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*"Russia is projected to be a net public sector external creditor to the tune of over USD200 billion by the end of the year, providing a substantial buffer against potential negative shocks," – Edward Parker, Head of Emerging Europe Sovereigns, Fitch Ratings*

## Fitch Upgrades Russia to 'BBB+' ...

On 25 July, Fitch Ratings upgraded the Russian Federation's foreign currency and local currency Issuer Default Ratings ("IDR") to 'BBB+' from 'BBB'. The Outlooks on both ratings are Stable.

"Enduringly high commodity prices are strengthening Russia's macroeconomic and financial position at a remarkable pace, further reducing the likelihood of any future risk to sovereign debt service," says Edward Parker, Head of Emerging Europe sovereigns at Fitch.

Fitch expects the general government to run a budget surplus of around 6.5% of GDP this year, allowing it to pre-pay USD22bn of debt to the Paris Club, reduce its debt-to-GDP ratio to just 11% of GDP by the end-2006 (compared with the 'BBB' median of 34%) and increase its stabilisation fund to around USD89bn from USD43bn at end-2005.

Strong external finances also underpin Russia's ratings. Fitch expects the country to run another current account surplus of over 10% of GDP this year, boosting foreign exchange reserves to USD271bn (including the stabilization fund) by end-2006, from USD182bn at end-2005. Despite heavy private sector borrowing, Russia is expected to become a net external creditor this year, equivalent to 6% of current external receipts ("CXR"), compared with a debt-to-CXR ratio of 32% for the 'BBB' range median. The economy and living standards are booming. Fitch forecasts real GDP to grow by 6.7% in 2006 and Russia could become the 10th largest economy in the world, up from 22nd place in 1999.

## ... and Revises Russia's Country Ceiling to A-

In August, Fitch revised upwards the Country Ceilings for 40 countries. Russia's country ceiling was revised to A- from BBB+. The Country Ceilings are an effective cap on all foreign currency ratings of entities and transactions originating within each country....

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# Introduction

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Welcome to the autumn issue of Fitch CIS Quarterly Newsletter. Even despite the summer period, we have been very busy in the past months, having undertaken a number of important rating actions and having assigned ratings to quite a few new issuers in the banking, insurance, leasing and international public finance sectors.

The major highlight of the past quarter became Fitch's upgrade of Russia's sovereign rating to BBB+ as a result of a remarkable improvement in the country's macroeconomic and financial position backed up by high commodity prices. This rating action is a further evidence of Russia's strong capacity to service its debt obligations as we have seen Paris Club debt paid off.

In the past three months, 13 more issuers have requested Fitch ratings. Among them are 3 Russian insurance companies (Transsib Re, Russian Insurance Center and ACE Insurance), 1 Russian leasing company (VKM Leasing), 4 Ukrainian banks (Kreditprombank, Bank Forum, TAS-Kommerts, and VABank), 2 Kazakh banks (Tsesna and Eurasian Bank), 1 Kazakh company – KazakhGold, 1 Russian region (Nizhny Novgorod region) and 1 Ukrainian municipality (the City of Odessa). Overall, Fitch currently rates 139 issuers in Russia & CIS.

During the past quarter, the CIS issuers have continued to actively access debt capital markets, both international and domestic. Fitch has rated a total of over USD3bn Eurobonds of Russian and CIS banks. In the corporate sector, Fitch rated the USD1bn issue by TNK BP, as well as EUR780m issue by Gazprom which is the fifth tranche under the existing USD15bn loan participation note programme. On the public finance side, Fitch assigned ratings to EUR408m Eurobond by City of Moscow, as well as to RUR1.5bn bond by Lipetsk region, RUR600m issue by Kirov region, and RUR2bn bond by Nizhny Novgorod Region.

I would like to take this opportunity to say that that Fitch Moscow office has been growing at a fast pace in response to the dynamic expansion of our operations in the CIS and as an evidence of the agency's commitment to the region. Seven new analysts have joined our Moscow team lately, including 3 financial sector analysts, a dedicated insurance analyst, as well as one analyst for each of the following sectors - industrial, energy and international public finance. The profiles of the newcomers are provided in the New Hires section of the newsletter.

With best regards,



Dmitri Surkov

# Sovereigns



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## Fitch Revises Country Ceilings for 40 Countries

In August, Fitch revised upwards the Country Ceilings for 40 countries. The Country Ceilings are an effective cap on all foreign currency ratings of entities and transactions originating within each country. Fitch first publicly assigned Country Ceilings to countries with Fitch-rated sovereign issuers in June 2004.

Country Ceilings capture the risk of exchange controls being imposed that would prevent or materially impede the private sector's ability to convert local into foreign currency and transfer to non-resident creditors - transfer and convertibility (T&C) risk. Country Ceilings are not ratings but rather a key analytical input and constraint on the foreign currency ratings of entities and transactions originating in the sovereign's jurisdiction. Increased integration of national economies into global production, trade and financial networks has reduced T&C risk, as evidenced by the experience of sovereign crises over the last decade. However, T&C and country risk more generally remain strongly correlated with sovereign risk and hence Country Ceilings are "notched" from the foreign currency rating of the sovereign. The ratings of transactions and non-sovereign entities that are above the sovereign and capped at the Country Ceiling may consequently exhibit more volatility at a given rating level than would normally be expected.

The methodology for assigning Country Ceilings was recently updated as part of Fitch's regular and on-going review of its criteria and methodologies. As a result of the review of the Country Ceiling methodology, the Country Ceilings on 40 countries have been revised upwards (out of a total of 99). The average "notch" uplift has been increased by around 50 basis points (or half of one "notch" on the rating scale) to a little over one notch above the sovereign foreign currency issuer rating. The upward revision to Country Ceilings since they were first assigned more than two years ago reflects greater liberalisation of capital and exchange controls in many "emerging market" economies, such as Russia and Brazil, the strengthening of monetary and exchange rate regimes and the deepening integration of emerging markets in the global economy.

Corporations, financial institutions and structured transactions can only be rated above the sovereign foreign currency issuer rating and up to the Country Ceiling if their stand-alone credit quality is judged to be sufficiently strong to withstand a sovereign debt crisis. The ratings of financial institutions and corporations are affected by the revision to the Country Ceilings.

The revised Country Ceilings in the CIS region are listed below:

Armenia Country Ceiling revised to 'BB' from 'BB-' (BB minus)  
Kazakhstan Country Ceiling revised to 'BBB+' from BBB  
Russia Country Ceiling revised to 'A-' (A minus) from 'BBB+'

A copy of the Criteria Report, Country Ceilings, is available from the agency's free website at [www.fitchratings.com](http://www.fitchratings.com).

# Financial Institutions



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## Portfolio Investors Offer Increased Capital Flexibility to CIS Banks

Against a background of heightened strategic investor interest in CIS banks, portfolio investors are also making increased contributions to bank capital. To date during 2006 the equity of at least nine CIS banks has been sold to portfolio investors, in most cases through the issuance of new shares (see Table). Fitch is also aware of several other medium-sized institutions with similar plans, and there have also been isolated cases of funds acquiring privately-placed subordinated bank debt.

Bank	Country	Stake (%)	Investors
Bank of Moscow	Russia	4	JP Morgan; Bear Sterns; others
Locko-Bank	Russia	11	East Capital Fund
Probusinessbank	Russia	35	Various portfolio investors
SDM-Bank	Russia	10	Firebird
Vozrozhdenie	Russia	10	Various portfolio investors
Bank TuranAlem	Kazakhstan	8*	Funds including East Capital Fund and Firebird
VABank	Ukraine	49	TBIF
Nadra Bank	Ukraine	8	East Capital and other investors
Bank of Georgia	Georgia	65**	East Capital; Firebird; others

\* Sale of new shares

\*\* Total stake, including shares purchases pre-2006. Does not include free float.

Source: Fitch

These trends are resulting in increased capital flexibility for some banks which had previously had to rely primarily on their own earnings and contributions from existing core shareholders to provide new capital. This in turn should make these banks better positioned to support growth, expand franchise and maintain or increase market shares. Majority shareholders, meanwhile, are able to retain most of the potential upside for equity investments resulting from this growth, and to a large degree control the bank's future equity strategy.

Fitch views positively this improved capital flexibility, which in some cases could contribute to positive rating actions. The potential for improved corporate governance as a result of portfolio investor representation at Board level, and possible increased confidence in the bank as a borrower on international markets, could also be positive factors.

Against this, risks for banks' creditworthiness could arise if dividend policies are amended to ensure a stable stream of returns for equity investors, thus potentially undermining capital ratios, or if undisclosed agreements or put options give portfolio investors irrevocable rights to sell their stakes to core shareholders, which could put pressure on the majority owners' ability to also make new equity contributions to the banks.

## **Fitch: Banking Systems Stronger; Rapid Credit Growth Still a Concern In Some Countries**

In its special report published first week of September, Fitch Ratings said that strengthening in a number of banking systems has reduced overall bank systemic risk over the past six months, but continued rapid credit growth in some countries could lead to renewed deterioration over the next six months.

"Bank systemic risk has eased marginally overall in the past six months" says Richard Fox, Senior Director in Fitch's Sovereign team. "Twelve banking systems have seen appreciable strengthening and the number of countries in the highest risk categories has fallen to 40 from 45, out of a total of 81 systems monitored."

Amongst developed countries, Spain and Switzerland join the highest Fitch Banking System Indicator ("BSI") 'A' category. The BSI is a measure of intrinsic banking system quality or strength. Austria and Germany also move up a category to BSI 'B' denoting a strong/high quality banking system. Of developed country systems, 90% are now concentrated in these top two categories. Japan also improves a notch to enter the BSI 'C' category. Emerging market banking systems have also strengthened. Those in the BSI 'B' category, which rank on a par with the typical developed country system, increase to nine, with the addition of Bahrain, Czech Republic, Mexico and Qatar. In addition, Brazil, Latvia and Oman move up into the 'C' category. However, half of all emerging market banking systems remain 'weak' (BSI D) and a further 20% 'very weak' (BSI E).

Macro-prudential risk is indicated by excessive lending growth when accompanied by either strong asset price appreciation and/or real exchange rate strength and is often a precursor to systemic problems. Such risks - measured by the Macro-Prudential Indicator ("MPI") - have increased slightly since February. Five countries - Austria, Czech Republic, India, Slovakia and Slovenia - move up into the "moderate risk" (MPI 2) category. But Malta and Norway move into lower risk categories - the latter moving out of the MPI 3 category. No new countries move into the highest MPI 3 category, which now contains just five countries - Azerbaijan, Iceland, Ireland, Russia and South Africa.

The number of countries in any of the highest risk categories - BSI D or E or MPI 3 - of Fitch's Systemic Risk Matrix has fallen to 40, with Central and Eastern Europe and Latin America accounting for over half of them.

Fitch's macro-prudential risk assessments were pushed forward a year in its February 2006 report, by including 2005 data for the first time. The assessments in this report remain based on data in the three years up to 2005 and give an indication of the likelihood of systemic stress occurring, typically within a three-year time horizon. However, in anticipation of the incorporation of 2006 data for the first time in the March 2007 report, and in response to user feedback, this latest report gives an indication of where MPI scores might change in six months' time, based on developments in 2006 to date. Macro-prudential data suggests potentially increasing stress in a number of countries, which could result in them moving into higher MPI categories in six months time. Romania and Ukraine, both with relatively weak (BSI D) banking systems, could move into the MPI 3 category. Ecuador, France, UAE and Venezuela could move into the MPI 2 category. However, Fitch stresses that developments to date in 2006 provide only a partial indication of possible changes. All the series on which the MPI assessment is based are volatile and notoriously difficult to forecast. Actual 2006 outturns may or may not substantiate these prospective changes in MPI in six months' time.

The latest "Bank Systemic Risk report" and the original July 2005 criteria report "Assessing Bank Systemic Risk" are available at [www.fitchratings.com](http://www.fitchratings.com).

# Insurance

## **Fitch: Global Reinsurance Outlook Stable, Cycle Management Awaits**

Fitch Ratings maintains its Stable rating Outlook on the Global reinsurance sector. However, Fitch believes that over the next 12 to 24 months this sector faces a number of key challenges, the biggest of which will be cycle management.

In a Special Report published early September, the agency said that over the next two years the underwriting, operating and capital trends will generally support reinsurers' current ratings. Fitch's Stable Rating Outlook reflects the agency's expectation that the number of upgrades and downgrades during the next 12-24 months is likely to closely correlate.

"Downgrades are likely for reinsurers that underperform relative to their current rating level, and whose business models and franchises suffer materially during a cyclical downturn, said Chris Waterman, Senior Director in Fitch's Insurance Group in London. "Fitch typically views significant merger and acquisition activity and expansion beyond core competencies as an indication that reinsurers may be experiencing difficulty coping with cyclical underwriting conditions,"

A key challenge facing reinsurers in the short term will be cycle management, as they try to identify when lines of business are no longer technically profitable and therefore need to be exited or de-emphasized. Such a skill has proven to be elusive for many in the past. Although 2005's catastrophe losses resulted in positive premium rate development in 2006, Fitch continues to believe that reinsurance pricing is cyclical due to the ease with which capital can enter and leave the market. Subject to a return to historical catastrophe experience in 2006, Fitch expects that reinsurers will experience moderate premium rate reductions in 2007 but see their cycle management strategies truly tested in 2008.

The reinsurance sector proved extremely resilient despite the largest insured catastrophe year on record in 2005. Insured losses from hurricanes Katrina, Rita and Wilma totalled approximately USD65 billion, yet the sector retained its financial strength with only a very limited number of downgrades. Fitch viewed last year's hurricane season as an earnings event for the reinsurance market rather than a capital issue. Most reinsurers that suffered material capital declines were able to raise capital quickly, filling holes created by the hurricanes, and to position themselves to take advantage of the current hard market.

"Ironically, the reinsurance sector's unprecedented 2005 losses have in many ways left it in a stronger position today than before Hurricanes Katrina, Rita and Wilma hit," said Mark Rouck, Senior Director in Fitch's Insurance Group in Chicago. "Reinsurers are modeling their exposures to more severe and frequent catastrophic events, and cedants are retaining more risk due to the price of reinsurance capacity. Additionally reinsurers have trended away from proportional reinsurance covers towards excess of loss protection where they have more control over pricing and coverage."

Fitch's Special Report entitled 'Reinsurance Review and Outlook: Cycle Management - A Bumpy Ride Ahead' is available from Fitch's free website at [www.fitchratings.com](http://www.fitchratings.com).

### **Fitch Rates CJSC ACE Insurance National IFS 'AA+(rus)'**

In October, Fitch assigned CJSC ACE Insurance Company ("ACE Russia") a National IFS rating of 'AA+(rus)'. The Outlook on the IFS rating is Stable.

The rating reflects the current and expected ongoing operational and capital support from ACE Russia's parent group, ACE. It also reflects ACE Russia's currently strong capitalisation on both gross and net bases relative to insurance risk exposures, its prudently structured outwards reinsurance protection programme and a conservative investment allocation and strategy. Offsetting these positive factors are the company's very limited operational track record and the highly competitive nature of the insurance sectors within which it operates.

Business growth at ACE Russia is expected to develop cautiously, with a focus on technical lines and construction business and an emphasis on achieving underwriting profits. Principal business lines are: property, casualty, marine/cargo, technical lines (contractors' and erection all risks and boiler and machinery risks), accident & health, financial lines and energy.

Established in October 2004, ACE Russia is a wholly owned subsidiary of ACE European Markets Insurance Ltd and its ultimate owner is ACE Limited (Cayman Islands), which has an Issuer Default rating of 'A' on Stable Outlook

### **Fitch Rates Russia's Transsib Re IFS 'B+'**

In September, Fitch assigned Transsiberian Reinsurance Corporation's ("Transsib Re") an International Insurer Financial Strength ("IFS") rating of 'B+' and a National IFS rating of 'A-(A minus)(rus)'. The rating Outlooks are Stable.

The ratings reflect Transsib Re's relatively strong overall profitability, regional diversification, professional underwriting discipline procedures and experienced management. Offsetting factors are the company's modest, though improving capital position, continuing high exposure to reinsurance support, relatively low loss-reserving levels and high local reinsurance sector risks.

Profitability has been improving, with the return on equity ("ROE") rising to 30.1% for 2005 (from 21.7% for 2004), reflecting strong underwriting earnings. The combined ratio, already profitable at 96.5% in 2004, improved sharply to 89.6% for 2005, reflecting a much lower level of incurred losses and despite the impact of increased administrative expenses and reduced net premium volumes. Despite the rather limited investment opportunities available on the Russian stock and bond markets, the company recorded a yield on investments for 2005 of 11% (up from 4.8% for 2004). The company's overall liquidity position as at FYE05 appeared acceptable, with 91.8% of reinsurance reserves held in liquid form.

Capital at FYE05 was significantly strengthened by strong earnings but remains relatively modest in relation to net premium volumes. At FYE05, the company's statutory capital reached 1.6x the minimum required and its statutory equity reached 1.4x the minimum required. Fitch regards the management of capital levels in relation to volume growth as a key challenge for the company.

The company has continued to retain only a very modest proportion of its gross premium volumes (27.8% of gross volumes for 2005). Most of the reinsurers are regional reinsurers and insurers with which Transsib Re has a deliberate strategy of developing relationships. Although this strategy has the effect of reducing the economic capital requirements of the company and driving down the net commission costs, it does imply a significant reinsurance credit risk.

Although reserve levels have remained quite low by comparison with those of other international reinsurers, reserving accuracy has appeared relatively high. Nevertheless, Fitch recognises the inherent volatility of the company's reinsurance portfolio and the ongoing challenge to establish appropriate reserve levels.

## **Fitch Rates Russian Insurance Centre IFS 'B'**

In July, Fitch assigned Russian Insurance Centre ("RIC") an International Insurer Financial Strength ("IFS") rating of 'B' and a National IFS rating of 'BBB-(BBB minus(rus))'. The Outlook is Stable.

The ratings reflect RIC's acceptable capitalisation, its solid track record of profitability, reflecting few claims on the military/space business and its strong market position as a provider of insurance coverage for the Russian defence and space industries. Fitch considers RIC has developed strong underwriting expertise within its specialist business niche.

Offsetting these positive factors are significant investment credit risks, a significant degree of business concentration risk, both in terms of industry and client, and relatively low overall balance sheet liquidity. There are also significant reinsurance/retrocession exposure for risks placed locally and somewhat limited underwriting controls on inward reinsurance.

Although occupying an important niche market position, RIC has a relatively small size overall, with 2005 year-end total assets of RUR2.2 billion and 2005 gross premium volumes of RUR1.9bn. Underwriting profitability has been an overall strength, with the 2005 combined ratio remaining profitable at 77% (compared with 63% in 2004). However, Fitch has expressed some concern regarding the loss ratios recorded on the inwards reinsurance business. Investment returns (including realised and unrealised gains) were modest, falling to 5% in 2005 from 10% in 2004. Overall balance sheet liquidity appears low, reflecting the presence of large loans to related parties, mainly relating to real estate. The availability of significant reinsurance support from a range of Russian and international reinsurance companies has been a key aspect of the company's development. However, given the large proportion of business ceded (net premiums for 2005 were only 36% of gross), Fitch considers that reinsurance credit issues have an important bearing on the ratings.

# Industrials



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## Fitch Sees Rising Industrial Action Hitting Mining Companies

Record mining company profits are resulting in an increasing level of industrial action as mine workers seek a larger share of their employers' earnings.

While a rising cost environment has been evident in mining company results over the past couple of years due to rising energy costs and shortages of virtually every type of mining equipment and supplies, in recent months there has also been an increasing number of pay-related work stoppages at mines worldwide. "It would appear that mine workers are seeing the record profits generated by the large mining companies and are demanding for a bigger slice of the pie," says Peter Archbold, Director in Fitch's Industrials Group in London.

While strikes have affected mining companies in all mineral segments, the copper sector seems to have been more affected than most. The most high profile is the current strike at the Escondida mine in Chile, the world's largest copper mine, which last year accounted for approximately 8.5% of total worldwide copper production. Other copper producers will be closely monitoring the outcome of negotiations at Escondida. With several other major copper producers, including the world's largest player Codelco, understood to be renegotiating labour contracts over the next few months, further industrial action is likely to result. Despite their current record profits, the embedded cyclicality of the mining industry means that the mining companies are reluctant to lock in wage rates that may not be sustainable in the next industry downturn.

Strikes have the potential to significantly affect the financial profile of issuers. The impact will, however, depend on the duration of the strike, the size and operational diversity (i.e. number of other producing mines), and the financial flexibility of the company concerned. In the case of Rio Tinto ('A+' / Outlook Stable) and BHP Billiton, the majority owners of Escondida, the strike is unlikely to have a material impact on their credit profiles given their scale, operational diversity and strong financial resources. For single-operation companies the impact of industrial action could clearly be more significant.

Over the past 2-3 years mining companies worldwide have benefited from China's booming demand for commodities as it goes through the process of industrialisation. This has resulted in record prices for most commodities and significant increases in mining company profits. In recent interim results for example, Rio Tinto reported a 41% year-on-year increase in operating profit (as reported), while Anglo American reported a 34% gain.

## EMEA Industrials – A Half Year Update

The overall outlook for ratings for European industrials is stable, although event risk is increasing as corporate activity levels are rising strongly. Common trends affecting many industrial sectors include:

- an increase in M&A activity (especially in auto supply, building materials, chemicals, mechanical engineering and metals & mining);
- modest weakening of financial profiles, with increasingly shareholder-biased actions;
- high energy and metals prices, testing cost pass-through ability but supportive for the metals mining sector;
- continued low-cost competition (especially in engineering and capital goods);
- good demand, underpinned by China.

Globally, the strong corporate credit environment through 2004 appeared to have weakened since 2005. In EMEA, the positive credit cycle had already been less pronounced and shorter than elsewhere. European corporate fund raising boomed in the first half of 2006, driven by high M&A activity. Bond issuance may be heading for a record year.

### Emerging Markets

Buoyant commodity prices and oil prices have helped the exports of many emerging markets countries and CIS in particular, which in turn helped macroeconomic fundamentals. Coupled with ample liquidity seeking yields, emerging markets sovereign and corporate spreads reached record lows in 2005. Recent monetary policy tightening globally however has led to re-pricing of risk in the first half of 2006. Shifting risk appetite has also contributed to a marked equity sell-off across all emerging markets and in the Middle East and India most notably. Emerging Europe private sector external borrowing has been on the rise in the first half of 2006, with increased activity for capital markets debt issuance preparation. However, towards the end of H106, some corporates had either abandoned the idea of issuing debt or had postponed their plans until after third quarter, opting for bank financing in the interim. Fitch expects emerging Europe GDP to grow by 5.6% in 2006 and 5.3% in 2007 driven by export growth, capital inflows, bank credit growth and high energy prices especially benefiting CIS economies. Economic transition and EU integration should continue to support credit worthiness in emerging Europe. In line with the global emerging markets, global monetary tightening will increase both cost of funding as well as risk premium associated with macroeconomic policies in emerging Europe in the second half of 2006.

### Steel

The outlook for the credit quality of European steel companies remains stable. The key drivers will be the main players' ability to sustain strong financial metrics in light of the industry's embedded cyclicality, rising input costs and increasing level of M&A activity.

Despite the still weak pricing power relative to raw materials suppliers, steel market consolidation to date has enabled leading players – especially in Europe – to take more rational and market based decisions over production levels, so as to better balance demand and supply and hence help to sustain market prices. This was evident in production cuts from Arcelor, ThyssenKrupp (BBB+/F2/ Rating Watch Negative) and MMK (BB-/-/Stable) during 2005 which Fitch views as a positive development for the industry. Aside from installing greater supply discipline and increasing pricing power, further consolidation is desirable as it will continue to generate economies of scale and scope, allow more flexible production patterns, lower unit costs, create synergy benefits and potentially reduce industry cyclicality and volatility. However, consolidation steps need to be handled prudently in order to ensure that credit profiles remain satisfactory.

While the steel industry remains largely fragmented, the control over raw materials has proved to be an important business factor for managing strong financial metrics. This business model has been widely evident in low cost countries such as Russia and Brazil. Although companies' based in those countries have strong financial metrics similar to investment-grade rated international peers, their ratings continue to be constrained by corporate governance and political risks. Nevertheless, the vertical integration business model has become a strategic focus for the world largest steel companies such as Mittal Steel (BBB/F2/ Rating Watch Negative). Fitch expects that vertically integrated steel companies with economies of scale will demonstrate significant resilience in a downward cycle.

### Metal Mining

The outlook remains Stable. The key drivers will be the main player's ability to continue managing strong financial metrics, despite a potential increase in shareholder pressure for capital returns, balancing new production capacity with considerations about oversupply and finding opportunities for M&A activity across regions or in fragmented single commodity markets. Rating actions during 1H06 included the affirmation of Rio Tinto's ratings following its announcement of a USD4 billion capital management programme comprising a special dividend of USD1.5bn and a new share buyback programme totalling USD2.5bn to be undertaken over the course of 2006 and 2007.

The global mining industry is more highly consolidated than most other cyclical and capital intensive industries. It is dominated by four major diversified mining companies, namely RioTinto (A+/F1/Stable), BHP Billiton, Anglo American and Xstrata. Nevertheless, opportunities for future M&A activities exist across regions, while diversified majors may focus on strengthening their home market positions.

Demand fundamentals will continue to be marked by the strong demand from China, further underpinned by industrialisation and economic growth in Brazil, Russia and India. Whilst the supply of commodities such as iron ore and coking coal is expected to catch up with demand over the next 2-3 years, the industry may continue to face certain constraints due to an increased focus on environmental issues via efforts for regional and cross-country regulatory initiatives.

As a result, low levels of stocks may continue to fuel the price volatility across the main base and precious metal commodities in the foreseeable future.

One commodity sector which is receiving increased attention is uranium mining. This is due to increasing worldwide demand for energy, particularly in developing countries such as China and India, and a focus on low-carbon emission resources. Long-term underinvestment in the sector, coupled with a timelag in bringing new mines into production, has resulted in high spot uranium prices.

The uranium sector is highly concentrated with participants consisting of large diversified miners (e.g. BHP Billiton), and vertically integrated mining and energy companies such as Cogema (a subsidiary of Areva) and Cameco. Fitch believes that planned capacity expansion to satisfy forecast strong demand is likely to result in increasing debt market issuance from the sector.

### **Fitch: European Auto Industry's Move To CEE is Positive**

The existing trend to increase sales and production in Central and Eastern Europe ("CEE") is modestly positive for the European original equipment manufacturers' ("OEMs") credit profiles.

"Car manufacturers have accelerated the move to Eastern Europe to benefit from a cheaper production base and improving production capabilities," says Emmanuel Bulle, Director in Fitch's European Industrials team. "CEE countries are now able to offer high R&D competence, good engineering value and attractive costs."

Wages paid in CEE are much lower than in Western European countries and OEMs have sometimes the opportunity to benefit also from CEE governments' favourable investment conditions, grants or tax breaks. In addition, labour quality has considerably improved as the local workforce is trained to meet western standards and higher customer specifications. The opening of plants by large manufacturers leads to an improvement in the global infrastructure and transport networks in these countries and to an accompanying move by suppliers. These in turn support better production and logistics conditions for OEMs.

Between 2001 and 2006, Western Europe has lost approximately 1.4 million units of production, following the closure of several assembly plants in Italy by Fiat ('BB-'(BB minus)'/B'/Negative), in France by Matra and in the UK by Ford ('B'/Negative), General Motors ('B'/Negative) and PSA ('A-' (A minus)/Negative). During the same period, manufacturers have opened plants or expanded capacity in countries including Czech Republic, Slovakia and Poland. Including plants opened in East Germany, total capacity from these new plants in CEE amounted to a total of approximately 1.6 million units since 2001. In 2005, PSA opened an assembly plant in Czech Republic in partnership with Toyota ('AAA'/'F1+'/Stable) to build the Peugeot 107, Citroen C1 and Toyota Aygo sub-compact cars. It has also opened a plant in Slovakia to produce its 207 and other small models. Fiat is building a small SUV in Hungary in cooperation with Suzuki and will assemble its next Fiat 500 and the successor of the Ford Ka in Poland. Renault ('BBB+'/Stable) is also

expanding capacity in Eastern Europe and will move the assembly of the next Twingo to Slovenia from France. Several Asian manufacturers including Korean brands Kia and Hyundai have also invested massively in CEE to assemble vehicles aimed at Western European markets.

Car manufacturers are increasingly targeting Russia as well. Since last year, nearly all major OEMs present in Europe have announced plans to boost vehicle sale and assembly in Russia. In total, foreign car manufacturers will produce between 250,000 and 300,000 units in Russia by end-2007 as they seek to benefit from Russia's decision to scrap import duties on components, improving Russian economic prospects and rising demand for foreign brands. Foreign manufacturers typically sign alliances and agreements with local OEMs to assemble and sell their models in Russia. Recently, Fiat announced an industrial agreement with Severstal Auto to assemble several Fiat models in Russia based on completely knocked down vehicles ("CKD") produced in Turkey by Tofas, Fiat's and Koc's joint venture. Renault announced plans to double Logan output while Volkswagen ("VW", 'A-' (A minus)/'F2'/Stable) and Ford have said that they will invest in Russia to increase capacity.

Fitch cautions, however, that the move of OEMs towards CEE is not always an easy and straightforward solution. New assembly plants usually compensate for plant closures or lower productions in their domestic markets but such closures or capacity reductions are a difficult task. In particular, manufacturers face union or government resistance for social reasons. The full integration of logistics, supplier relationship and transportation network is also a long and difficult process and OEMs may face disruption or quality issues. Therefore, relying entirely on assembly plants and production facilities based in CEE is neither feasible nor desirable.

Although the penetration rate of cars is lower in both CEE countries and Russia than in Western Europe, Fitch does not expect a demand boom in the short term in these regions. In August 2006 YTD, total sales in the eight new EU members were down by nearly 1% to 488,600 units, but this was due mainly to the poor performance in Poland, the largest country of the eight. Growth prospects are, however, higher in the medium term and a solid presence in CEE now is crucial to developing longer-term growth. Thanks to local brands that they bought in the past, VW and Renault are now in a good position to build on the success of their Skoda and Dacia brands respectively.

### **Fitch: No Rating Impact on Evraz from Highveld Buy**

In July, Fitch Ratings affirmed Luxembourg-based Evraz Group SA's ("EG") Issuer Default and senior unsecured ratings of 'BB-' (BB minus) and its Short-term 'B' rating following its purchase of a 24.9% stake in Highveld Steel and Vanadium Corporation Limited ("Highveld") from Anglo American plc ("Anglo American") for an estimated USD214 million. At the same time, the agency affirmed Mastercroft Limited's - the main operating holding company within EG - ratings at Issuer Default 'BB-' (BB minus) and Short-term 'B' and Evraz Securities SA's senior unsecured 'BB-' (BB minus) rating. The Outlooks on all ratings are Stable.

Subject to regulatory approval EG has an option to increase its ownership in Highveld to 79% for an estimated USD678m by purchasing the remaining 29.2% of Highveld owned by Anglo American, as well as Credit Suisse's 24.9% stake. EG had a net cash position of USD641m as at FY05, which is sufficient to finance its initial 24.9% shareholding purchase and materially fund the increase in its shareholding to the 79% level under the option agreement. In Fitch's view the acquisition will not materially change the operating or financial profile of EG, and is therefore seen as credit neutral.

South African-based Highveld is the largest vanadium producer worldwide with annual capacity of more than 7.2kt. The company also produces steel, ferroalloy and carbonaceous products. In FY05 Highveld had revenues of ZAR7.1 billion (USD986m) and generated net profit of ZAR1.9bn (USD263m). On 26 October 2005 Anglo American announced its intention to dispose of its stake in Highveld.

Evraz is Russia's largest steel producer with FY05 production of 13.9mt, and ranks 13th in the world. It specialises in the production of long-steel products, operates three steel plants in Russia, two platemarkers in Italy and the Czech Republic and iron ore and coal mines.

## Oil & Gas



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### Rosneft's Successful IPO Supports its 'BB+' Rating

One of the most important credit events in the Russian oil and gas sector during the past quarter was the completion of the USD10.4 billion IPO by state-owned Rosneft. As is well-documented, the proceeds were used to repay a USD7.5bn loan facility extended to the holding company, Rosneftegaz, for the purchase of a 10.7% stake in OAO Gazprom (rated 'BBB-'/Outlook Stable) on behalf of the Russian government in 2005. While the timely re-payment of these borrowings did much to stabilize the creditworthiness of Rosneft, the event was already incorporated into the Issuer Default rating at the 'BB+' level. The removal of this additional debt has, however, done much to remove a material financial risk to the company.

When Fitch assigned its rating to Rosneft, the agency specified that additional delivering would be necessary in order to see an improvement in the rating. Specifically, Fitch would need to see an FFO Adjusted Leverage ratio below 2.0x and an FFO Gross Interest Coverage ratio above 10.0x. As of year end 2005, the company had an FFO Adjusted Leverage ratio of nearly 4.0x and FFO Gross Interest Coverage of 6.5x. The Outlook for the rating remains Stable.

The instalment of independent directors to the board, as well as the appointment of a new non-Russian CFO, is expected to enhance Rosneft's corporate governance and improve the transparency to what has historically been a very closed and secretive company. As such, measuring management's achievements against its targets should become easier, and is likely to increase Rosneft's overall creditworthiness.

Finally, Rosneft is expected to benefit from any government prioritized future project developments in East Siberia as well as on Sakhalin Island, reflecting the substantial state support it continues to enjoy. In a similar vein, Rosneft has seen a material reduction in taxes owed as a result of its acquisition of Yuganskneftegaz, from USD4.7 billion to just USD760 million as of April 2006, largely as a result of its relationship with the state.

### Fitch Upgrades Gazprom to 'BBB-'; Stable Outlook

Early July, Fitch upgraded OAO Gazprom's foreign currency and local currency Issuer Default ratings ('IDR') and its senior unsecured rating on USD5.7 billion of rated debt to 'BBB-' (BBB minus) from 'BB+'. The Outlook remains Stable. The upgrade reflects improving prospects for the company's business profile, on the back of strengthening financial results and signs of further state support through the legalization of the company's monopoly export status.

The upgrade is supported by Gazprom's recently released 2005 IFRS financial results, which showed a continuing trend of increasing profitability through a reduction in operating costs as a percentage of revenues. Natural gas sales to Europe increased 38% primarily due to rising prices while sales to Former Soviet Union ('FSU') countries rose 58% due to a combination of higher volumes and gas prices. The result of higher gas prices to FSU countries is especially supportive of Gazprom's credit ratings, as the company works to align previously low prices with higher European ones. Fitch expects that the company will continue to raise prices for Central and Eastern European ('CEE') as well as FSU countries to more

closely align to higher Western European prices. Additionally, Gazprom's margins and operating cash flow generation continues to improve, as well as leverage and interest coverage ratios, albeit the latter remain weaker than those of its peers operating in Russia.

Gazprom reports that to date it has managed to repay USD10.5 billion of the USD13.1bn borrowed to fund the OAO Sibneft acquisition. The company has subsequently been renamed OAO Gazpromneft. The remaining amount is expected to be repaid shortly as Gazprom reported on balance sheet cash balances of USD5bn as of December 2005. The operating results of OAO Gazpromneft and its subsidiaries were included in Gazprom's consolidated financial statements only from October 2005, the date when control over Sibneft was established. Fitch therefore expects that full year results from Gazpromneft's operations will further improve the group's financial performance starting in 2006 and would have done so in 2005 had pro-forma accounting been adopted.

Any further upgrade to the company's ratings, however, will largely depend on factors such as demonstrated integration and improved performance of recently acquired oil assets, as well as continued improvements in sourcing gas, including a possible lessened reliance on Central Asia to meet gas balance needs. It will also depend on successful completion and cost containment of large upstream projects; continued improvements in internal cash flow generation (including a reversal of declining free cash flow); improved cash collection through a reduction in accounts receivable and evidence of a commitment to de-levering the company's balance sheet.

### **Fitch: Central European Oil Refiners Face Russian Supply Risk**

The Central European ("CE") oil refining companies remain exposed to crude oil supply risk given their strong dependence on deliveries from Russia.

While recent supply problems due to a leak in the northern branch of the Druzhba pipeline were only experienced by Lithuanian refinery Mazeikiu Nafta AB ("MN", rated 'B+', Rating Watch Positive), most other refineries in the CE region are dependent on pipeline supply from Russia.

This includes PKN Orlen S.A. ("PKN", rated 'BBB', Rating Watch Negative) and Grupa Lotos in Poland and MOL's refineries in Hungary and Slovakia. While all these refineries are able to continue operations in the event of severe crude delivery disruptions from Russia given their access to alternative sources of crude, such a scenario would harm their refining margins. This is the case with MN, which is now purchasing Russian crude oil from the Primorsk terminal close to St. Petersburg and transporting it by tankers to its Butinge terminal in Lithuania. This results in higher transportation costs when compared to deliveries by pipeline. If supplies of Russian crude oil by pipeline to MN are not resumed within the next few weeks, this could lead one to conclude that political rather than technical reasons are to blame for the supply disruption, as the Lithuanian refinery was recently acquired by Polish PKN and not by a Russian oil company.

CE refineries' dependence on Russian crude is a combination of historical reasons and refinery location on the pipeline from Russia. This is also driven by increasing price advantage of Russian crude oil, which is sold at a discount to Brent oil (as much as USD5/bbl in Q206).

It is Fitch's view that a mixture of political and economic reasons are behind the interruptions of Russian crude oil and gas supply to Central Europe experienced in the past two years. The most notable examples were the suspension of crude oil supply under long-term contracts by OAO Yukos in late 2004 and lower gas supply to the European Union from Russia in January 2006. However, Fitch views that intentional long-term supply disruption to CE refineries is unlikely given that Russian oil companies remain interested in exporting crude oil to this region, given its price advantage over domestic sales and difficulties to redirect such significant amounts of crude oil into other export routes.

Fitch reflects the supply risk in its credit ratings for CE refineries. This is especially the case with pure refining and marketing companies, such as MN or PKN, which do not operate in oil exploration and production. Fitch notes that neither PKN nor MOL has experienced any significant disruptions in crude oil supply from Russia in the past 10 years.

## Fitch Sees Turkish Refining Market As Attractive For New Entrants

Turkey is seen as an attractive market for companies planning to build new refining capacity there. This is a function of Turkey's growing fuels market, its strategic location as an important crude oil transportation route from oil producing countries to European markets, and the country's deficit of domestic fuels production versus domestic demand.

Turkey is one of the fastest growing petroleum markets in Europe underpinned by a favourable macroeconomic environment, demographics and low per capita consumption (1.1 toe in Turkey versus the EU average of 3.6 toe). Turkish domestic demand is expected to increase to 34.8 million tons and 43.4m tons by 2010 and 2020 respectively from 29.4m tons in 2005.

The sole Turkish refiner, TUPRAS (rated foreign currency Issuer Default 'BB-' (BB minus)/Positive Outlook and local currency Issuer Default 'BBB-' (BBB minus)/Stable Outlook), can only satisfy 70% of the demand for petroleum products in Turkey. The remainder is currently imported (gasoline and gasoil) on a spot basis from refineries on the Black Sea coast and the Mediterranean - Russia, Israel, Greece, Ukraine and Romania.

Fitch has noted in earlier reports that refining capacity expansion opportunities would arise in order to satisfy the estimated demand growth in the next five to ten years after the passage of the new Petroleum Law in January 2005. The law, which allowed for the first-time vertical integration as long as the company has less than a 45% retail market share in distribution, is likely to trigger structural changes in the Turkish fuel market.

Recently, LUKoil ('BBB-' (BBB minus)/Stable Outlook) applied to the Turkish Energy Market Regulatory Authority ("EMRA") for permission to construct a USD2.5 billion oil refinery in Turkey's Black Sea province, Zonguldak, which will reportedly have capacity to refine 8m-10 m tons of Russian and Kazakh crude oil annually. In addition, Turkey's largest fuel marketer, Petrol Ofisi ('BB-' (BB minus)/Stable Outlook), in which Austria's OMV has recently become a strategic investor, also announced plans for a new refinery investment in Ceyhan region, close to the BTC pipeline, worth USD2bn, with a 10m ton capacity per annum. Finally, Calik Enerji of Calik Holding ('BBB'(tur)/Stable Outlook) will reportedly team up with state-owned Indian Oil Corporation to build a refinery and petrochemical facility in Turkey. The EMRA licensing process for LUKoil and Petrol Ofisi is expected to be finalized by end-2006.

The new refineries are expected to be strategically located close to energy hubs at the end of oil pipelines, such as Ceyhan for the BTC pipeline, and will likely be targeting the export markets more than the local market. The main export markets for Turkey-based refineries would be the EU and US, Syria, Iran, and Israel. Fitch regards favourable transport costs and high exporting capability as the major drivers of new refineries' margin.

Given the structure of the Turkish refining market and expected boost in demand, it seems appropriate to assume that the new refining capacity of somewhere in the 20mtpa-30mtpa range (POAS, LUKoil and possibly Calik Holding expected to come on stream around 2011-2012) will not necessarily affect TUPRAS's business and financial profile significantly. The new entrants may export a significant part of their refined products to other countries given the new refineries' coastal locations. It should be noted that TUPRAS exported 18% of its sales volume in 2005, mostly to the EU states and US.

Whether TUPRAS considers expanding existing refining capacity or setting up a new refinery remains to be seen, but the short-term investment programme of the company does not factor in such a heavy investment. Fitch understands that a due-diligence process is being undertaken at the company for future strategic plans with Koc Holding at the helm.

# Power



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## Russian Electricity Sector Opportunities – Waiting for an Equity Story

In the first half of September 2006, RAO UES of Russia completed its annual road show, visiting investors in London, New York and Stockholm, informing interested parties of progress on the reforms in the Russian utility sector and hoping to improve investor sentiment regarding the industry. The energy holding company plans to raise around US\$ 17.5 billion (a quarter of the investment required for the next five years) via an IPO of its subsidiaries. The IPO represents the final, third stage of the privatisation of RAO UES. If the share offerings are successful, the state will have an approximate 25% stake in the new generation companies (to be sold in a single lot at a later stage). Upon conclusion of this stage RAO UES is expected to be dissolved, thus marking the completion of corporate restructuring under the sector's reforms.

Addressing investors' needs, the long-awaited liberalisation of price tariffs has finally started with the approval of new wholesale electricity market rules and launch of the new trading market in September 2006. The new model allows for gradual liberalisation by reducing the volumes traded by regulated contracts. The price cap on the free wholesale market was removed, and starting from 2007, 5% of the market will be at unregulated prices, with further liberalisation levels to be approved by the government, most likely on an annual basis. At the residential level household tariffs will, however, remain regulated. All new generation capacity will have to bid in the liberalised market.

The start of the electricity sector's liberalisation is positive news for the utility sector but is it enough for investors to make that all important decision regarding capital investment?

### Tariff control

The role of the state remains strong in the sector as it retains a majority ownership of nuclear and the bulk of hydro generation, national transmission and interregional distribution, and of the system operator. Tariff control and liberalisation targets are also undertaken by the state. The key uncertainty that remains is whether the liberalisation of the tariffs will proceed according to plan and at what level the liberalised price will stabilise.

### Fuel supply price setting

As only thermal generation capacities are available for privatisation, investors are faced with another risk of fuel supply price-setting. The necessity to eliminate cross subsidies between industries has been debated for over half a decade and currently gas prices for RAO UES's power plants are not at 'market rates'. Gazprom is keen on a reduction in the levels of gas used for power production, which in 2005 reached 69% of fuel mix for RAO UES, and has been pushing for the liberalisation of gas prices for domestic industrial consumers. Hence any investor in existing generation capacities faces the risk that deregulation of gas prices may increase at a faster pace than that for the utilities sector. Certainly in the last three years, gas price increases exceeded increases in electricity tariffs.

In the case of coal-fired capacity, the location and transportation economics are of paramount importance. Rail tariffs for the transportation of coal are also regulated by the state and do not cover attributable costs, hence another question for investors is for how long this will remain and how will prices make their transition to a 'market level'.

#### Access to fuel

When trying to decide whether to invest in new generation capacity, in addition to the risks of single-asset ownership and construction, a decision remains on whether it should be gas-fired, coal-fired or renewables.

For gas-fired power plants, access and security of gas supply have not yet been addressed. Gazprom may well refuse any new domestic customers, preferring to increase its more profitable export supplies. In this case the only alternative will be for new plants to be supplied by independent gas suppliers at market prices. This initially may be a strong disadvantage for new entrants as existing generation plants will continue to enjoy regulated and subsidised gas prices. In addition Gazprom has also plans to diversify into the power sector and may prefer to supply its own potential subsidiaries at preferential rates.

In the case of coal-fired generation, investors may also face competition from coal mining companies (such as SUEK, which supplies around 30% of domestic market) that have announced that they would consider investments in the power generation sector. Further, metal companies Rusal and Mechel, which hold their own coal deposits, are also interested in obtaining power generation assets to secure their own needs. It also should be noted that nearly three quarters of Russia's proven coal reserves are in the coal basins to the east of the Urals, whereas most power needs are expected to be in the west of the region. Transmission constraints will also be an important factor. The connection between the Siberian, Ural and European part of Russia is limited, and the Far East regional power system is currently isolated.

Although hydro facilities typically require significant investments and have long payback periods, their low operating costs make them very competitive and they could present good opportunities, in particular in the European part of Russia. As for renewables, there is currently no regulatory framework for promotion and development of these assets just as there is no legislation regarding carbon trading. Although appropriate laws and an incentive framework are being developed, there will still be many technical and regulatory issues to be addressed upon adoption.

In summary, while progress is starting to be made, the unclear pace of the reforms, continuing predominant state control of tariffs in both the power and gas sectors, and outstanding questions on the access to and security of fuel supplies present enough uncertainties to make decisions on long-term investments difficult for all but the most speculative of investors.

# Telecommunications



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## **Deregulation of the Russian Long-Distance Telecoms Market: Half-Hearted Reforms**

Liberalisation of the Russian long-distance telecoms market began in January 2006 with the introduction of a three-layer network and interconnection structure, and competition allowed in both backbone long-distance and zonal segments. Although more than 20 companies applied for a long-distance licence, only one operator, MTT, launched service while Golden Telecom and Transtelecom are expected to join the club in early 2007.

Fitch Ratings estimates the Russian end-user long-distance and zonal markets at about USD2.5 billion in revenue terms. Long-distance operators receive around one third of long-distance revenues while the remaining two thirds go to the fixed-line incumbents that initiate and terminate the call. Fitch expects traffic growth in the single figures, while industry revenues are likely to stagnate.

We believe that the fixed-line incumbents will retain a near-monopoly position in the zonal segment. It views the new regulatory framework as generally favourable for fixed-line operators, as the new rules strengthen their position as infrastructure providers and protect them against competition in the long-distance segment. However, competition with rival mobile technology will intensify.

We also believe that Rostelecom is likely to retain its dominant position in the long-distance market. Svyazinvest-controlled incumbents are unlikely to provide subscribers with an automatic access to alternative long-distance providers, so the residential market will remain effectively off-limits to the newcomers.

Competition is likely to get much more intense in the long-distance transit services segment. There is a significant overhang of long-distance infrastructure that has for a long time been underutilised. However, we believe that only operators who can access end-users will be able to significantly increase their infrastructure load.

At the moment, the fixed-line incumbents receive quite substantial revenues from a compensation surcharge intended to provide them with earnings to compensate for the low profitability of the local service, and agency fees for managing client relationships on behalf of the long-distance operators. We believe that both revenue elements will be retained in the medium term.

## **Fitch: Russian Mobile Operators Face Increased Regulatory Risks**

The regulatory risks for the Russian mobile operators have increased, and the summer actions by the industry watchdog may indicate a more stringent regulatory environment.

The Russian Ministry of Information Technologies and Communications filed a request with another industry regulator, the Federal Agency for Telecom Supervision (Rossvyaznadzor) to investigate the legality of a new connection fee imposed by all three Russian mobile operators (MTS, Vimpelcom and Megafon, 'Big Three'). The Ministry's press-service commented that the existing regulation did not allow for a new fee to be introduced. If the Ministry's position is supported by Rossvyaznadzor and the new fee is abolished, this may hit revenues of all mobile operators and limit their flexibility to structure tariff plans.

"The Ministry's discontent with the tariff policies of mobile operators and its willingness to take actions that could hamper their ability to grow ARPU indicate that regulatory risks for the Russian mobile operators have increased, with potential negative implications for their revenues and margins," says Nikolai Lukashevich, Director with Fitch's European TMT team.

This move follows a recent decision of another regulator, Federal Tariff Agency ("FTA"), to set mobile-to-fixed termination rates at a level that mobile operators saw as too low. Again, FTA's decision was based on a guidance that it received from Rossvyaznadzor. While the mobile operators hoped that the rate could be set via commercial negotiations between the mobile and incumbent fixed-line operators, the regulator opted to set the rate at a fixed level and any changes to it would require further regulatory involvement.

Until recently the mobile industry has enjoyed very soft regulation. While in some cases mobile license requirements asked for a service roll-out by a set deadline, tariff regulation was non-existent and the mobile operators were free to establish tariff plans at their sole discretion. The mobile communications have long been seen as premium service and therefore there was little justification to regulate them. However, as the mobile penetration is heading towards 100% in Russia, the number of mobile users has surpassed the number of fixed-line subscribers, and the regulator is increasingly inclined to take a closer look at how the users are billed. The industry's strong profitability with EBITDA margins close to 50% for the leading operators may also provoke tariff capping.

Fitch sees mobile competition as strong although any regulatory involvement is likely to distort demand for services and hamper the industry's development. Unlike in the fixed-line segment, subscribers are free to choose between the three nationwide and numerous niche and regional mobile operators, while the industry's falling ARPUs on the back of much more stable minutes-of-use provide little ground to suspect price collusion.

The regulator's hiked attention to the mobile segment follows the introduction of Calling Party Pays rule in Russia in July this year, which in itself resulted in a significant reshuffle of the telecom industry and a serious blow to the mobile operators. 'Big Three' companies estimated their losses at USD1 billion, close to 10% of their combined revenues in 2005, which prompted them to look for ways to recuperate losses via either headline tariff increases or introduction of new fees, such as the connection fee mentioned above. The regulator scorched any such attempts as harmful to subscribers, and is likely to continue to exert pressure in future to hold prices back.

# International Public Finance



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## **Russia's Local Self-Governance Reform Could Widen Economic Discrepancies**

While Russia's local self-governance reform is aimed at creating a better system of public administration at the municipal level, it has only partly addressed the inherent differences in economic potential between the municipalities – and, in some cases, exacerbated them.

“There are several risks that could develop as a result of the reform, which could in turn have an adverse effect on regional economic development and the budgetary performance of sub-federal governments,” says Andrei Piskunov in Fitch's Subnationals team.

The reform includes equal tax-sharing mechanisms that offer greater advantages to municipalities with a strong tax base, while disadvantaging economically weak municipalities. Such an imbalance forces sub-federal authorities to rely on inter-budgetary transfers, which increases the rigidity of their expenditure structure. This will further polarise the credit ratings of Russian regions and municipalities, resulting in two distinct categories: the regions and municipalities with high ratings driven by the economic potential of primary industries, and the regions and municipalities with low ratings due to a strong processing industry component in the local economy.

At the same time, the increased focus on the actual provision of public goods and services by the municipalities will result in the closure of some public facilities that are considered to be ineffective, which may further undermine the social fabric of the economically weak municipalities. The re-definition of public assets rights of the municipal administrations to only allow possession of property and real estate that is directly linked to the provision of public goods and services is rigid and does not allow for commercial services provision in cases when the private sector provider is absent. In Fitch's view this may have a similar effect of denting the public services, since private service providers may not necessarily replace public ones after privatisation of public companies. Finally, the volume of capital expenditure required to renovate significantly depreciated public infrastructure may prove to be too high for the income sources that are left at the disposal of local administrations.

Under the reform, municipal entities are reclassified according to new definitions. This has the effect of more than doubling the number of municipalities in Russia. On the revenue side, the reform has redefined the revenue sources of local administrations, designed new tax-sharing arrangements between the sub-federal authorities, and established mechanisms for inter-budgetary transfers. On the expenditure side, the local administrations have been provided with a clear set of expenditure responsibilities, which focused more on providing public goods and services than maintaining existing public infrastructure.

Although the reform was launched in October 2003, it will come into final effect only in January 2009.

# Structured Finance



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## Fitch Issues Criteria to Address Legal Uncertainty in Emerging Markets Securitisations

On 14 September, Fitch Ratings published a criteria paper that outlines its rating approach in addressing legal uncertainties in emerging market securitisation transactions.

"Emerging market transactions are subject to greater legal and systemic uncertainties than is the case for developed market securitisations," says Nick Eisinger in Fitch's Structured Finance team. "This can mean that the essential 'de-linking' of securitised assets from the potential bankruptcy of a seller may be subject to legal challenges and hurdles, irrespective of whether a perfected true sale is confirmed in the transaction legal opinion."

Many emerging market countries benefit from specific securitisation legislation, which helps reduce the scope for either misinterpretation of transaction documentation or problems related to enforceability by the relevant legal authorities. However, where securitisation legislation and precedent do not exist, yet a true sale is carried out under the provisions of general law there might be more scope for legal challenge. This raises concerns over whether investors can rely on the isolation against the bankruptcy of the relevant originator and whether the transaction can be rated above the seller's Issuer Default rating ("IDR").

Fitch's emerging market legal criteria recognise that the uncertainties with respect to emerging market true sale transactions are a nuanced rather than a binary issue and should therefore not restrict a securitisation rating to the seller's IDR. Fitch has therefore developed a "challenge factor" ("CF"), which essentially provides a measure of the quality of the legal and regulatory environment in which an assignment is made and gives guidance on the number of notches that an emerging market securitisation can be raised above the IDR of the relevant seller.

The CF scale runs from 'CF1' to 'CF4', with CF1 representing the strongest governance indicators and CF4 the weakest. A CF1 score would indicate that the maximum achievable rating of the transaction is not limited by the legal and political environment in the seller's country, although for an emerging market the transaction rating cap would be set at the country ceiling cap. CF2 would imply a securitisation rating which can be at the lower of up to eight notches higher than the seller's IDR or the country ceiling cap. CF3 will imply a maximum securitisation rating at the lower of five notches above the seller's IDR or the country ceiling cap. CF4 will indicate the challenge to the true sale is deemed so high that the transaction is effectively credit linked to the seller.

The full report is available on the agency's website at [www.fitchratings.com](http://www.fitchratings.com).

# Rating Actions Highlights

## Banks

### Russia

- Fitch Rates **Bank Saint Petersburg** 'B' (13.10.2006)
- Fitch Assigns **Bank Zenit**'s Eurobond Expected 'B' Rating (10.10.2006)
- Fitch Upgrades **International Moscow Bank** to 'A-' (10.10.2006)
- Fitch Assigns **Alfa**'s Eurobond 'BB-' Rating (06.10.2006)
- Fitch Puts **ICB**'s 'BBB'/'F3' on Rating Watch Positive (05.10.2006)
- Fitch Assigns **Promsvyazbank**'s Upcoming Eurobond Expected 'B+' (04.10.2006)
- Fitch upgrades **Promsvyazbank** to IDR 'B+' (04.10.2006)
- Fitch Assigns **Promsvyazbank**'s Upcoming Subordinated Debt Expected 'B-' (04.10.2006)
- Fitch Assigns **NOMOS Bank**'s Sub Debt Issue Expected 'B-' Rating (04.10.2006)
- Fitch Assigns **Russian Agricultural Bank**'s USD500m Sub Debt Issue Final 'BBB' (03.10.2006)
- Fitch Puts Russia's **Rosbank** on Positive Watch (02.10.2006)
- Fitch Assigns **Credit Bank of Moscow**'s Upcoming Debut Eurobond Expected 'B-' Rating (19.09.2006)
- Fitch Assigns **Rosbank** Local Currency IDR of 'B+'; Rates Upcoming RUB Notes Expected 'B+' (13.09.2006)
- Fitch Changes **Credit Bank of Moscow**'s Outlook to Positive (13.09.2006)
- Fitch Assigns **Russian Agricultural Bank**'s Sub-notes Expected 'BBB' (11.09.2006)
- Fitch Upgrades **Alfa Bank** to 'BB-' (08.09.2006)
- Fitch Affirms **Uraltransbank** at 'B-' (06.09.2006)
- Fitch Upgrades **Russian Agricultural Bank** to Individual 'D' (05.09.2006)
- Fitch Affirms **Bank Zenit** at 'B' (29.08.2006)
- Fitch Upgrades **International Moscow Bank** on Change to Russia's Country Ceiling (17.08.2006)
- Fitch Rates **Vneshtorgbank** 'AAA(rus)' (15.08.2006)
- Fitch Assigns **International Industrial Bank**'s Eurobond Final 'B' Rating (01.08.2006)
- Fitch Upgrades **Bank of Moscow** To 'BBB' On City Of Moscow Upgrade (01.08.2006)
- Fitch Upgrades 10 Banks on Russian Sovereign Upgrade (27.07.2006)
- Fitch Upgrades **National Reserve Bank** to 'B-'/'BB(rus)' (19.07.2006)
- Fitch Changes **Moscow Bank for Reconstruction and Development**'s Outlook to Positive (19.07.2006)
- Fitch Assigns **MDM Bank**'s Subordinated Notes Final 'B+' Rating (18.07.2006)
- Fitch Assigns **MBRD**'s Eurobond Final 'B' Rating (06.07.2006)
- Fitch Rates **VTB24** 'AAA(rus)' (04.07.2006)

### Ukraine

- Fitch Rates **Vseukrainsky Aktsionerny Bank** 'B-' (17.10.2006)
- Fitch Assigns **Bank Forum**'s Upcoming Debut Eurobond Expected 'B-' Rating (02.10.2006)
- Fitch Affirms **ProCredit Bank Ukraine** at 'BB-' (28.09.2006)
- Fitch Affirms **Bank Khreschatyk** At 'B' (22.09.2006)
- Fitch Rates **Kreditprombank** 'B-' (22.09.2006)
- Fitch Assigns **Ukrexim**'s USD350m Eurobond 'BB-' Final Rating (08.09.2006)
- Fitch Rates **Forum Bank** 'B-' (04.09.2006)
- Fitch Assigns **Khreschatyk**'s Upcoming Eurobond 'B' Expected Rating (01.09.2006)
- Fitch Upgrades **Pivdennyi Bank** to 'B-' (30.08.2006)
- Fitch Assigns **Ukrexim**'s Upcoming USD300m Eurobond 'BB-' Expected Rating (25.08.2006)
- Fitch Rates **ProCredit Ukraine** 'AAA(ukr)' and UAH Bond Expected 'AAA(ukr)' (16.08.2006)
- Fitch Rates **TAS-Kommertzbank** 'B-' (02.08.2006)

Kazakhstan

- Fitch Assigns **Alliance Bank**'s Upcoming KZT Eurobond Expected 'BB-' Rating (03.10.2006)
- Fitch puts **Temirbank** on Positive Watch (21.09.2006)
- Fitch Rates Kazakhstan's **Tsesnabank** 'B-' (20.09.2006)
- Fitch Assigns **Bank TuranAlem**'s Upcoming Eurobond Expected 'BB+' Rating (19.09.2006)
- Fitch Assigns **Alliance Bank**'s Upcoming Eurobond Expected 'BB-' Rating (05.09.2006)
- Fitch Affirms **Bank TuranAlem** at Foreign Currency IDR 'BB+' (22.08.2006)
- Fitch Assigns **Kazkommertsbank**'s Subordinated Notes Final 'BB' Rating (28.07.2006)
- Fitch Assigns **Kazkommertsbank**'s Subordinated Notes 'BB' Rating (21.07.2006)
- Fitch Rates **Eurasian Bank** 'B-' (12.07.2006)

Belarus

- Fitch Upgrades **Belpromstroibank** to Individual 'D/E' (10.10.2006)
- Fitch Affirms **Belarusbank** At 'B-' (21.09.2006)

Georgia

- Fitch Changes **TBC Bank**'s and **Bank of Georgia**'s Outlook to Positive (28.08.2006)

**Insurance**

- Fitch Rates CJSC **ACE Insurance** National IFS 'AA+(rus)' (12.10.2006)
- Fitch Rates Russia's **Transsib Re** IFS 'B+' (11.09.2006)
- Fitch Rates **Russian Insurance Centre** IFS 'B' (04.07.2006)

**Non-Bank Financial Institutions**

- Fitch Affirms **Renaissance Capital** at 'BB-' (09.10.2006)
- Fitch Upgrades **VTB Leasing** on Russian Sovereign Upgrade (27.07.2006)
- Fitch Rates Russia's CJSC **VKM Leasing** 'CCC' (06.07.2006)

**Corporates**Russia

- Fitch Rates **Gazprom**'s Note Programme Issue Expected 'BBB-' (17.10.2006)
- Fitch Assigns **Kazanorgsintez S.A.** Loan Participation Notes Expected 'B' Rating (05.10.2006)
- Fitch Affirms OJSC **Kazanorgsintez** at 'B' (08.09.2006)
- Fitch Rates **Gazprom**'s Senior Unsecured Notes 'BBB-' (08.09.2006)
- Fitch Affirms **North West Telecom**'s National Rating at 'A (rus)' (14.08.2006)
- Fitch Affirms **North West Telecom** at 'B+' (10.08.2006)
- Fitch Changes **Tatneft**'s Outlook to Positive; Affirms IDR at 'B' (03.08.2006)
- Fitch Upgrades JSC **Russian Railways** to 'BBB+' (25.07.2006)
- Fitch Rates **TNK-BP**'s USD1.5bn Notes 'BB+' (14.07.2006)
- Fitch Upgrades **Gazprom** to 'BBB-' (13.07.2006)
- Fitch Affirms **Edel Capital S.A.**'s USD250m Loan Participation Notes at 'BB' (04.07.2006)
- Fitch Rates **TNK-BP**'s Benchmark Notes 'BB+' (04.07.2006)

Ukraine

- Fitch Assigns **Naftogaz**'s Eurobond 'RR4' Recovery Rating (15.09.2006)
- Fitch Downgrades **Stirol** To 'B-'; Remains On Rating Watch Negative (18.08.2006)
- Fitch Puts OJSC **Concern Stirol** on Rating Watch Negative (05.07.2006)

Kazakhstan

- Fitch Rates **KazakhGold** 'B'; Outlook Stable (13.10.2006)
- Fitch Changes **KazTransOil**'s Outlook to Positive; Affirms IDR at 'BB+' (14.08.2006)

**International Public Finance**

- Fitch Assigns **City of Moscow**'s Notes Final 'BBB+' Rating (12.10.2006)
- Fitch Assigns **City of Moscow**'s Notes Expected 'BBB+' Rating (09.10.2006)
- Fitch Rates **Kirovskaya Oblast**'s RUB600m Bond 'BBB(rus)' (29.09.2006)
- Fitch Revises **Lipetsk**'s Outlook to Stable; Affirms Ratings (20.09.2006)
- Fitch Rates **Nizhniy Novgorod Region** 'B+' (30.08.2006)
- Fitch Upgrades **City of Almaty** to 'BB+' (08.08.2006)
- Fitch Upgrades **City of Moscow** To 'BBB+' (31.07.2006)
- Fitch Rates **Lipetsk**'s RUB1.5bn Bond 'AA-(rus)' (25.07.2006)
- Fitch Rates the **City of Odessa** 'B+'; Outlook Stable (24.07.2006)

**Sovereigns**

- Fitch Revises Country Ceilings for 40 Countries, including **Armenia, Kazakhstan** and **Russia** (17.08.2006)
- Fitch Upgrades **Russia** to 'BBB+' (25.07.2006)

**Structured Finance**

- Fitch Upgrades **Russian Mortgage-Backed Securities** 2006-1 SA (04.08.2006)
- Fitch Affirms **Gazprom International SA** at 'BBB' (21.07.2006)
- Fitch Assigns **Debut Russian RMBS Deal** 'BBB+' Final Ratings (19.07.2006)

## Recently Published Comments

- Fitch: European Auto Industry's Move To CEE is Positive (25.09.2006)
- Fitch: Banking Systems Stronger; Rapid Credit Growth Still a Concern In Some Countries (06.09.2006)
- Fitch Updates Recovery Given Default Guidance for Emerging Markets (24.08.2006)
- Fitch: Central European Oil Refiners Face Russian Supply Risk (14.08.2006)
- Fitch: Emerging Market Banks' Governance Improving but Untested (03.08.2006)
- Fitch: EMEA Industrials Outlook Stable but Event Risk Rising (02.08.2006)
- Fitch: Russian Mobile Operators Face Increased Regulatory Risks (27.07.2006)
- Fitch Sees Turkish Refining Market As Attractive For New Entrants (21.07.2006)

## Recently Published Special Reports

- Global Bank Rating Trends Q306 (17.10.2006)
- Reform of Local Self-Governance in Russia (16.10.2006)
- Deregulation of the Russian Long-Distance Telecoms Market: Half-Hearted Reforms (18.09.2006)
- Resident Flows in Future Flow Transactions (Global Emerging Markets) (14.09.2006)
- Legal Uncertainty in Emerging Market Transactions (ABS Emerging Markets) (13.09.2006)
- Bank Systemic Risk Report (06.09.2006)
- Prism: Favorable Market Feedback and Clarifying Responses - Part 1 (06.09.2006)
- Reinsurance Review and Outlook: Cycle Management - A Bumpy Ride Ahead (05.09.2006)

- Corporate Governance in Emerging Market Banks (31.08.2006)
- Country-Specific Treatment of Recovery Ratings (21.08.2006)
- EMEA Industrials - A Half Year Update (02.08.2006)
- The Rating Process (27.07.2006)
- Global Bank Rating Trends Q1 and Q2 2006 (13.07.2006)
- Major European Banks - Semi-Annual Review and Outlook: Achieving Growth in Mature Markets (05.07.2006)

To obtain a copy of any of the research mentioned above please contact Alla Izmailova in the Moscow office of Fitch Ratings at + 7 495 956 9901 or [alla.izmailova@fitchratings.com](mailto:alla.izmailova@fitchratings.com), or visit our global website at [www.fitchratings.com](http://www.fitchratings.com) or Russian language website at [www.fitchratings.ru](http://www.fitchratings.ru).

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# Fitch Corporate News

## **Fitch Study: Global Effect of Loss Severity On Ratings, One Year On**

One year after publishing its first Recovery Ratings, Fitch has reviewed the effect of its enhanced corporate, bank, insurance and sovereign ratings methodologies, and is providing an analysis of Recovery Ratings, in a report titled 'Recovery Ratings - Global Update, One Year On.'

Fitch began assigning Issuer Default Ratings (IDRs) and Recovery Ratings (RRs) to corporate issuers in July of 2005. IDRs have now replaced previous ratings as the primary issuer rating for corporate, financial institution and sovereign entities rated by Fitch. Implementation of the new methodology has affected the issue or issuer ratings of more than USD1 trillion of obligations. As part of this process, Recovery Ratings were published for approximately USD400 billion of lower speculative-grade corporate and bank debt, including more than USD60 billion of previously unrated debt.

Fitch's RR analysis highlights important rating differences between debt instruments with nominally similar capital structure ranking. While the majority of secured debt received the highest RR category as might be expected, almost 30% received a lower rating. More surprisingly, unsecured debt RRs were spread across the entire RR spectrum. Only slightly more than 40% of unsecured debt was rated as having average prospects given default, with a third rated as above average (anything up to 'RR1') and a quarter rated below average (as low as 'RR6').

"Our detailed review underlines the importance for investors in understanding their security position on a sector- and issuer-specific basis," said Richard Hunter, Managing Director, Credit Policy and author of the report.

While rating changes were extensive, both positive and negative actions were recorded, and rarely exceeded one notch. The ratings of 62% of the debt of low speculative-grade and distressed issuers remained unchanged. Within the changes, (25% upgraded and 13% downgraded), the upgrades were evenly spread across a variety of corporate sectors. Conversely, downgrades were concentrated in the U.S. automotive supply and transportation industries.

Fitch's Recovery scale ranks securities on a scale of RR1 (high recoveries) to RR6 (low recoveries) in order to provide better estimates of potential recovery values in bankruptcy/liquidation. The IDRs directly complement the 'R' ratings by acting as a benchmark measure of probability of default. Ratings transparency is enhanced by providing, on a global basis, a more refined ratings scale for measuring default probability and loss given default.

## **Fitch Updates "Rating Process" Document**

In July, Fitch Ratings updated its "Rating Process" document, which provides a summary of the typical rating process employed for Fitch's traditional international scale credit ratings.

Fitch's standardised procedures for the preparation of its international ratings and the conduct of rating committees are referenced in the agency's Code of Conduct. The updated "Rating Process" document provides additional detail on these procedures, and highlights Fitch's continued commitment to transparency, objectivity and integrity.

The report outlines the entire rating process, including sections on the analytical team, the committee process, how differences of opinion are handled, the timing of the rating process for new issuers, surveillance and rating dissemination. The report also provides details on other services provided within the agency's core rating business, as well as information on fee structures. As such, is it likely to prove an invaluable source of reference for capital market participants.

In accordance with the agency's policies on public disclosure, the "Rating Process" report is available from the Fitch public website, [www.fitchresearch.com](http://www.fitchresearch.com).

## NEW ANALYTICAL HIRES

### Financial Institutions

#### **Alexander Danilov, Director**

Alexander Danilov joined Fitch in July 2006 as a Director in the Financial Institutions' group. His prime responsibilities include credit analysis and ratings' decision on Russian, Ukrainian and Azerbaijani banks, as well as sector research and knowledge contribution. Prior to joining Fitch Ratings, Alexander worked as a Resident Vice President in the Risk management department in the Moscow office of Citigroup, a multinational financial corporation. In this capacity, Alexander provided analytical support for the corporate banking team and was responsible for credit research coverage of Russian borrowers, mostly focusing on the banking sector. Prior to that he was part of Citigroup's investment banking team, where he was engaged in a number of high profile deals, including milestone fixed income transactions for some of the leading Russian banks. Before that, Alexander worked in the accounting department of Norilsk Nickel, taking active role in preparation of the group's debut IFRS accounts. Alexander graduated from Finance Academy under the Government of the Russian Federation in 1999 where he specialized in accounting and financial analysis.

#### **Olga Ignatieva, Associate Director**

Olga Ignatieva joined Fitch in October 2006 as an Associate Director in Financial Institutions' group. Her prime responsibilities include credit analysis and ratings' decision on Russian & other CIS banks. Prior to joining Fitch Ratings, Olga worked for nearly three years as a risk manager in the Moscow office of Standard bank Plc, an international investment arm of the major South African banking Group. Olga engaged in the performance of the risk management and credit assessment function for the Group's exposure to the emerging markets including Russia, Ukraine, Kazakhstan, Uzbekistan, and Georgia. Before that she worked as a corporate analyst for the Moscow subsidiary of Banque Société Générale. Olga graduated from Finance Academy under the Government of the Russian Federation in 1991 where she specialized in Finance & Credit and from International University for the Business and Management, Moscow in 1997 with the specialization in foreign languages as an interpreter.

#### **Inessa Tolokonnikova, Associate Director**

Inessa Tolokonnikova joined Fitch in July 2006. Her prime responsibilities include credit analysis and ratings' decision on Russian, Belorussian and Armenian banks. Prior to joining Fitch, Inessa worked as an investment officer in the Moscow office of International Finance Corporation (IFC) where she supervised a portfolio of Russian banks and was engaged in structuring of debt financings for banking and leasing projects. Before that, she worked in the Risk Assessment team of Canada Deposit Insurance Corporation (CDIC) in Ottawa, Canada and was responsible for overseeing financial institutions. In CDIC, Inessa participated in a large-scaled project of implementation of Basel II in Canada. Inessa holds a Master's degree (with merit) in Business Administration from the Manchester Business School, UK and a Master degree in Economics from the Moscow State University (Lomonosov).

### Insurance

#### **Anastasia Voronkova, Associate Director**

Anastasia Voronkova joined Fitch in September 2006. Her primary areas of expertise are insurance companies in Russia and CIS. Anastasia was previously Senior Expert of Internal Audit Department at INGOSSTRAKH Insurance Company, where she gained diversified experience on cost budgeting; subsidiaries analysis and control; cash management; public market investment portfolio analysis and reporting; development of internal control and management reporting systems; M&A targets valuation. Anastasia began her career at the Bureau of Economic Analysis, a research center funded by the World Bank. Anastasia has a Bachelor of Finance degree from the Moscow State University for International Relations.

## Energy

### **Aijan Sadyrova, Associate Director**

Aijan Sadyrova joined Fitch in June 2006. She is responsible for Fitch's Russian and Commonwealth of Independent States energy and utilities rating service. Prior to this, Aijan worked for the European Bank for Reconstruction and Development (EBRD) from 2001-2006 in Kyrgyz Republic, Kazakhstan and London. At EBRD she gained wide-ranging project experience in financial institutions, power, municipal and general industry sectors covering Eastern European and CIS countries. Aijan graduated from University of Manchester Institute of Science and Technology with an M.Eng in Chemical Engineering with German. In 2005, Aijan became a CFA Charterholder. Aijan speaks fluent Russian and English.

## Industrials

### **Angelina Valavina, Director**

Angelina Valavina is a director at Fitch Ratings covering the metals and mining sector, primarily in Russia and other CIS countries. Prior to joining Fitch in 2006, Angelina worked for Renaissance Capital (Moscow, Russia) as an Auto and Transport Analyst. Before that, she was with Vnesheconombank (Moscow, Russia) as a senior financial analyst covering the Eurobond portfolio. She also worked at Merrill Lynch (USA) in a private clients group dealing with high net worth portfolios. Angelina graduated from the Moscow State Institute of International Relations (MGIMO-University) with a BA (Distinction) in International Economics. She later graduated as an MBA from the Monterey Institute of International Studies (MIIS), USA, with GPA 3.9 in International Finance.

## International Public Finance

### **Vladimir Redkin, Analyst**

Vladimir Redkin joined Fitch in July 2006. He is responsible for the ratings of Russian and CIS regions and municipalities. Prior to joining Fitch, Vladimir headed up the budget policy department of the Center for Fiscal Policy, a consulting company. Prior to that, he worked as a senior researcher in the Bureau of Economic Analysis Foundation. Vladimir has a Master of Science degree in Physics from the Moscow Physical Technical Institute (1993) and a Master of Arts degree in Economics from the State University - Higher School of Economics (1996).

## PARTICIPATION IN CONFERENCES

### **Euromoney Annual Russia & CIS Investment Forum – 12-13 September, Moscow**

**Dmitry Angarov**, Associate Director in the Financial Institutions Group, was invited to participate as a speaker in *Euromoney's Russia & CIS Investment Forum 2006: Between Public and Private*, which was held in Moscow on 12-13 September. Dmitri took part in a panel discussion on Kazakhstan and provided Fitch views on creditworthiness and further development of the Kazakhstani banking sector.

### **Volga Interregional Conference – 14 September, Nizhny Novgorod**

**Andrei Piskunov**, Associate Director in Fitch international public finance group, and **Alexei Mironov**, Director of Business Development, were invited to speak at a *Volga Interregional Conference entitled The Role of Financial Markets in the Development of Russian Regions*. The conference was held on 14 September in the City of Nizhny Novgorod and was organized by the Volga branch of the Federal Financial Markets Service and the Government of Nizhny Novgorod Region. Andrei and Alexei participated in the conference section on *Subnational and Municipal Debt* chaired by Sergei Pakhomov, Chairman of the Moscow State Debt Committee. Andrei gave a presentation on *Credit Rating Impact on Borrowings*. Alexei spoke on *Project Finance as a New Perspective Financing Instrument*.

### **Russia & CIS Syndicated Lending Conference – 26-27 September, Moscow**

**Alexei Mironov**, Director of Business Development, was invited to make a presentation at *Russia & CIS Syndicated Lending Conference* organized by IBC Conferences in Moscow on 26-27 September. Alexei spoke on the *Prospects of Rating Loans in Russia*.

### **Almaty Interbank Conference – 27-28 September, Almaty**

**Dmitri Angarov** was invited to speak at the annual Almaty Interbank Conference organized by Bank TuranAlem on 27-28 September. The main focus of the conference was put on *International capital market and its role in development of financial systems and CIS economies*. Dmitri took part in a panel discussion on *External Borrowings by Kazakhstani Banks*.

### **CIS Syndicated Lending Conference – 5-6 October, Moscow**

**Dmitry Angarov** spoke at a *CIS Syndicated Lending Conference* organized by Infor-Media group in Moscow on 5-6 October. His presentation was devoted to the *Prospects of Development and Creditworthiness of Kazakhstan's Banking System*.

### **Russia Securitisation Conference – 12-13 October, London**

**Nick Eisinger**, Senior Director in Fitch European Structured Finance Group and Head of Emerging Markets Securitisations, participated in international summit on *Securitisation in Russia in CIS*, organized by C5 Conferences in London on 12-13 October. Nick took part in the *issuers' panel discussion devoted to prospects of securitisation in Russia*, in the morning of the first day of the conference, and thereafter made a presentation on *Key Challenges of Securitisation in Russia from Rating Agency Perspective*. Nick addressed such issues as quality of the data in the asset pool, appropriate stress testing, piercing in country ceiling, maximum ratings achievable, and legal issues.

# Credit Ratings Assigned by Fitch to CIS Issuers

## Banks

Issuer	Foreign Currency Long Term Issuer Default Rating	Short Term Foreign Currency	Individual	Support	National	Latest Revision Date
<b>RUSSIA</b>						
Absolut Bank	B/Stable	B	D	5	BBB(rus)	17.03.2006
Ak Bars Bank	B+/Stable	B	D	4	A-(rus)	23.02.2006
Alfa Bank	BB-/Stable	B	C/D	4	A+(rus)	08.09.2006
BINBANK	B-/Stable	B	D	5	BB(rus)	23.02.2006
Bank Evrofinance-Mosnarbank	B/Stable	B	D	5	BBB(rus)	28.02.2006
Bank of Moscow	BBB/Stable	F3	D	2	AA+(rus)	01.08.2006
Bank St. Petersburg	B/Stable	B	D	5		13.10.2006
Bank Zenit	B/Stable	B	D	5	BBB-(rus)	29.08.2006
Banque Commerciale pour l'Europe du Nord - EUROBANK	BBB/Stable	F3	C/D	2		27.07.2006
CentroCredit Bank	B-/Stable	B	D	5	BB(rus)	23.02.2006
Conversbank	CCC+/Stable	C	D/E	5	B+(rus)	23.02.2006
Credit Bank of Moscow	B-/Positive	B	D	5	BB+(rus)	13.09.2006
Housing Finance Bank	CCC+/Stable	C	D/E	5	B+(rus)	23.02.2006
Impexbank	BBB-/Stable	F3	D/E	2		04.05.2006
Industry & Construction Bank, St. Petersburg (ICB)	BBB/RW Pos.	F3	D	2		05.10.2006
International Bank of St.Petersburg	B-/Stable	B	D/E	5	BB(rus)	23.02.2006
International Industrial Bank	B/Stable	B	D	5	BBB-(rus)	23.02.2006
International Moscow Bank	A-/Stable	F3	C/D	1		10.10.2006
Locko-bank	B-/Stable	B	D	5	BB+	23.02.2006
MDM Bank	BB-/Stable	B	C/D	4	A+(rus)	23.02.2006
MDM Holding GmbH	BB-/Stable	B	C/D	5		23.02.2006
Moscow Bank for Reconstruction and Development	B/Positive	B	D/E	4	BBB-(rus)	19.07.2006
Moscow Narodny Bank Limited	BBB-/Stable	F3	C	2		23.02.2006
National Bank TRUST	B-/Stable	B	D/E	5		23.02.2006
National Reserve Bank	B-/Stable	B	D/E	5	BB(rus)	19.07.2006
NOMOS-Bank	B+/Stable	B	D	5	A-(rus)	26.04.2006
Orgresbank	B-/Stable	B	D	5	BB+(rus)	23.02.2006
Petersburg Social Commercial Bank	CCC+/Stable	C	D/E	5	B(rus)	27.04.2006
Probusinessbank	B-/Stable	B	D	5	BB+(rus)	23.02.2006
Promsvyazbank	B+/Stable	B	D	5		04.10.2006
Rosbank	B+/RW Pos.	B	D	4/	A-(rus)	02.10.2006
Russian Agricultural Bank	BBB+/Stable	F2	D	2	AAA(rus)	05.09.2006
Russian Commercial Bank (Cyprus)	BBB-/Stable	F3	D/E	2		23.02.2006
Sberbank	BBB+/Stable	F2	C/D	2		27.07.2006
Sibacadembank	B/Stable	B	D	5		26.04.2006
Uralsib Bank	B/Positive	B	D	4		23.02.2006
Uraltransbank	B-/Stable	B	D	5	BB+(rus)	06.09.2006
Vnesheconombank	BBB+/Stable	F2	-	2		27.07.2006
Vneshtorgbank	BBB+/Stable	F2	C/D	2	AAA(rus)	15.08.2006
VTB Retail Financial Services	BBB+/Stable	F2	-	2	AAA(rus)	27.07.2006

Issuer	Foreign Currency Long Term Issuer Default Rating	Short Term Foreign Currency	Individual	Support	National	Latest Revision Date
<b>AZERBAIJAN</b>						
Azerdermiryolbank	CCC+/Stable	C	D/E	5		23.02.2006
International Bank of Azerbaijan	BB-/Stable	B	D/E	3		23.02.2006
Kapital Bank	B+/Stable	B	D/E	4		23.02.2006
<b>BELARUS</b>						
Belgazprombank	B-/Stable	B	E	5		23.02.2006
Belagroprombank	B-/Stable	B	D/E	5		23.02.2006
Belarusbank	B-/Stable	B	D/E	5		21.09.2006
Belpromstroibank	B-/Stable	B	D/E	5		10.10.2006
<b>GEORGIA</b>						
Bank of Georgia	B-/Positive	B	D	5		28.08.2006
ProCredit Bank Georgia	B/Stable	B	D/E	4		23.02.2006
TBC Bank	B-/Positive	B	D	5		28.08.2006
<b>KAZAKHSTAN</b>						
ATF Bank	BB-/Stable	B	D	3		23.02.2006
Alliance Bank	BB-/Stable	B	D	3		23.02.2006
Bank Caspian	B+/Stable	B	D	5		23.02.2006
Bank Centercredit	BB-/Stable	B	D	3		23.02.2006
Bank TuranAlem	BB+/Stable	B	C/D	3		22.08.2006
Development Bank of Kazakhstan	BBB/Stable	F3	-	2		23.02.2006
Eurasian Bank	B-/Stable	B	D/E	5		12.07.2006
Halyk Bank of Kazakhstan	BB+/Stable	B	C/D	3		23.02.2006
Kazkommertsbank	BB+/Stable	B	C/D	3		23.02.2006
Temirbank	B-/RW Pos.	B	D/E	5		21.09.2006
Tsesna Bank	B-/Stable	B	D/E	5		20.09.2006
<b>UKRAINE</b>						
Bank Credit Dnepr	-	-	-	5		22.07.2003
Bank Nadra	B-/Stable	B	D/E	5		23.02.2006
Bank Pivdenny	B-/Stable	B	D/E	5		30.08.2006
Bank Forum	B-/Stable	B	D/E	5		04.09.2006
First Ukrainian International Bank	B-/Stable	B	D	5		23.02.2006
Industrialbank	CCC/RW Evolv.	C	D/E	5		23.02.2006
Khreschatyk	B/Stable	B	D/E	4		22.09.2006
Kreditprombank	B-/Stable	B	D/E	5	BBB-(ukr)	22.09.2006
Mriya Bank	BB-/Stable	B	D/E	3		31.03.2006
Privatbank	B/Stable	B	D	4		23.02.2006
ProCredit Bank Ukraine	BB-/Stable	B	D	3	AAA(ukr)	28.09.2006
TAS-Commerce Bank	B-/Stable	B	D/E	5		02.08.2006
Ukreximbank	BB-/Stable	B	D/E	3		23.02.2006
Ukrsibbank	BB-/Stable	B	D/E	3		27.04.2006
Ukrsotsbank	B-/RW Pos.	B	D	5		23.02.2006
VABank	B-/Stable	B	D/E	5		17.10.2006
<b>UZBEKISTAN</b>						
Pakhta-Bank	-	-	-	5		22.07.2003

## Non-Bank Financial Institutions

Issuer	Foreign Currency Long Term Issuer Default Rating	Short Term	Individual	Support	National	Latest Revision Date
<b>RUSSIA</b>						
IC Russ-Invest	B/Stable	B			BBB-(rus)	23.02.2006
Renaissance Capital Holdings Limited	BB-/Stable	B	C/D	5		09.10.2006
Uralsib Financial Corporation	B-/Stable	B	D/E	5		23.12.2004
VKM-Leasing	CCC/Stable	C				06.07.2006
VTB-Leasing	BBB+/Stable	F2		2		27.07.2006
<b>KAZAKHSTAN</b>						
Astana Finance	BB+/Stable	B	D/E	3		23.02.2006

## Insurance

Issuer	International Insurer Financial Strength (IFS) Rating	National	Latest Revision Date
<b>RUSSIA</b>			
ACE Russia		AA+(rus)	12.10.2006
Progress-Garant	B-/Stable	BB+(rus)	16.08.2005
Russian Insurance Centre	B/Stable	BBB-(rus)	04.07.2006
Transsib Re	B+/Stable	A-(rus)	11.09.2006

## Corporates

Issuer	Foreign Currency Long Term Issuer Default Rating	Foreign Currency IDR Short Term Rating	National	Latest Revision Date
<b>RUSSIA</b>				
Centertelecom	B-/Stable	B	BB+(rus)	14.06.2006
Dalsvyaz	B/Stable	B		07.02.2006
Evrax Group SA	BB-/Stable	B		14.07.2006
Gazprom	BBB-/Stable			13.07.2006
Kazanorgsintez	B/Stable	B		24.02.2006
Lukoil	BBB-/Stable	F3		13.04.2006
Magnitogorsk Iron and Steel Works (MMK)	BB-/Stable			24.02.2006
Mastercroft Limited (EvraxHolding)	BB-/Stable	B		14.07.2006
MegaFon	BB/Stable	B	AA(rus)	07.02.2006
Nizhnekamskneftekhim	B+/Stable	B	A(rus)	24.02.2006
Norilsk Nickel	BBB-/Stable	F3		24.02.2006
North-West Telecom	B+/Stable	B	A(rus)	14.08.2006
Rosneft	BB+/Stable			16.02.2006
Russian Railways JSC	BBB+/Stable	F2	AAA(rus)	25.07.2006
Severstal	BB-/Stable	B	A+(rus)	30.06.2006
Sibirtelecom	B+/Stable	B		07.02.2006
Sistema Joint Stock Financial Corp.	B+/Positive			28.04.2006
Sitronics Concern	B-/Stable			14.02.2006
TATneft	B/Positive	B		03.08.2006
TNK International Ltd (Tyumen Oil)	BB+/Positive	B		16.02.2006
Uralsvyazinform	B+/Negative	B	A-(rus)	07.02.2006
<b>KAZAKHSTAN</b>				
KazakhGold	B/Stable			13.10.2006
Kazakhstan Temir Zholy	BBB/Stable			21.03.2006
Kazakhtelecom	BB/Positive	B		31.05.2006
KazTransOil	BB+/Positive	B		14.08.2006
Tengizchevroil (bond)	BBB-			27.02.2006

Issuer	Foreign Currency Long Term Issuer Default Rating	Foreign Currency IDR Short Term Rating	National	Latest Revision Date
<b>UKRAINE</b>				
Naftogaz	B+/Negative			25.04.2006
Stirol Concern	B-/RW Neg.	B		18.08.2006

## Structured Finance

Bond	Long Term	Latest Revision Date
<b>RUSSIA</b>		
Gazprom International S.A.	BBB	21.07.2006
Russia International Card Finance S.A (Rosbank bond)	B+	10.02.2005
Russian Mortgage Backed Securities 2006-1 S.A's Class A	BBB+	19.07.2006
Russian Mortgage Backed Securities 2006-1 S.A's Class B	BBB	19.07.2006
Russian Mortgage Backed Securities 2006-1 S.A's Class C	BB-	19.07.2006

## International Public Finance

Issuer	Foreign Currency Long Term	Local Currency Long Term	Short Term	National	Latest Revision Date
<b>RUSSIA</b>					
Karelia, Republic of	B+/Stable	B+/Stable	B	A(rus)	18.01.2006
Kirov, Region of	B/Stable	B/Stable	B	BBB(rus)	23.05.2006
Komi, Republic of	BB-/Stable	BB-/Stable	B	A+(rus)	31.05.2006
Lipetsk, Region of	BB-/Stable	BB-/Stable	B	AA-(rus)	20.09.2006
Leningradskaya Oblast	B/Stable	B/Stable	B	BBB(rus)	22.05.2006
Moscow, City of	BBB+/Stable	BBB+/Stable	F2	AAA(rus)	31.07.2006
Nizhniy Novgorod, Region of	B+/Stable	B+/Stable	B	A(rus)	30.08.2006
Sakha (Yakutia), Republic of	B+/Stable		B	A(rus)	22.03.2005
St.Petersburg, City of	BBB-/Positive	BBB-/Positive	F3	AA+(rus)	22.05.2006
Tatarstan, Republic of	BB/Stable	BB/Stable	B	AA(rus)	30.05.2005
<b>UKRAINE</b>					
Kharkov, City of	B+/Stable	B+	B		29.06.2005
Odessa, City of	B+/Stable	B+	B		24.07.2006
<b>KAZAKHSTAN</b>					
Almaty, City of	BB+/Stable	BB+/Stable	B		08.08.2006
Mangistau, Region of	BB-/Stable	BB-/Stable	B		09.03.2006

## Sovereigns

Issuer	Long Term Issuer Default Rating	Local Currency Long Term Issuer Default Rating	Short Term Issuer Default Rating	National Rating	Country Ceiling	Latest Revision Date
Armenia	BB-/Stable	BB-/Stable	B		BB	17.08.2006
Azerbaijan	BB/Stable	BB/Stable	B		BB	24.01.2006
Kazakhstan	BBB/Stable	BBB+/Stable	F3		BBB+	17.08.2006
Moldova	B-/Stable	B/Stable	B		B-	04.04.2006
Russia	BBB+/Stable	BBB+/Stable	F2	AAA (rus)	A-	17.08.2006
Ukraine	BB-/Stable	BB-/Stable	B	AA+(ukr)	BB-	12.01.2006

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