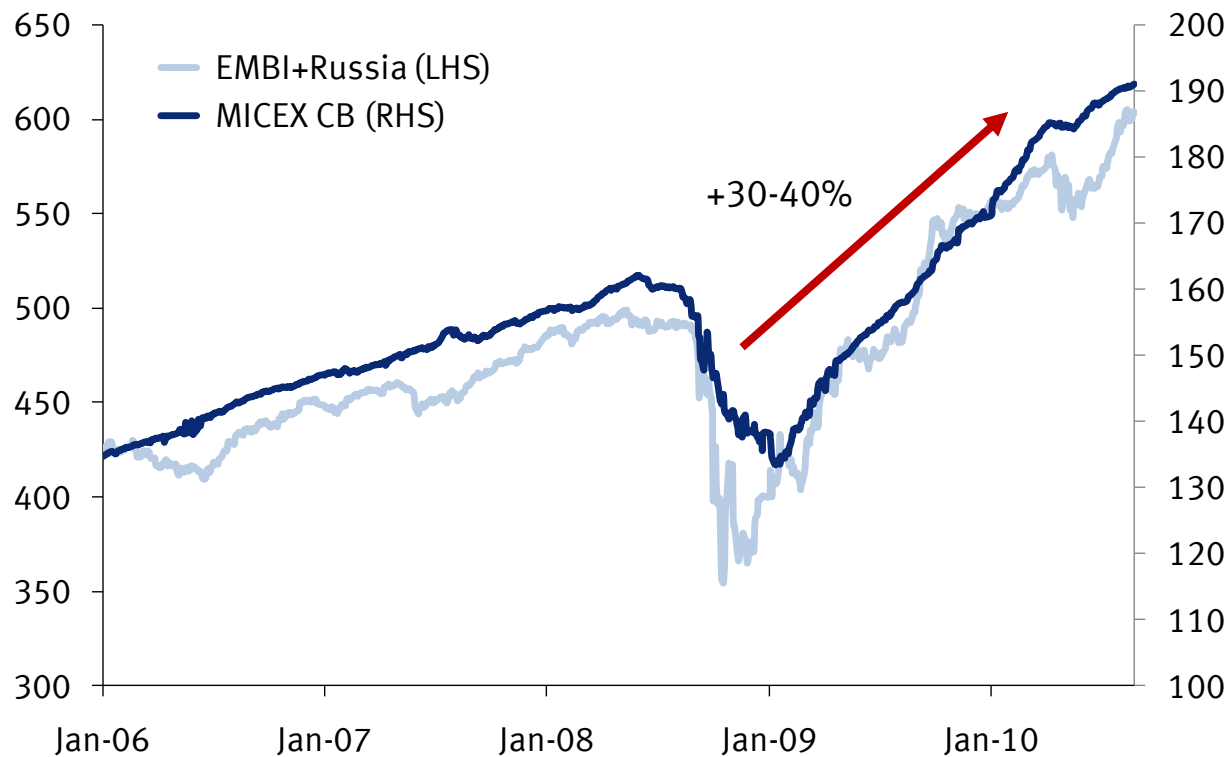


Russian Bonds: How to Make Money From Here?

1. Russian bonds rallied 15-16 months : from February 2009 till June 2010

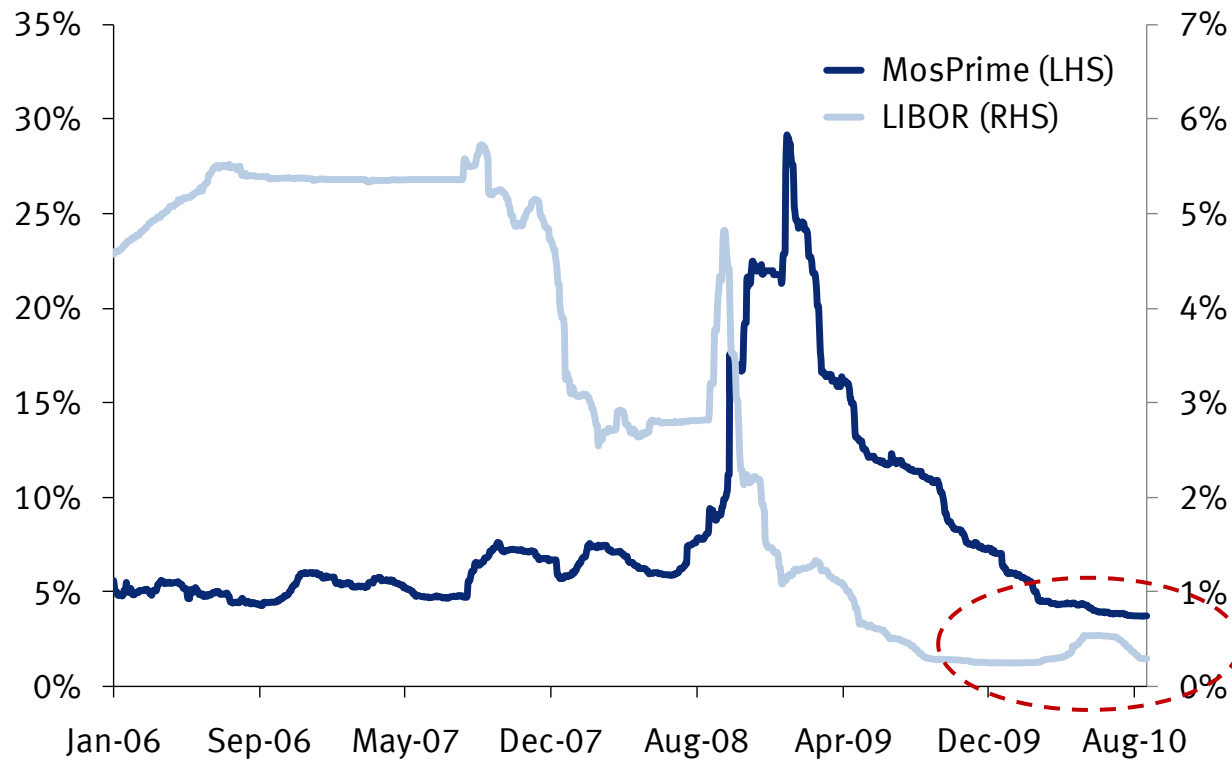
Total return indices



Source: Bloomberg, MICEX, VTB Capital

2. Both local and external rates have likely bottomed

USD and RUB 3-month rates



Source: Bloomberg, VTB Capital

3. RUB/USD direction is now far less obvious than before

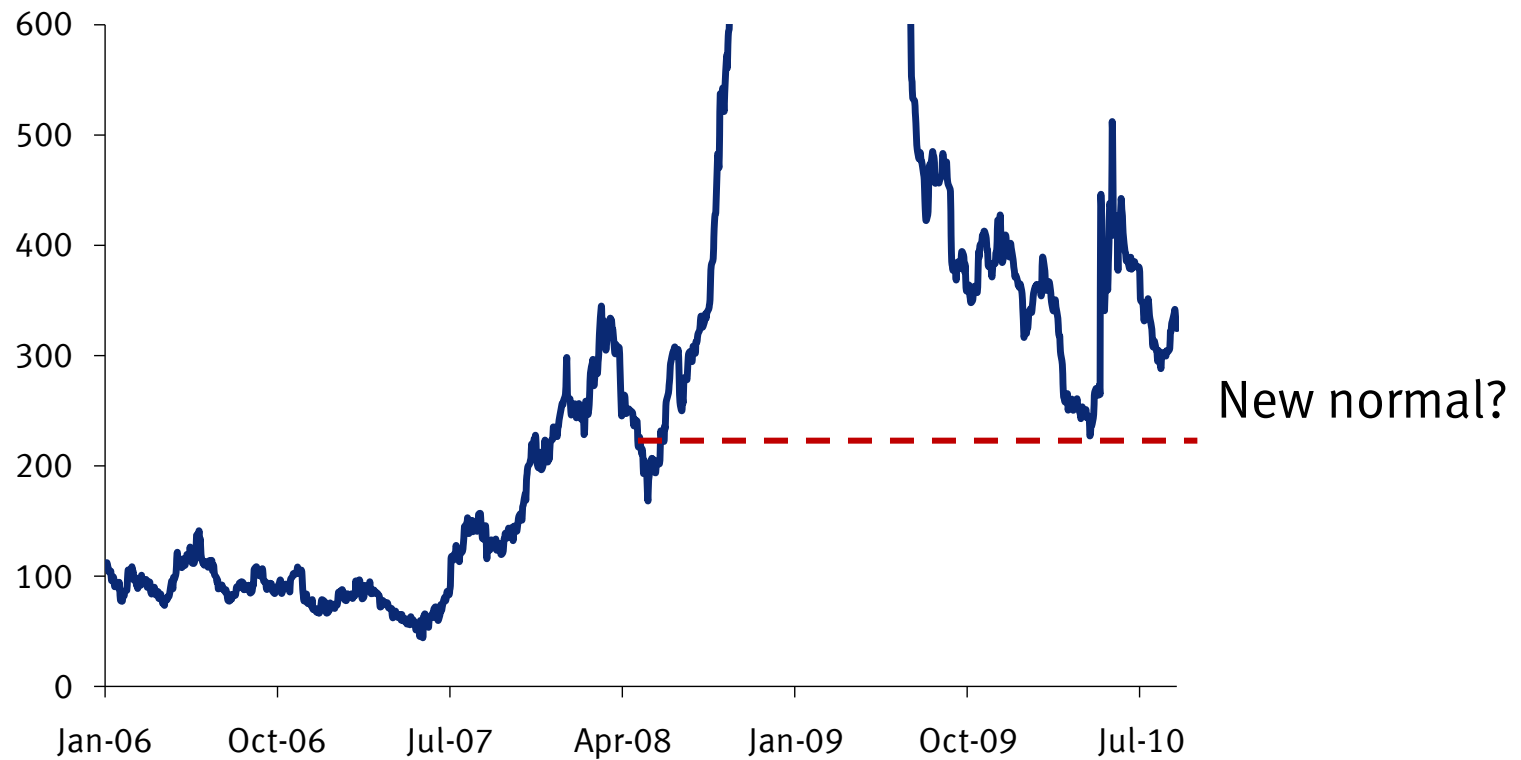
USDRUB performance



Source: Bloomberg, VTB Capital

4. Credit spreads in the top tier names are quite tight

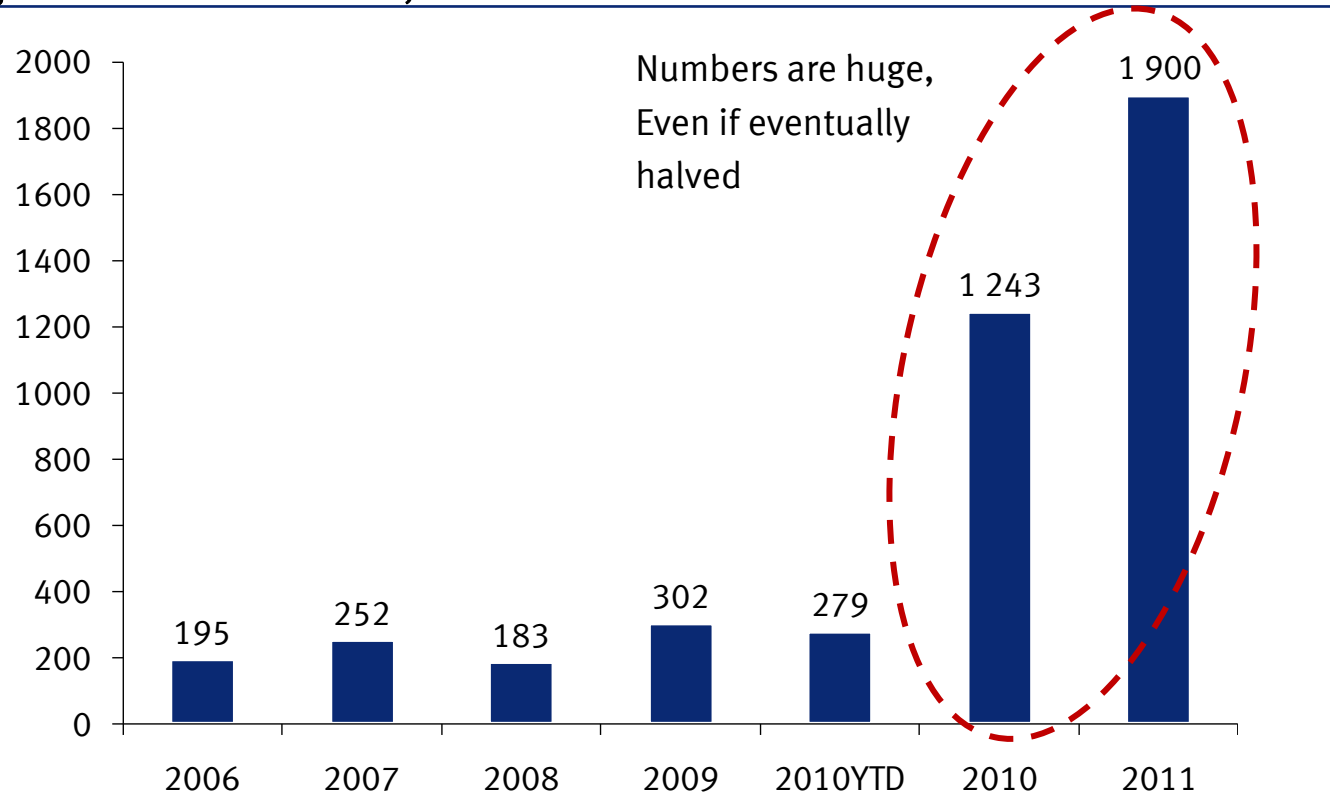
GAZPRU 34 spread to swaps



Source: Bloomberg, VTB Capital

5. MinFin's appetite for OFZ issuance looks quite scary

Russia government debt issuance, RUB bn



Source: Minfin, VTB Capital

1. Rates are likely to stay low for quite a bit

VTB Capital Forecasts

| | 2Q10 | 3Q10 | 4Q10 | 1Q11 | 2Q11 | 3Q11 | 4Q11 |
|---------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| FED RATE | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 | 0.00-0.25 |
| 3M LIBOR | 0.29 | 0.53 | 0.55 | 0.65 | 0.75 | 0.74 | 0.72 |
| 3M EURIBOR | 0.76 | 0.88 | 0.92 | 0.95 | 1.05 | 1.17 | 1.29 |
| UST 2Y | 0.61 | 0.55 | 0.68 | 0.77 | 0.95 | 0.95 | 1.15 |
| UST 10Y | 2.93 | 2.85 | 2.95 | 2.95 | 3.05 | 3.05 | 3.15 |
| BUND 2Y | 0.60 | 0.68 | 0.78 | 0.85 | 1.10 | 1.25 | 1.35 |
| BUND 10Y | 2.58 | 2.45 | 2.55 | 2.55 | 2.75 | 2.75 | 2.85 |
| CBR REFI RATE | 7.75 | 7.75 | 7.75 | 7.75 | 8.00 | 8.00-8.25 | 8.25 |
| OFZ 2Y | 5.50 | 5.75 | 5.75 | 5.75 | 6.00 | 6.00-6.25 | 6.25 |
| OFZ 10Y | 7.25 | 7.50 | 7.50 | 7.50 | 7.75 | 7.75-8.00 | 8.00 |

Source: VTB Capital Research

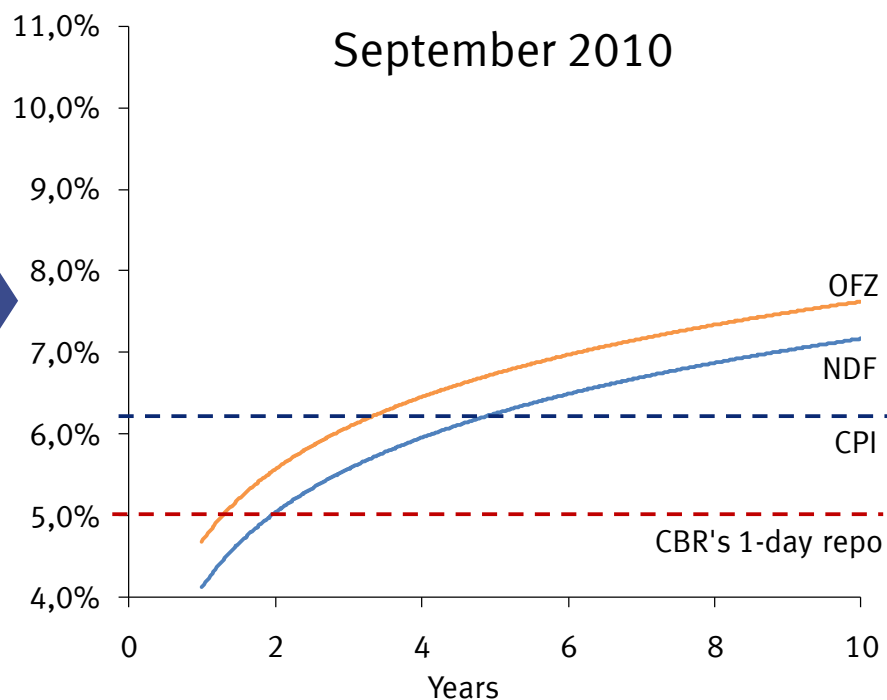
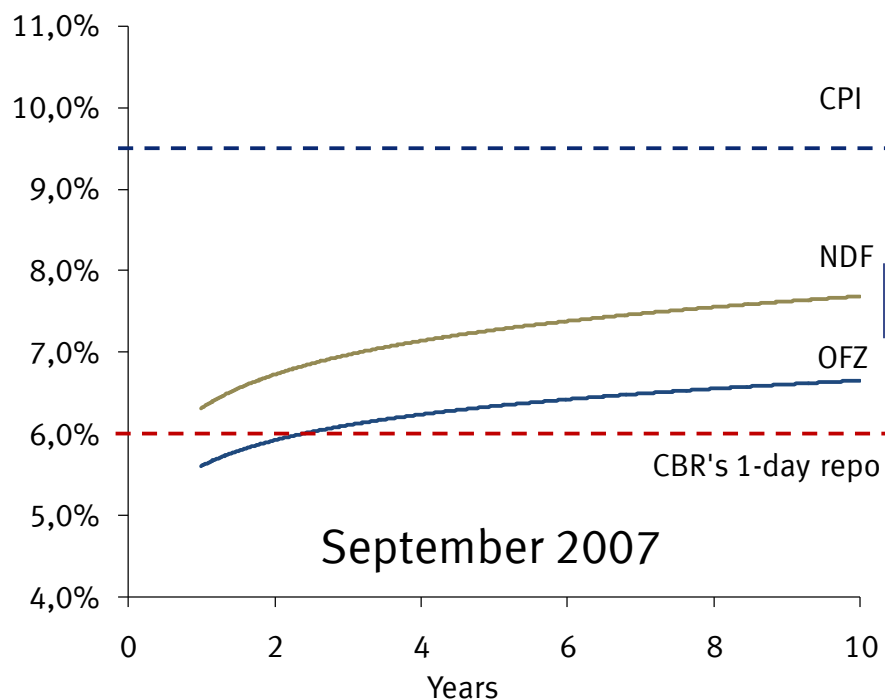
2. Corporate credit metrics to stay strong; lessons learned not yet forgotten

- State support for the banking sector and core industries
- Opex, capex and dividends have been reduced
- Successful liability management transactions (TMK, Rolf, NKNK, etc)
- Improved debt market conditions; lower interest rates
- Recapitalisation (Banks, Evraz, Alliance Oil, Integra...)
- Better management of FX exposure
- No unwise debt-funded acquisitions

Many changes have yet to be reflected in credit upgrades

3. Local RUB curve looks much healthier vs. pre-crisis

Relative position of NDF and government yield curves



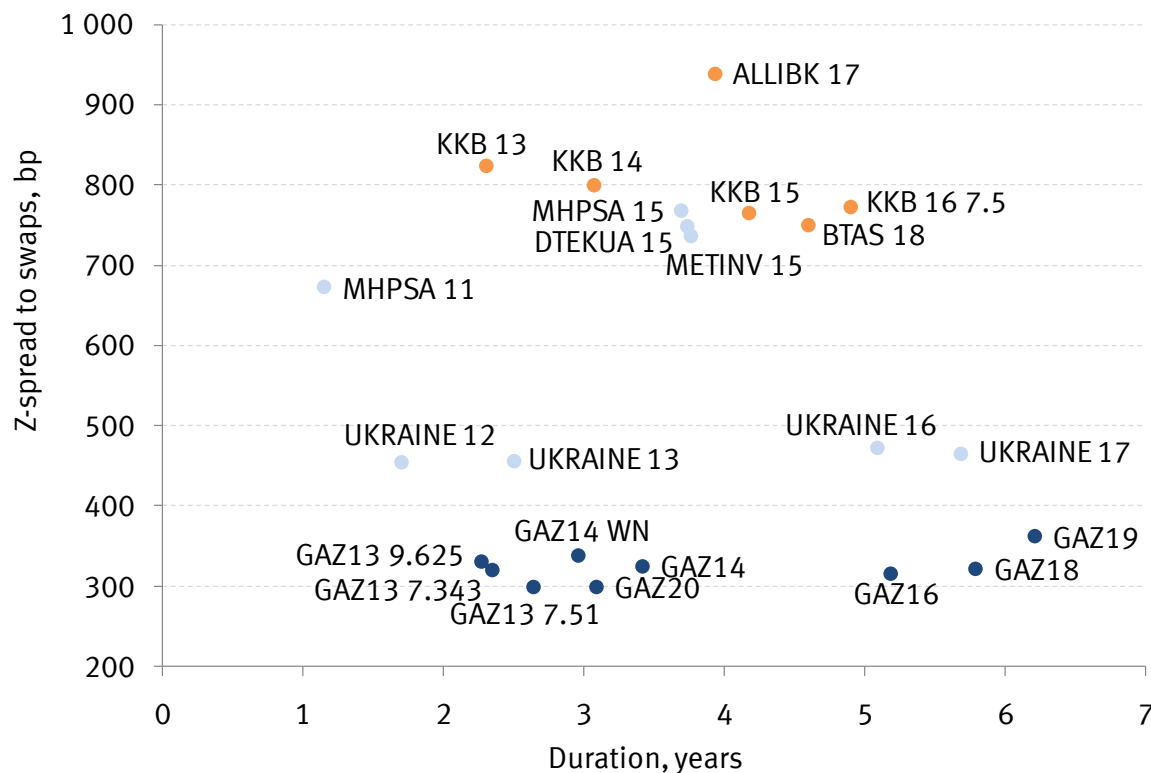
Source: Bloomberg, CBR, VTB Capital

4. Supply of Eurobonds from Russia will be limited

- Credit spreads are still tighter in RUB than in USD
- RUB bonds are covenant-free
- Regulators are clearly signalling that they do not like foreign currency borrowings, and might impose soft controls
- More accurate FX risk management by non-exporters
- Banks have a modest growth appetite and want to strengthen deposit base

5. Spreads in the 2-3 tier as well as Ukraine and Kazakhstan are still interesting

Relative position of selected Russian, Ukrainian and Kazakhstan bonds

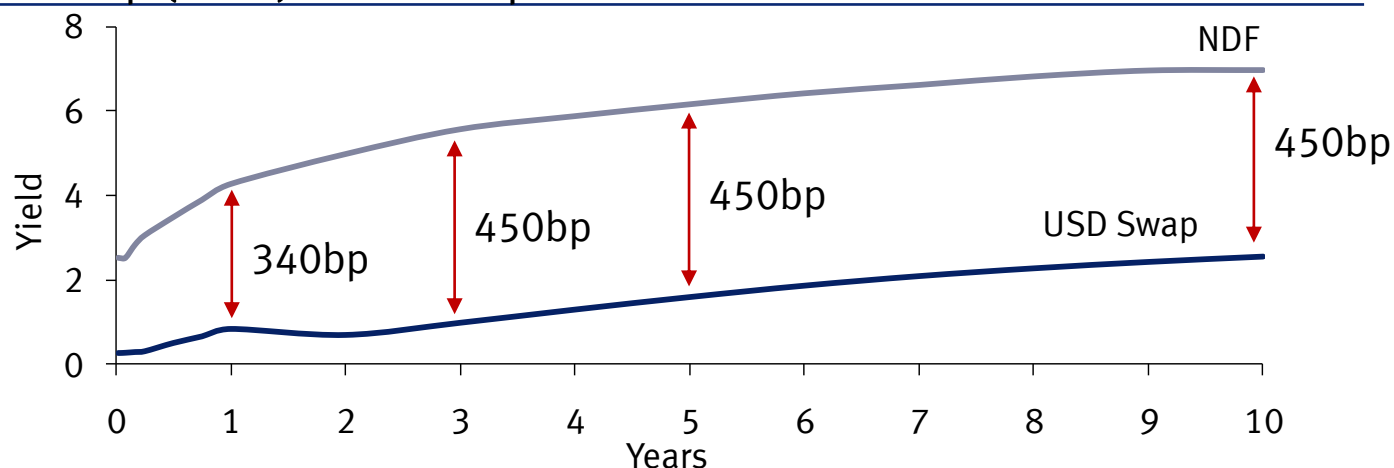


Source: Bloomberg, CBR, VTB Capital

1. FX component of the bond trade
2. Exposure to Russian 2nd and 3rd tier
3. Neighboring markets: Ukraine and Kazakhstan

Rates differential in RUB and USD implies RUB should nominally weaken 3.0-4.5% per year

RUB XCCY swap (or NDF) and USD swap curves



Source: Bloomberg, CBR, VTB Capital

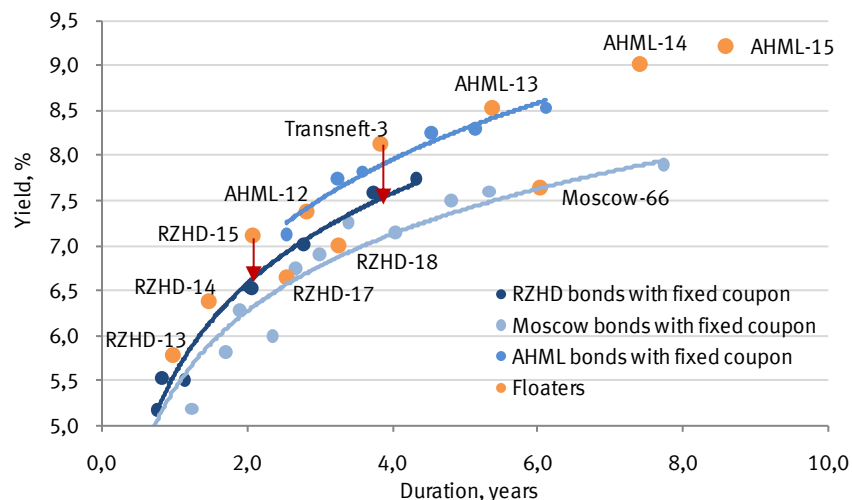
Our view on RUB is more optimistic, which means one should overweight RUB+rates

| | 2Q10 | 2010 | 2011 | 2012 | 2013 | 2014 |
|--------|-------|-------|-------|-------|-------|-------|
| USDRUB | 31.20 | 29.30 | 28.50 | 28.20 | 27.90 | 28.50 |
| BASKET | 34.35 | 31.94 | 30.81 | 29.72 | 30.54 | 31.07 |

Source: VTB Capital Research Forecasts

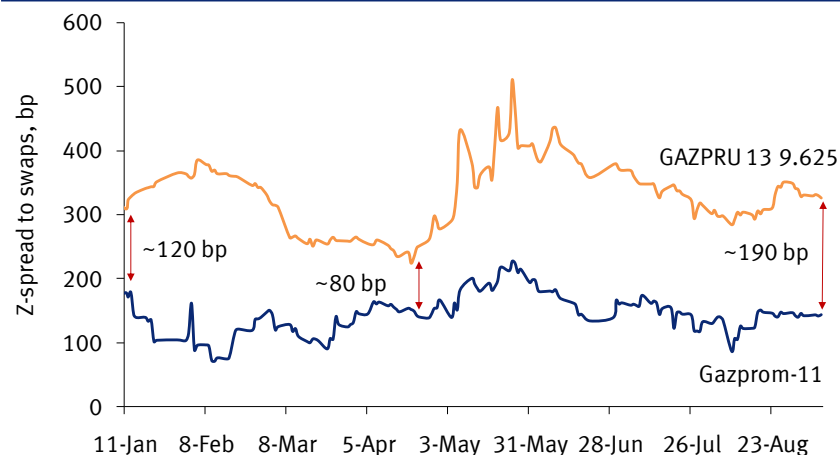
- Combination of a Eurobond + NDFs: gives a 200bp higher yield vs. the RUB bond of the same issuer
- AHML bonds: sovereign guarantee on the principle and 100bp pick up over OFZ curve
- RUB Floaters: nice carry and hedge against higher RUB rates

RUB floaters vs. bonds with fixed coupon



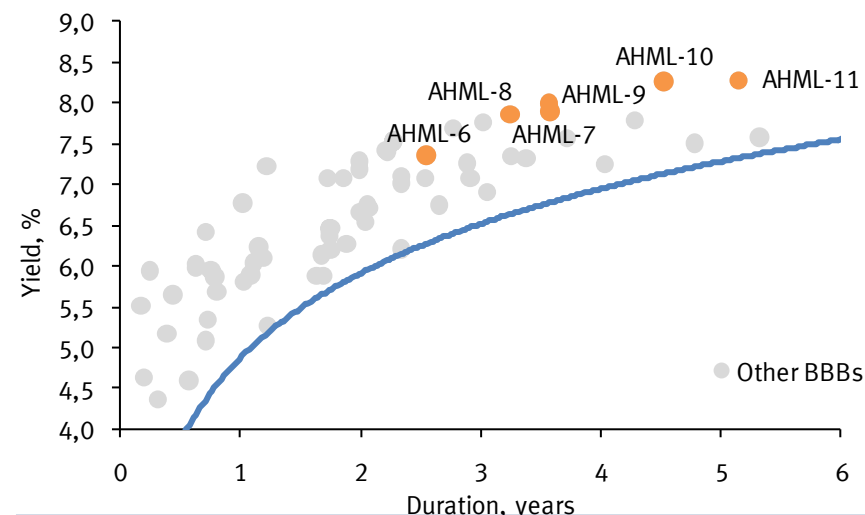
Source: CBR, MICEX, VTB Capital Research

Spread difference of Gazprom's RUB and USD bonds



Source: Bloomberg, VTB Capital Research

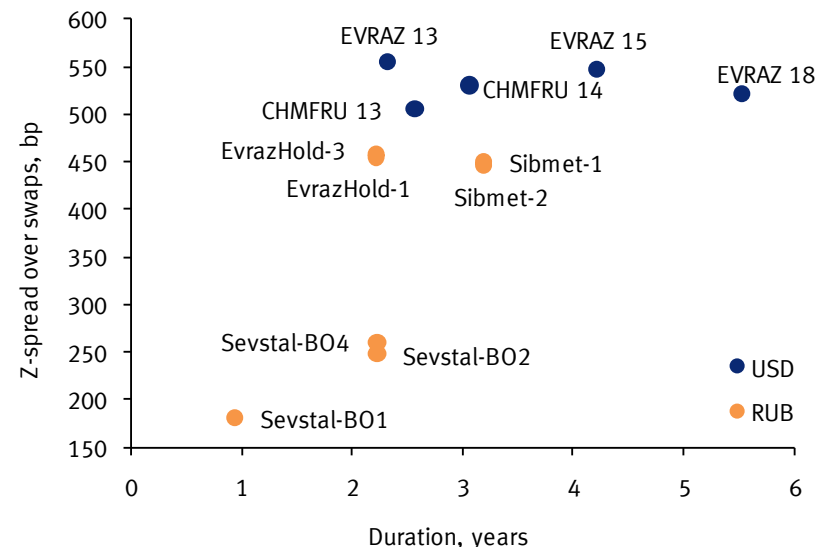
AHML bonds relative to OFZs and corp BBBs



Source: MICEX VTB Capital Research

- Company was on acquisition spree in 2007-08, hence debt load is high
- A lot of work has been done in 2009-10, incl. capex/div freeze, debt refinancing, covenant waivers, convert/equity placement
- Improvement in debt ratios to continue (from 6x in 2009 to 3-4x in 2010)
- Rating upgrades are likely
- Our view on coal/ore/steel prices is positive

Evraz and Severstal credit spreads

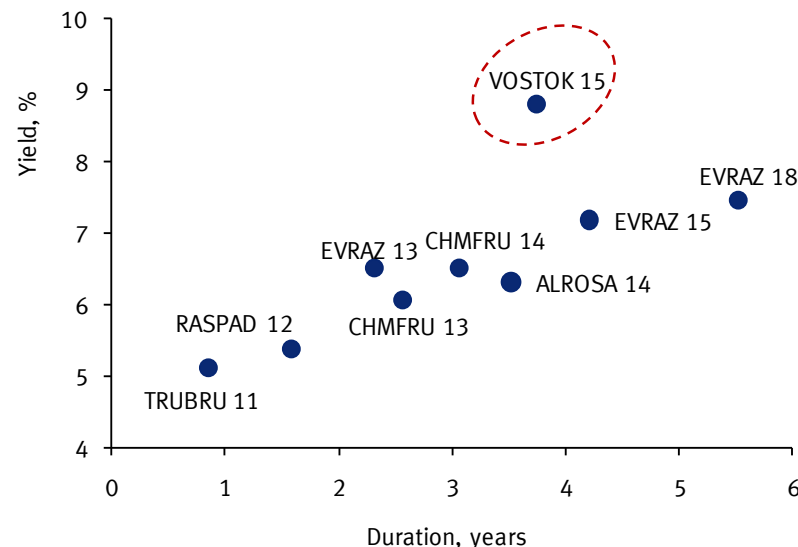


Source: Bloomberg, VTB Capital Research

| USD mn | 2009 | 2010F |
|-----------------|------|-------|
| Sales | 9772 | 13441 |
| EBITDA | 1237 | 2584 |
| Net debt/EBITDA | 5.8x | 3.0x |

- Sixth largest oil producer in Russia, listed with approx. USD 2bn Mcap
- Owns one of two refineries in the Russian Far East, which is due to be upgraded
- Upstream weaker than downstream, new deposits likely to be acquired
- Net debt/EBITDA around 1.6x at mid-2010, leverage will rise but peak in 2010-11 along with capex
- Eurobonds are effectively quite senior: there is also a convertible issue of USD 265mn, while the new USD 760mn package from VEB is due in 2022-23

VOSTOK 15 vs. other B+ bonds

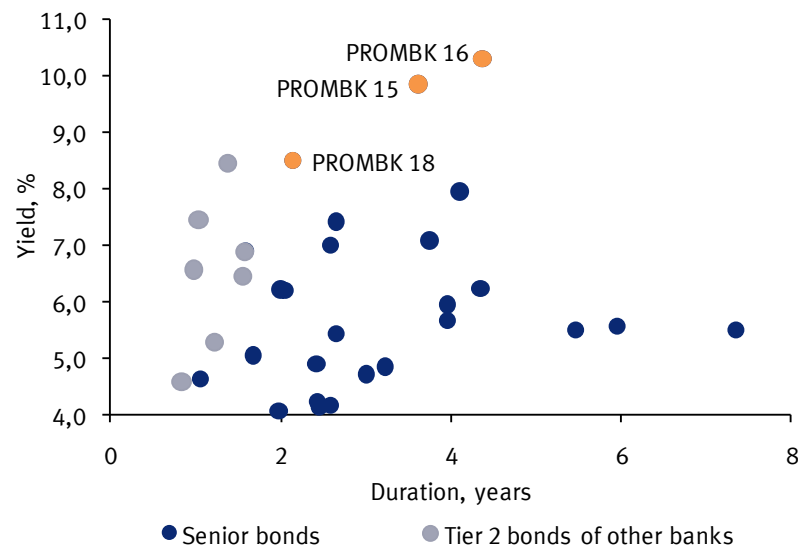


Source: Bloomberg, VTB Capital Research

| USD mn | 2009 | 2010F |
|-----------------|------|-------|
| Sales | 1726 | 2250 |
| EBITDA | 388 | 500 |
| Net debt/EBITDA | 1x | 3.0x |

- Recovery given default is likely to be similar on the senior and sub debt of Russian banks with developed deposit bases as household deposits are super-senior liabilities.
- Local bid for this paper is weaker vs. other Eurobonds as banks have to reduce their regulatory capital when buying other banks' sub debt.
- Promsvyazbank is one of the ten largest banks in Russia; decent business model, well-provisioned for NPLs, EBRD and Commerzbank are minority shareholders

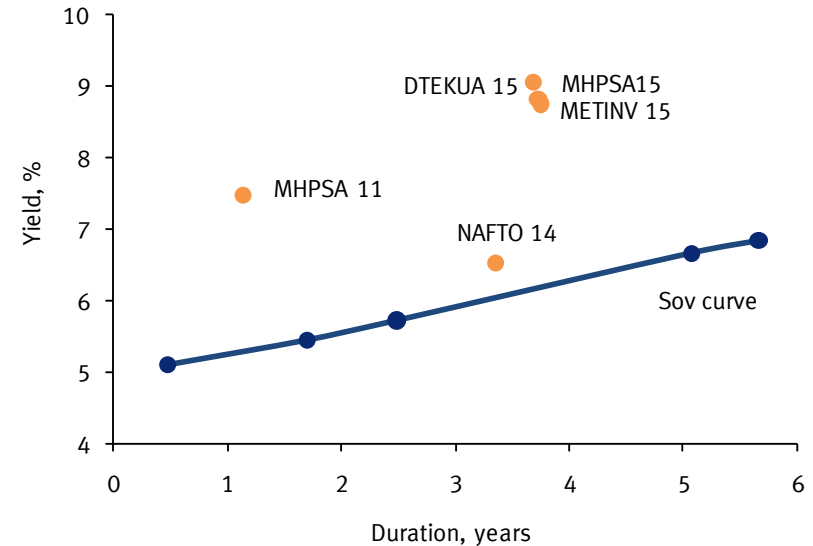
PROMBK Tier 2 bonds vs. other banking issues



Source: Bloomberg, VTB Capital Research

- MHP (B3/B-): vertical integration, very competitive cost base, good growth potential, Net debt/EBITDA restricted at 2.5x
- Metinvest: Ukraine's largest metals & mining group, solid balance sheet
- DTEK (B3) : integrated coal and energy group
- Naftogaz Ukraine (B): turnaround of stand-alone profile on tariffs upgrade and recapitalisation, sovereign guarantee on the bond
- ALFAUA (CCC+): improvements expected on all fronts
- UAH: sovereign hryvnia-denominated VAT bonds can be found @ 18-19%

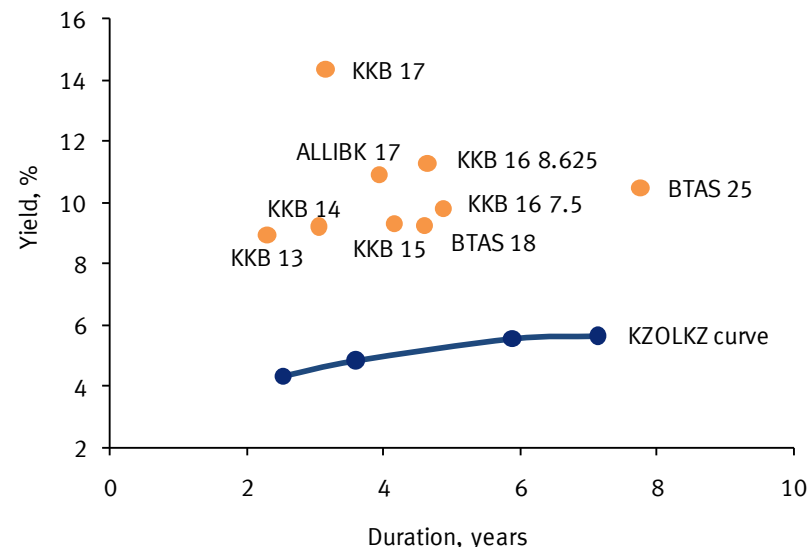
Ukraine bonds



Source: Bloomberg, VTB Capital Research

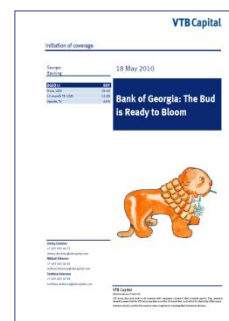
- All three banks have the state as a large or controlling shareholder, with the government likely to support the banks in a stress scenario
- No significant debt repayments in the near term: KKB has to repay less than USD 800mn in 2011 (quite manageable) while ALLIBK's and BTAS' maturities are 7-10 years from now
- Decently capitalised and well-provisioned for NPLs

Kazakhstan bonds



Source: Bloomberg, VTB Capital Research

- Over 40 analysts based in Moscow and London.
- Award-winning (Extel, Institutional Investor, etc).
- Strategy, Macro, Commodities, Fixed Income, Equities.



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