



# Russian Commerce News

## Российские Коммерческие Новости



Bi-Monthly Publication of the Russian-American Chamber of Commerce®

Vol. 13 No. 3

Exclusive Supplement

Fall/Early Winter 2005

Our Exclusive Supplement this issue contains a Special Report profiling the top Russian stock market performers.

## Top Performers in Russia's Stock Market

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### Introduction

Often the Russian economy is associated with President Putin, gas, oil, Yukos, and Gazprom. But many Russian companies are amongst the largest in the world according to the Forbes Global 2000 in its March 31, 2005 edition. They include Unified Energy System of Russia (#252), Mobile TeleSystems (#759) and Avtovaz (#1836). While energy sectors such as oil, natural gas, metals and timber account for more than 80% of Russian exports, still there are other diverse and successful Russian performers.

This article is designed to give readers a better sense about who are some of the top performers in the Russian stock market. Because everyone has a different point of view regarding how to select the top performers, the companies which are listed in this article were selected mainly based on their stock prices. The prices were selected based on their 10-year, 3-year, and several weeks preceding July 11, 2005. In order to make it easier to convert all of the numbers into US Dollars, I

used RTS Stock Exchange as the primary market. I also obtained most of the financial statements numbers (Net Income, Balance Sheet and Ratios) through Rustocks.com. In addition to other facts and company information, a short financial analysis of each company is included. The companies are listed alphabetically, and include Lukoil, Norilsk Nickel, Orenburgneft, RBC Information Systems, Sberbank RF, Sibneft, Surgutneftegas, Tatneft, Transneft and Verkhnesaldinskoye Metallurgical Association. Please note that some material may now have changed since research and publication of this article.

### Lukoil

*Financial Analysis.* The price for a common share of Lukoil in RTS has increased by 11.33% since June 2, 2005 (\$39.1/ share on July 6, 2005 from \$35.12/ share on June 2, 2005.) The stock also has tripled its price since December 31, 1999 (\$13/ share.) The stock price for Lukoil in RTS has been showing a steady growth since 5 years ago. Right now

Lukoil has 850,563,255 common shares outstanding. The Lukoil ADR average monthly trade volume on the London Stock Exchange was about \$1.8 billion in 2004 against \$0.8 billion in 2003. Lukoil's ADR (American Depositary Receipt) which is traded on US OTC has reached the highest price this year which is \$39.60 on July 8, 2005. The ADR has 52 week price range \$25.75 - \$39.60. In between year 2003 to mid 2005, Lukoil has been working hard to increase its current assets (such as inventories, account receivable, cash and other current assets.) That has been proven by \$7,923mln of current assets in 2003, \$8,574mln in 2004, and \$10,254mln as of March 31, 2005. Lukoil also was able to increase its net income. It had \$3,701mln of NI in 2003 and \$4,248mln in 2004.

All of that good news is also supported by Lukoil's ability to produce oil in the future. According to the Report, 12 oil fields and one gas/condensate field were discovered in 2004 as a result of geological exploration. Also, 10 new oil deposits

at the previously discovered fields were detected. Proved oil reserves are sufficient for 25 years at current production rate. Nowadays Lukoil is focusing more on its partnership with ConocoPhillips by creating a new company named OOO Naryanmarneftegaz. Both companies will direct their cooperation in Northwest Arctic Russia. Both companies will gather oil from Timan-Pechora and after that the oil will be transported to Lukoil's terminal in Barents sea and then transported to international market. Although ConocoPhillips only has 30% stake of the agreement, the companies plan to govern the partnership equally.

*About the Company.* Lukoil was formed in 1991 by the resolution of the USSR Council of Ministers No.18 of November 25, 1991. That resolution combined three oil producers (Uraineftegaz, Langepasneftegaz, and Kogalymneftegaz) and two oil refineries (Permnefteorgsyntez and Volgograd Refinery). Nowadays Lukoil is also known as a vertically-integrated oil company in Russia. Lukoil operates in oil and gas exploration and extraction, as well as refining and selling petroleum products. Right now, Lukoil owns 1.5% of global oil reserves, 2% of global oil production, 19% of Russian oil production and 19% of Russian oil refining. Lukoil is also the second largest oil company worldwide by proven reserves of hydrocarbons. The company's proven reserves (which also include consolidation of assets in the Komi Republic) were 15.52 billion barrels of crude oil at the beginning of 2003, according to Miller & Lents.

### Norilsk Nickel

*Financial Analysis.* Norilsk Nickel has been able to increase its sales revenues since year 2002. Compared to year 2003, its sales had increased 35.35% (2003: \$5,196mln; 2004: \$7,033mln). Meanwhile, its production costs increased at a lower rate 14.07% from 2003 (2003: \$3,680mln; 2004: \$4,198mln). Those numbers eventually lead to higher net income in the year 2004: \$1,832mln, than \$861mln in 2003 and \$592.01mln in 2002. It seems that Norilsk Nickel's stock price for its common share (traded in RTS) still trying to push up its price to a higher level after a huge decline on April 12, 2004 (\$81.1/ share).

However in 2005, the price of its common share in RTS reached \$64.1/ share as of July 8, 2005. That number is higher than the price in the beginning of the year by 20.04% (it was \$53.4/ share on January 11, 2005.) On June 5, 2005 Norilsk Nickel announced its preliminary production figures of its Polar Division and Kola MMC for the first quarter of 2005. It announced that the production of nickel and copper reached 59 thousand metric tons of nickel and 113 thousand metric tons of copper from January to March 2005.

*About the Company.* MMC Norilsk Nickel Group is the largest producer of nickel and palladium in the world. The group is also well known for its capability to produce platinum. In worldwide, MMC Norilsk Nickel's market share is more than 10% of cobalt and 3% of copper. MMC Norilsk Nickel also holds 96% market share of nickel, 55% of copper and 95% of cobalt production in domestic market. The group is also known as one of the "motors" which

supports the Russian economy. MMC Norilsk Nickel accounts for 4.3% of the Russian export and 1.9% of the Russian GDP. The group exports its products to Japan, China, Europe and the U.S. The company is also known as Russia's major gold producer after it acquired Polus.

### Orenburgneft

*Financial Analysis.* Orenburgneft was established in 1994 and has produced 341 million tons of oil since the beginning of its operation. In 2002, Orenburgneft was incorporated into TNK. Its common stock price (which is traded under RTS) increased significantly since January 2000. On August 9, 2000, the price was \$1.7/ share. On June 28, 2005, the price increased to \$37.5/ share. That was a 2,105.88% increase over the past 5 years! The same story also happened with its preferred stocks. The price for one share of preferred stock was \$0.9/ share on September 21, 2000 and on June 28, 2005 the price increased to \$31.25/ share. It was a 3,372.22% increase!

During the last three years of its operation (2002-2004), it had been able to increase its assets significantly. Its assets were \$679.05mln in 2002 and increased to \$1,356.28mln in 2004. The only decline in its assets (other than "other assets") during that period was its cash. That was \$0.62mln in 2002 to \$0.28mln in 2004.

Orenburgneft's total liabilities also increased gradually from \$232.41mln in 2002, to \$574.91mln in 2003, and to \$634.61mln in 2004. Thanks to a whooping increase in sales revenues, Orenburgneft's net income reached \$216.28mln in 2004, compared to \$4.78mln in 2003, and -\$25.45mln in 2002.

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*About the Company.* Orenburgneft is a part of TNK-BP holding. Orenburgneft operates 81 fields in the west of the Orenburg Region. Orenburgneft has also produced 341 tons of oil since its first day of operation. 95 fields of oil, gas, and gas condensate contribute to its balance sheet. Orenburgneft has 2.5% share of Russia's oil production. Orenburgneft also plans to increase its oil production to 15 million tons by 2006.

### RBC Information Systems

*Financial Analysis.* RBC's stock price (RBCI) which is traded in RTS has been increasing since 2004. The common stock price per share on July 5, 2004 was \$1.86/ share, and its price increased to \$4.15/ share on June 30, 2005 (123.11% increase). Its fixed assets from year 2001 to 2003 have also increased significantly from \$2.42mln in 2001 to \$24.52mln in 2003 (a whopping 913.22% increase!) Other current assets, such as account receivables have also increased to \$13.69mln (2003) from \$1.62mln (2001). Meanwhile, its cash increased from \$9.33mln (2001) to \$14.49mln (2003). RBC's net income from 2001 to 2003 was not too impressive because although its sales revenues keep increasing from year to year, its production costs also increased significantly. That caused RBC Information System's net income to drop from \$9.33mln (in 2002) to only \$3.56mln (in 2003). However, although RBC's NI had been declined in the past years, the management still has a positive outlook for the year 2005. RBS's three main businesses (media services, RBC TV, and IT services) have been showing positive revenues for the 1<sup>st</sup> quarter 2005.

Media services increased its revenues to \$8.7mln (compared to \$6.8mln for the 1<sup>st</sup> quarter 2004). RBC TV was also able to increase its revenues to \$4.8mln (1stQ05) from \$3.5mln (1stQ04). The same thing also happen to IT Services (\$5.95mln for 1stQ05 from \$4.6mln for 1stQ04). RBC is also able to establish level-1 ADR program for its common stock on March 24, 2005 that is traded in OTC market.

*About the Company.* The history of RBC Information Systems (RBC) started in 1993 when it began to issue its currency and finance information survey in the electronic form. In 1995 it set up a website called www.rbc.ru and used it as its main content delivery channel. Right now RBC is one of the leading media and information technology group based in Moscow. Its main business includes the "RosBusinessConsulting" information agency, the RBC TV business television channel and 15 different Internet portals, including rbc.ru, cnews.ru, autonews.ru, rbcdaily.ru and utro.ru. RBC also participates in IT development through the "RBS Soft" division. RBC, which now has around 1,300 employees, launched the first and only Russian business television channel RBC TV on September 2, 2003. RBC is the only official representative of VeriSign, Network Solutions, and AltaVista in Russia and the CIS.

### Sberbank RF

*Financial Analysis.* Sberbank is one of the commercial bank leaders in Eastern Europe. It has 62% of market shares in deposits, 50% in retail lending, 32% in commercial lending, and 29% in aggregate assets of the Russian banking sectors. Both of

Sberbank securities (common and preferred) in RTS and MICEX have been showing steady improvement since 2000. On July 3, 2005 all of the prices are as follows:

MICEX preferred share: RUR 239.80/ share

MICEX common share: RUR 19,230 .00

RTS preferred share: \$7.73

RTS common share: \$675.00

From 2002 to 2004, Sberbank has been increasing its assets. The total assets in 2002 were \$34,053.95mln, following \$50,545.32mln in 2003 and \$69,229.28mln in 2004. Sberbank was also able to improve its liquidity by having \$4,095.94mln cash on hand in 2004 compared to \$2,118.04mln in 2002 (a 93.38% increase.) Its net profit also increased in 2004 (\$669.72mln) compared to year 2003 (\$455.16mln), although the net profit of 2004 was lower than in 2002 (\$973.17mn). Its loans/ deposits ratio has also increased to 0.78 in 2004, compared to 0.67 in 2003 and 0.58 in 2002. Sberbank's stock price in 2005 (as traded in RTS) has been showing good improvement. On July 4<sup>th</sup> 2005, the price of each share was \$673.00, compared to the beginning of the year the price has increased by 31.96%. The price was \$510.00/ share on January 11, 2005. Sberbank's president Andrey Kazmin stated that his bank will not issue more shares in the near future since it is possible that the higher percentage of free-float will reduce its price. Sberbank has reported net income around \$925mln for the first five months of 2005, which is a 60-percent annual increase.

*About the Company.* Sberbank was established in 1841 and gained the status of open-joint stock company in 1991. Today Sberbank is

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a universal commercial bank that operates in almost all segments of the financial market. Sberbank has over 20,000 branches which provide banking service to different countries in 11 time zones. It has 1.3 million corporate customers and manages 250 million retail accounts. Sberbank is commonly recognized as the number one bank in Russia. Not only that, it is also ranked the first in Central and Eastern Europe list published by the *Banker* magazine and 152<sup>nd</sup> in the world (based on *The Banker*, 2004). It provides several services to its customers, including commercial, merchant, investment, mortgage and retail banking.

### Sibneft

*Financial Analysis.* Sibneft had been increasing its assets since 2002. It has been proven by the number of total assets it had in 2002 (+\$7,548.46mln) compared to \$10,262.84mln in 2004. One of many reasons for increased assets is because of the significant increase in current assets in between year 2003 and 2004. In 2003 its total current assets was \$1,783.44mln and in 2004 it was \$3,234.12mln. Sibneft has also been expanding its sales. In 2003 its total sales was \$6,716.54mln and in 2004 it was \$8,886.49mln. During those years, Sibneft increased its operating income. Unfortunately, because of its higher provision for income taxes in 2004 (\$874.68mln), Sibneft's net income slightly declined to \$2,045.61mln (it was \$2,278.38mln in 2003 and \$1,160.51mln in 2002.) On January 25, 2005, Sibneft made the decision to double the number of ADRs (American Depository Receipts) for its shares. This is believed good for Sibneft's liquidity,

but not too attractive for its securities. Sibneft reported the decision to double its number of ADRs, so that one ADR corresponded to 5 of its shares. Holders of ADRs will receive an additional Sibneft ADR for each one they own. The main reason why Sibneft may not make its securities more attractive is because this move, although it might increase its liquidity, it might not increase Sibneft securities price that much. This move would not do any good for investors who hold small stakes. On July 11, 2005, there is a report that Gazprom wants to acquire Sibneft at a discounted price. Gazprom plans to buy the stocks from the shareholders (led by Roman Abramovich) at a 15% discount. *Vedomosti* also reported that Gazprom plans to buy the shares at \$3/ share. Gazprom's main agenda is to buy 72% share of Sibneft from its current core stockholders, and to get another 3% from the market. The deal approximately will be worth around \$10 billion. This story also brings up another rumor that the main purpose of the \$2.3 billion dividend payment to the share holders is to use up the cash before the deal has actually happened.

*About the Company.* Siberian Oil Company (Sibneft) was created by a Federal government resolution dated September 29, 1995. Sibneft is a vertically integrated holding which operates mainly in Russia and the CIS. Its main business include petroleum exploration, production, refining and marketing. Sibneft also incorporates the following enterprises: Sibneft-Noyabrskneftegazgeofizika (exploration), Sibneft-Noyabrskneftegaz (extraction), Sibneft-Omsk Oil Refinery (processing), Sibneft-Omsknefteproduct (distribution), and

Sibneft Oil Trade (export trading). In 1997, Sibneft was the first Russian company that launched a Eurobond. In 1998, Sibneft was the first Russian company to receive major loans from Western banks after the 1998 monetary crisis.

### Surgutneftegas

*Financial Analysis.* Surgutneftegas common stock price which has been traded in RTS increased from \$0.34/ share on December 31, 1999 to \$0.746/ share on June 30, 2005. Meanwhile, its preferred stock price had been increasing from \$0.109/ share on December 31, 1999 to \$0.58 on June 27, 2005. Surgutneftegas's ADR also has been showing a steady growth performance over the last five years. Its ADR (which uses SGTZY.PK and traded on US OTC) was traded at \$39.55 on July 11, 2005 and has 52wk range from \$30.25 - \$42.20. Its balance sheet has been showing a steady improvement for its assets from \$15,557.56mln in 2002 to \$18,324.14mln in 2003 and \$23,253.49mln in 2004. Other current assets, including account receivables have improved significantly from \$826.66mln in 2003 to \$1,241.63mln in 2004 (a 50.19% increase). Its cash in 2002 was \$1,879.16mln. The cash declined to only \$21.74mln in 2003, but slightly went up again to \$62.51mln in 2004. Its liabilities have also been increasing steadily from \$814.36mln in 2002 to \$1,199.06mln in 2004. The main reasons were because of its short-term debt and accounts payable. Its short-term debt had increased significantly from \$1.1mln in 2002 to \$176.66mln in 2004. Meanwhile, Surgutneftegas' accounts payable also increased from

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\$381.53mln in 2002 to \$626.55mln in 2004. All of those data contributed to Surgutneftegas's increase in net income to \$2,286.92mln in 2004 compared to \$567.46mln in 2003 and \$332.33mln in 2002.

*About the Company.* Open Joint Stock Company "Surgutneftegas" is a vertically-integrated oil company. The company is also the second largest oil producing company in Russia in terms of crude oil output and the sixth largest in terms of ABC-1 reserves. Surgutneftegas produces about 13% of the oil produced in Russia and 2% of the gas. Nowadays, there are more than 50 divisions of Surgutneftegas which involve in exploration activities, gas and oil field construction and development, oil and gas production, and marketing. According to an independent evaluation, which was performed according to international standards, the recoverable oil and gas reserve of Surgutneftegas approximately is 2.5 billion tons. Surgutneftegas produces 10bn. cm of gas annually. It means that Surgutneftegas' gas production stands for a third of all gas production by Russian oil companies. In the future, the company plans to increase its gas production to 22bn. cm annually.

### **Tatneft**

*Financial Analysis.* Tatneft is known to be controlled by the government of the Republic of Tatarstan. Tatneft engages in the exploration, development, production, and marketing of crude oil in Russia. Tatneft also participates in a Depository Receipt program by issuing ADRs in the NYSE (New York Stock Exchange) with TNT as its ticker name. From 2002 to 2004

Tatneft steadily improved its assets by 47.39% (from \$3,462.78mln in 2002 to \$5,103.96mln in 2004). Tatneft liabilities also increased during that period. In 2002 it had \$1,071.6mln and in 2004 it had \$1,178.4mln (+9.96%). Overall, Tatneft has been able to increase its current assets since 2002. Two of the main contributors were accounts receivable and cash. Its accounts receivable in 2002 totalled \$660.86mln and in 2004, \$1,012.68mln. Meanwhile its cash was \$28.98mln in 2002 and it increased to \$137.38mln in 2004. Its net income in 2004 (\$942.26mln) was higher 152.69% than in 2003 (\$372.88mln). One factor that contributed to increasing NI was Tatneft's ability to increase its sales during that period. Tatneft had sales for \$3,809.95mln in 2003, compared to \$5,236.2mln in 2004. As of July 7, 2005, Tatneft's common price per share (as traded in RTS) reached the highest level for this year. It reached \$2.00/ share. Compared to the early year of 2005, the price had increased by 39.37% (it was \$1.435/ share on January 11, 2005.) Almost at the same time, its preferred stock price (which is also traded in RTS) reached the highest level at \$1.16/ share at July 8, 2005. Tatneft just recently announced the finding of its 2003 annual report which was conducted by Kennedy's (a UK law firm) to discuss certain transactions which were identified by Tatneft's external auditors. Kennedy's found that there was no fraud. The transactions basically were used to purchase Tatneft's shares to be used for a future share incentives program. Kennedy's also found that Tatneft's control environment has not fully complied with GAAP (Generally Accepted Accounting Principles.)

Tatneft also reported that its oil production for the first half of 2005 was 15,241.082 thousand tons. That number was higher by 102.58% compared to the same period one year ago.

*About the Company.* Tatneft is one of the largest, vertically-integrated oil companies in Russia. The company operates 57 oil fields. The largest one is the Romashkinskoye field, the second largest is Novo-Yelkhovskoye field and the third one is Bavlinskoye field. There are three ways Tatneft sells its products: First, Tatneft exports its products to countries outside the CIS. Second, it sells to CIS countries. Third, it sells to the domestic Russian market. Tatneft reached its peak production levels in mid-1970s when it pumped 100 million tonnes (712.0 mmbbl) of crude oil per year. After that the production slowed from 1980 to 1993. Two of the main reasons were because of the maturation of production from the Romashkinskoye and Novo-Yelkhovskoye fields and also due to Russian economic recession in the early 1990s. Since 1994 Tatneft has been able to increase and stabilize its production at approximately 24 million tons per year. One of the primary causes of its successful story is its ability to utilize a broad range of advanced oil extraction techniques, including hydrodynamic and geophysical technologies.

### **Transneft**

*Financial Analysis.* Transneft is one of the largest oil pipeline operators in Russia. The company delivers crude oil for about 30,000 miles covering Eastern Europe to Asia. According to Mikhail

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