



September: Gathering Momentum

August 30, 2001

www.alfa-bank.com

Moscow

Theme: Growth Fueled by Oil Prices, Limited by Inflation

- **A lack of domestic news kept Russian shares hostage to external developments**

In the absence of clear signals, lackluster trading resulted in slim daily volumes. Lacking support, stocks generally drifted with the market, with gains followed by commensurate losses. Stories involving MTS, VIP and Sibneft brought some life to sleepy trading, although their effects were short-lived.

- **The 2002 budget shows the government's desire to support the economy via fiscal policy**

While monetary policy is unlikely to become an active instrument of economic policy, we believe that the 2002 draft budget reflects the government's desire to support the economy through fiscal means.

- **Inventories have been growing for five straight months, but expectations remain positive**

An increase in inventories for the fifth consecutive month points to a considerable slowdown in demand. At the same time, a major business poll indicates that expectations remain rather positive: 90% of respondents believe that output will not drop over the next several months.

- **Reform will again be the focus this fall, particularly of telecoms, UES and Gazprom**

The market will build the basis for advances in coming months while waiting for steady foreign interest. Global developments will likely keep Russian share performance on hold in September. Gazprom's ring-fence saga should show that the authorities are prepared to make market-oriented decisions.

Top Ideas

Company	Price \$	Change		ADV* \$ mln	Target price \$	Upside %
		MTD %	YTD %			
Gazprom	0.502	-10.15	72.00	0.70	0.950	89.1
Yukos	3.640	4.30	104.49	2.72	4.600	26.4
Surgutneftegaz	0.267	14.10	28.37	0.84	0.410	53.6
UES	0.111	2.41	34.88	2.56	0.154	39.2
Golden Telecom	10.500	-21.6	84.8	0.26	16.600	58.1
VimpelCom	18.000	25.1	23.3	1.28	23.460	30.3

Note: * average daily trading volume on RTS

Sources: RTS, Alfa Bank estimates

Market View



Sources: Bloomberg, Alfa Bank estimates

Recent Publications

Regional Utilities in 1H01: Best and Worst

Natalya Sazhina, Olga Filippova August 24, 2001

The Ruble Defies Euro/\$ Volatility

Natalya Orlova August 23, 2001

VIP 2Q01: ARPU and Subs on the Rise

Andrei Bogdanov August 23, 2001

UES 1H01: Tariffs Boost Sales and Margins

Natalya Sazhina August 21, 2001

Baltika 1H01 Results: Target Price Now \$523

Maria Chechurina August 21, 2001

2002 Budget: Geared to Boost Demand

Natalya Orlova August 21, 2001

Sibneft: Owners Withdrawing Cash before Sell-off?

Konstantin Reznikov August 17, 2001

MTS 2Q01: More Subs Hikes Profit

Andrei Bogdanov August 17, 2001

LUKoil's GAAP Results Exceed Forecasts

Konstantin Reznikov August 15, 2001

Lenenergo Reduces Budget Debt by 24%

Natalya Sazhina August 13, 2001

AvtoVAZ: \$850 mln Capex by 2006 is Feasible

Maxim Matvee, CFA August 9, 2001

Oil Price Update

Konstantin Reznikov August 9, 2001

GTI: Solid 1H01 Results

Andrei Bogdanov August 9, 2001

If you would like to receive any of these recent publications, please let us know and we will send them to you immediately

RESEARCH DEPARTMENT

Andrei Roudenko, Head of Research

research@alfa-bank.com

ARoudenko@alfa-bank.com

(7 095) 795-3676

(7 095) 788-6407

TABLE OF CONTENTS:

Market Comment.....	3
Model Portfolios Comment	5
Theme: Growth Fueled by Oil Prices, Limited by Inflation.....	7
2001 real GDP growth upgraded from 3.5% to 4.5%	7
Politics to blame for effort to freeze tariffs	8
Government chose to support domestic demand	9
Stock Performance and Valuations	10
Upcoming Events	13
Chartbook	14
Economics and Politics	16
Corporate and Industry News	17
Oil and Gas.....	17
Utilities	20
Telecoms	24
Metals	26
Engineering and Automotive	28
Food and Retail	29
Transport	30
Fixed Income.....	32
RTS Index Technical Performance	34
Buy on a dip and take profits.....	34



Sergei Glaser, CFA
(44 20) 7382-4165

Market Comment

August review: Sparks of activity fail to enliven slow trading

The market placed its faith in rate cuts, but the effects have yet to be seen

August proved to be a bad month to make decisions regarding further market direction. Investors were apparently more concerned with planning holidays than with continuing global uncertainty.

As a result of continuing mixed economic signals, U.S. equities were generally weaker, with tech stocks again taking the greatest hit. Muted inflationary fears after an effective decline in production-level prices justified the market's belief in imminent interest rate cuts. However, even though eight months have passed since the first cut, their positive effects on the economy have yet to be felt.

Outflows from equity funds continued, albeit at a slower pace

Unsurprisingly, further profit warnings fuelled outflows from equity funds, albeit at a slower pace. Nonetheless, the June-July pattern persisted, with international funds feeling the worst effects.

European economies are in the early stages of contraction; worse is to come

Recent data generally indicates that European economies are in a much earlier stage of contraction as compared to the U.S. This justifies the fear that much worse is to come. Various sectors became more competitive due to reduced demand, but a lack of efficiency on the part of European companies (e.g. Marconi, Bayer) became a major concern.

The lack of investment options in emerging markets reduces the sector's appeal

Emerging markets continued to lose their attractiveness in August. Economic reforms in Turkey are proceeding with mixed success, as shown by volatile trading on the Istanbul Stock Exchange. Argentina's debt crisis had investors hoping for a life vest in the form of an additional \$6-9 bln in loans, but the U.S. government sent confused signals about its readiness to provide aid. Meanwhile, fears of systemic repercussions grew as similar financial problems emerged in Brazil. The risk of redemption in emerging-market funds promised rather hard times for Russian equities, as they represent the only source of profits this year.

Figure 1. Major World Equity Indices Performance

Country	Index Name	Month-to-Date Change %	Year-to-Date Change %	Last Close *	Last 52 weeks	
					High	Low
Developed Markets						
USA	S&P 500 Index	-5.17	-13.01	1,148.6	1,530.1	1,081.2
United Kingdom	FTSE 100 Index	-2.13	-13.03	5,417.6	6,838.6	5,260.5
Germany	DAX Index	-9.64	-17.68	5,305.0	7,456.7	5,124.7
Japan	Nikkei 225 Index	-7.78	-20.65	10,979.8	17,131.4	10,807.8
Emerging Markets						
Poland	Warsaw Stock Exchange WIG 20 Index	-4.52	-38.30	1,120.5	1,969.8	1,053.0
Hungary	Budapest Stock Exchange Index	-3.70	-19.12	6,348.9	8,682.7	6,234.0
Turkey	Turkey Stock Market National 100	-0.15	4.91	10,239.0	14,885.0	7,160.0
Brazil	Brazil Bovespa Stock Index	-4.92	-14.30	13,077.0	18,023.1	12,681.0
Russia	Russian RTS Index	5.82	44.84	207.5	244.6	130.1

Note: * Data as of August 29, 2001 close

Source: Bloomberg

Volumes on the Russian market withered,...

Russian shares were again hostage to external developments due to the lack of domestic news. In the absence of clear signals, lackluster trading resulted in slim daily volumes. With no support, stocks generally drifted along with the wider market, with gains followed by commensurate losses.

...but certain stories generated sparks of activity

Some stories eventually injected some life into sleepy trading, although their effects were never long-lived. These included LUKoil's delayed U.S. GAAP financials for 2000, good half-year reports by Tatneft and MTS, and Sibneft's announcement of exceptionally high dividends.

September preview: Building stocks for the winter

Low volumes on world bourses show the market's overall indecisiveness

Unfortunately, global developments are likely to keep Russian share performance on hold in September. Increased volatility on reduced volumes in major U.S. markets suggests that investors remain nervous as they search for early signs of economic recovery. Moreover, falling consumer confidence threatens to undermine the belief that strong spending is acting as a pillar for the economy. Even though investors still hope that recovery is just around the corner, the dreaded "R-word" continues to crop up in market discussions.

Russian equities to build the basis for future advances

Given the lack of overall faith and interest in undervalued securities, Russian shares are likely to drift around current levels for a while, mostly driven by rumor-sparked activity. In the meantime, the absence of major selling pressure is clearly good news for the Russian market. Now is an excellent time to build the basis for further advances when global sentiment improves.

Progress in structural reform to be the focus in coming months

Thus, the course of structural reform will again be the main focus this fall. Practical steps involving implementation would complement fruitful legislative work after the Duma reconvenes next month. In particular, UES' restructuring story will serve as an indicator of progress towards reform.

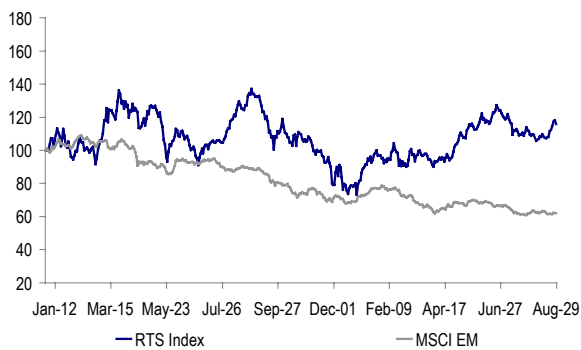
Gazprom's ring fence saga: a market-oriented decision is a must

A resolution of Gazprom's ring fence saga has been delayed until at least September. A draft presidential decree leaked to the press at the end of August represents a worst-case scenario involving the effective creation of a third class of Gazprom shares. The market's immediate reaction to the publication (ADSs -4.8%, locals -3.9% in a single session) will serve to remind the authorities that market considerations should by no means be ignored, assuming that Russia's investment attractiveness is indeed on the agenda.

Second-tier stories are attracting attention, but oil shares will remain the main driver

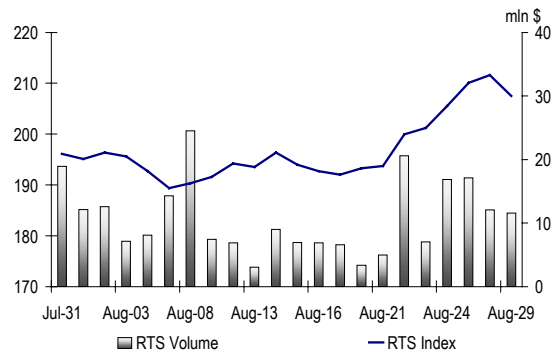
Meanwhile, some second-tier stories are likely to attract attention. Continuing interest on the part of major metals producers in auto and engineering companies could represent a good source of trading ideas. Growth among Russian mobile operators is making their stock increasingly cheap despite global disappointment with the sector. However, oil and gas shares will remain the main locomotives for the Russian market, and the revival of crude prices promises to maintain their high performance.

Figure 2. RTS vs MSCI EM, Relative Performance, January 2000* - August 2001



Notes: *January 2000 opening values taken as 100
Sources: RTS, Bloomberg

Figure 3. RTS Performance, Month-to-Date*, August 2001



Notes: * Month-to-date data as of August 29, 2001
Source: RTS



Sergei Glaser, CFA
(44 20) 7382-4165

Model Portfolios Comment

Major changes to portfolios delayed until September

August proved to be a bad month for the planned re-balancing of our model portfolios. Withering daily trading volumes, increased volatility and unexpected share-price moves prompted us to delay major changes until September for the sake of better execution. The month was spent mainly focused on housekeeping, including the conversion of Norilsk Nickel shares and the collection of dividends.

Although some shares were initially purchased ex-dividend (e.g. SurgutNG, Norilsk Nickel and UES), the overall dividend yield for the portfolios reached 1.0-1.6%. Proceeds are currently being added to their cash positions, which have declined substantially from the targeted 5% as a result of good share performance.

Figure 4. Change in Weightings of Individual Stocks in Alfa Bank Model Portfolios, April-August 2001

Company	Weight in Portfolio				Company	Weight in Portfolio			
	Apr 10 %	May 1 %	June 30 %	Aug 28 %		Apr 10 %	May 1 %	June 30 %	Aug 28 %
ADR Portfolio					Investible Portfolio				
Oil&Gas					Oil&Gas				
LUKoil	24.9	25.1	25.5	23.0	LUKoil	16.9	16.7	16.4	15.5
SurgutNG	14.9	15.2	14.4	15.7	LUKoil pref	4.0	3.8	3.4	3.2
Gazprom ADS	15.2	15.3	20.1	19.3	SurgutNG	11.0	11.0	10.5	11.5
Tatneft	4.9	5.1	4.9	4.9	SurgutNG pref	4.0	4.0	4.7	4.7
LUKoil pref	2.0	2.1	1.7	1.7	Gazprom local	10.1	10.7	12.9	12.1
Utilities					Utilities				
UES	16.0	16.0	14.5	14.6	Yukos	7.0	6.9	8.0	7.6
Mosenergo	2.0	1.9	1.9	1.8	Tatneft	3.9	3.9	4.0	3.9
Telecoms					Telecoms				
VimpelCom	6.9	7.0	6.4	7.3	Sibneft	0.5	0.4	0.5	0.7
MTS	8.0	7.8	6.6	6.5	Utilities				
Cash	5.3	4.5	4.0	5.2	UES	12.0	12.0	10.7	10.6
Blue-Chip Portfolio					Investible Portfolio				
Oil&Gas					Telecoms				
LUKoil	22.0	21.9	21.8	20.6	MTS	6.0	6.1	5.0	4.9
SurgutNG	14.0	14.0	13.6	14.8	VimpelCom	5.9	6.3	5.7	6.2
Gazprom local	9.0	9.5	11.6	10.9	Golden Telecom	2.0	2.0	2.5	1.8
Yukos	8.0	7.9	9.3	8.8	Metals/Engineering				
Tatneft	5.0	5.1	5.2	5.1	Norilsk Nickel	4.9	4.6	5.7	5.4
Utilities					Metals/Engineering				
UES	17.0	17.0	15.3	15.2	Severstal	1.1	0.9	0.9	0.9
Telecoms					Metals/Engineering				
VimpelCom	7.0	7.5	6.8	7.5	Uralmash Zavody	0.3	0.3	0.3	0.3
MTS	8.0	8.1	6.8	6.6	Others				
Metals/Engineering					Others				
Norilsk Nickel	5.0	4.7	5.8	5.6	Aeroflot	1.2	1.1	0.8	0.7
Cash	4.9	4.4	3.8	4.9	Sberbank	0.8	0.8	0.7	0.7
					SUN Interbrew B				
					Cash				
					4.3 3.8 3.3 4.9				

Source: Alfa Bank estimates

All of our portfolios are outperforming the RTS Index

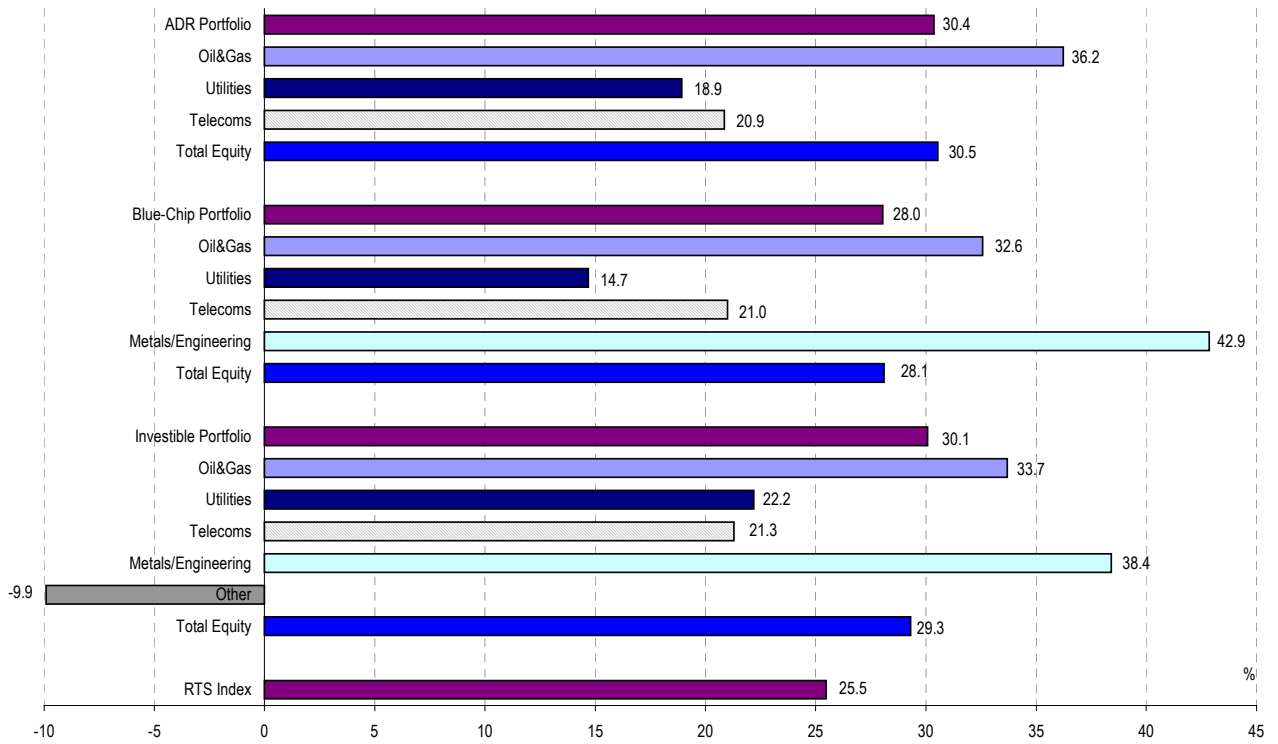
Our analyst recommendations continue to impress; all of our portfolios are consistently outperforming the RTS Index despite a substantial non-performing cash position (see Figure 6).

Oil & gas and metals/engineering continue to beat the market

Figure 5 shows that various sectors are performing differently. Oil & gas and metals/engineering stocks continue to beat the market, while other sectors are still trying to catch up. Historical sector performance (see Figure 7) shows that oil & gas stocks are less volatile than metals/engineering shares, and thus represent a high-quality investment worthy of their current weighting of 60-65% in portfolio equity.

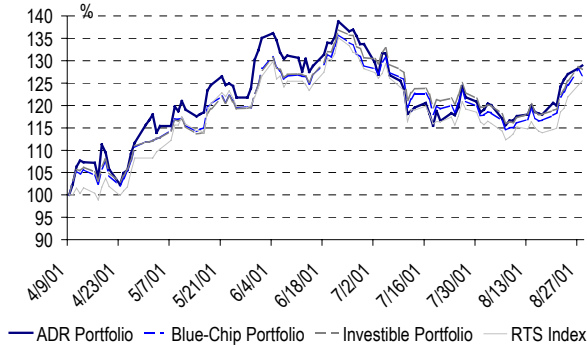


Figure 5. Sector Performance in Alfa Bank Model Portfolios, Aug 28, 2001



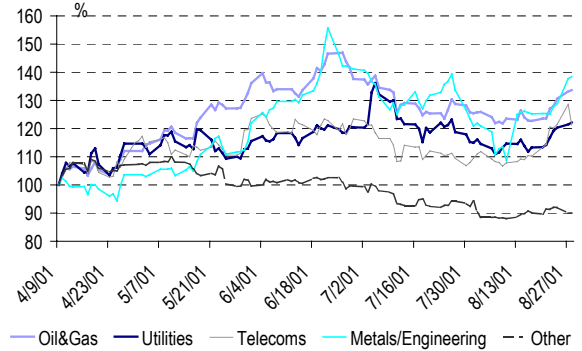
Source: Alfa Bank estimates

Figure 6. Relative Performance of Alfa Bank Model Portfolios, April 10 - Aug 28, 2001



Source: Alfa Bank estimates

Figure 7. Relative Performance of Sectors in Alfa Bank Investible Portfolio, April 10 - Aug 28, 2001



Source: Alfa Bank estimates



Natalya Orlova
(7 095) 795-3677

Theme: Growth Fueled by Oil Prices, Limited by Inflation

- Given 26.4\$/bbl Brent oil price, we forecast 2001 GDP at 4.5%
- Efforts to freeze tariffs are unconvincing; we keep our 22% inflation forecast
- 68% of enterprises suffer from low demand, but remain optimistic

2001 real GDP growth upgraded from 3.5% to 4.5%

2001 trade balance to total \$51 bln, 16% below the level of 2000

We expect higher oil prices and larger foreign demand to result in greater export revenues in 2001 totaling \$102 bln. At the same time, the 18% increase in imports in 1H01 is well above our 10% expectation and forces us to upgrade our 2001 import forecast to \$51 bln (+15% y-o-y). This, in turn, raises our trade balance estimate as well to \$51 bln.

Figure 8. Balance of Payments Comparison, 1H2000-1H2001, \$ bln

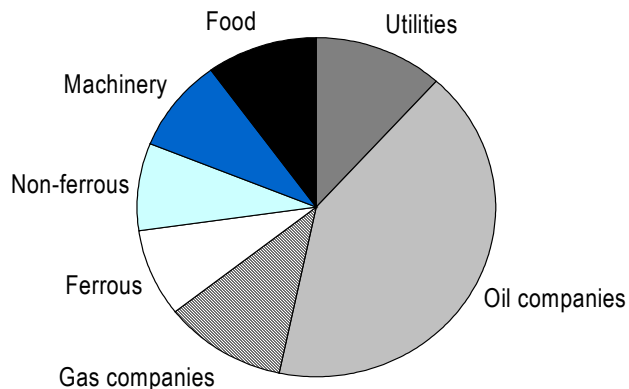
	1H2000	1H2001	% change	2000	2001E
Exports:	49.4	51.6	4.5	105.0	102.0
crude oil	11.9	11.6	-2.5	26.7	26.1
refined products	5.2	5.4	3.8		
gas	8.3	9.6	15.7		
Imports	20.4	24.0	17.6	44.3	51.0
Trade balance	29.0	27.6	-4.8	60.7	51.0
Current account	22.8	21.2	-7.0	45.6	34.0

Source: CBR

One-third of industrial investment derived from the oil sector

Higher-than-expected oil company profits lead us to increase our investment growth forecast. Although the share of these companies in total industrial investment dropped to 34% in 1Q01 from 39% in 1Q00, they continue to make a considerable contribution to industrial production growth. Investment from the oil sector helps support investment in the machine building sector, which still amounts to 10% of total industrial investment.

Figure 9. Sector Contributions to Industrial Investment, 1Q01



Source: Ministry of Economic Development and Trade

GDP growth to reach 4.5% y-o-y in 2001

Greater investment will boost economic growth, which we now expect to reach 4.5% compared to our previous 3.5% forecast. We also upgraded our 2002 growth estimate from 2.5% to 3.2%.



Politics to blame for effort to freeze tariffs

We might raise our growth forecast should the government keep inflation under control

First, the CBR intends to issue bonds

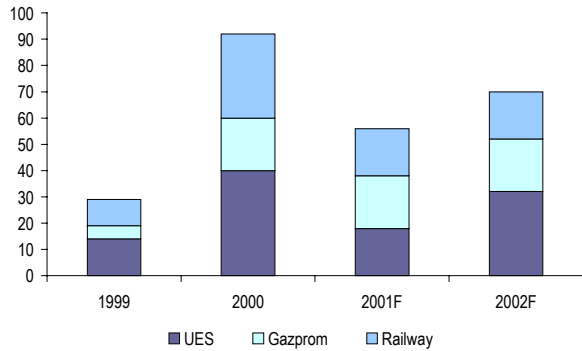
Second, the cabinet wants to put a ceiling on tariff hikes in 2H01 and 2002

The fact that our 4.5% growth forecast is below the official level of 4.8-5.0% is unsurprising given the difference between the official (18%) estimate and our 22% inflation target. At the same time, the cabinet recently took several steps proving its determination to deal with high inflation.

The first, rather minor step, was a decision to issue Central Bank bonds in order to sterilize ruble liquidity. However, such a move seems inadequate for the following reasons. First, the amount of the issue is just R4 bln, or only 6-8% of what banks hold on deposit at the Central Bank. Second, as the bonds will have a short maturity, it is unclear for how long they will manage to reduce inflationary pressure.

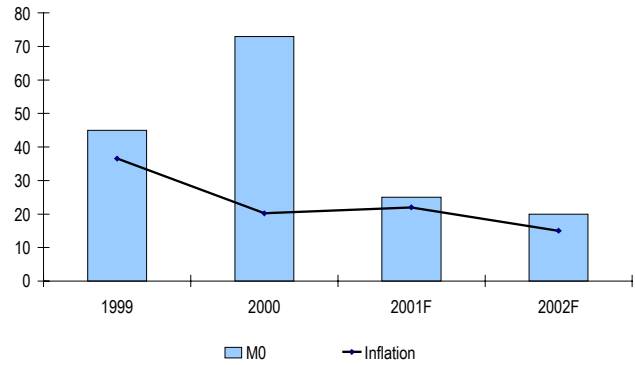
Second, in August the government announced some measures to control tariffs. On August 2, the government decided to establish tight control over tariffs in 2H01 in order to keep inflation to within 16-18%. There were also proposals to create a ceiling for tariff increases in 2002 (32% for electricity, 20% for gas and 18% for railways).

Figure 10. UES, Gazprom and Railway Tariff Increases, 1999-2002F



Sources: Goskomstat, Alfa Bank estimates

Figure 11. Monetary Base Growth and Inflation Rate, 1999-2002F



Sources: CBR, Goskomstat

Freezing tariffs may only represent a weapon in the struggle for control over tariff regulation

Higher inflation generates greater fiscal revenues and has harmed the economy less than expected

September-October to be decisive for possible upgrade of our 2001 GDP forecast

At the same time, we remain unconvinced by the government's announcements. The first reason is that the proposal to freeze tariffs may in fact be based in politics. German Gref is currently struggling with the Federal Energy Commission (FEC) for control over the unified tariff regulation committee. Since the FEC's main argument is its experience in regulating tariffs, for Gref the freezing of tariffs may possibly be a way for him to buy time in order to postpone a final decision.

Second, we believe that the government is not seriously concerned about high inflation. One reason is that the growth rate is in line with the government's expectation for this year, and thus the real exchange rate appreciation seems to have harmed the economy less than expected. Also, higher inflation means greater nominal budget revenues, and given the real appreciation - higher revenues in dollar terms. Finally, we believe that raising tariffs is an important means of supporting natural monopolists, who still wield considerable political power.

However, given the considerable slowdown in inflation in July-August, we do not exclude that the delay in tariff increases may be positive and that inflation might remain at the level of 2000. In September-October, we will review our inflation (and thus growth) forecast with the view of possibly upgrading GDP growth to 5%.

**Government chose to support domestic demand**

The 2002 budget shows the government's desire to support the economy via fiscal policy

While monetary policy (i.e. control over inflation) is unlikely to become an active instrument of economic policy, we believe that the 2002 draft budget reflects the government's desire to support the economy through fiscal means. The fact that non-interest expenditures will remain unchanged at 12.5% of GDP contradicts Andrei Illarionov's initial proposals to cut them drastically in order to channel money to the stabilization fund. However, such a decision seems reasonable, as a slowdown would be likely to affect the government's ability to service its debt, regardless of the existence of a stabilization fund.

According to 60% of enterprises, demand is below normal

The demand constraint is well reflected in economic polls conducted among 1,000 Russian enterprises. In July, 62% of respondents assessed their production as below normal, and 58% believed that demand was below normal.

Figure 12. Poll of 200 Largest Enterprises, July 2001, % of total answers

	More than expected	In line with expectation	Less than expected
Production output	0	34	62
Demand	1	36	58
Foreign demand	1	20	44
Inventories	31	39	18

Source: *Institute for the Economy in Transition*

Inventories have been growing for five straight months,...

The increase in inventories for the fifth consecutive month points to a considerable slowdown in demand. The fact that the greatest increase was reported by ferrous metals plants, an industry that has stagnated since the beginning of the year, is particularly bad news. Machinery is another leader in terms of inventory accumulation, and this raises questions about a continuation of the sector's recovery.

...but expectations are positive

At the same time, the poll indicates that expectations remain rather positive. 90% of respondents believe that output will not drop over the next several months, and 60% expect demand to remain unchanged. Thus, fiscal expansion seems crucial in supporting this optimism: worsening sentiment would have a negative effect on investment, which would be dangerous for future growth prospects.

Figure 13. Poll of 200 Largest Enterprises, July 2001, % of total answers

How do you expect following items to change:	Will increase	Will remain unchanged	Will decline
Output	45	44	10
Your prices	36	61	2
Costs	47	42	10
Demand	23	61	11

Source: *Institute for the Economy in Transition*

Stock Performance and Valuations
Figure 14. ADR Performance, MTD, as of August 29, 2001

Company	SE	Type of ADR	Ratio	% as ADRs	Price	Change		Last 52 weeks		Volume
						MTD	YTD	High	Low	
					\$	%	\$	\$	\$	\$ mln
Oil and Gas										
Chernogomeft	Fr	Level 1	1 in 1	18.4	3.7	-26.1	1.6	6.8	1.9	2.4
Gazprom ADS	Fr	114A, REG S	10 in 1	1.4	9.9	-0.7	52.8	11.3	5.7	37.0
LUKoil	Fr	Level 1	4 in 1	31.0	43.7	-0.1	22.6	66.2	32.1	37.0
LUKoil pref.	Fr	Level 1	2 in 1	5.0	21.9	1.4	25.9	26.9	15.9	5.6
Sibneft	Fr	Level 1	10 in 1	4.0	5.4	33.8	110.9	5.9	2.2	9.0
Surgutneftegaz	Fr	Level 1	50 in 1	19.0	13.3	7.8	27.4	19.8	9.2	10.3
Surgutneftegaz pref.	Ber	Level 1	100 in 1	N/A	14.6	8.4	62.5	16.8	8.5	0.6
Tatneft	NY	Level 2	20 in 1	25.0	10.2	6.7	47.8	13.5	6.5	7.2
Utilities										
Irkutskenergo	Fr	Level 1	50 in 1	16.0	3.7	-6.0	6.9	6.0	2.8	0.4
Kuzbassenergo	Fr	Level 1	10 in 1	25.0	1.1	-12.2	29.4	1.6	0.6	0.2
Lenenergo	Ber	REG S	80 in 1	6.2	27.4	4.3	31.6	28.0	13.5	0.0
Mosenergo	Fr	Level 1	100 in 1	20.0	3.5	4.9	47.4	4.9	2.3	6.1
UES	Fr	Level 1	100 in 1	22.0	11.0	-3.7	42.9	17.1	6.9	4.9
Rostovenergo	Ber	Level 1	100 in 1	N/A	1.3	-26.4	29.6	1.8	0.8	1.0
Rostovenergo pref.	Ber	Level 1	100 in 1	N/A	1.0	-10.1	8.1	1.5	0.8	0.5
Samarenergo	Fr	Level 1	70 in 1	N/A	1.6	4.3	117.1	2.1	0.7	0.0
Telecoms										
Chelyabinskvyazinform	Ber	Level 1	1 in 5	N/A	4.1	4.3	-27.6	5.7	3.8	0.0
Golden Telecom		N/A	1 in 1	N/A	10.5	-21.6	84.8	32.3	5.1	3.3
Kubanelectrosvyaz	Fr	Level 1	1 in 2	N/A	3.7	25.8	-30.6	6.2	2.6	0.0
MGTS	Ber	Level 1	1 in 1	N/A	5.9	13.0	4.5	8.8	4.1	0.1
MTS	NY	Level 3	20 in 1	17.0	26.1	9.7	8.5	31.4	22.0	26.0
Nizhnovsvyazinform	Fr	Level 1	2 in 1	8.5	1.6	-6.7	-45.3	3.6	1.2	0.0
Rostelecom	NY	Level 2	6 in 1	19.7	4.2	-3.3	-18.8	15.0	3.9	3.3
Rostovelectrosvyaz	Ber	Level 1	5 in 1	N/A	2.7	4.3	-42.1	5.2	2.5	0.0
Samarasvyazinform	Ber	Level 1	1 in 5	N/A	4.6	4.3	-49.2	9.5	3.4	0.0
Tyumentelecom	Fr	Level 1	1 in 1	N/A	1.0	-4.4	179.3	1.2	0.3	0.1
Tyumentelecom pref.	Fr	Level 1	2 in 1	N/A	1.0	-15.7	141.2	1.2	0.4	0.0
Uralsvyazinform	Fr	Level 1	200 in 1	N/A	1.6	-4.8	22.7	3.5	1.2	0.3
VimpelCom	NY	Level 3	3 in 4	N/A	18.0	25.1	23.3	29.9	12.1	2.1
Other sectors										
Uralmash Zavody	Ber	144A, REG S	1 in 1	21.0	3.8	1.9	177.6	4.6	1.3	2.3
GUM	Fr	Level 1	2 in 1	32.2	3.1	-2.9	40.5	4.0	1.8	6.8
TsUM	Fr	Level 1	20 in 1	10.8	5.9	4.3	156.0	6.6	1.9	0.0
Sun Interbrew B	Fr	144A, REG S	1 in 1	32.0	3.7	9.8	42.9	3.9	2.0	0.5
Sun Interbrew A	Fr	144A, REG S	1 in 1	15.0	3.2	10.7	87.6	3.6	1.5	0.1

Note: N/A – not available

Sources: Reuters, Bloomberg, Alfa Bank estimates



Figure 15. Blue Chip Performance and Valuation vs International Peers, MTD, as of August 29, 2001

Company	Price	Change		Last 52 weeks		ADV	MCap	P/E		EV/EBITDA		Target price	Upside	Recommendation	
	\$	MTD %	YTD %	High \$	Low \$			2001E	2002E	2001E	2002E				\$
Oil and Gas															
Gazprom	0.502	-10.15	72.00	0.605	0.248	0.70	13,566	3.8	3.5	5.1	3.9	0.950	89.1	BUY	
LUKoil	11.000	3.87	18.92	16.620	8.050	1.58	8,967	2.4	2.6	1.8	1.9	17.350	57.7	BUY	
Sibneft	0.555	33.41	107.09	0.605	0.239	0.50	2,631	3.1	3.4	1.9	1.9	0.580	4.5	HOLD	
Surgutneftegaz	0.267	14.10	28.37	0.397	0.183	0.84	10,663	2.2	2.3	2.0	2.1	0.410	53.6	BUY	
Tatneft	0.512	8.94	45.04	0.680	0.324	0.67	1,156	1.3	1.2	0.9	1.0	0.720	40.6	SPEC. BUY	
Yukos	3.640	4.30	104.49	3.910	1.390	2.72	8,143	2.4	2.4	1.6	1.8	4.600	26.4	BUY	
PKN	4.047	1.78	-23.78	5.544	3.339	2.60	1,701	7.9	6.6	3.9	3.6				
Petrobras	21.918	3.13	22.32	31.729	20.100	0.22	24,301	5.1	5.1	3.4	3.4				
MOL	14.806	-4.41	-13.73	18.711	12.683	1.99	1,448	12.4	5.4	6.4	4.3				
Average for peers								8.5	5.7	4.6	3.8				
Utilities															
Irkutskenergo	0.080	4.58	0.00	0.120	0.061	0.01	381	N/M	N/M	5.8	4.6	0.090	12.5	HOLD	
Lenenergo	0.230	-13.21	28.13	0.325	0.150	0.00	191	6.0	3.5	2.3	1.7	0.350	52.2	ACCUMULATE	
Mosenergo	0.036	13.06	47.92	0.049	0.022	0.34	1,003	86.2	12.5	4.7	3.6	0.063	77.5	HOLD	
UES	0.111	2.41	34.88	0.175	0.071	2.56	4,623	10.2	8.1	2.5	2.1	0.154	39.2	BUY	
EdP	2.610	-3.6	-17.3	3.880	2.630	6.50	7,830	15.6	10.0	10.0	7.9				
Endesa	16.650	3.0	0.0	20.500	15.250	5.20	17,632	13.7	12.2	8.3	7.1				
Tenaga	2.860	2.9	-6.9	13.000	7.400	15.76	8,886	25.3	14.6	14.7	10.4				
Average for peers								18.2	12.3	11.0	8.5				
Telecoms															
MGTS	5.600	0.00	-11.81	9.000	4.800	0.00	481	13.9	23.2	4.6	6.3	6.510	16.3	HOLD	
TeleSP	10.209	-1.92	-7.61	14.252	9.566	7.95	4,780	9.9	9.6	3.2	3.5				
Tele Norte Leste	10.953	-9.01	-12.82	16.775	9.647	17.58	4,666	20.4	14.5	2.7	2.5				
Average for peers									15.2	12.0	2.9	3.0			
Rostelecom	0.703	-2.16	-18.31	2.520	0.661	0.18	584	-24.6	-18.9	9.8	7.5	1.090	55.2	HOLD	
Indosat	1.010	3.45	16.67	1.174	0.622	2.93	1,082	6.3	7.0	5.4	5.7				
Embratel	5.912	-17.04	-33.81	14.369	5.547	23.81	1,928	6.6	12.3	2.7	3.3				
Average for peers								6.4	9.7	4.1	4.5				
Golden Telecom															
Golden Telecom	10.500	-21.6	84.8	32.313	5.125	0.26	253	N/A	59.4	11.3	8.4	16.600	58.1	BUY	
Netia	3.719	-37.65	-79.93	26.462	3.576	0.87	113	N/M	N/M	25.6	27.5				
MTS	26.100	9.7	8.5	31.375	22.000	0.71	2,601	21.4	14.2	8.4	6.2	31.000	18.8	BUY	
VimpelCom	18.000	25.1	23.3	29.938	12.063	1.28	844	30.2	14.8	7.4	5.0	23.460	30.3	BUY	
Turkcell	0.004	-40.43	-54.80	0.018	0.003	0.01	1,899	15.2	-8.9	3.4	4.0				
Mobinil	14.689	-0.56	-22.92	27.854	12.744	N/A	1,444	21.2	13.1	8.7	6.8				
Average for peers								18.2	2.1	6.1	5.4				
Metals															
Norilsk Nickel	13.000	-16.13	78.08	19.990	6.350	0.04	2,464	2.0	2.3	1.2	1.3	25.100	93.1	BUY	
Amplats	38.864	21.27	-7.67	50.702	29.034	0.59	8,454	10.2	7.8	7.0	6.7				
Eramet	29.000	-0.59	-26.98	46.509	27.359	0.00	716	7.2	7.8	3.2	3.3				
WMC	4.480	-2.23	10.36	5.419	3.653	3.92	8,513	12.4	11.5	8.0	7.8				
Average for peers								9.9	9.0	6.1	6.0				
Severstal	41.250	9.42	129.17	44.400	17.000	0.10	911	4.5	3.3	1.0	0.8	57.610	39.7	BUY	
China Steel	0.356	-7.52	-36.34	0.612	0.335	11.29	3,222	5.7	6.6	4.1	4.5				
POSCO	73.601	6.80	23.14	92.978	44.536	0.18	7,101	4.8	7.2	4.1	4.2				
Average for peers								5.2	6.9	4.1	4.4				
Food															
Baltika	360.000	0.00	0.00	N/A	N/A	N/A	526	5.8	4.3	4.0	3.0	470.577	30.7	ACCUMULATE	
Sun Interbrew	3.700	9.8	42.9	3.884	1.997	0.50	274	5.4	5.0	4.0	3.3	6.318	70.8	SPEC. BUY	
Okocim	2.758	-6.05	-3.72	4.190	2.249	0.00	61	6.8	6.6	2.4	2.0				
Zywiec	40.601	-3.65	-17.55	71.851	38.589	0.03	300	12.3	8.0	4.3	3.8				
Average for peers								9.5	7.3	3.3	2.9				
Transport															
Aeroflot	0.258	3.00	21.46	0.369	0.183	0.00	286	10.8	5.3	3.1	2.4	0.460	78.6	HOLD	
China Eastern Airlines	0.702	2.83	3.75	0.773	0.506	1.07	2,316	103.8	63.8	11.0	9.6				
Thai Airways	0.650	-8.66	-9.38	1.031	0.583	0.13	910	7.4	5.7	5.4	4.9				
Average for peers								7.4	5.7	8.2	7.2				
Retail															
GUM	1.700	0.00	54.55	2.000	1.100	0.01	102	7.3	6.5	5.7	5.1	1.720	1.2	ACCUMULATE	
Robinson & Co	2.612	1.79	9.09	2.625	2.337	0.01	224	10.7	9.2	4.1	3.5				
Matahari Putra Prima	0.060	-4.35	10.00	0.075	0.043	0.52	163	7.0	6.2	2.7	2.3				
Average for peers								8.8	7.7	3.4	2.9				
Engineering															
Uralmash Zavody	4.250	16.44	183.33	4.750	1.410	0.01	150	4.6	4.4	1.8	1.7	5.360	26.1	BUY	
Hyundai Heavy	16.955	-24.39	17.30	25.549	12.228	0.20	1,289	8.2	4.5	7.4	6.9				
Atlas Copco	21.445	-1.77	7.26	23.188	15.055	0.91	4,424	15.3	14.5	6.8	6.6				
Average for peers								11.8	9.5	7.1	6.8				

Notes: N/A – not available, N/M – not meaningful; Sources: Alfa Bank estimates, Bloomberg

Figure 16. Second-tier Stocks Performance and Valuation, MTD, as of August 29, 2001

Company	Price	Change		Last 52 weeks		ADV	MCap	P/E		EV/EBITDA		Target price	Upside %	Recommendation
	\$	MTD %	YTD %	High \$	Low \$			2001E	2002E	2001E	2002E			
Oil and Gas														
Megionneftegaz	2.950	7.27	-1.67	3.000	1.500	4.61	343	1.4	1.6	1.1	1.2	2.500	-15.3	HOLD
Purneftegaz	3.600	-4.00	89.47	3.950	1.800	9.30	341	7.5	8.4	3.0	3.7	2.000	-44.4	SELL
Sakhalinmorneftegaz	3.400	-8.11	-3.41	5.000	2.900	5.98	235	3.3	3.7	2.0	2.8	4.500	32.4	HOLD
Udmurtneft	27.500	0.00	-8.33	30.000	22.000	0.00	101	0.8	0.9	0.6	0.6	32.000	16.4	HOLD
Utilities														
Bashkirenergo	0.065	0.00	-12.16	0.078	0.058	0.00	72	1.3	1.3	0.6	0.7	0.080	23.1	HOLD
Chelyabenergo	0.070	2.94	250.00	0.080	0.020	3.85	32	-1.1	4.2	-4.9	1.2	0.070	0.0	HOLD
Krasnoyarskenergo	0.150	0.00	455.56	0.150	0.027	0.71	96	2.6	2.2	-1,298.8	42.1	0.150	0.0	HOLD
Kubanenergo	2.000	0.00	150.00	2.600	0.650	0.33	36	3.1	1.6	1.3	0.9	2.000	0.0	HOLD
Kuzbassenergo	0.115	0.00	48.39	0.155	0.065	0.82	70	-3.4	5.0	9.7	3.1	0.150	30.4	HOLD
Novosibirskenergo	1.800	0.00	140.00	2.270	0.750	0.00	26	-0.5	-2.4	-1.1	106.1	2.000	11.1	HOLD
Permenergo	1.650	0.00	65.00	1.850	0.850	0.39	75	1.1	1.0	0.7	0.6	2.650	60.6	ACCUMULATE
Rostovenergo	0.018	0.00	34.62	0.019	0.010	0.83	63	-12.7	2.2	8.8	1.3	0.020	14.3	HOLD
Samarenergo	0.028	0.00	122.22	0.032	0.012	0.13	105	3.1	2.8	1.1	1.1	0.042	50.0	ACCUMULATE
Sverdlovenergo	0.085	0.00	82.11	0.120	0.041	0.33	55	0.0	0.5	0.7	0.5	0.090	6.5	HOLD
Telecoms														
Bashinformsvyaz	0.080	-11.11	128.57	0.115	0.033	1.98	77	7.5	6.1	3.1	2.7	0.088	10.0	ACCUMULATE
Chelyabinskvyazinform	16.000	0.00	5.96	28.500	15.100	0.00	86	10.8	8.4	5.2	3.7	9.120	-43.0	REDUCE
KhantyMansiiskokrtelcom	1.330	0.00	-11.33	2.170	1.300	5.20	27	2.3	2.1	2.4	2.2	1.450	9.0	HOLD
Krasnoyarskelectrosvyaz	1.850	0.00	8.82	1.950	1.700	0.69	22	27.5	22.5	2.6	2.0	2.670	44.3	ACCUMULATE
Kubanelectrosvyaz	6.850	-2.84	-29.38	14.750	6.600	0.54	82	6.7	7.6	3.5	3.5	8.150	19.0	ACCUMULATE
Lensvyaz	11.500	0.00	59.72	11.550	7.200	0.55	27	15.2	14.0	3.4	3.2	9.980	-13.2	HOLD
Moscow Obl. Electrosvyaz	150.000	-6.25	7.14	232.000	135.000	1.44	79	5.0	4.3	2.2	2.1	204.000	36.0	BUY
Nizhnovsyazininform	0.900	0.00	28.57	1.650	0.700	0.43	92	6.6	6.8	3.2	3.1	1.440	60.0	ACCUMULATE
Novosibirskelctrosvyaz	1.550	-8.82	10.71	2.200	1.150	3.40	47	4.8	3.3	2.2	1.7	1.950	25.8	BUY
Rostovelectrosvyaz	0.500	0.00	25.00	1.350	0.400	0.24	42	11.5	10.5	3.4	3.0	0.600	20.0	HOLD
Samarasvyazininform	18.200	0.00	-43.13	50.000	18.200	0.09	42	7.3	6.3	4.2	3.6	19.890	9.3	HOLD
St. Petersburg Telecom	0.310	-13.89	-22.50	0.800	0.310	0.78	165	6.8	5.7	4.3	3.7	0.290	-6.5	HOLD
Tyumentelecom	1.200	0.00	71.43	1.355	0.370	3.28	37	14.9	12.7	4.0	3.4	1.110	-7.5	HOLD
Uralsvyazininform	0.008	0.00	20.00	0.017	0.007	0.40	73	17.1	5.0	3.8	3.1	0.013	54.8	HOLD
Uraltelecom	4.150	-2.35	-4.60	7.850	4.100	0.30	49	5.3	4.8	2.5	1.9	5.610	35.2	ACCUMULATE
Other Sectors														
AvtoVAZ	10.700	27.38	568.75	10.700	1.500	25.51	323	1.9	0.8	2.4	1.9	14.840	38.7	SPEC. BUY
Chelyabinsk Tube	0.075	7.14	41.51	0.087	0.043	3,851.19	35	0.9	1.0	0.7	0.0	0.150	100.0	SPEC. BUY
GAZ	17.000	0.00	-8.11	53.000	13.850	0.20	85	N/A	12.0	20.7	9.2	12.000	-29.4	SELL
Magnitogorsk MK	40.000	0.00	0.00	N/A	N/A	N/A	286	1.3	1.1	1.2	1.0	54.000	35.0	BUY
Red October	3.500	0.00	-10.26	5.250	2.950	0.00	32	5.4	4.4	3.3	3.1	3.793	8.4	REDUCE
Sberbank	36.000	4.35	42.57	52.250	22.700	15.15	522	N/A	N/A	N/A	N/A			
TsUM	0.450	0.00	80.00	0.600	0.188	1.30	40	10.8	9.2	6.4	5.8	0.338	-25.0	ACCUMULATE

Sources: RTS, Alfa Bank estimates

Figure 17. Preferred Stock Performance and Valuation, MTD, as of August 29, 2001

Company	Price	Change		Last 52 weeks		ADV	Pref. to Com. discount	Dividends %	Dividend yield %	Target price	Upside %	Recommendation
	\$	MTD %	YTD %	High \$	Low \$							
Oil and Gas												
LUKoil pref.	10.940	3.21	22.92	13.780	8.100	135.5	1	1.91	17.5	12.140	11.0	HOLD
Surgutneftegaz pref.	0.146	12.31	56.99	0.165	0.084	345.5	45	0.01	6.2	0.205	40.4	BUY
Tatneft pref.	0.275	4.76	37.50	0.300	0.190	7.3	46	0.03	10.2	0.280	1.8	ACCUMULATE
Utilities												
UES pref.	0.078	6.60	135.56	0.084	0.028	61.4	30	0.00	2.2	0.071	-8.4	BUY
Telecoms												
Rostelecom pref.	0.295	0.00	-32.95	0.870	0.280	16.4	58	0.03	9.3	0.380	28.8	HOLD
Metals												
Norilsk Nickel pref.	13.600	0.00	101.48	20.250	6.000	3.9	-5	0.05	0.4	25.100	84.6	BUY

Sources: RTS, Alfa Bank estimates



Upcoming Events

Figure 18. Calendar of Upcoming Events

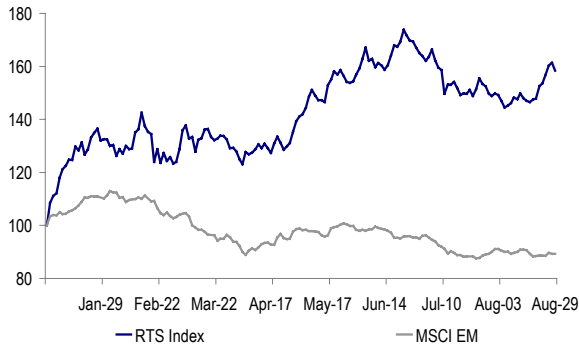
Date	Company	Event
September		
First half	LUKoil	1Q01 U.S. GAAP results
First half	Krasny Oktyabr	1H01 RAS Results
First half	<i>Fixed Income</i>	MinFin to place R6 bln in OFZs and R6 bln in GKO
5	LUKoil	Placement of 16.7 mln shares
5	Sun Interbrew	1H01 U.S. GAAP results
6	<i>Fixed Income</i>	CBR to offer two OBR issues (total volume of R4 bln)
6	Aeroflot	EGM
13	LUKoil	Conversion of preferred to common shares at 1:1 ratio
14	Uralmash-Izhora Group	2000 U.S. GAAP results
19	MGTS	Buy-back of 1st tranche bonds
25	Uraltelecom	EGM
25	Tyumentelecom	EGM
26	Chelyabinsk SI	EGM
27	<i>Macro</i>	Government to discuss banking reform
30	<i>Fixed Income</i>	\$563 mln coupon payment on Eurobonds maturing in 2010 and 2030 issued under restructuring of London Club debt
Second half	Sibneft	Moody's rating for expected Eurobond issue

Source: Alfa Bank estimates



Chartbook

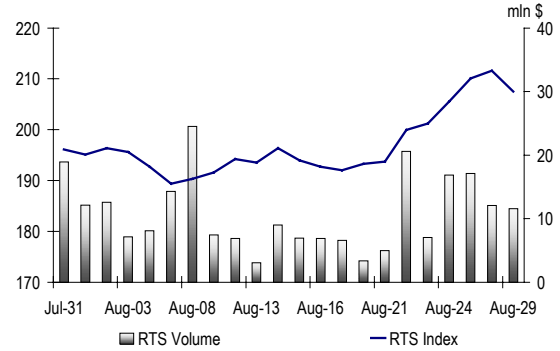
Figure 19. RTS vs MSCI EM, YTD



Sources: RTS, Reuters

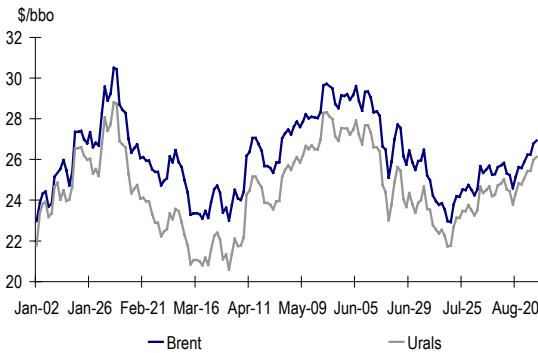
- The Russian market was generally more volatile than emerging markets
- The RTS Index grew 5.6% month-to-date

Figure 20. RTS Performance, MTD



Source: RTS

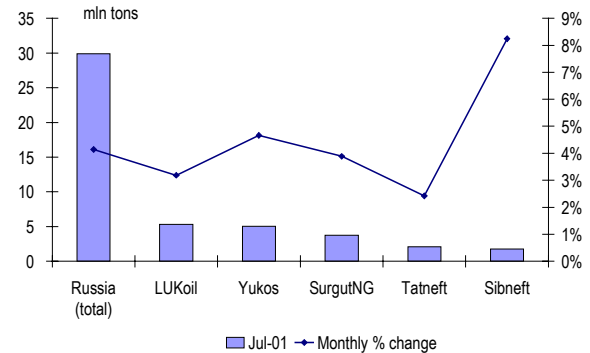
Figure 21. Oil Price Dynamic: Brent vs Urals, YTD



Source: Bloomberg

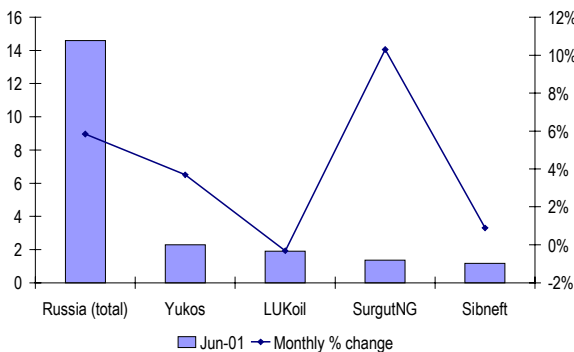
- Revived crude prices helped oil stocks outperform the market
- Strong production, especially by Sibneft, is boosting investment in the oil industry

Figure 22. Oil Output by Company, July 2001



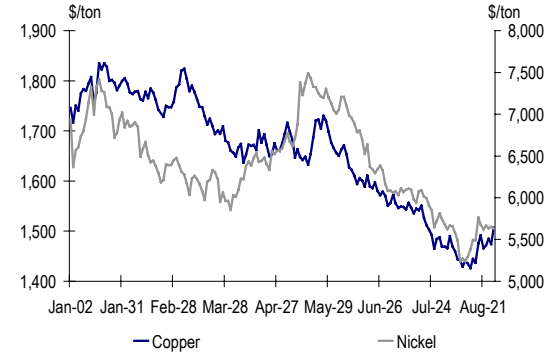
Source: Ministry of Energy

Figure 23. Oil Refining by Company, June 2001



Source: Ministry of Energy

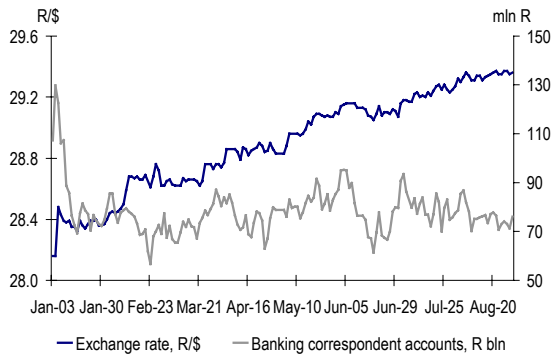
Figure 24. Copper vs Nickel, YTD



Source: Bloomberg

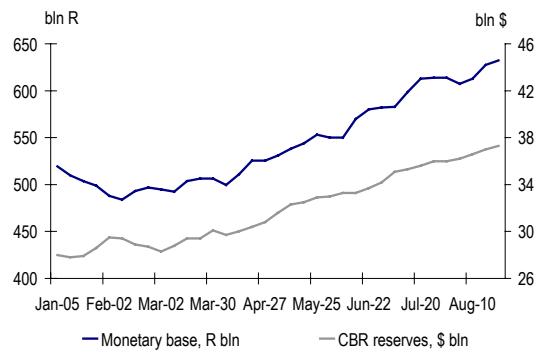
- Refining increased following a rise in crude oil production
- Nickel and copper recovered from annual lows reached in early August

Figure 25. Exchange Rate vs Bank Liquidity, YTD



Source: CBR

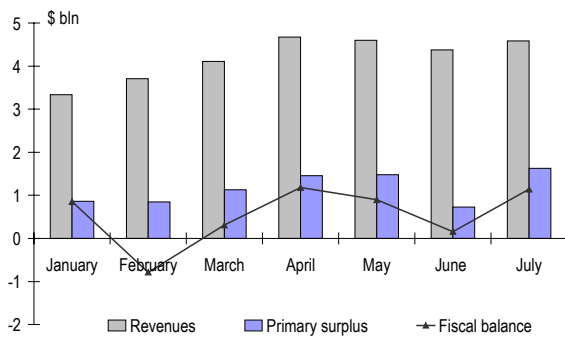
Figure 26. Monetary Base vs CBR Reserves, YTD



Source: CBR

- Correspondent accounts declined from R85 mln at the beginning of August to R75 mln by month's end
- CBR gold and foreign-exchange reserves approached \$38 bln in August

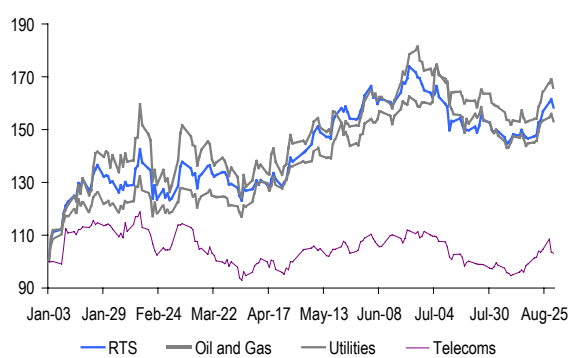
Figure 27. Fiscal Performance, YTD



Source: MinFin

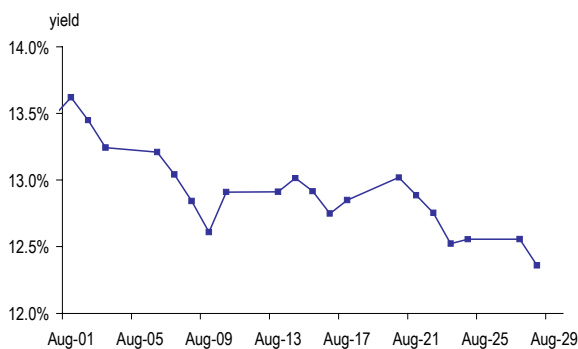
- Fiscal revenues grew to \$4.6 bln in August, returning to the level of May
- Oil & Gas stocks continued to outperform the market, while utilities were in line with the RTS Index

Figure 28. Sector Performance, YTD



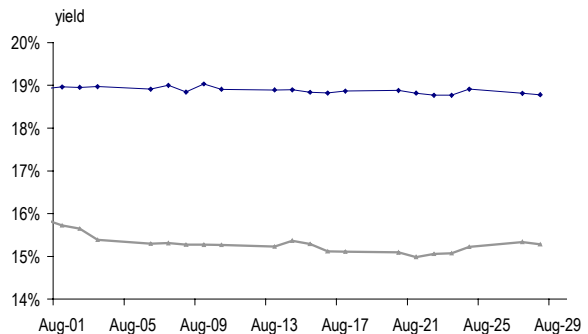
Source: Alfa-Bank estimates

Figure 29. Russia-07 Performance, MTD



Source: Reuters

Figure 30. OFZ 27001 - OFZ 28001 Performance, YTD



Source: Reuters

- Argentina and Russia's strong fundamentals determined the performance of the Eurobond market
- High ruble liquidity and the dominance of large operators resulted in a steady GKO-OFZ yield dynamic



Natalya Orlova
(7 095) 795-3677

Economics and Politics

Decision to freeze tariffs in 2H01 sent a conflicting signal to the markets

The discussion of tariff regulation provided a spark of interest in the traditionally calm month of August. Not only did German Gref propose to freeze tariffs hikes in 2H01, the government also planned to discuss the possibility of establishing ceilings on tariff hikes in 2002 (32% for electricity, 20% for gas and 18% for railways). These decisions sent a confusing signal to the market. On the one hand, it appears as though the government is concerned with achieving its declared 2001-2002 inflation targets, as lower inflation would result in a slower real exchange rate appreciation. On the other hand, this contradicts the government's commitment to structural reform, which implies higher tariffs to provide natural monopolies with necessary financial resources to cut costs. However, we do not believe that these efforts warrant changing our 22% and 15% inflation forecasts for 2001 and 2002, respectively.

We may upgrade our 4.5% growth forecast for 2001 in September-October

Following the upgrade of our Brent oil price forecast to \$26.4/bbl, we raised our real GDP growth forecast from 3.5% to 4.5% in 2001. At the same time, we cannot exclude the possibility of another upgrade in September. Key catalysts in terms of real GDP growth of 5.0% will be:

- Signs that inflation is slowing to 0.8% per month in September-October;
- A larger-than-expected increase in investment;
- Smaller import growth.

Figure 31. Main Macroeconomic Indicators, 1997-2002E

	1997	1998	1999	2000	2001E	2002E
Monthly - September						
Inflation, m-o-m, %	-0.4	38.0	1.5	1.3	1.0	
Exchange rate, end of month, R/\$	5.9	16.1	251.0	27.8	29.6	
CBR reserves, end of month, \$ bln	23.1	12.7	11.2	25.0	37.5	
Annual						
GDP growth, % annual	0.8	-4.9	5.4	8.3	4.5	3.2
Inflation, % annual	11.0	84.0	37.0	20.0	22.0	15.0
Exchange rate, R/\$, end of year	6.0	20.7	27.0	28.1	30.8	32.9
CBR reserves, year end, \$ bln	17.8	12.2	12.5	28.0	40.0	42.0
Trade balance	16.6	16.9	36.0	61.0	51.0	42.0
Exports	89.0	74.9	75.8	105.0	102.0	100.0
Imports	72.0	58.0	39.6	44.0	51.0	58.0

Sources: IMF, Alfa Bank estimates

Figure 32. Key Events

Data	Event
August 2	Tariff freeze is a positive step, but we will wait until September-October before reviewing our 22% inflation forecast. The good news is that this decision confirms that high inflation is finally being targeted by economic policy. The official 18% forecast seems achievable should the government follow through with its decision.
August 3	Mikhail Kasyanov indicated that the government does not plan to completely freeze tariff increases in 2001. According to the prime minister, the cabinet must concentrate on cost cutting by the country's natural monopolies. Kasyanov's remarks confirm our view that such a controversial issue as freezing tariffs will not be resolved easily.
August 6	Vladimir Putin signed a plan to establish a single committee for tariff regulation. While the signed plan grants the Federal Energy Commission (FEC) the status of a unified committee, we believe that the political struggle between the Ministry of Economic Development and Trade and the FEC is far from over.
August 7	The signing of a law on JVs will reduce corporate governance risks and improve the investment climate. We believe that the approval of this bill will help reduce corporate governance risks, one of the main reasons why many Russian stocks remain very volatile. The law will play only a supportive role, and the issue of corporate governance can only be resolved if companies were to have strong incentives to improve their reputations and transparency.
August 9	We raise our 2001 GDP growth forecast to 4.5% on upgrade of Brent oil price forecast to \$26.4/bbl. Higher oil prices led us to upgrade our investment growth forecast from a previous 9.4% to 12.5%. Our real GDP growth forecast for 2001 is now 4.5%, up from a previous 3.5%. We expect GDP in 2002 to grow 3.2%, compared to our previous estimate of 2.5%.
August 13	1.2% GDP surplus in 2002 budget lowers the odds of a stabilization fund a la Illarionov. Compared to June's previous draft, non-interest expenditures were increased by R97 bln to 12.5% of GDP. The stabilization fund will be created should revenues exceed an expected 18.8% of GDP.
August 16	5.4% y-o-y industrial production growth in 7M01 confirms our 4.5% GDP growth forecast. A breakdown by sector shows that compared to 1H01, output continued to be supported by the fuel and food industries. At the same time, the metals sector put in the worst performance, particularly ferrous metals, which are stagnating this year.
August 17	2002 tariff growth plan (UES 32%, Gazprom 20%, Railways 18%) supports our 15% '02 inflation forecast. 5.5% y-o-y industrial production growth in 1H01 was due to faster growth in 2Q01. At the same time, we maintain our 15% inflation forecast for 2002, as the ceiling for future tariff hikes seems high. In 2001, both gas and electricity tariffs grew 18%. The possibility that UES' tariffs will rise by 32% in 2002 keeps us concerned that tariffs will continue to drive inflation.

Source: Alfa Bank estimates

Corporate and Industry News

Konstantin Reznikov
(7 095) 795-3612

Oil stocks outperformed the RTS in August

LUKoil should be seen as a less promising stock

LUKoil to published 1Q01 report, Sibneft to receive rating

Oil and Gas

Oil stocks outperformed the RTS Index in August as result of growth in crude oil prices and an upgrade of the average oil price forecast for 2001. Several corporate stories also pushed Russian stocks higher at the end of the month. First, Sibneft's significant oil production growth and abnormal interim dividend of \$612 mln stimulated interest in the company's shares. Due to the low liquidity of Sibneft stock (free-float of 12%), the company's shares skyrocketed 46% over the course of six trading sessions. However, low liquidity can also result in a fall of the company's share price should investors begin taking profits.

The risk of an overhang of LUKoil shares this autumn is leading investors to switch into other oil stocks, mainly Surgutneftegaz and Yukos. Although we believe that LUKoil itself may buy a significant portion of its shares, in our view the company should be seen as a less promising stock. Moreover, LUKoil's premium to other oil stocks should become exaggerated in the future as it loses its leading position in many areas (transparency, production growth etc).

LUKoil will publish its 1Q01 report at the beginning of September, representing the second quarterly report by a Russian oil company (Yukos published its results in July). However, 1Q01 is not a good indicator for industry performance this year due to the presence of high export taxes.

We also expect news from Sibneft, which expects Moody's to announce its rating for the company's Eurobonds at the end of September/early October.

Gazprom

Figure 33. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	17,107.6	17,938.2	17,068.9	17,262.2
EBITDA, \$ mln	4,998.6	6,495.1	5,833.2	6,064.7
Net profit, \$ mln	2,665.9	2,932.5	2,823.6	3,018.0
P/E	3.8	3.5	4.2	3.9
EV/EBITDA	5.1	3.9	4.4	4.2
Market Cap (\$ mln)	13,565.7			
Enterprise Value (\$ mln)	25,465.7			
Production, bcm	3.2			
Reserves, bcm	184.1			
Shares Outstanding (mln)	23,673.5			

Sources: Company reports, Alfa Bank estimates

Figure 34. Company Snapshot

Strengths

- Large portion of revenues (63%) derived from exports
- Strong position on the European gas market (exports 131 bcm)

Weaknesses

- Low domestic gas prices (\$13-16 per thousand cm)
- Non-payments for gas deliveries (\$3.4 bln)

Opportunities

- New export-pipeline projects (aim to increase exports to 175-200 bcm)
- Domestic gas prices to rise faster than inflation

Threats

- Government holds 38% of the company's shares
- Division into production and transportation companies

Sources: Company reports, Alfa Bank estimates

Figure 35. Key Events

Date	Event
August 1	Gazprom's board of directors postpones the return of assets from Itera; market is unimpressed. The board examined the audit report by PriceWaterhouseCoopers regarding links between Gazprom and its counter-party Itera, but effectively postponed a decision on the recommended return of Purgaz. Instead, the board ordered the management committee to prepare a concrete plan to implement the recommendations of the auditor's report. Although the issue of regaining control over Zapsibgazprom (another previously majority-owned subsidiary) was approved in principle, questions regarding the transfer of the E&P license covering the south Russian field to Severneftegazprom were left unanswered. Combined with delays in the working group's recommendations regarding the ring fence, this unwillingness to make quick improvements at the company has some investors suspicious about the government's actual intentions towards Gazprom.

Source: Alfa Bank estimates

LUKoil

Figure 36. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	12,840.8	12,258.9	12,227.3	12,801.9
EBITDA, \$ mln	5,014.5	4,685.7	4,592.2	4,906.5
Net profit, \$ mln	3,386.7	3,080.7	3,170.0	3,287.1
P/E	2.4	2.6	2.6	2.5
EV/EBITDA	1.8	1.9	2.0	1.9
Market Cap (\$ mln)	8,966.6			
Enterprise Value (\$ mln)	9,094.0			
Production, mln boe	567.2			
Reserves, mln boe	14,243.0			
Shares Outstanding (mln)	815.6			

Sources: Company reports, Alfa Bank estimates

Figure 37. Company Snapshot

Strengths	<ul style="list-style-type: none"> Large proved reserves totaling 18.7 bln barrels Dominant position on the Russian (22%) and Balkan oil markets
Weaknesses	<ul style="list-style-type: none"> Domestic sales of 15-18 mln tons of crude oil Significant debt position (\$2.7 bln)
Opportunities	<ul style="list-style-type: none"> Level 3 ADR issue in 2H2001 Development of East European assets (40% of refining capacity)
Threats	<ul style="list-style-type: none"> \$300 mln capex write-off in the event of low Caspian reserves Oversupply of shares from BP Amoco stake and future privatization

Sources: Company reports, Alfa Bank estimates

Figure 38. Key Events

Date	Event
August 8	LUKoil plans to invest \$4-5 mln in Odessa refinery to secure 9% of the company's refining capacity. LUKoil has asked the Ukrainian government to lower obligatory deliveries of crude oil to Odessa refinery from 2.4 mln tons to 1.8 mln tons per year. To compensate for the difference, LUKoil is offering to invest \$4-5 mln in modernization of the refinery. We do not expect LUKoil to lose control over Odessa refinery. The investment of \$4-5 mln in its modernization is insignificant (0.2%) in terms of LUKoil's total annual capex program. Most likely, the Ukrainian government will accept the company's offer.
August 15	LUKoil published its 2000 U.S. GAAP financials. The company's revenues rose 80% to \$13.2 bln in 2000 according to U.S. GAAP accounting standards, or 9.9% above our forecast. At the same time, LUKoil's operating profit was lower than we expected. The company's net profit figure was \$3.3 bln, or 3.1% above our forecast as a result of lower income tax payments. LUKoil's effective tax rate was 14.3% in 2000, compared to our expected 16% for the period. However, LUKoil is trading at a discount to EM companies. We do not believe that these 2000 U.S. GAAP financials will boost investment in LUKoil stock due to the company's premium to Yukos and Surgutneftegaz.
August 21	LUKoil consolidated stakes in its joint ventures in the Timan-Pechora and Urals regions and added 524 mln barrels of proved reserves. LUKoil spent \$200 mln on these acquisitions in 2000-2001, and therefore the company paid about \$0.70 per barrel of reserves compared with its own valuation of \$0.70 per barrel. We believe that these acquisitions are positive for the transparency of LUKoil's operations and will serve as a base for the company's future expansion in these regions.
August 28	LUKoil strengthens its position in Belarus ahead of presidential elections via \$1 bln investment pledge. According to company president Vagit Alekperov LUKoil may invest in Belarus' petrochemical industry, particularly Naftan refinery and Polimer plant, over the next 10-15 years This investment would represent the company's largest in the petrochemical industry. Naftan refinery has a capacity of 170,000 bpd, or one-third of Belorussian refining capacity. We believe that this announcement is largely political in nature and may be aimed at building support for Alexander Lukashenko's presidential campaign.

Source: Alfa Bank estimates

Sibneft

Figure 39. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	3,118.0	3,095.8	3,210.4	3,462.7
EBITDA, \$ mln	1,529.2	1,550.8	1,694.7	1,901.0
Net profit, \$ mln	842.0	776.8	892.6	1,029.1
P/E	3.1	3.4	2.9	2.6
EV/EBITDA	1.9	1.9	1.7	1.5
Market Cap (\$ mln)	2,631.4			
Enterprise Value (\$ mln)	2,934.2			
Production, mln boe	124.8			
Reserves, mln boe	4,644.0			
Shares Outstanding, mln	4,741.3			

Sources: Company reports, Alfa Bank estimates

Figure 40. Company Snapshot

Strengths	<ul style="list-style-type: none"> Professional management Owns Russia's most advanced refinery with 81% refining depth
Weaknesses	<ul style="list-style-type: none"> Low (12%) free float Refinery far from export markets, exports only 18% of products
Opportunities	<ul style="list-style-type: none"> 10.5% higher crude oil production in 2001 due to increased capex Received 33% of ONAKO
Threats	<ul style="list-style-type: none"> Full (88%) control of the company by a small group of shareholders

Sources: Company reports, Alfa Bank estimates



Figure 41. Key Events

Date	Event
August 2	ONACO's swap supports our \$0.58 target price for Sibneft and 39% upside to current price. Sibneft and TNK have begun to consolidate ONACO's subsidiaries into a single share. In order to facilitate the consolidation, ONACO will issue 516 mln shares. According to the previous agreement, as a result of consolidation Sibneft will receive 33.3% of ONACO. Shareholders of ONACO who do not agree with the additional share issue may sell their stock at \$1.53, as valued by Ernst & Young. This consolidation will finalize the deal between Sibneft and TNK.
August 20	Sibneft will pay \$612 mln in dividends; we downgrade to HOLD on growing uncertainty. Sibneft has announced interim dividends of R3.79 per share on a total payout of \$612 mln. This dividend represents a 30% yield, but the ex-dividend date was August 3. It is already too late to buy Sibneft shares on a dividend story. In light of the company's high expected net profit (RAS) this year, we believe that core shareholders may be seeking to raise cash from the company in order to fund other projects. Another, less likely explanation for the company's actions, which management has denied, is the withdrawal of cash by core shareholders before a sell-off to Surgutneftegaz or another company.
August 24	Sibneft received a three-year \$250 mln loan from ABN Amro at LIBOR+3.75%. The company is also considering the placement of \$250 mln in Eurobonds before year's end. Sibneft plans to use this loan to help pay for previous credits. We expect Sibneft's debt to total around \$750 mln as of December 31, 2001. The cost of debt, and this loan in particular, is favorable for the company's average cost of capital. Nevertheless, the recently announced \$612 mln dividend payment raises questions about corporate finance strategy, and we therefore keep our HOLD recommendation on Sibneft stock.

Source: Alfa Bank estimates

Surgutneftegaz

Figure 42. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	6,272.5	6,175.5	6,504.2	7,279.4
EBITDA, \$ mln	3,659.1	3,510.7	3,702.5	4,222.4
Net profit, \$ mln	2,900.2	2,779.4	2,894.8	3,221.4
P/E	3.3	3.4	3.3	3.0
EV/EBITDA	2.9	3.0	2.9	2.5
Market Cap (\$ mln)	10,663.3			
Enterprise Value (\$ mln)	10,663.3			
Production, mln boe	373.3			
Reserves, mln boe	6,820.0			
Shares Outstanding (mln)	43,428.0			

Sources: Company reports, Alfa Bank estimates

Figure 43. Company Snapshot

Strengths	<ul style="list-style-type: none"> Lowest (0.02) debt-to-equity ratio among Russian oil companies More than 75% of revenues are denominated in hard currency
Weaknesses	<ul style="list-style-type: none"> Low dividend payout ratio (4-5%) Refinery is one of Russia's most obsolete (54% refining depth)
Opportunities	<ul style="list-style-type: none"> Development of new reserves in Timan Pechora and Eastern Siberia \$800 mln modernization of Kinef refinery by 2005
Threats	<ul style="list-style-type: none"> Company controlled by management (71%) Dilution from possible swap of preferred for common shares

Sources: Company reports, Alfa Bank estimates

Figure 44. Key Events

Date	Event
August 10	Surgutneftegaz's 1H2001 net profit down 18% to \$990 mln, lower than our forecast. SurgutNG failed to achieve our expected 3% growth in revenues, which should have compensated for higher costs. The company's revenues were slightly down, while costs jumped 21%. However, we expect an improvement in the net figures during the second half of 2001, as export duties are now lower than at the beginning of the year. The worse-than-expected figures do not mean that investors should sell SurgutNG, as the stock is still cheaper than both Yukos and LUKoil. Moreover, the company's net margin of 39% in 1H2001 was still the highest in the industry. We leave our annual forecasts for Surgutneftegaz unchanged and keep our BUY recommendation on the company's stock.

Source: Alfa Bank estimates

Tatneft

Figure 45. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	4,611.3	3,478.5	3,392.9	3,403.9
EBITDA, \$ mln	1,660.5	1,515.7	1,406.7	1,339.6
Net profit, \$ mln	881.1	962.2	911.3	872.7
P/E	1.3	1.2	1.2	1.3
EV/EBITDA	0.9	1.0	1.0	1.1
Market Cap (\$ mln)	1,156.1			
Enterprise Value (\$ mln)	1,476.0			
Production, mln boe	176.7			
Reserves, mln boe	5,944.0			
Shares Outstanding (mln)	2,326.2			

Sources: Company reports, Alfa Bank estimates

Figure 46. Company Snapshot

Strengths	<ul style="list-style-type: none"> One of Russia's most transparent oil companies New technology helps keep production at 24 mln tons
Weaknesses	<ul style="list-style-type: none"> Tatarstan government holds 31.1% stake Undeveloped downstream operations comprise only 25% of revenues
Opportunities	<ul style="list-style-type: none"> Construction of \$820 mln modern refinery by 2008 Two-year restructuring of \$356 mln in short-term debt
Threats	<ul style="list-style-type: none"> Possible conversion of 10% of restricted shares 70% exhaustion of reserves base will lower production

Sources: Company reports, Alfa Bank estimates

**Figure 47. Key Events**

Date	Event
August 17	Tatneft's 1H01 RAS net profit up 25% to \$268 mln on higher output, we confirm our SPECULATIVE BUY rating. Tatneft's revenues declined 12.2% to \$1.47 bln in 1H01. The main reason for this was a decrease in oil and oil product prices this year, and we expect a 14.7% drop in revenues in 2001 according to U.S. GAAP. The company improved its pre-tax and net margins over the first six months of 2001 to 25.6% and 18.2%, respectively. We expect Tatneft to report higher revenue and net profit figures for 1H01 according to U.S. GAAP due to differences in accounting principles and additions stemming from greater consolidation of the company's financials.

Source: Alfa Bank estimates

Yukos

Figure 48. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	9,107.2	8,677.9	8,692.5	8,930.9
EBITDA, \$ mln	4,949.7	4,574.6	4,510.2	4,615.5
Net profit, \$ mln	3,457.7	3,370.3	3,360.1	3,496.5
P/E	2.4	2.4	2.4	2.3
EV/EBITDA	1.6	1.8	1.8	1.8
Market Cap (\$ mln)	8,142.6			
Enterprise Value (\$ mln)	8,142.6			
Production, mln boe	362.1			
Reserves, mln boe	11,769.0			
Shares Outstanding (mln)	2,237.0			

Sources: Company reports, Alfa Bank estimates

Figure 49. Company Snapshot

Strengths	<ul style="list-style-type: none"> Largest Russian oil company in terms of crude refining (26 mln tons) Well-diversified assets throughout Russia
Weaknesses	<ul style="list-style-type: none"> Low (14%) free float
Opportunities	<ul style="list-style-type: none"> Increase of free float to 30-35% within 5-7 years Modernization of gasoline-station network and refineries by 2005
Threats	<ul style="list-style-type: none"> Company fully controlled by management

Sources: Company reports, Alfa Bank estimates

Figure 50. Key Events

Date	Event
August 1	UBS Warburg issued up to \$250 mln in bonds convertible into Yukos shares. The three-year bonds, issued on behalf of Yukos' core shareholders, will help increase free-float by 15-20% within seven years. Based on current valuations, this bond issue may be converted into 3.1% of Yukos shares at any time over the next three years should Yukos' share price be between 33% and 38% higher than Yukos' current price. The bond will pay an annual coupon of 1.5-2.0%. We believe that some investors will prefer to switch from Yukos shares to UBS bonds, which have a significantly higher rating. Therefore, in the short-term, we expect selling pressure on Yukos stock. However, in the longer-term, this program will help boost the company's free-float and reduce the stake of core shareholders.
August 22	Shareholders of the Lithuanian oil concern Mazheikiu Nafta (MN) approved a reduction in share capital and a new two-stage share issue that will give Yukos a 26.85% stake. We commented on this earlier this year, but Yukos later ran into difficulties finalizing the deal. This approval by shareholders and the Lithuanian parliament gives Yukos the ability to supply 4.8 mln tons of crude oil annually to Mazheikiu refinery as well as access to Butinge oil terminal, which has an export capacity of 8 mln tons. Yukos will pay \$75 mln for the stake and provide a \$75 mln loan to MN. This positive step will help Yukos balance its upstream and downstream assets and provide the company with an advantageous position along this export route.
August 24	Yukos and U.S. Marathon Oil agreed to form a strategic alliance to consider joint energy projects worldwide. The companies will establish a working group to examine international investment opportunities, and the group is likely to submit its proposals before year's end. We do not expect this announcement to have a significant impact until after the release of detailed proposals. However, this alliance and a joint project with Hungary Mol in Western Siberia is helping the company expand its operations abroad and set it apart from other Russian holdings.
August 28	Yukos and LUKoil will bid on 15-30% of Hellenic Petroleum at up to \$0.5 bln. Hellenic Petroleum is Greece's largest refining and retail company, controlling more than half of the country's oil product market and almost all of Macedonia's oil product market via its network of close to 1,500 gasoline stations. The Greek government plans to sell 15-30% of the company, which has a total market capitalization of \$1.7 bln. Austria's OMV also submitted a bid for this stake, and we therefore expect strong competition. Although Russian oil companies have significant cash positions, Central European companies will enjoy political advantages during the privatization.

Source: Alfa Bank estimates

Natalya Sazhina
(7 095) 795-3736

Olga Filippova
(7 095) 795-3735

WM administrator to be created in September

Utilities

At the beginning of August Mikhail Kasyanov signed a restructuring action plan covering the next twelve months. According to this plan, most legislative proposals will appear in September (see Figure 51 below). Two new companies will also be created in September – an administrator for the wholesale market (WM) trading system and a unified nuclear power generating company.

According to the reform program, market participants must create the WM administrator as a non-commercial organization. The program, however, is



vague regarding how and to what degree each participant will participate in operational control. Rosenergoatom, Russia's nuclear holding, has proposed limiting each member of the WM to 20%.

In general, the WM administrator is a relatively powerful entity, as one of its major functions is to collect money from users of the Federal Grid Company's services. This is currently being done by the Wholesale Market Payment Center, an 80% UES subsidiary that handles about \$2 bln in FOREM turnover.

Figure 51. Key Tasks and Main Risks of Asset-Restructuring Plan in 3Q & 4Q 2001

Date	Task	Risks
Sep '01	Legal framework	
Sep '01	Civil Code, changes regarding competition in power sector	Slow approval
Sep '01	Law on tariffs, changes	Slow approval
Oct '01	Law on power sector, new	Slow approval
Oct '01	Law on natural monopolies, changes	Slow approval
Nov '01	Law on competition, changes	Slow approval
4Q '01	Changes in Presidential Decrees	Slow approval
	Preparation for reform	
3Q '01	Property registration for elaboration of real estate rules	Execution
4Q '01	Fuel program for transition period	Limits on supply
4Q '01	Property inventory for companies in the power sector	Execution
4Q '01	Development program to settle power sector debt	Efficiency
4Q '01	Approval of accounting rules based on utility function	Execution
	Regulatory framework	
4Q '01	Approval of new policy for setting of tariffs	Execution
	Power grid restructuring	
3Q '01	Resolution on classification of lines	Efficiency
3Q '01	Establishment of administrator for WM trading system	Efficiency
4Q '01	Establishment of 100% UES-controlled power grid (FGC)	Asset-stripping
	Generator restructuring	
3Q '01	Establishment of a unified nuclear power generating company	Efficiency
4Q '01	Approval of preconditions for wholesale generating companies	Asset-stripping
	Wholesale market (WM) restructuring	
4Q '01	Elaboration of WM development program	Efficiency

Source: Government of the RF

We will receive more details on regional utility transmission lines to be transferred to the FGC, as the resolution on line classification will appear in September. However, the FGC itself will be created only at year's end.

We do not anticipate any surprises regarding 2000 IAS results

We believe another catalyst will be the announcement of UES' consolidated results for 2000 according to IAS. However, we expect this to have only a minor effect on the market, as UES has already released IAS results for 1H2000 and 9M2000. Thus, the full-year results will not surprise investors.

UES

Figure 52. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	13,001.3	14,122.0	14,619.4	15,582.9
EBITDA, \$ mln	2,210.7	2,573.5	0.0	3,389.0
Net profit, \$ mln	443.6	558.4	756.9	847.5
P/E	10.2	8.1	6.0	5.4
EV/EBITDA	2.5	2.1	114,509.0	1.6
Market Cap, \$ mln	4,623			
Enterprise Value, \$ mln	5,491			
Production, TWh	622			
Capacity, GW	156			
Shares Outstanding (mln)	42,117			

Sources: Company reports, Alfa Bank estimates

Figure 53. Company Snapshot

Strengths	<ul style="list-style-type: none"> Market proxy (Russia's most liquid stock) Benefits from any improvement in Russia's macro situation
Weaknesses	<ul style="list-style-type: none"> Obsolete equipment (59% accumulated depreciation)
Opportunities	<ul style="list-style-type: none"> Tariff increase in electric power will exceed gas tariffs increase in 2002 (32% and 20% limits) Potential winner of restructuring: market will fairly value assets
Threats	<ul style="list-style-type: none"> Asset-stripping and dilution risks related to restructuring

Sources: Company reports, Alfa Bank estimates

**Figure 54. Key Events**

Date	Event
August 3	Mikhail Kasyanov signed a plan containing measures to be undertaken during the initial stage of restructuring of the utilities sector. As stipulated in the restructuring program signed by the government in July, the Federal Grid Company (FGC) will be created in 4Q2001. Prior to this (in the third quarter), the government must elaborate and even adopt a special resolution on transmission lines that determines which lines are to be considered as transmission and which as distribution.
August 20	UES to deliver up to \$60 mln/year of electricity to Ukraine after 70% debt reduction to \$38 mln. In 1998 Ukraine was the second-largest country to be supplied with electricity by UES. However, Ukraine received its power virtually for free: that year the country paid only 1% of its bills, totaling \$84 mln. Then, starting in 1999, UES decided to stop delivering electricity to Ukraine. Yesterday, the two countries agreed to resume electricity deliveries. UES will deliver electricity to Ukraine only on the condition of full payment. Electricity tariffs will fluctuate from 1.4 to 1.65 cents/kWh, depending on volume, and the transportation tariff will be 0.3 cents/kWh (the average tariff for Russian users in 1H2001 was 1.5 cents/kWh). According to UES, total revenue could amount to \$5 mln per month (\$60 mln per year). UES also wants to use Ukraine's power system to transmit electricity to Moldova.
August 21	UES' 1H01 RAS sales up 30% to \$7.5 bln on higher power (40%) and heat (36%) tariffs. UES' consolidated revenue for 1H2001 increased by 37% to \$7.5 bln on higher electricity (40%) and heat (36%) tariffs. UES' operating income totaled \$1,302 mln in 1H2001, or 67% more y-o-y. Net profit was \$508 mln, or 35% more y-o-y. Operating margin grew from 14.3% to 17.3%, while net margin of 6.8% unchanged. While only a few utilities have reported their financial results for 1H2001, UES' operating margin of 17.3% looks rather impressive. Accounts receivable declined by 4% and accounts payable was down 6%. Communal housing remains the main debtor, with a 37% share of receivables as of July 1, 2001. However, it is finally beginning to repay its arrears: the sector's collection rate amounted to 105% in 2Q2001. The average collection rate in 2Q2001 was 95% (85% for the entire first half). Accounts payable still exceeds accounts receivable. As of the end of the second quarter, payables totaled \$7,351 mln as opposed to receivables of \$6,837 mln.
August 22	The Anti-Monopoly Ministry accused UES of failing to provide transmission and dispatching services to Rosenergoatom (REA), which had intended to export electricity to Georgia. The latter signed an agreement with Germany's RWE regarding exports several months ago. This provides an example of some possible risks during restructuring of the energy sector. On several occasions, UES declared that it wanted to create a free market for electricity with fair dispatch. But in reality, UES controls transmission and dispatching. The company directs about \$2 bln in turnover on FOREM through its 80% subsidiary (Wholesale Market Payment Center) and will retain this control indefinitely.
August 24	Rosenergoatom breaks UES' \$213 mln export monopoly via ruling on Georgian contract. The Anti-Monopoly Ministry ruled against UES' decision to prohibit Rosenergoatom's electricity exports to Georgia. The Ministry found that UES had violated anti-monopoly regulations and ordered UES to resolve the conflict as soon as possible. The event should be seen as a precedent. Following in Rosenergoatom's footsteps, Irkutskenergo, another independent generator, will soon begin exporting excess electricity to Kazakhstan. There is direct evidence of competition among various generators for power exports, and the transmission must offer equal conditions to any participants.

Source: Alfa Bank estimates

Mosenergo

Figure 55. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	1,299.5	1,461.0	1,536.7	1,658.7
EBITDA, \$ mln	320.5	415.3	336.2	463.9
Net profit, \$ mln	11.6	80.3	96.9	145.3
P/E	86.2	12.5	10.4	6.9
EV/EBITDA	4.7	3.6	4.5	3.2
Market Cap, \$ mln	1,003.5			
Enterprise Value, \$ mln	1,502.9			
Production, TWh	68.9			
Capacity, GW	14.8			
Shares Outstanding (mln)	28,267.0			

Sources: Company reports, Alfa Bank estimates

Figure 56. Company Snapshot

Strengths

- Strong customer base guarantees stable collections
- Russia's largest and most liquid regional utility

Weaknesses

- Must redeem Eurobonds in October 2002 (\$155 mln in principal)

Opportunities

- Sales to other utilities at open auctions (up to 5% of electricity sales)

Threats

- New general director may be more dependent on UES management

Sources: Company reports, Alfa Bank estimates

Figure 57. Key Events

Date	Event
August 10	Mosenergo announced 1H2001 RAS financial results. The company's 26% operating margin is very positive. Should no tariff changes occur before year's end, this would allow Mosenergo to keep its operating margin within a range of 15-18%. Mosenergo's main catalysts are the company's September 1 EGM (which will replace the company's general director) and restructuring, which is scheduled to occur as soon as 4Q2001.
August 14	Communal housing reform to begin in October in Moscow region. A pilot project beginning in Zelenograd (near Moscow) calls for residents to begin paying more for electricity, heat and other communal housing services. The reform of subsidy policy is also planned. In 1H01, residents paid an average of 1.0 cents/kWh, while the average tariff amounted to 1.8 cents/kWh. Resellers paid much less – only 0.7 cents/kWh. As usual, the communal housing sector was subsidized by industrial customers, whose average tariff in 1H01 totaled 2.1 cents/kWh. Communal housing consumed 34% of Mosenergo's electricity in 1H2001, and large industry – 23%. The share of communal housing in heat supply in 1H01 was 56%, while the tariff was 3% below the average level.

Source: Alfa Bank estimates

Lenenergo

Figure 58. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	543.7	633.5	705.2	782.8
EBITDA, \$ mln	96.9	128.0	40.6	44.4
Net profit, \$ mln	29.2	50.8	69.7	89.2
P/E	6.0	3.5	2.5	2.0
EV/EBITDA	2.3	1.7	5.4	4.9
Market Cap, \$ mln	191.0			
Enterprise Value, \$ mln	219.1			
Production, TWh	7.9			
Capacity, GW	5.3			
Shares Outstanding (mln)	897.3			

Sources: Company reports, Alfa Bank estimates

Figure 59. Company Snapshot
Strengths

- Significant (14%) stake held by foreign strategic investors
- Professional, pro-active new management team

Weaknesses

- 34% of electricity and 73% of heat supplied to subsidized customers

Opportunities

- Export potential due to location: to Finland and Nordpool countries (2% of total current supply)
- Issue of Level 2 ADRs (Fall '01) to improve stock liquidity

Threats

- May lose 39% of capacity given end of Kirishi GRES' lease

Sources: Company reports, Alfa Bank estimates

Figure 60. Key Events

Date	Event
August 10	<p>Lenenergo reported \$279 mln in net revenues during 1H2001. The company's electricity sales rose 79% to \$197 mln while heat sales increased 73% to \$79 mln. Revenues grew at a much faster rate than did the cost of goods sold – 76% as opposed to 50%. We would attribute any further rise in costs in the second half of the year to a possible hike of gas tariffs in 4Q2001.</p> <p>Lenenergo's operating income totaled \$39 mln in 1H2001, whereas the company reported an operating loss of \$2 mln in the same period last year. Since only a few electric utilities have reported their financial results for 1H2001, we cannot yet compare Lenenergo's performance with the sector average. However, in our view, Lenenergo's operating margin of 14% is rather impressive, despite being lower than Mosenergo's preliminary figure of 26%.</p> <p>The reduction of receivables represents a major achievement in 2Q2001. Accounts receivable declined by 12.5% since the beginning of the year. The communal housing sector reduced its indebtedness by 24%, but remains Lenenergo's largest debtor with a 53% share in total receivables.</p>

Source: Alfa Bank estimates

Irkutskenergo

Figure 61. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	323.5	352.7	379.1	418.0
EBITDA, \$ mln	76.0	95.4	114.8	132.3
Net profit, \$ mln	-42.4	-17.0	17.9	35.7
P/E	-9.0	-22.4	21.3	10.7
EV/EBITDA	5.8	4.6	3.8	3.3
Market Cap, \$ mln	381.4			
Enterprise Value, \$ mln	437.9			
Production, TWh	53.8			
Capacity, GW	12.9			
Shares Outstanding (mln)	4,767.0			

Sources: Company reports, Alfa Bank estimates

Figure 62. Company Snapshot
Strengths

- Excess capacity, low-cost producer [70% of capacity (over 9GW) is hydro]
- Export-oriented industrial customers (2/3 of company's total revenue)

Weaknesses

- Pressure from the company's main clients-owners hampers tariff growth

Opportunities

- Good competitive potential given market liberalization
- May boost electricity supply to WM in the short-term

Threats

- Asset-stripping in favor of aluminium companies

Sources: Company reports, Alfa Bank estimates

Figure 63. Key Events

Date	Event
August 16	<p>Irkutskenergo's 1H01 RAS net income of \$6 mln down 82% y-o-y on low tariffs and expensive coal. While costs grew 41% over this six-month period, revenues were up only 10%. Two main factors influenced these poor results: tariff reductions and rising coal prices.</p> <p>After aluminum companies started paying 0.7 cents/kWh in 4Q2000 instead of 1.05 cents/kWh according to a five-year agreement, Irkutskenergo began to experience financial difficulties. Meanwhile, tariffs for other consumers remained extremely low. Deliveries on FOREM were at the lowest possible level in 2000 as well as at the beginning of 2001, for the same reason – low tariffs (5.25 kopecks/kWh, or 0.18 cents/kWh). The Federal Energy Commission revised electricity tariffs for the wholesale market and doubled them after June 1. Irkutskenergo reacted immediately by agreeing to quadruple its supplies to FOREM.</p> <p>Another factor that led to deterioration of the company's 1H2001 financial results was coal prices. Coal is Irkutskenergo's only source of fuel. While the company paid R108 (\$3.7) per ton in 4Q2000, in 1Q2001 Irkutskenergo paid R145, and R175 in 2Q2001. We believe that the price of coal could reach R250 per ton by the end of 2001. This requires a revision of tariffs by the local energy commission.</p>

Source: Alfa Bank estimates



Andrei Bogdanov

(7 095) 795-361

Elena Rogovina

(7 095) 795-3742

Regional telcos to hold EGMs at the end of September

Telecoms

Urals region telcos will hold their EGMs at the end of September. The main topic to be discussed will be the approval of swap ratios for consolidation into the Urals PRT (pan-regional telecom). The swap ratios and EGM dates are as follows:

Figure 64. Regional Telecom Swap Ratios and EGM Dates

Company	Swap ratio	EGM Date	Ex-dividend date
Uralsvyazinform	N/M	September 27	July 29
Chelyabinsk SI	1316.738	September 26	July 30
Uraltelcom	604.5519	September 26	July 29
Tyumentelcom	169.2646	September 25	July 28
KhantyMansiiskokrTelecom	161.223	October 12	August 17
Yamal ES	220.7576	September 27	July 30
Kurgan ES	133.3026	September 24	June 26

Note: N/M – not meaningful

Source: Company reports

Difficulties may arise at EGMs regarding the approval of swap ratios

We believe that difficulties may arise at KhantyMansiiskokrTelecom's EGM, as the company received a substantially lower swap ratio than the market had expected. This ratio requires the approval of 75% of shareholders, thus creating the possibility that the company will vote against the proposed figure (Svyazinvest controls only 51% of votes). However, we do not expect the financial consultants in any macro region to revalue the swap ratios, even should some of the companies reject them.

Also, Gamma Group will announce the swap ratios for regional telecoms in the Volga region PRT in September.

Sonic Due to begin Moscow operations at the end of September

We expect Moscow's third GSM operator Sonic Duo to begin operations at the end of September (September 22 was announced as the projected date). We do not expect Sonic Duo's entrance to have a major impact on Moscow's mobile market in the short-term. However, this is based on the assumption that the company will not embark on another price war, which we believe would be very negative for the market. Thus far, Sonic Duo has indicated that it has no such intention and that it will try to build market share based on its high-quality service. Nevertheless, we expect Sonic Duo to grab only 5% and 11% of the Moscow mobile market by the end of 2002 and 2005, respectively. In the short-term, the company's main obstacle will be poorer coverage in Moscow region compared with MTS and VimpelCom.

Alternative Operators

Golden Telecom

Figure 65. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	144.3	180.2	199.1	222.6
EBITDA, \$ mln	20.9	28.1	43.9	64.6
Net profit, \$ mln	(6.1)	4.3	9.6	17.3
P/E	(41.2)	59.4	26	14.6
EV/EBITDA	11.3	8.4	5.4	3.7
Market Cap, \$ mln	252.8			
Enterprise Value, \$ mln	236.3			
Shares Outstanding (mln)	24.1			

Sources: Company reports, Alfa Bank estimates

Figure 66. Company Snapshot

Strengths

- Large cash position
- Provides a full range of telecom and Internet-related services
- Alfa Group's arrival as a strategic investor

Weaknesses

- Lack of attractive mobile assets

Opportunities

- Acquisition of 50% stake in Sovintel from Rostelecom
- May capitalize on economies of scale in ISP business

Threats

- Limited growth of Internet market could limit company's growth rates

Sources: Company reports, Alfa Bank estimates

**Figure 67. Key Events**

Date	Event
August 9	GTI reports 2Q01 and 1H01 results; revenues and EBITDA up 5.0% and 8.2%, respectively. The company's quarterly net loss declined to \$3.5 mln from \$3.9 mln the previous quarter. All lines of GTI's business showed q-o-q revenue growth, including the somewhat depressed mobile business, which posted the strongest revenue growth shown by a Russian long-distance carrier (8.3%).

Source: Alfa Bank estimates

MTS**Figure 68. Key Financial Indicators**

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	790.4	994.6	1,000.9	1,002.6
EBITDA, \$ mln	312.2	427.7	435.4	455.7
Net profit, \$ mln	121.8	182.7	184.4	187.0
P/E	21.4	14.2	14.1	13.9
EV/EBITDA	8.4	6.2	6.1	5.8
Market Cap, \$ mln	2,601.3			
Enterprise Value, \$ mln	2,636.9			
Subscribers, '000 sub.	2,499.5			
ADRs Outstanding, mln	99.7			

Sources: Company reports, Alfa Bank estimates

Figure 69. Company Snapshot**Strengths**

- Excellent growth momentum with the largest share of business subs
- Very strong financial position
- Entry to the strategic St. Petersburg mobile market

Weaknesses

- Frequent network failures in Moscow
- Low free-float

Opportunities

- Capitalizing on growth in Internet and data-related services

Threats

- To lose interconnect privileges
- MGTs' potential acquisition by Svyazinvest to increase interconnection

Sources: Company reports, Alfa Bank estimates

Figure 70. Key Events

Date	Event
August 6	MTS signs its 2 millionth subscriber; Moscow market share jumps to 58% in 2Q01. As a result, we estimate that MTS' share of net additions in the Moscow mobile market in 2Q01 was approximately 65%, and that the company increased its share of the Moscow mobile market from 55% at the end of 1Q01 to 58% at the end of 2Q01.
August 17	30% rise in subs boosts MTS' 2Q01 net profit 12% to \$35 mln; we upgrade to BUY, target \$31. MTS' financial results for 2Q2001 were substantially above market expectations. Revenues were up 23.8% q-o-q while EBITDA and net profit rose 3.7% and 12.2%, respectively.

Source: Alfa Bank estimates

VimpelCom**Figure 71. Key Financial Indicators**

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	359.3	465.1	505.1	550.0
EBITDA, \$ mln	113.0	166.7	185.5	219.2
Net profit, \$ mln	28.0	56.9	67.0	85.0
P/E	30.2	14.8	12.6	9.9
EV/EBITDA	7.4	5.0	4.5	3.8
Market Cap, \$ mln	844.4			
Enterprise Value, \$ mln	831.5			
Subscribers, '000 sub.	924.9			
ADRs Outstanding, mln	46.9			

Sources: Company reports, Alfa Bank estimates

Figure 72. Company Snapshot**Strengths**

- Best GSM network in Moscow
- Most attractive tariffs
- Alfa Group's arrival as a strategic investor

Weaknesses

- Many low-end subscribers

Opportunities

- Lowering of interconnect payments due to changes in Moscow mobile market

Threats

- Another price war could slash margins
- Lack of a presence in the strategic St. Petersburg market

Sources: Company reports, Alfa Bank estimates

Figure 73. Key Events

Date	Event
August 23	VimpelCom's 2Q01 results 12-30% above expectations; EBITDA up 29% to \$36 mln. We attribute VimpelCom's strong financial performance to seasonal factors, continuing economic recovery and a higher share of business users in the Moscow market, now estimated by the company at 35%.

Source: Alfa Bank estimates

Traditional Operators

MGTS

Figure 74. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	238.4	213.3	218.1	219.3
EBITDA, \$ mln	137.1	99.5	103.6	103.3
Net profit, \$ mln	38.7	23.1	33.3	36.7
P/E	11.6	19.4	13.4	12.2
EV/EBITDA	4.6	6.3	6.1	6.1
Market Cap, \$ mln	480.6			
Enterprise Value, \$ mln	629.3			
Lines in Use, '000	155.1			
Shares Outstanding (mln)	95.8			

Sources: Company reports, Alfa Bank estimates

Figure 75. Company Snapshot

Strengths	<ul style="list-style-type: none"> Relatively liquid among regional telecoms
Weaknesses	<ul style="list-style-type: none"> Has one of the most outdated networks among regional telecoms Strong local opposition to tariff hikes and per-minute billing
Opportunities	<ul style="list-style-type: none"> Greatest upside from tariff restructuring due to size Liquidity boost via issue of Level 3 ADRs by March 2002
Threats	<ul style="list-style-type: none"> Very limited participation in VAS in Moscow Large debt payments in 2002

Sources: Company reports, Alfa Bank estimates

Figure 76. Key Events

Date	Event
August 1	<p>MGTS' 1H2001 figures justify our HOLD rating.</p> <p>MGTS' 1H01 results were unsurprising. Revenues were up 20.7% y-o-y as a result of tariff hikes. At the same time, costs incurred in 1Q01 stemming from the repayment of \$150 mln in Eurobonds slashed margins.</p>

Source: Alfa Bank estimates

Rostelekom

Figure 77. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	0.0	0.0	0.0	0.0
EBITDA, \$ mln	79.2	103.5	49.3	74.6
Net profit, \$ mln	-27.7	-36.2	-17.3	-26.1
P/E	-18.5	-14.1	-29.7	-19.6
EV/EBITDA	9.8	7.5	15.8	10.4
Market Cap, \$ mln	583.6			
Enterprise Value, \$ mln	776.6			
Shares Outstanding (mln)	971.6			

Sources: Company reports, Alfa Bank estimates

Figure 78. Company Snapshot

Strengths	<ul style="list-style-type: none"> Natural monopoly in LD telecom services until at least 2003 Has a national backbone infrastructure
Weaknesses	<ul style="list-style-type: none"> Non-diversified business Substantial leverage
Opportunities	<ul style="list-style-type: none"> To become a leading Internet provider More equitable settlements with regard to regional telecoms
Threats	<ul style="list-style-type: none"> Regional telecom consolidation Substantial ruble depreciation

Sources: Company reports, Alfa Bank estimates

Figure 79. Key Events

Date	Event
August 8	<p>Media reports Rostelekom's 1H01 RAS financials; ruble revenues up 8.8% y-o-y.</p> <p>According to the published figures, Rostelekom's revenues of R9.02 bln (\$313.5 mln) in 1H01 were up 8.8% in ruble terms compared to R8.29 bln (\$291.9 mln) in 1H00. Net profit for 1H01 was reported at R1.03 bln (\$35.8 mln), up from R626.1 mln (\$22.0 mln) in the same period last year.</p>

Source: Alfa Bank estimates

Maxim Matveev, CFA
(7 095) 795-3736

Metals

Norilsk Nickel effectively handled planned events and unexpected problems

In August Norilsk Nickel successfully completed its share swap, having convinced 97% of shareholders to swap their Norilsk Nickel shares into those of MMC Norilsk Nickel. The company also had to deal with a number of problems, including an attempt to prohibit MMC Norilsk Nickel from using the trademark "Norilsk Nickel" on local and foreign markets following a decision in Kemerovo region and two accidents at its Nickel Smelter. However, the



company proved its ability to handle all of the incidents with no considerable consequences for operating performance.

Registration of share swap results to improve liquidity by the end of September

At the beginning of September the company will send its report on the results of the share swap to the FSC. We do not expect the FSC to offer any resistance to registering the results, although it reiterated its desire to question the legitimacy of Norilsk Nickel's restructuring program in court. Registration of the results of the share swap would significantly improve share liquidity, as investors would be able to trade new MMC Norilsk Nickel shares on RTS. In the meantime, trading is currently permitted only in Norilsk Nickel ADRs (about 17.5% of Norilsk Nickel shares were converted into ADR form).

Norilsk Nickel

Figure 80. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	4,666.2	4,564.0	4,796.9	4,758.8
EBITDA, \$ mln	2,080.0	1,926.1	2,194.6	2,122.5
Net profit, \$ mln	1,155.9	992.8	1,278.6	1,186.1
P/E	2.0	2.3	1.8	1.9
EV/EBITDA	1.2	1.3	1.1	1.2
Market Cap, \$ mln	2,464.4			
Enterprise Value, \$ mln	2,444.1			
Shares Outstanding, mln	189.0			

Sources: Company reports, Alfa Bank estimates

Figure 81. Company Snapshot

Strengths

- Diverse export-revenue base, exports - 95% of revenues
- High liquidity relative to other companies in the sector

Weaknesses

- Low technological level compared to western peers
- High social expenditures - more than \$100 mln per year

Opportunities

- Growing demand on the local market
- JVs with foreign producers

Threats

- Delay in implementation of restructuring program
- Increased export tariffs, decreased PGM export quotas

Sources: Company reports, Alfa Bank estimates

Figure 82. Key Events

Data	Event
August 1	<p>Accident at obsolete Norilsk Nickel plant to speed up capex program. On August 1, Nickel Smelter (one of MMC Norilsk Nickel's core production assets) was shut down for two hours due to a fire at one of the plant's transformer substations. According to the company, the fire did not cause any serious damage to the plant's equipment, and production volumes will not be reduced.</p> <p>Nickel Smelter, one of MMC Norilsk Nickel's oldest production units, is responsible for the final stage of nickel refining and accounts for about 50% of the group's nickel production. The smelter uses outdated technology for nickel processing, including the roasting of nickel concentrate. Norilsk Nickel's development plan calls for the gradual transfer of nickel processing from Nickel Smelter to Nadezhda Smelter, which will utilize modern hydro-metallurgical technologies. The cost of the first stage of reconstruction of Nadezhda Smelter is estimated at \$120 mln and will take about two years to complete. As a result of the accident at Nickel Smelter, the company will likely be forced to speed up the transfer of nickel production to Nadezhda Smelter.</p> <p>However, the accident will not reflect on the company's production volume in the near-term. Combined with the company's sufficient resources to implement its development program in the medium-term, we maintain our BUY recommendation on Norilsk Nickel shares.</p>
August 10	<p>Norilsk Nickel hit with another court case, but we maintain our BUY rating. According to a decision handed down by a court in Kemerovo region, trade in Norilsk Nickel and MMC Norilsk Nickel must cease on MICEX and RTS. RTS did not stop trading in Norilsk Nickel and MMC shares due to an error in the wording of the court's decision, but the bourse will have to halt trading in the companies' shares when it receives the corrected text.</p> <p>The court decision also prohibits MMC Norilsk Nickel from using the "Norilsk Nickel" trademark on local and foreign markets, and this could significantly disturb the company's operational activities. However, we believe that the company will successfully challenge the court decision in the near future and do not anticipate any appreciable consequences for the company's performance.</p>
August 22	<p>Norilsk Nickel swaps 97% of its shares, FSC threats are unrealistic; we maintain our BUY rating Norilsk Nickel announced that as a result of the new share issue of MMC Norilsk Nickel finalized on August 21, about 130 mln Norilsk Nickel shares have been swapped into MMC Norilsk Nickel stock. As a result of several consecutive steps in Norilsk Nickel's restructuring program, as many as 183 mln Norilsk Nickel shares were swapped into stock of MMC Norilsk Nickel, which represents 97% of Norilsk Nickel's charter capital.</p> <p>The conversion of 97% of the shares means that Norilsk Nickel has successfully completed the share-swap stage of its restructuring program. The remaining 3% of shares is likely to be swapped via an additional share issue of MMC Norilsk Nickel. We believe that the most significant question the company must still solve in order to finalize the restructuring program is the cancellation of the 17% stake of MMC Norilsk Nickel currently belonging to Norilsk Nickel. We expect the company to resolve the issue by 1Q02, and therefore maintain our BUY recommendation on Norilsk Nickel shares.</p>

Source: Alfa Bank estimates

Severstal

Figure 83. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	1,796.9	2,057.2	2,005.6	1,969.0
EBITDA, \$ mln	435.9	577.9	525.1	335.8
Net profit, \$ mln	203.7	279.7	245.5	121.0
P/E	4.5	3.3	3.7	7.5
EV/EBITDA	1.0	0.8	0.9	1.4
Market Cap, \$ mln	910.6			
Enterprise Value, \$ mln	454.5			
Production, mln ton	8.2			
Shares Outstanding, mln	22.1			

Sources: Company reports, Alfa Bank estimates

Figure 84. Company Snapshot
Strengths

- Healthy financial performance, 22% net margin (IAS) in 2000
- Professional management team

Weaknesses

- Low liquidity, estimated 6% free float
- High dependence on performance of world steel markets

Opportunities

- Creation of alliance with pipe producers
- Implementation of ITZ project, start of production in Sep. 2002

Threats

- Imposition of new export barriers

Sources: Company reports, Alfa Bank estimates

Figure 85. Key Events

Data	Event
August 20	<p>Severstal (CHMF) secures \$50 mln in export sales to the Asian market, we maintain our BUY rating.</p> <p>Severstal announced that it signed an agreement with Minmetals, a company that holds 80% of metals-import licenses to China. The agreement will allow Severstal to sell about 240-260,000 tons of rolled steel a year directly to Minmetals, with monthly supplies of cold-rolled steel amounting to 15-20,000 tons. Severstal will also enjoy preferential status in supplying hot-rolled steel.</p> <p>Last year, Severstal exported about 1 mln tons of rolled steel to the Asian market, or about 23% of the company's total exports. The new agreement will allow Severstal to strengthen its position on the Asian market. The ability of the company to maintain its competitive position on export markets allows us to maintain our BUY recommendation on Severstal common shares.</p>

Source: Alfa Bank estimates

Maxim Matveev, CFA

(7 095) 795-3736

Engineering and Automotive

We maintain a BUY recommendation on Uralmash-Izhora Group

We maintain a BUY recommendation on Uralmash-Izhora Group. Catalysts for share price performance in 2001 include the announcement of U.S. GAAP results for 1999-2000 on September 7, new announcements regarding acquisitions, and expansion of the company's order book. We expect the company's 2000 U.S. GAAP financial results to show a net profit close to zero, whereas according to RAS this figure amounted to \$10 mln (net margin of 4.2%). This divergence can be attributed to differences in the methodology for calculating depreciation, the valuation of acquisitions and provisions for doubtful accounts. In 2001, we expect the company's net margin to rise to 9% according to RAS and the difference compared to U.S. GAAP results to decrease.

Uralmash-Izhora Group

Figure 86. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	380.1	404.6	415.3	457.0
EBITDA, \$ mln	67.8	73.0	71.8	85.3
Net profit, \$ mln	32.6	34.5	33.1	42.6
P/E	4.6	4.4	4.5	3.5
EV/EBITDA	1.8	1.7	1.7	1.4
Market Cap, \$ mln	150.2			
Enterprise Value, \$ mln	122.1			
Shares Outstanding, mln	38.1			

Sources: Company reports, Alfa Bank estimates

Figure 87. Company Snapshot
Strengths

- Monopoly position on Russia's equipment market; 70% of drilling,
- 78% of metallurgical, 95% of mining equipment market
- Level 1 ADR program increases share liquidity

Weaknesses

- Output growth limited by production bottlenecks
- Lack of qualified workforce

Opportunities

- Restructuring to develop core business, \$230 mln capex in 2001-2005
- Entering a new segment (floating drilling platforms)

Threats

- Real ruble appreciation lowers price competitiveness

Sources: Company reports, Alfa Bank estimates



Mariya Chechurina
(7 095) 795-3735

Food and Retail

Announcement of better-than-expected results had no effect on Baltika's share price

At the end of August Russia's leading brewer Baltika released its financial results for 1H01. As we expected, even though the results were slightly above market expectations, the company's share price showed no reaction due to the very low liquidity of Baltika stock.

Sun Interbrew is expected to report net income for 1H01

On September 5, Russia's second-largest brewer Sun Interbrew will release its business results for the first half of this year. We believe that the company managed to return to profitability in 2Q01 following a net loss of \$0.6 mln in 1Q01. Our belief is based on the completed consolidation of Ukraine's Rogan brewery (which reduced administrative expenses) and the addition of new capacity at the company's Klin brewery. The second quarter of the year is traditionally favorable for brewers, and this should also allow the company to increase volumes and prices and boost revenues.

Expected announcement of Krasny Oktyabr's 1H01 results to have no effect on share price

During the first ten days of September the confectionery company Krasny Oktyabr is expected to report its 1H01 financials according to RAS. We do not anticipate any sharp price changes following the announcement.

FOOD

Baltika

Figure 88. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	310.80	387.11	471.88	558.94
EBITDA, \$ mln	134.27	178.07	210.86	249.82
Net profit, \$ mln	83.36	112.87	113.50	132.46
P/E	5.78	4.27	4.25	3.64
EV/EBITDA	4.04	3.05	2.57	2.17
Market Cap, \$ mln	525.7			
Enterprise Value, \$ mln	542.2			
Production, mln hl	12.6			
Shares Outstanding, mln	1.5			

Sources: Company reports, Alfa Bank estimates

Figure 89. Company Snapshot

Strengths

- Leading Russian brewer with a national brand
- Strategic investor is a major shareholder
- One of the most profitable emerging-market brewers

Weaknesses

- Absence of fully-integrated distribution network
- Stock traded on the OTC market, low liquidity and free float

Opportunities

- 13% 2001E growth of beer consumption in Russia
- Intention and ability to increase its market share

Threats

- Acquisition of Krinitisa brewery may lower profitability in the short-term

Sources: Company reports, Alfa Bank estimates

Figure 90. Key Events

Data	Event
August 22	<p>Baltika's 1H2001 net sales up 54% y-o-y to \$233 mln, we confirm our ACCUMULATE rating.</p> <p>Baltika Brewery reported results for 1H2001 according to IAS. The company's beer sales volume in 1H2001 totaled 6.3 mln hl, representing a 20% increase y-o-y. Growth in Baltika's volumes slightly outpaced growth of the Russian beer market, and this enabled the company to expand its market share from 20.8% at the end of 1H2000 to 21.3% as of the end of 1H2001.</p> <p>The company's net sales increased by 54% compared to the same period last year to \$233.0 mln. Net sales growth exceeded our expectations. However, this was not enough to compensate for higher operating expenses, which increased 61% in 1H2001 y-o-y as a result of rising prices for raw materials and a more than tripling of transport expenses.</p> <p>The company's operating income in 1H2001 was \$80.0 mln, or 43% more y-o-y. The operating margin decreased from 37.1% in 1H2000 to 34.3% in 1H2001, but it is still one of the highest among both emerging-market brewers and Russian consumer goods producers. Baltika earned a net income of \$57.5 mln during the period (30% more y-o-y).</p> <p>As a result of slightly better than expected results as well as the decreasing risk of investment in Russian stocks since the beginning of the year, we reviewed our growth forecast for Baltika and lowered the risk-free rate used in calculations from 15% to 13.5%. This boosted the company's fair price to \$523 per common share, up from a previous \$471 per common share.</p> <p>As a result, Baltika currently boasts a 42% upside based on our DCF valuation and trades at a 63% discount to emerging-market brewers based on 2001 EV/EBITDA. Baltika's strong financials and upside potential support our ACCUMULATE rating.</p>

Source: Alfa Bank estimates

Sun Interbrew

Figure 91. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	261.44	380.17	480.91	576.61
EBITDA, \$ mln	72.42	87.44	110.75	133.83
Net profit, \$ mln	18.97	20.58	29.17	35.81
P/E	5.42	5.00	3.53	2.87
EV/EBITDA	4.00	3.31	2.61	2.16
Market Cap, \$ mln	273.9			
Enterprise Value, \$ mln	289.4			
Production, mln hl	10.1			
Shares Outstanding, mln	81.3			

Sources: Company reports, Alfa Bank estimates

Figure 92. Company Snapshot
Strengths

- Second-largest Russian brewer with well-recognized brands
- Strategic investor is a major shareholder
- Developed distribution network

Weaknesses

- Widely-distributed breweries prevent economies of scale

Opportunities

- 13% 2001E growth of beer consumption in Russia and 16% in Ukraine
- Core brands program to boost revenues and promote the company nationwide

Threats

- Purchase of Rogan brewery may lower profitability in 1H2001

Sources: Company reports, Alfa Bank estimates

RETAIL

Trade House GUM

Figure 93. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	84.93	94.44	106.58	117.77
EBITDA, \$ mln	17.82	19.93	23.02	25.32
Net profit, \$ mln	14.06	15.72	18.11	19.92
P/E	7.26	6.49	5.63	5.12
EV/EBITDA	5.74	5.13	4.44	4.04
Market Cap, \$ mln	102.0			
Enterprise Value, \$ mln	102.2			
Shares Outstanding, mln	60.0			

Sources: Company reports, Alfa Bank estimates

Figure 94. Company Snapshot
Strengths

- Russia's most famous retailer, targets upper-middle income consumers
- Favorable location

Weaknesses

- Dependence on consumer incomes, which are currently quite low
- Lack of external sources of financing

Opportunities

- Growing customer incomes in Russia
- Internet project to generate additional revenues

Threats

- Tightening competition, especially in central Moscow

Sources: Company reports, Alfa Bank estimates

Figure 95. Key Events

Data	Event
August 28	<p>GUM's 1H2001 net sales up 8%, in line with our expectation; we reiterate our ACCUMULATE rating</p> <p>Trade House GUM released its financial results for 1H2001 according to RAS. Net sales were \$38.3 mln (7.6% higher y-o-y), driven mostly by a 21.2% increase in rent income. Due to lower sales costs and administrative expenses, operating profit rose by 24.1% to \$9.1 mln. Operating margin continued to improve, reaching 23.9%. Pre-tax income increased 10.6% compared to the same period last year to \$9.7 mln. However, as a result of a higher tax rate (33.9% in 1H2001, as compared to 27.3% in 1H2000), GUM's net profit increased by only 0.5% to \$6.4 mln.</p> <p>The company's 1H2001 financials correspond to our expectations and confirm our 2001 forecasts. We expect the company's net sales to reach \$87 mln this year and net profit to total \$13.5 mln by year's end.</p> <p>Even though GUM's share price has risen 33% over the past two months, the company's shares are currently trading in line with the emerging-markets average according to 2001E EV/EBITDA. They also still have a 10% upside to their target price of \$1.72 per share, and this supports our ACCUMULATE rating.</p>

Source: Alfa Bank estimates

Olga Filippova

(7 095) 795-3735

New investors will likely to get three seats on Aeroflot's board

Transport

Aeroflot's EGM will take place on September 6. While the large investors close to Sibneft submitted four candidates, they will more likely gain three seats on the board of directors. The state will probably receive five seats and management one seat. While the government has a controlling stake in Aeroflot, its vote will remain decisive in defining the company's future strategy. The new investors will have to reach a compromise with the government in order to pursue their (still unclear) goals.



However, uncertainty regarding Aeroflot's long-term strategy and low free-float will persist, and we therefore maintain our HOLD rating.

Aeroflot

Figure 96. Key Financial Indicators

FY Ending December	2001E	2002E	2003E	2004E
Revenue, \$ mln	1,563.5	1,655.0	1,748.1	1,885.9
EBITDA, \$ mln	204.3	260.1	294.9	334.2
Net profit, \$ mln	26.4	54.0	67.9	82.2
P/E	10.8	5.3	4.2	3.5
EV/EBITDA	3.1	2.4	2.1	1.9
Market Cap, \$ mln	286.0			
Enterprise Value, \$ mln	628.1			
Shares Outstanding, mln	1,110.6			

Sources: Company reports, Alfa Bank estimates

Figure 97. Company Snapshot

Strengths

- Leading Russian airline (32.6% market share of RPK in 2000)
- Largest domestic market share (12.15% in terms of RPK in 2000)

Weaknesses

- High leverage (overall debt \$1,142 mln) and exchange-rate risk
- Fuel costs comprise 24-25% of total operating costs
- Low free float (5-7%)

Opportunities

- Growth in passenger load factor due to network optimization
- Higher passenger yields driven by greater percentage of business travelers

Threats

- Possible changes in management in 2002 with unpredictable consequences
- Tighter competition from domestic alliances
- Tighter competition on international routes from foreign airlines

Sources: Company reports, Alfa Bank estimates

Figure 98. Key Events

Date	Event
August 7	<p>New investors propose four candidates for Aeroflot's board.</p> <p>The new investors' four candidates for the company's board of directors are the head of the RUSAL department Alexander Komrakov, the general director of Prospekt investment company Mikhail Vinchel, the managing director of Profit House Alexander Nemtsov and current member of Aeroflot's board and deputy general director Alexander Zurabov. The new investors (which have close ties to Sibneft) are likely to gain three seats. The state expects to gain six seats, although five is a more probable figure. Management, which controls around 12-14% votes, will likely support the company's current general director Valery Okulov.</p>

Source: Alfa Bank estimates

Lyudmila Khrapchenko
(7 095) 795-3743

Fixed Income

Russian debt was marked by high volatility in August

The Russian debt market was marked by a high volatility throughout August in response to events in Argentina, Brazil and Turkey. Eurobond prices gradually recovered, and by month's end had almost returned their levels of late June (issues maturing in 2028 and 2030 are still 1.3% lower). The political and economic situation in Argentina remained the focus of all market discussion. Weak macroeconomic indicators, social unrest and the introduction of provincial bonds circulating alongside cash intensified default fears among emerging-market investors. Soaring yields, the devaluation of the Turkish lira and slower-than-expected economic growth in Brazil aggravated the situation. In such an unstable environment, Russian debt instruments turned out to be one of the safest investments in that risk category.

Argentina set to elaborate conditions for a debt swap

August saw a decline in Russian bond spreads below the psychologically important level of EMBI+ (899 bpts vs 900 bpts as of August **). The market felt relief after the IMF and the World Bank decided to provide Argentina with additional funds totaling \$8 bln and \$900 mln, respectively. Since part of the IMF's financial aid is aimed at facilitating another voluntary debt restructuring, the government is now set to elaborate the conditions of a debt swap. Since (1) the swap's parameters will favor investors and (2) the cost and amount of the debt will be reduced, one can expect a certain improvement in the economic situation.

MinFin plans buy-back as part of new debt strategy

At the end of the month, Russian bond prices were supported by the Finance Ministry's announcement that it intended to buy back part of its foreign obligations on the secondary market as part of a new debt managing strategy.

We expect debt markets to remain volatile in September

We expect debt markets to remain volatile in September. The key events for next month will be Argentina's swap scheme and data on tax collection (due on September 3), private deposits and Central Bank reserves. However, the Russian debt market is likely to stay strong in September. Steady GDP and industrial production growth, an increase in official reserves, declining inflation, and the beginning of discussion of the 2002 draft budget in the Duma will support prices near current levels.

Figure 99. Dollar-denominated Bonds, as of August 29, 2001

	Maturity	Price	Change %	YTM %	Current yield %	Maturity duration years
MinFin Bonds						
MinFin-4	5/14/03	85.00	5.59	13.4	3.53	1.48
MinFin-5	5/14/08	50.00	9.29	15.5	6.00	5.03
MinFin-6	5/14/06	62.13	10.94	14.7	4.83	3.77
MinFin-7	5/14/11	40.50	3.51	15.0	7.41	6.59
MinFin-8	11/14/07	50.13	-2.67	17.1	5.99	4.50
Eurobonds						
Euro-01	11/27/01	100.75	0.12	6.0	9.18	0.24
Euro-03	6/10/03	104.75	2.70	8.8	11.22	1.56
Euro-05	7/24/05	94.38	5.15	10.5	9.27	3.18
Euro-07	6/26/07	91.00	5.66	12.2	10.99	4.15
Euro-10	3/31/10	78.88	6.05	13.2	10.46	0.13
Euro-18	7/24/18	90.00	7.78	12.4	12.22	7.07
Euro-28	6/24/28	100.00	4.30	12.7	12.75	7.40
Euro-30	3/31/30	48.00	8.78	14.8	10.42	0.15
Municipal Bonds						
St. Petersburg	6/18/02	99.00	0.76	10.8	9.60	0.74
Nizhny Novgorod	3/10/02	70.50	8.46	25.8	4.34	0.26
Yamalo-Nenets AO	12/15/02	84.00	0.00	14.4	11.31	0.12
Corporate Bonds						
Tatneft	10/29/02	97.25	1.83	11.6	9.25	1.04
Mosenergo	10/9/02	96.50	1.05	11.8	8.68	0.99

Sources: Reuters, Alfa Bank estimates

**Figure 100. Key Events**

Date	Event
August 1	Moody's assigned a "B2" rating to TNK's dollar-denominated debt. TNK is the first company to obtain a "B2" rating, similar to Russia's issuer rating. The new rating highlights the company's increased attractiveness and will support its entry onto international capital markets (TNK is currently planning to issue foreign-currency denominated bonds).
August 1	UBS Warburg sold \$260 mln in bonds exchangeable into shares of Yukos. The bonds will pay a semi-annual coupon of 1.75% and mature in three years. Settlements will be made through Euroclear. A high level of demand allowed UBS Warburg to complete the sale during the initial placement.
August 1	The government resumed the swap of MinFin-3
August 5	The IMF allocated a \$15 bln precautionary loan (first tranche - \$4.6 bln) to Brazil. This decision was unexpected by the market and provoked some price growth.
August 5	The IMF also approved a \$1.5 bln loan installment to Turkey delayed by the unsatisfactory pace of structural reforms. This news also boosted prices.
August 8	One of Argentina's largest companies failed to make an amortization payment totaling \$1.5 mln. This news was overshadowed by news of a possible additional credit for Argentina and had no effect on bond prices.
August 9	Standard & Poor's revised its sovereign credit rating for Brazil to "negative". This provoked a slight decline in the prices of Brazilian debt and had no influence on the Russian market. At present, Brazil enjoys a long-term foreign-currency rating of "BB-" and a long-term local currency rating of "BB+".
August 12	Amendments to the law regulating currency controls involving cutting the mandatory export-revenue sales rate to 50% from 75% took effect. This move had a rather limited influence on Russia's reserves, which continued to grow despite large external debt payments in August.
August 21	IMF Managing Director Horst Koehler said he would recommend that the Fund's board provide Argentina with \$8 bln in aid in addition to the previous \$14 bln package. Argentina will receive \$5 bln as soon as the board gives its approval (most likely in early September). The remaining \$3 bln will be disbursed later during implementation of the IMF's program. This news was extremely positive for emerging markets and provoked a price rally across the board.
August 21	The Fed's decision to cut U.S. interest rates by 25 bpts had no impact on emerging-market debt prices. Argentina had already set the tone for high-risk markets.
August 22	Brazil's Central Bank left interest rates unchanged at 19%. This news was neutral for the market.
August 23	Standard & Poor's upgraded its rating of Sverdlovsk region to CCC+ from CCC. The rating outlook is positive.
August 23	Deputy Finance Minister Sergei Kolotukhin's announced that the government intended to "be proactive in managing debt" and proceed with a buy back of foreign debt. This decision was positive for the Russian market and contributed to continuing price growth.
August 29	Talks were held between select EM bondholders and U.S. Treasury officials regarding Argentina's forthcoming debt swap. There were no comments after the meeting. Since the debt swap will be much more difficult compared to the previous one, negotiations are probably only in a preliminary stage. The forthcoming debt swap represents Argentina's last chance to reverse the situation and place the economy on the path to recovery.

Source: Alfa Bank estimates

Vladimir Kravchuk
(7 095) 795-3742

RTS Index Technical Performance

Buy on a dip and take profits

Figure 101. RTS Index, Weekly – Technical Analysis Focus

Share	Recommendation	Trend performance	Trend performance		Resistance Level			Support Level			Weekly range (August 20-24)					
			Short-term	Long-term	R4	R3	R2	R1	S1	S2	S3	S4	OP	HI	LO	CL
RTSI	Buy on a dip Target level 225	205	Bullish	Sideways	229.28	225.30	218.08	213.38	205.64	200.00	192.65	187.74	191.04	205.87	191.04	205.54

Source: Alfa Bank estimates

- As we expected, the RTS Index moved into the 190-210 range in August
- Given a 1-2 week time horizon, we anticipate consolidation on RTS to a level of 204-208
- We believe that the RTS Index will reach its target level of 225 in September

Figure 102. RTS Index, Weekly – Technical Performance

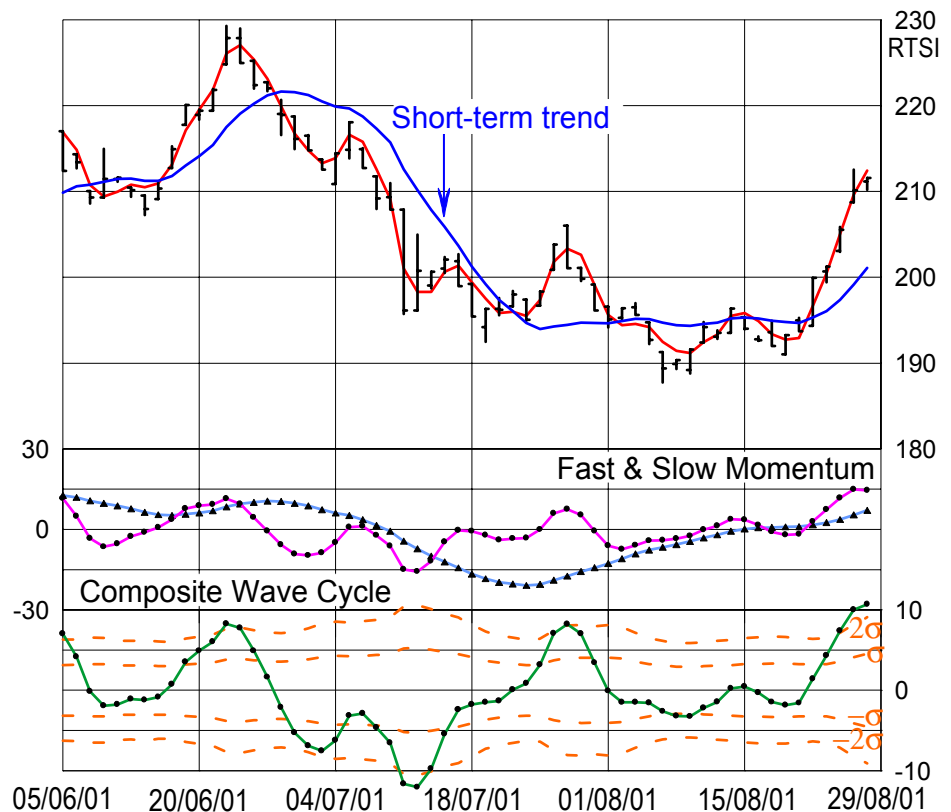


Sources: CQG, Alfa Bank estimates

Short-term trend and cycles

The short-term trend is still bullish

The slow trend line in the upper part of Figure 103 indicates that the short-term tendency is bullish. Moreover, the positive value of the fast and slow momentum in the middle part of Figure 103 is a reliable additional bullish signal indicating a short-term upward trend.

Figure 103. RTS Index, Daily – Trend and Cycles Performance as on August 28


Source: Alfa Bank estimates

The short-term composite wave is in the strongly overbought area

The short-term trading cycle is in the strongly overbought area above 2σ , where σ is the standard deviation (i.e. volatility) of range-bound market cycles. We forecast downside potential based on a short-term trading cycle of 5-8 points from a level of 212.

The long-term trend is moving sideways

Long-term trend and cycles

The direction of the long-term trend is moving sideways, as shown by the long-term trend line in Figure 104. The fast momentum has passed its trough and is rising, but the slow momentum is still falling and close to zero.

We estimate growth potential of at least 15 points

The superposition of the active market cycles in the lower part of Figure 104 is rising and still in the neutral area. Therefore, as a result of the long-term composite wave cycle, we estimate growth potential of at least 15 points.

The RTS index's major resistance level is 225

Support and resistance levels

The near-term support and resistance levels are illustrated in Figures 101 and 102. The estimated crossing point of the RTS Index and the descending long-term trend line is the major resistance level of 225. The major support level is 159.

We expect the RTS index to reach the 225 level in September

Upside and downside potential

In sum, we note the following. First, given a 1-2 week time horizon, we expect consolidation on RTS at a level of 204-208.

Second, given a time horizon of one month (to the end of September), we expect the RTS index to reach the 225 level.



Figure 104. RTS Index, Weekly – Trend and Cycles Performance as on August 28



Source: Alfa Bank estimates



This page is intentionally left blank



This page is intentionally left blank



This page is intentionally left blank

Contact Information

Alfa Bank (Moscow)

Head of Equities
Telephone/Facsimile
E-mail

Dominic Gualtieri
(7 095) 795-3649/(7 095) 745-7897
dgualtieri@alfa-bank.com

Alfa Securities Limited (London)

Co-head of Equities
Telephone/Facsimile
E-mail
Co-head of Equities
Telephone/Facsimile
E-mail

Guven Giray
(44 20) 7382-4171/(44 20)7382-4170
g.giray@alfa-securities.com
Paul van den Boogaard
(44 20) 7382-4175/(44 20)7382-4170
p.vdb@alfa-securities.com

Research Department

Head of Research
Strategy, Oil & Gas
Macroeconomics, Banking
Oil & Gas

Utilities
Telecoms/Internet

Metals, Autos, Engineering
Retail, Consumer Goods
Transport, Utilities
Fixed Income

Andrei Roudenko
Sergei Glaser, CFA
Natalya Orlova
Konstantin Reznikov
Anna Butenko
Natalya Sazhina
Andrei Bogdanov
Elena Rogovina
Maxim Matveev, CFA
Maria Chechurina
Olga Filippova
Valentina Krylova
Lyudmila Khrapchenko

Editor

Erik DePoy
Valentina Belkina
(7 095) 795-3676, (7 095) 795-3677
(7 095) 745-7897
research@alfa-bank.com

Telephone
Facsimile
E-mail

Equity Sales (London)

Telephone
Facsimile
Address

Maxim Shashenkov
Steve Downer
(44 20) 7588-8500
(44 20) 7382-4170
City Tower, 40 Basinghall Street
London, EC2V 5DE

Equity Sales & Trading (Moscow)

International sales

Kirill Surikov
Alexander Zakharov

Domestic sales

Oleg Martynenko
Alexander Nasonov
Konstantin Shapsharov

Structured products

Armen Petergov

Telephone

(7 095) 795-3672, (7 095) 795-3673

Facsimile

(7 095) 745-7897

Address

12 Akad. Sakharov Prospect
Moscow, Russia 107078

Copyright Alfa Bank, 2001 All rights reserved

The report and the information contained herein are the exclusive property of Alfa Bank. Unauthorized duplication, replication and dissemination of this report, in part or in whole, without the expressed written consent of Alfa Bank is strictly prohibited.

This publication has been approved for distribution in the United Kingdom by Alfa Securities Limited, which is regulated by the Securities and Futures Authority for the conduct of investment business in the United Kingdom. It has not been approved for distribution to, or for the use of, private customers as defined by the rules of the SFA and may not be distributed to such persons. Although the information herein has been obtained from and is based upon sources the Firm believes to be reliable, no representation or warranty express or implied is made nor responsibility of any kind is accepted by Alfa Securities Limited, its directors or employees either as to the accuracy or completeness of any information stated herein or that material facts have not been omitted. All information and opinions stated herein are subject to change without notice. Alfa Securities Limited makes no warranty or representation that the securities and/or recommendations referred to herein are appropriate for all recipients. This document is for information purpose only and is not intended as an offer or solicitation to buy or sell securities. Alfa Bank, Alfa Securities and their associated companies may issue this publication in other countries. Alfa Bank, Alfa Securities and their associated companies and their respective officers, directors and employees, including persons involved in the preparation of issuance of this document may have or may from time to time deal in, hold or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities, financial instruments or companies mentioned in this document or be represented on the board of such companies. Foreign-currency-denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or the price of, or income derived from, the investment. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies, effectively assume currency risk. The distribution of this document in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of United States securities laws or the laws of any such other jurisdiction. Investing in Russia and Russian securities involves a high degree of risk and investors should perform their own due diligence before investing.