbnco.com

Sage Advice. Igor Yurgens also recently penned an article in the *Financial Times* on the development of corporate governance in Russia. The country, he wrote, is "trying to find the middle ground between the strict and sometimes over-zealous corporate regulation of the U.S., and the creativity, transparency and drive which exists in some

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Sir Andrew Wood (left), Chairman of The PBN Company's Board of Directors, and David Herbert, Member of the Board, listen intently during the most recent PBN Directors' meeting in London.



Igor Yurgens (far right), the newest addition to PBN's Board of Directors, greets PBN•London Senior Vice President and Managing Director Trevor Barton (center) and PBN•Moscow Senior Account Manager Masha Zhog at this year's Russian Economic Forum in London.

other, more relaxed regimes of corporate governance."

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Read the article: www.pbnco.com/eng/news

New Digs in Kyiv. Our Ukraine office has fancy new digs in downtown Kyiv. Stop by and visit next time you're in town. The address is: 3 Sportyvna Ploshcha, 2nd Entrance, 8th Floor, Kyiv, Ukraine 01023. Telephone is the same: +38.044.270.7240.

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"A Will, a Way and a Dog." The *Moscow Times* earlier this year ran a feature on PBN's Chairman and CEO Peter B. Necarsulmer and, yes, Dasha the dog.

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Read the article: www.pbnco.com/eng/news

Voice of Reason. PBN's Senior Vice President Blake Marshall was quoted in a recent *Moscow Times* article about the upcoming political cycle in Moscow and Washington. "The rhetoric is getting tougher, and business communities on both sides of the ocean should brace themselves for upcoming election campaigns," said Blake.

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Read the article: www.pbnco.com/eng/news

GR VP. Oleg Kalinskiy has been named Vice President of Government Relations for PBN's Moscow office. Oleg leads a team of six professional lobbyists, analysts and government relations experts in our Moscow office. Congrats Oleg!

Contact Oleg: oleg.kalinskiy@pbnco.com

DC MD. Another promotion goes to George Felcyn who has been named Deputy Managing Director of the Washington, D.C. office. George will take on more client and staff management responsibilities, working closely with Paul Nathanson and Blake Marshall.

Contact George: george.felcyn@pbnco.com

Moscow DCC. Sam Vanderlip was promoted to Director of Corporate Communications in the Moscow office. Sam manages some of the firm's most important client assignments, including Telenor, Baltic Beverages Holdings and PricewaterhouseCoopers.

Contact Sam: sam.vanderlip@pbnco.com

Senior AM. Masha Zhog in Moscow has been promoted to Senior Account Manager. Masha has been instrumental in managing PBN's account for Renaissance Group, an investment, financial and management group specializing in high-opportunity emerging markets, including Russia, Ukraine, Kazakhstan and Sub-Saharan Africa.



Vyacheslav Nikonov (right), Senior Strategist for Political Affairs to PBN's Board of Directors, speaks with Gregory Gurtovoy, Managing Director and Head of Renaissance Capital Ukraine, at RenCap Securities' 5th Annual Investor Conference in New York City.



The PBN Company's newly promoted staff (from top): Oleg Kalinskiy - Vice President of Government Relations, Moscow; George Felcyn - Deputy Managing Director, Washington, DC; Sam Vanderlip - Director of Corporate Communications, Moscow; Masha Zhog - Senior Account Manager, Moscow; and Anna Gunning, Amanda Lahan, and Liza Ovchinnikova - Account Managers, London, Washington, DC, and Moscow, respectively.

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AMs. Finally, congrats to three PBNers who were promoted to Account Managers: Anna Gunning in London, Amanda Lahan in Washington, D.C., and Liza Ovchinnikova in Moscow were all promoted from Assistant Account Managers.

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