

# April: Sailing the Rough Seas

March 29, 2001

[www.alfabank.ru](http://www.alfabank.ru)

Moscow

## Theme: Capital Flight Renews Concerns

- **April's economic data to disappoint, but progress in key reforms to surprise**

Macroeconomic indicators will confirm fears of declining economic and industrial growth as well as greater inflationary pressure, in our view. At the same time, we expect the Duma and the government to make progress regarding banking reform and industry deregulation.

- **Another \$28 bln will leave the country this year, counter-measures fail to impress**

Increasing capital flight is the result of unrealized plans to lower the tax burden alongside the worsening performance of commodity markets, a poor investment climate and less-active purchases of second- and third-tier stocks by major local players.

- **Siphoned-off earnings detrimental to both equity and fixed income markets**

For the equity market, higher capital flight means that export-oriented companies will show fewer profits. For the fixed income market, it implies lower domestic liquidity and concern about country solvency.

- **LUKoil, UES, and Norilsk Nickel to benefit from improved corporate governance**

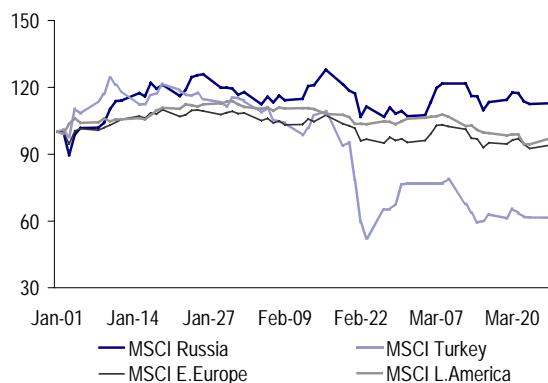
LUKoil to take consistent steps towards its Level 3 ADR issue. Discussion of sector reform and AGM decisions will address many of the concerns of UES minority shareholders. Court decisions due in April will keep Norilsk Nickel's restructuring process on track.

### Top Ideas

Company	Price \$	Change		ADV \$ mln	Target \$	Upside price %
		MTD %	YTD %			
Gazprom	0.328	-2.90	12.09	2.79	0.65	98.2
LUKoil	9.75	2.63	5.41	1.43	17.35	77.9
Surgutneftegaz	0.225	1.35	8.17	1.64	0.41	82.2
Yukos	2.62	13.91	47.19	1.90	3.09	17.9
Mosenergo	0.0328	-4.37	36.67	0.84	0.063	92.1
RAO UES	0.102	7.28	24.02	6.55	0.154	51.4
Norilsk Nickel	12.05	32.05	65.07	1.44	14.72	22.2

Sources: RTS, Alfa-Bank estimates

### Market View



Sources: Bloomberg, Alfa Bank estimates

### Recent Publications

**Corporate Governance: Difficulties May Hamper**

**Mosenergo Performance**

*Natalya Sazhina* March 22, 2001

**MTS 2000 Results: So Far So Good**

*Andrei Bogdanov* March 20, 2001

**Sun Interbrew's Results: Revenues Up 2,5 Times**

*Mariya Chechurina* March 16, 2001

**March: Keeping Up Top Performance**

*Monthly* February 23, 2001

**Norilsk Nickel: Pushing Through Restructuring**

*Maxim Matveev* February 21, 2001

**Rostelecom: Still Waiting for Growth**

*Andrei Bogdanov* February 20, 2001

**UES: Add Back Asset-Stripping Discount**

*Natalia Sazhina* February 20, 2001

**Golden Telecom: Shifting to Internet and Data**

*Andrei Bogdanov* February 14, 2001

**Utility Preferred Stock: Weeks to Cash In**

*Natalia Sazhina* February 13, 2001

**MTS: The Long Road to St. Petersburg**

*Andrei Bogdanov* February 8, 2001

**AvtoVAZ-GM JV Moves Forward**

*Maxim Matveev* February 7, 2001

**Tatneft: Recovery Underway**

*Konstantin Reznikov* January 19, 2001

**Regional Telecoms: The Bigger the Better**

*Andrei Bogdanov* January 17, 2001

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

**TABLE OF CONTENTS:**

Commodities and reforms to keep Russia on top .....	3
Theme: Capital Flight Renews Concerns .....	5
Capital flight has three components .....	5
Capital flight in 2000 returned to 1998's \$26 bln .....	5
Another \$28 bln will leave the country this year .....	6
Unrealized revenues threaten the market .....	8
Stock Performance and Valuations.....	9
Chartbook.....	12
Upcoming Events .....	14
Economics and Politics .....	15
Companies and Industry News.....	17
Oil and Gas.....	17
Utilities .....	20
Telecoms .....	23
Metals .....	26
Engineering and Automotive .....	28
Food and Retail .....	29
Transport .....	31
Fixed Income.....	32



Sergei Glaser, CFA  
(44 20) 7382-4165

## Commodities and reforms to keep Russia on top

### March review: Global equity bloodbath

**Sell-off on world markets was the month's dominant story**

Unnerved by corporate earnings downgrades in the U.S., political instability and economic weakness in Japan, and persistent signs of a slowdown in Europe, global markets succumbed to selling pressure and gave equities a severe thrashing over the two-week period starting March 9.

**FOMC interest-rate cut fell short of market expectations**

Worse-than-expected economic figures showed that 1) the scale of the U.S. slowdown is even gloomier than that indicated by forecasts, and 2) new expectations of slower earnings growth justify lower equity valuations. This increased pressure on the Federal Reserve to make another sizeable cut in interest rates, the third such move this year. Although a market consensus emerged regarding the need for a 75-bpt cut, the FOMC resorted to its traditional 50-bpt reduction. The market's subsequent disappointment sent share prices diving further.

**Most markets are posting big losses - monthly and YTD**

The gloomy outlook for U.S. equities had a spillover effect on global markets. Japan remained vulnerable due to its ongoing political crisis and the anticipated effect of new accounting rules on banks. European developed markets suffered from fears of a continental slowdown, which in turn hurt performance in emerging markets. As a result of this spiraling pessimism, most markets lost 5-10% of their value in March (see Figure 1). U.S. equity fund outflows were a continuation of February's \$3.5 bln redemption, with most coming from international funds (\$2.6 bln).

Figure 1. Performance of Major World Equity Indices

Country	Index Name	Month-to-Date Change %	Year-to-Date Change %	Last Close *	Last 52 weeks	
					High	Low
<b>Developed Markets</b>						
USA	S&P 500 Index	-8.07	-13.67	1,139.8	1,534.6	1,081.2
United Kingdom	FTSE 100 Index	-6.95	-11.51	5,402.3	6,838.6	5,279.6
Germany	DAX Index	-8.24	-11.45	5,544.7	8,031.2	5,351.5
Japan	Nikkei 225 Index	7.60	0.56	13,214.5	20,833.2	11,433.9
<b>Emerging Markets</b>						
Poland	Warsaw Stock Exchange WIG 20 Index	-5.33	-22.31	1,389.1	2,472.8	1,305.0
Hungary	Budapest Stock Exchange Index	-4.05	-13.01	6,676.3	10,389.7	6,390.7
Turkey	Turkey Stock Market National 100	-4.85	-11.35	8,403.0	19,406.0	7,181.0
Brazil	Brazil Bovespa Stock Index	-9.16	-5.40	14,435.1	19,046.5	13,241.6
<i>Russia</i>	<i>Russian RTS Index</i>	<i>5.98</i>	<i>21.86</i>	<i>174.0</i>	<i>255.9</i>	<i>130.1</i>

Note. \* Data as of March 23, 2001 close

Source: Bloomberg

**The Russian equity market has been remarkably resistant to global jitters...**

Despite overall nervousness, there were no episodes of across-the-board selling of Russian shares. After recovering some early losses stemming from the Turkish contagion, the RTS index stayed practically flat but volatile during the global sell-off. Daily volumes on RTS were rather meager (\$10-15 mln) on mostly domestic flows, with foreign buyers supporting major blue chips and helping them fend off selling pressure. MICEX volumes remained high (\$100-120 mln daily) but then dried up after the auction for holders of S-accounts.

**...and remains one of the best-performing markets this year**

OPEC's decision to cut crude production by an extra 1 mmbpd helped keep Russian oil shares afloat. Several corporate stories added positive momentum to the RTS index in March. The launching of ADRs based on Yukos shares (representing around 15% of the index) was greeted with substantial interest. The market's improved view of UES' restructuring reversed the negative outlook for the company's stock (11% of the index). The announced timing of the swap of Norilsk Nickel shares (6% of the index) and the launching of its convenient ADR program improved the chances of the restructuring being completed quickly. This reduced dilution risk and enhanced the stock's value. All these factors helped the RTS index gain an extra 6% MTD in March and 22% YTD overall.

**April preview: Russia's reform progress to keep the market afloat**

**The reasons for good performance are undeniable**

Russia fully deserves its current position as one of the world's best-performing markets year-to-date. Macroeconomic performance, although showing some deterioration, has been strong. In light of continuing profitability in export-oriented sectors, corporate fundamentals look appealing compared to other markets. Political and economic stability has given the authorities an opportunity to push ahead with structural reform, and a raft of market-oriented laws will soon be presented to the Duma.

Given a limited choice of substitutes in other European emerging markets (the dust in Turkey has yet to settle, and Poland, Hungary and the Czech Republic still lack liquidity), we are positive about the long-term prospects for Russian equities. However, we see some signs that they may be vulnerable in the short-term, and in the face of persistent global pessimism they risk catching the selling flu.

**Russia may become a victim of its own success**

Russia could actually become a victim of its own success. Excellent relative performance has led to its effective over-weighting in investors' portfolios. Overall nervousness has prompted fund managers to start searching for cracks in the country's thus far solid fundamentals. We believe that some of the most frequently expressed concerns threaten to upset the performance of the Russian market in April.

**Story #1: Deteriorating macroeconomic indicators**

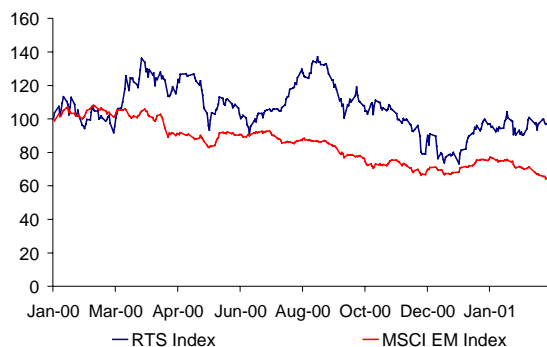
Recent signs of declining economic and industrial growth combined with greater inflationary pressure makes Russia's current situation somewhat similar to that of the U.S. (whose effect on the equity market is readily apparent). Russia's peculiarity could be the result of amassed ruble liquidity stemming from the Central Bank's accumulation of foreign currency reserves. This threatens to ignite spiraling inflation should commodity prices collapse.

**Story #2: Corporate governance**

As companies prepare for their AGMs, corporate governance issues are likely to be given special attention. Recent progress in disclosure is undeniable, but the widely publicized complaints of minority shareholders can occasionally upset the market. The following factors could have a major effect on the Russian market's performance next month:

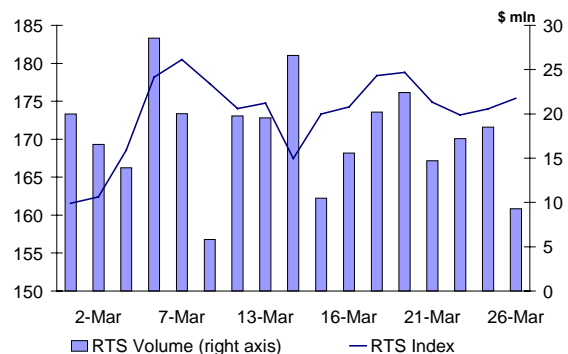
- LUKoil's progress towards its Level 3 ADR placement and the release of 1998-1999 U.S. GAAP financials may finally cheer the market;
- Smooth progress involving Norilsk Nickel's restructuring would drive share prices up, but any delays or obstacles created by the authorities could be negative;
- RAO UES and the government will present a new restructuring concept, and early signs indicate that investor concerns will finally be addressed;
- The escalating conflict between Gazprom's management and independent director Boris Fyodorov could lead to actions unpopular with foreign shareholders and prevent his re-election to a new term.

**Figure 2. RTS vs MSCI EM, Relative Performance, January 2000\* – March 2001**



Note. \* January 2000 opening values taken as 100  
Sources: RTS, Bloomberg, Alfa Bank estimates

**Figure 3. RTS Performance, Month-to-Day\*, March 2001**



Note. \* Month-to-Date data until March 26, 2001  
Sources: RTS, Alfa Bank estimates

**Lyudmila Khrapchenko***(7 095) 795-3743***Natalya Orlova***(7 095) 795-3677*

***Capital flight reflects the investment climate and...***

***...has a considerable impact on economic performance***

***Capital flight is foreign currency earned by a country's residents...***

***...and subsequently exported illegally or semi-legally***

***The structure of capital flight underwent changes in 2000***

## **Theme: Capital Flight Renews Concerns**

Russian capital flight grabbed the attention of experts in 1998 when shortly before the August crisis companies and banks began to transfer assets offshore and refused to satisfy creditors' claims. Since then, capital flight has been monitored carefully (although relationships with creditors have calmed down) for two main reasons. On the one hand, capital flight reflects Russian companies' expectations and evaluations of the investment climate. On the other hand, it has a considerable impact on the macroeconomic situation in general.

Some recent research indicates that Russian capital flight increased considerably last year compared to 1999 and closely approached the crisis level of 1998. In particular, the Russian Institute for the Problems of Globalization estimates Russia's capital flight in 2000 at \$24.6 bln, compared to \$18.6 bln in 1999. The IMF's estimates are even higher at \$27 bln in 2000, versus \$22 bln in 1999.

Due to these considerable differences in estimating capital flight, we will outline our own methodology before moving on to the structure and scale of capital flight in 2000 as well as some projections for 2001.

### **Capital flight has three components**

Capital flight is not a strictly defined notion. Some general economic research argues that capital flight includes, in addition to certain balance-of-payment articles, even the population's purchases of dollars (or other currencies) as well as exports produced at the expense of deteriorating fixed capital. In a narrower sense, capital flight is defined as foreign currency earned by a country's residents and subsequently exported illegally or semi-legally (or not repatriated). International financial organizations, the Russian Central Bank and the media use a similar definition.

Due to the absence of a precise definition, capital flight can be estimated only very roughly. Traditionally, capital flight comes in the form of:

- Criminal export of capital and the export of capital via "shuttle" trading (fully or partially unaccounted for in the balance of payments);
- Overstated import volumes and understated export volumes (caused by discrepancies between actual and contractual prices). Capital flight is also partially included under the title of "Import of Services" (a BOP item);
- A number of components of a country's balance of payments relate to its capital and financial account and partially reflect volumes of semi-legal capital outflows. In particular, these refer to "net errors and omissions", "non-repatriated export proceeds" and "non-repatriated import advances". In part, they also refer to balance changes on current account at foreign banks as well as extended trade loans and advances.

### **Capital flight in 2000 returned to 1998's \$26 bln**

The first component of capital flight (i.e. criminal export of capital and "shuttle" trading) hardly changes over time and its volume is a relatively small \$1-2 bln.

In 2000, the structure of capital flight related to foreign trade operations underwent changes. If in 1999 illegal capital flight occurred largely as a result of overstated import prices (the Central Bank fought capital flight via the use of false import contracts through more rigid currency regulation), this form of capital flight declined significantly in 2000. This change is also confirmed by the fact that imports to Russia grew very slowly against the background of a



faster real appreciation of the ruble (i.e. in part, growth in imports actually reflected a decrease in capital flight via false contracts). We estimate capital flight through such contracts in 1999 at \$2-3 bln, and no more than \$1 bln in 2000.

On the contrary, capital flight generated by understated export prices increased alongside growth in the prices of Russia's main export commodities. Sources indicate that state authorities consciously neglected this situation, since the government in 2000 was apparently interested in understating export volumes in the hope of ameliorating its debt problem. Our estimate for 1999 is \$1-2 bln and \$5-6 bln for 2000.

Remaining financial flows subject to capital flight and reflected in Russia's balance of payments can be summed using Central Bank data. However, articles related to balance changes on current accounts and changes in extended trade loans and advances cannot be fully taken into account (we include 60% of these two articles in our capital flight estimate). The growth of foreign trade always necessitates the availability of greater funds for payment, and the increase in trade loans may be connected with rising import volumes.

**In absolute terms, capital flight increased \$6-7 bln to \$25-27 bln in 2000**

We conclude that capital flight in 2000 returned to the level of 1998, totaling \$25-27 bln versus \$21-23 bln in 1999. This supports the alarming conclusions of both Russian and international experts.

**Figure 4. Russian Capital Flight in 1999-2000, \$ bln**

Component	1997	1998	1999	3Q2000	2000E
Criminal export of capital	1-2	1-2	1-2	0.8-1.4	1-2
Discrepancies between commodity prices and imports of services	6-8	4-6	2-3	3.5-5	5-6
Balance changes on current accounts and deposits (60% of BoP item)	-1	-1.2	2.3	1.6	2.0
Changes in extended trade loans and advances (60% of BoP item)	3.9	4.1	3.5	1.0	1.3
Changes in the stock of non-repatriated export proceeds	11.6	8.0	5.0	3.7	5.3
Net errors and omissions	5.7	9.0	7.5	7.4	10.0
Total	27.2-30.2	24.9-27.9	21.3-23.3	18.0-20.1	24.6-26.6
Capital flight (CBR estimate)	15.5	13.8	9.0	7.4	N/A
Capital flight (IMF estimate)	22.3	26.8	22.0	N/A	27.0
Trade Balance (goods and services)	11.1	12.9	32.3	38.9	53.9
Portfolio Investment	45.8	8.6	-1.0	0.6	0.9
Capital Flight/(Trade Balance + Portfolio Investment) Ratio, %	50.4	122.9	71.2	48.2	46.7

Note: N/A – not available

Sources: CBR, IMF, Alfa Bank estimates

## Another \$28 bln will leave the country this year

**Official reserves and investment dynamics indicate that capital flight continues to grow**

Although it is hard to evaluate capital flight over the first two months of 2001, several facts indicate that capital flight is accelerating.

First, growth in the CBR's gold and forex reserves has considerably slowed this year. While in January the CBR reported a \$1.5 bln increase in reserves, this was the result of precious metals sales, interest payments on reserves placed in securities and repo operations (which sometimes result in double counting). On the exchange market, official intervention and currency sales to the Finance Ministry offset the CBR's purchases of export revenues. This occurred despite January's huge (\$4.9 bln) trade surplus. In February, official reserves declined \$1.2 bln, equivalent to the amount of Paris Club debt payments. However, excluding this factor reserves were unchanged – another bad sign.

Second, investment continued to decline in January on a seasonally adjusted basis. Despite February's recovery, investment remains well below the levels of August-September 2000.

***Greater capital flight is a result of...***

Lack of growth in official reserves and declining investment combined with still-favorable commodity markets indicate increasing capital flight.

Are there any reasons to expect higher capital flight in 2001? Unfortunately, the answer is yes. Most factors that could have contributed to lower capital flight in 2000-2001 have either expired or were not implemented.

***...the maintenance of a high tax burden,...***

First, the government's plans to reduce the tax burden in 2001 seem doubtful. In both 2001-2002 and probably in 2003, Russia will have to service its foreign debt in full, paying at least \$14 bln each year. Given the narrow market for local borrowing and the very high cost of borrowing on international markets, the main source for debt servicing will be the primary budget surplus. Since non-interest expenditures in the federal budget currently total some 12% of GDP and their further reduction would have negative social consequences, the government will aim to increase tax revenues. Under such conditions, further tax cuts seem highly unlikely.

Declining commodity prices could aggravate the high tax burden's effect on the level of capital flight. Although the current level of taxation is acceptable for Russian exporters given high energy and other commodity prices, if the situation were to deteriorate considerably, companies would decide against repatriating part of their revenues. Should a decline in oil prices below \$18/bbl coincide with a high tax burden, this could increase capital flight \$1.0-1.5 bln.

***...a poor investment climate...***

Second, a country's general investment climate is another important factor in a company's decision whether to repatriate money. The government's intention to proceed with structural reform is a good sign: the "deregulation" package is expected to be sent to the Duma as early as April, and the Land Code will be sent to parliament in early May. The government has made some effort towards reforming the pension system as well. On the other hand, structural reforms bear fruit only in the medium-term, and in the near future investors will be focused on concrete macroeconomic figures. Real appreciation of the ruble has a negative effect on corporate expectations and is one of the main factors underlying the slowdown in investment activity.

Conflict between the government and other authorities regarding economic policy and structural reform is another negative factor for the investment climate. The financial authorities still lack a unified exchange rate policy (while the government insists on a weak ruble policy, the CBR views real ruble appreciation as acceptable and is opposed to easing currency regulations). At the beginning of 2001, a dispute arose regarding Paris Club debt payments, and disagreements continue concerning restructuring of the banking sector and natural monopolies, pension reform, et al. Controversial statements by Russian officials create obstacles for investment in Russia.

***...and the end of active purchases of second- and third-tier stocks***

Finally, in 2000 Russian companies invested considerably in purchases of second- and third-tier stocks. As a result, last year's increase in capital flight was smaller than it otherwise would have been. Through share purchases on the open market, Sibal acquired controlling stakes in GAZ and PAZ, and Severstal bought a blocking stake in UAZ as well as a controlling stake in ZMZ. In September, Tyumen Oil Company acquired an 85% stake in ONACO for \$1.08 bln.

Even if these asset purchases were to continue in 2001, they would hardly be as active compared to last year since the most attractive stakes have already been bought. This factor could increase capital flight \$0.5-1.0 bln.

***Capital flight expected to increase \$1-3 bln in 2001***

In light of the above factors, we believe that capital flight will increase \$1-3 bln in 2001.



---

**Unrealized revenues threaten the market**

***Higher capital flight causes faster depreciation, higher domestic borrowing costs,...***

***...smaller profits by export-oriented companies...***

***...and concern about a country's solvency***

Even a \$1-2 bln increase in capital flight would have negative consequences both for Russia's financial markets and the economy in general. In terms of the exchange rate, this means faster ruble depreciation and greater market volatility (curiously, many exporters began to actively lobby in favor of liberalizing currency regulation, including the level of obligatory export revenue sales, only at the beginning of this year. Although seemingly unjustified from an economic standpoint, exporters' efforts to ease currency regulations provide another indication that capital exports will likely increase either through legal or semi-legal channels). Faster ruble depreciation and increasing instability on the exchange market will in turn undermine liquidity on the domestic debt market and raise the Finance Ministry's cost of borrowing.

In the long run, capital flight also harms the equity market. Since understating export prices is a channel for capital flight (in order to lower the tax burden), export-oriented companies will show smaller profits. Thus, their performance will generally be worse than it should be, were it not for semi-legal exports of capital.

In terms of both the equity and local fixed-income markets, capital flight reduces liquidity in the banking sector and lowers demand.

Large-scale capital flight combined with huge foreign debt payments may exhaust growth in official gold and forex reserves, which serve as an important indicator of a country's solvency. The same applies to fiscal performance: since a large share of capital flight accounts for tax evasion, the federal budget may lose around 10% of overall revenues from capital flight alone, or roughly \$4-5 bln a year. Thus, rising capital flight will eventually become a concern for investors in Russian dollar-denominated debt instruments.



**Stock Performance and Valuations**
**Figure 5. ADR Performance, MTD, as of March 28**

Company	SE	Type of ADR	Ratio	% as ADRs	Price	Change		Last 52 wks		Volume \$ mln
						Last month	YTD	High	Low	
						\$	%	\$	\$	
<b>Oil and Gas</b>										
Chernogorneft	Fr	Level 1	1 in 1	18.4	2.4	-9.9	-32.9	17.2	2.4	4.2
Gazprom ADS	Fr	114A, REG S	10 in 1	1.4	6.4	-1.5	-1.7	9.0	5.7	31.9
LUKoil	Fr	Level 1	4 in 1	31.0	39.6	5.5	11.1	66.2	32.1	45.1
LUKoil pref.	Fr	Level 1	2 in 1	5.0	20.5	5.1	17.7	24.7	15.6	23.5
Sibneft	Fr	Level 1	10 in 1	4.0	3.4	16.6	34.9	3.6	2.2	5.0
Surgutneftegaz	Fr	Level 1	50 in 1	19.0	11.3	2.1	8.7	19.8	9.2	11.5
Surgutneftegaz pref.	Ber	Level 1	100 in 1	N/A	10.7	-3.6	18.9	16.8	8.5	1.0
Tatneft	NY	Level 2	20 in 1	25.0	8.2	-16.3	19.3	13.8	6.5	10.8
<b>Utilities</b>										
Irkutskenergo	Fr	Level 1	50 in 1	16.0	3.0	-21.9	-13.5	6.0	2.8	0.9
Kuzbassenergo	Fr	Level 1	10 in 1	25.0	1.3	27.1	50.0	1.5	0.6	1.7
Lenenergo	Ber	REG S	80 in 1	6.2	14.7	5.4	-29.4	23.2	13.5	0.0
Mosenergo	Fr	Level 1	100 in 1	20.0	3.3	-0.9	39.3	6.7	2.3	21.2
RAO UES	Fr	Level 1	100 in 1	22.0	10.2	9.8	33.7	20.3	6.9	10.6
Rostovenergo	Ber	Level 1	100 in 1	N/A	0.8	-20.3	-14.8	2.6	0.8	0.1
Rostovenergo pref.	Ber	Level 1	100 in 1	N/A	0.9	-4.5	-3.0	1.5	0.7	0.5
Samarenergo	Fr	Level 1	70 in 1	N/A	1.6	12.5	105.9	2.2	0.7	0.3
<b>Telecoms</b>										
Chelyabinskvyazinform	Ber	Level 1	1 in 5	N/A	4.9	-10.1	-13.7	53.2	4.1	0.0
Golden Telecom		N/A	1 in 1	N/A	7.8	-12.8	37.9	48.0	5.1	3.6
Kubanelectrosvyaz	Fr	Level 1	1 in 2	N/A	4.5	-10.6	-15.8	8.5	4.5	0.0
MGTS	Ber	Level 1	1 in 10	N/A	5.8	-10.4	2.0	59.9	4.1	0.1
MTS	NY	Level 3	20 in 1	17.0	25.5	-1.5	6.2	31.4	22.0	37.6
Nizhnovsvyazinform	Fr	Level 1	2 in 1	8.5	1.8	-3.6	-37.2	4.3	1.8	0.0
Rostelecom	NY	Level 2	6 in 1	19.7	4.8	-6.9	-7.3	25.1	4.8	7.8
Rostovelectrosvyaz	Ber	Level 1	5 in 1	N/A	2.7	-41.0	-43.5	5.8	2.7	0.0
Samarasvyazinform	Ber	Level 1	1 in 5	N/A	8.0	2.1	-10.8	16.8	7.5	0.0
Tyumentelecom	Fr	Level 1	1 in 1	N/A	0.5	-22.8	28.8	2.2	0.3	0.0
Tyumentelecom pref.	Fr	Level 1	2 in 1	N/A	0.5	-21.9	14.3	1.9	0.4	0.0
Uralsvyazinform	Fr	Level 1	200 in 1	N/A	1.6	7.5	17.7	5.9	1.2	0.2
VimpelCom	NY	Level 3	3 in 4	N/A	14.8	-4.3	1.3	48.4	12.1	4.0
<b>Other sectors</b>										
Uralmash Zavody	Ber	144A, REG S	1 in 1	21.0	2.9	29.0	107.0	2.9	1.3	4.5
GUM	Fr	Level 1	2 in 1	32.2	2.1	-14.3	-5.4	6.5	2.0	2.2
TsUM	Fr	Level 1	20 in 1	10.8	2.6	-11.1	13.4	7.3	1.9	0.0
Sun Interbrew B	Fr	144A, REG S	1 in 1	32.0	3.0	21.9	16.8	6.8	2.0	3.4
Sun Interbrew A	Fr	144A, REG S	1 in 1	15.0	2.0	30.5	20.3	5.0	1.5	0.2

Note: N/A – not available

Sources: Reuters, Bloomberg, Alfa Bank estimates



Figure 6. Blue Chip Performance and Valuation vs International Peers, MTD, as of March 28

Company	Price	Change		Last 52 wks		ADV \$ mln	MCap \$ mln	P/E		EV/EBITDA		Target price \$	Upside %	Recommendation
	\$	%	YTD %	High \$	Low \$			2000E	2001E	2000E	2001E			
<b>Oil and Gas</b>														
Gazprom	0.328	-2.90	12.09	0.347	0.218	2.79	8,854.5	2.5	2.3	4.2	3.2	0.65	98.2	BUY
LUKoil	9.75	2.63	5.41	16.62	8.05	1.43	7,982.6	2.3	3.3	1.8	2.5	17.35	77.9	BUY
Sibneft	0.3475	12.10	29.66	0.364	0.22	0.04	1,647.6	1.9	2.7	1.5	1.8	0.4	15.1	SPEC. BUY
Surgutneftegaz	0.225	1.35	8.17	0.397	0.183	1.64	8,885.6	2.1	3.0	1.8	2.4	0.41	82.2	BUY
Tatneft	0.4175	-16.16	18.27	0.68	0.324	0.94	943.2	1.1	1.4	1.2	1.4	0.7	67.7	SPEC. BUY
Yukos	2.62	13.91	47.19	2.67	0.60	1.90	5,860.9	2.3	3.0	1.7	2.2	3.09	17.9	BUY
PKN	4.46	-14.91	-17.56	5.92	3.34	3.74	1,875.4	7.7	7.6	4.1	3.7			
Petrobras	22.90	2.86	22.00	32.04	21.84	0.29	26,121.2	5.1	5.8	3.3	3.8			
MOL	14.62	-13.64	-3.77	20.04	12.68	3.72	1,438.6	15.5	11.8	4.7	4.9			
<i>Average for peers</i>								<b>9.4</b>	<b>8.4</b>	<b>4.0</b>	<b>4.2</b>			
<b>Utilities</b>														
Irkutskenergo	0.06	-12.29	-23.25	0.12	0.06	0.01	292.7	5.4	6.5	2.4	2.7	0.9	1365.8	HOLD
Lenenergo	0.155	3.33	-13.65	0.36	0.15	0.00	126.3	59.4	23.3	6.4	4.6	0.18	16.1	HOLD
Mosenergo	0.0328	-4.37	36.67	0.066	0.022	0.84	927.2	11.9	8.3	4.4	4.0	0.063	92.1	HOLD
RAO UES	0.102	7.28	24.02	0.1985	0.071	6.55	4,216.4	13.8	8.5	2.2	1.8	0.154	51.4	HOLD
EdP	2.7	-6.5	-14.2	4.1	3.0	10.8	8,040.0	16.0	8.3	8.3	8.0			
Endesa	16.1	-6.6	-2.0	23.6	15.3	5.2	17,035.3	13.3	11.8	7.3	6.9			
Tenaga	3.2	-2.4	6.9	14.7	10.3	13.3	9,810.7	19.1	16.2	12.2	10.9			
<i>Average for peers</i>								<b>16.1</b>	<b>12.1</b>	<b>9.3</b>	<b>8.6</b>			
<b>Telecoms</b>														
MGTS	5.5	0.00	-13.39	11.0	4.8	0.00	461.1	18.6	21.2	5.8	5.3	6.51	18.4	HOLD
TeleSP	15.48	12.37	11.23	32.52	12.00	14.89	7,024.3	12.4	8.0	4.5	3.9			
Tele Norte Leste	18.86	0.81	16.88	21.05	11.06	27.61	8,157.7	35.1	20.4	4.5	3.5			
<i>Average for peers</i>								<b>23.8</b>	<b>14.2</b>	<b>4.5</b>	<b>3.7</b>			
Rostelecom	0.796	-6.35	-7.44	4.24	0.796	0.33	663.3	13.7	7.1	3.1	3.2	0.69	-13.3	REDUCE
Indosat	0.98	3.30	4.44	1.53	0.65	2.22	1,013.7	6.3	6.1	4692.3	4773.2			
Embratel	11.44	-15.27	0.84	18.65	9.28	27.60	4,421.0	12.8	10.0	5.2	4.5			
<i>Average for peers</i>								<b>9.6</b>	<b>8.1</b>	<b>5.2</b>	<b>4.5</b>			
Golden Telecom	7.8	-12.8	37.9	48.0	5.1	0.37	200.1	N/A	-12.2	5.9	2.9	17.94	130.0	SPEC. BUY
Netia	15.78	-3.69	-13.64	29.54	14.74	0.49	504.3	-4.1	-3.2	33.5	17.8			
MTS	25.5	-1.5	6.2	31.4	22.0	2.54	2,720.9	26.0	21.9	12.2	9.9	31.88	25.0	BUY
VimpelCom	14.8	-4.3	1.3	48.4	12.1	1.33	706.5	N/A	321.1	16.4	6.9	23.46	58.5	SPEC. BUY
Turkcell	0.03	-24.75	-9.52	0.07	0.02	9.36	6,708.5	43.6	24.3	9544.3	5829.4			
Mobinil	18.81	1.21	-1.37	47.55	14.42	N/A	1,881.1	28.3	17.0	9.0	6.2			
<i>Average for peers</i>								<b>35.9</b>	<b>20.6</b>	<b>9.0</b>	<b>6.2</b>			
<b>Metals</b>														
Norilsk Nickel	12.05	32.05	65.07	12.1	6.4	1.44	2,275.6	1.2	2.6	0.7	1.3	14.72	22.2	SPEC. BUY
Amplats	37.46	-18.72	-14.66	50.51	18.95	0.33	8,137.9	9.7	7.6	6.9	6.5			
Eramet	41.51	0.22	7.00	52.28	37.32	0.00	1,025.2	11.5	10.6	4.2	4.4			
WMC	3.99	0.65	4.87	4.35	3.15	6.23	7,852.5	11.8	11.1	7.6	7.3			
<i>Average for peers</i>								<b>11.0</b>	<b>9.8</b>	<b>6.2</b>	<b>6.1</b>			
Severstal	39.8	41.21	120.83	39.8	13.25	0.15	877.4	1.9	4.3	0.5	1.0	65.3	64.3	BUY
China Steel	0.61	-7.91	-0.50	0.72	0.52	15.46	5,304.8	9.1	10.7	6.1	6.8			
POSCO	69.98	-9.60	19.35	91.60	43.69	0.26	6,751.8	4.6	7.0	3.8	3.9			
<i>Average for peers</i>								<b>6.9</b>	<b>8.8</b>	<b>5.0</b>	<b>5.3</b>			
<b>Food</b>														
Baltika	350	0.00	0.00	N/A	N/A	N/A	496.3	5.6	4.2	3.8	2.9	470.6	34.5	ACCUMULATE
Sun Interbrew	3	21.90	16.80	6.8	2.0	0.08	209.9	4.8	4.5	3.1	2.6	6.3	110.6	SPEC. BUY
Okocim	2.59	-12.40	-12.40	5.02	2.32	0.09	56.9	6.2	6.0	2.8	2.3			
Zywiec	44.27	0.00	-12.74	95.12	39.76	0.12	327.3	13.0	8.5	3.5	3.1			
<i>Average for peers</i>								<b>9.6</b>	<b>7.3</b>	<b>3.1</b>	<b>2.7</b>			
<b>Transport</b>														
Aeroflot	0.308	2.67	45.28	0.330	0.144	0.09	342.1	neg.	11.2	5.5	3.4	0.320	3.9	Under review
China Eastern Airlines	0.702	2.83	3.75	0.773	0.506	1.07	2,316.2	103.8	63.8	11.0	9.6			
Thai Airways	0.650	-8.66	-9.38	1.031	0.583	0.13	910.3	7.4	5.7	5.4	4.9			
<i>Average for peers</i>								<b>7.4</b>	<b>5.7</b>	<b>8.2</b>	<b>7.2</b>			
<b>Retail</b>														
GUM	1.20		26.32	3.00	1.15	0.00	72.0	5.1	4.6	4.1	3.6	1.720	43.3	ACCUMULATE
Robinson & Co	2.41	-2.70	3.35	2.56	1.69	0.02	207.0	10.1	8.8	3.9	3.3			
Matahari Putra Prima	0.04	-9.00	-9.00	0.10	0.04	0.65	118.4	5.8	5.1	3.4	2.9			
<i>Average for peers</i>								<b>7.9</b>	<b>6.9</b>	<b>3.7</b>	<b>3.1</b>			
<b>Engineering</b>														
Uralsmash Zavody	3.15	45.16	110.00	3.15	1.2	0.05	111.4	9.0	4.2	5.2	2.6	3.45	9.5	BUY
Hyundai Heavy	21.61	4.83	52.43	28.32	12.00	0.25	1,642.7	10.7	5.9	7.7	7.1			
Atlas Copco	18.18	-20.98	-9.69	23.34	15.16	0.98	3,766.0	12.9	12.2	5.8	5.7			
<i>Average for peers</i>								<b>11.8</b>	<b>9.0</b>	<b>6.8</b>	<b>6.4</b>			

Note: N/A – not available;

Sources: Alfa Bank estimates, Bloomberg

**Figure 7. Second-tier Stocks Performance and Valuation, MTD, as of March 28**

Company	Price	Change		Last 52 wks		ADV	MCap	P/E		EV/EBITDA		Target price	Upside	Recommendation
	\$	MTD %	YTD %	High \$	Low \$			2000E	2001E	2000E	2001E			
<b>Oil and Gas</b>														
Megionneftegaz	1.73	5.49	-42.33	3	1.5	12.24	193.6	0.7	0.8	0.6	0.7	2.5	44.5	SPEC. BUY
Purneftegaz	3	3.45	57.89	3.1	1.5	1.91	278.4	4.8	6.3	2.5	2.9	2	-33.3	SELL
Sakhalinmorneftegaz	3.65	25.86	3.69	5	1.5	7.48	251.0	2.4	3.2	2.0	2.4	4.5	23.3	REDUCE
Udmurtneft	30	0.00	0.00	33	18.5	0.00	109.5	0.7	0.9	0.6	0.6	30	0.0	HOLD
<b>Utilities</b>														
Bashkirenergo	0.065	0.00	-12.16	0.096	0.05	0.00	68.0	2.0	1.9	1.1	1.1	0.061	-6.2	HOLD
Chelyabenergo	0.03	-6.25	50.00	0.094	0.02	0.64	14.8	-2.1	2.6	3.0	1.0	0.035	16.6	HOLD
Krasnoyarskenergo	0.027	0.00	0.00	0.053	0.027	0.00	20.2	0.5	0.6	0.4	0.4	0.032	18.5	ACCUMULATE
Kubanenergo	0.7	-12.50	-12.50	1.8	0.7	0.79	12.5	6.3	2.5	1.4	1.1	1.1275	61.1	ACCUMULATE
Kuzbassenergo	0.11	4.76	41.94	0.145	0.065	2.25	66.7	4.2	4.7	1.9	2.1	0.15	36.3	ACCUMULATE
Novosibirskenergo	2.15	0.00	186.67	2.2	0.75	0.17	29.7	2.9	1.7	0.9	0.9	2	-7.0	HOLD
Permenergo	1.05	0.00	5.00	1.85	0.6	0.70	46.5	1.4	2.1	0.9	1.6	1.045	-0.5	HOLD
Rostovenergo	0.01	0.00	-23.08	0.025	0.0076	0.53	39.1	8.7	8.4	3.2	3.3	0.015	50.0	HOLD
Samarenergo	0.0235	6.82	86.51	0.0283	0.012	10.57	87.9	3.9	3.3	1.5	1.5	0.03	27.7	ACCUMULATE
Sverdlovenergo	0.045	-2.60	-3.02	0.085	0.04	0.31	29.6	0.0	0.8	0.9	0.6	0.05	11.1	ACCUMULATE
<b>Telecoms</b>														
Bashinformsvyaz	0.041	0.00	17.14	0.12	0.033	1.70	38.5	3.7	2.3	2.2	1.6	0.07	70.7	HOLD
Chelyabinskvyazinform	16.3	-4.12	7.95	35	15.1	0.94	91.3	15.9	8.0	5.7	6.2	9.12	-44.0	SELL
KhantyMansiiskokrtelcom	1.5	-0.66	0.00	3.28	1.48	1.02	28.9	4.0	3.4	2.3	2.0	1.64	9.3	HOLD
Krasnoyarskelectrosvyaz	2.85	0.00	7.55	3.5	2.85	0.00	30.2	10.9	20.1	3.3	2.6	1.93	-32.3	HOLD
Kubanelectrosvyaz	6.6	0.00	-31.96	18.85	6.6	0.69	77.9	6.1	4.6	3.5	2.8	11.76	78.2	ACCUMULATE
Lensvyaz	7.55	0.00	4.86	13.65	7.2	0.00	19.1	3.0	8.7	3.9	4.2	9.98	32.2	HOLD
Moscow Obl. Electrosvyaz	155	-3.73	10.71	325	135	0.99	81.9	11.0	5.2	4.1	2.2	237.48	53.2	BUY
Nizhnovyazininform	1	0.00	42.86	2.25	0.7	0.00	98.6	12.5	12.5	5.8	5.4	1.44	44.0	ACCUMULATE
Novosibirskkelectrosvyaz	1.5	0.00	7.14	3.53	1.15	0.24	24.1	4.3	3.4	2.5	2.1	2.96	97.3	BUY
Rostovelectrosvyaz	0.5	-9.09	25.00	1.8	0.4	6.66	40.8	12.3	11.1	3.9	3.6	0.9	80.0	HOLD
Samarasvyazininform	32	0.00	0.00	65	32	0.42	68.1	14.1	12.8	7.4	6.7	17.76	-44.5	SELL
St. Petersburg Telecom	0.42	0.00	5.00	1.035	0.37	0.22	174.4	13.6	12.9	9.3	8.5	0.64	52.4	HOLD
Tyumentelecom	0.37	-45.59	-47.14	2.45	0.37	0.81	12.7	7.4	4.6	2.7	2.4	0.8	116.2	HOLD
Uralsvyazininform	0.0072	-4.00	2.86	0.03	0.007	1.56	65.7	15.6	9.8	4.9	3.7	0.007	-2.8	HOLD
Uraltelecom	4.6	4.55	5.75	10.75	3.8	3.01	24.9	6.2	5.4	2.4	2.1	8.54	85.7	BUY
<b>Other Sectors</b>														
AvtoVAZ	4.85	27.63	203.13	5.05	1.5	35.25	131.9	1.1	0.6	5.0	3.0	6.5	34.0	SPEC. BUY
Chelyabinsk Tube	0.045	0.00	0.00	N/A	N/A	N/A	21.3	0.8	0.8	0.7	0.0	0.12	166.7	BUY
GAZ	18	0.00	-2.70	53	17.5	3.46	89.9	N/A	3.0	15.3	5.9	23.8	32.2	SELL
Magnitogorsk MK	30	0.00	0.00	N/A	N/A	N/A	219.2	0.6	1.0	0.5	0.8	54	80.0	BUY
Red October	4	0.00	45.45	5.25	2.65	0.00	35.4	6.2	5.0	3.7	3.4	3.793	-5.2	REDUCE
Sberbank	31.6	31.67	25.15	54.1	22.7	180.35	459.2	N/A	N/A	N/A	N/A	N/A	N/A	Not rated
TsUM	0.23	0.00	27.78	0.42	0.16	0.00	20.6	5.5	4.7	3.3	3.0	0.338	46.7	ACCUMULATE

Note: N/A – not available

Sources: RTS, Alfa Bank estimates

**Figure 8. Preferred Stock Performance and Valuation, MTD, as of March 28**

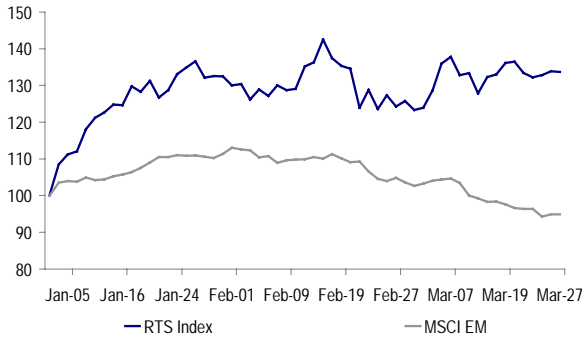
Company	Price	Change		Last 52 wk		ADV	Pref. to Com. discount	Dividends	Dividend yield	Target price	Upside	Recommendation
	\$	MTD %	YTD %	High \$	Low \$							
<b>Oil and Gas</b>												
LUKoil pref.	10.15	2.22	14.04	12.35	8	615.7	-4	1.91	18.82	12.14	19.6	HOLD
Surgutneftegaz pref.	0.11	-8.33	18.28	0.163	0.084	317.3	51	0.01	8.18	0.205	86.4	BUY
Tatneft pref.	0.228	-6.94	14.00	0.283	0.0925	19.2	45	0.03	12.28	0.28	22.8	ACCUMULATE
<b>Utilities</b>												
RAO UES pref.	0.0395	1.28	20.06	0.09	0.0275	66.1	61	0.00	4.46	0.071	79.7	BUY
<b>Telecoms</b>												
Rostelecom pref.	0.3425	-6.16	-22.16	1.46	0.34	7.7	57	0.03	8.33	0.24	-29.9	REDUCE
<b>Metals</b>												
Norilsk Nickel pref.	11.9	29.49	76.30	11.9	6	64.7	1	0.00	0.00	13.98	17.5	SPEC. BUY

Sources: RTS, Alfa Bank estimates



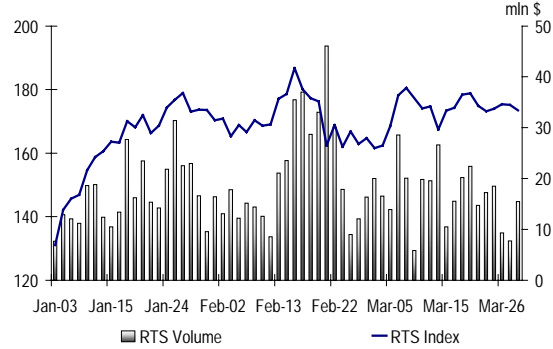
### Chartbook

**Figure 9. RTS vs MSCI EM, YTD**



Sources: RTS, Reuters

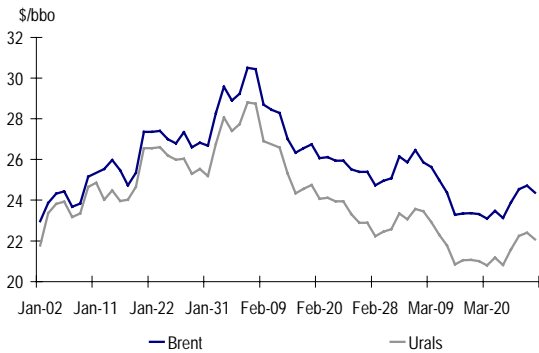
**Figure 10. RTS Performance, MTD**



Source: RTS

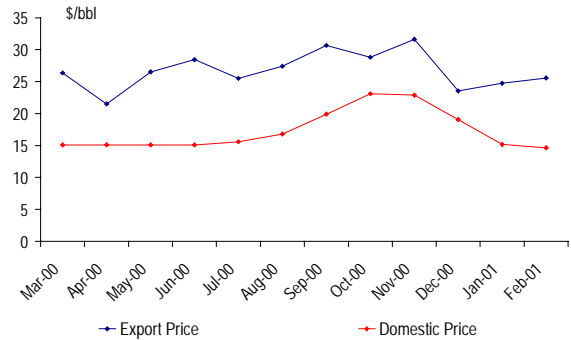
- Russia remains one of the best-performing emerging markets despite the recent sharp correction
- Over the past few days many investors took profits amid volatility in the U.S.

**Figure 11. Oil Prices Dynamic: Brent vs Urals, YTD**



Source: Bloomberg

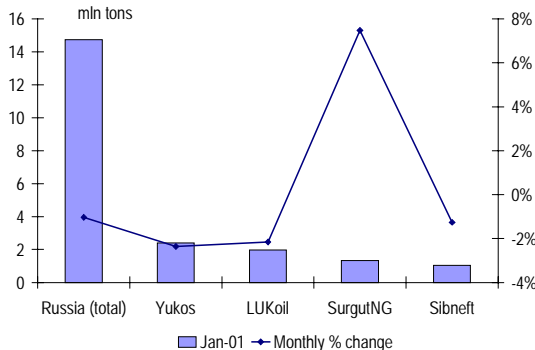
**Figure 12. Oil Prices: Export vs Domestic, YTD**



Source: Ministry of Energy

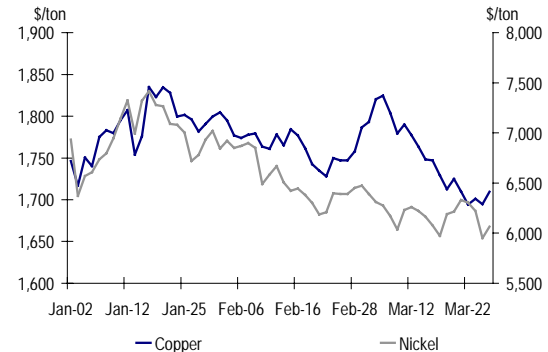
- Oil prices were above our forecasts, but the Brent/Urals spread remained stable
- Export limitations led to a decline in domestic prices for crude oil

**Figure 13. Oil Output by Company**



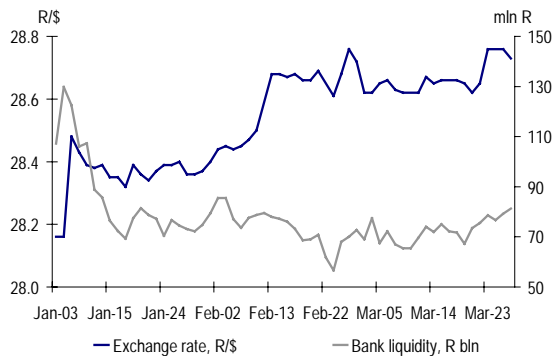
Source: Ministry of Energy

**Figure 14. Copper vs Nickel, YTD**

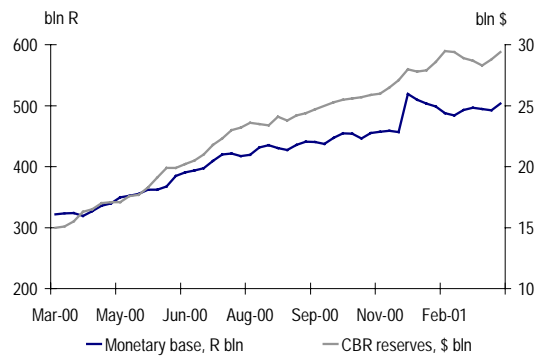


Source: Bloomberg

- February's oil production was lower m-o-m due to seasonal factors
- Base metals prices continued to decline

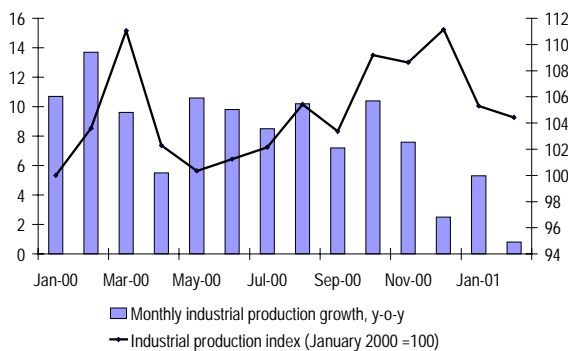
**Figure 15. Exchange Rate vs Bank Liquidity, YTD**


Source: CBR

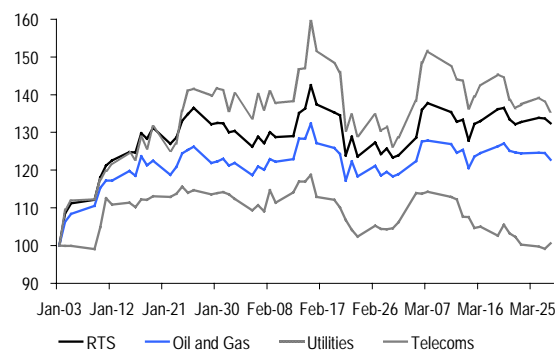
**Figure 16. Monetary Base vs CBR Reserves, YTD**


Source: CBR

- After supporting the ruble over the first three weeks of March at R28.68/\$, the CBR allowed it to fall R0.1 due to increasing bank liquidity
- The monetary base resumed its growth last month fuelled by a near \$2 bln rise in official reserves

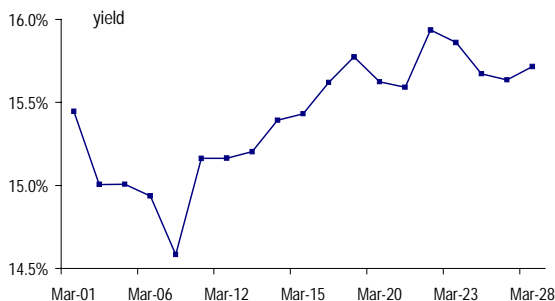
**Figure 17. Industrial Production, 2000-2001**


Source: MinFin

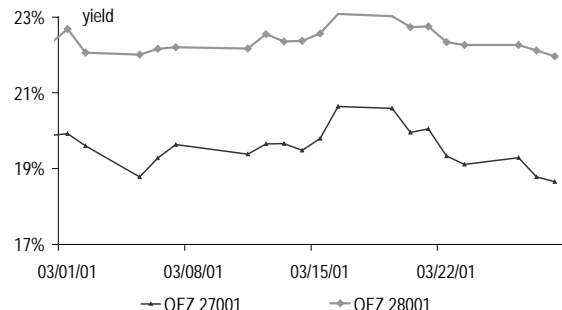
**Figure 18. Sector Performance, YTD**


Source: Alfa Bank estimates

- February's fiscal deficit was a result of Paris Club debt payments; fiscal performance should improve in upcoming months
- The utilities sector continued to outperform the market, while oil & gas and telecoms underperformed

**Figure 19. Russia-07 Performance, MTD**


Source: Reuters

**Figure 20. OFZ 27001 - OFZ 28001 Performance, YTD**


Source: Reuters

- Russian sovereign Eurobonds were highly volatile due to continuing instability in major emerging markets
- Ruble-denominated bond yields were stable at 22.5% on the long end and 20.0% for one-year issues



## Upcoming Events

Figure 21. Calendar of Upcoming Events

Date	Company	Event
<b>April</b>		
First Half	Macro	Visit of IMF-World Bank mission
First week	LUKoil	2000 financial results (RAS)
1	Tatneft	2000 financial results (RAS)
1	Seversky Pipe Plant	EGM to re-elect BoD
2	GUM	2000 financial results (RAS)
4	Macro	Duma to consider profit tax in a first reading
5	Macro	Government to discuss amendments to profit tax in a second reading
6	LUKoil	BoD to set agenda of AGM, ex-dividend date and dividends
7	Energia	AGM
9	Macro	Putin's meeting with German Chancellor in St. Petersburg
13	Macro	Government to discuss set of tax bills necessary for 2002 federal budget
10	Macro	Finance Ministry to discuss state debt-management strategy
10	Taganrog Pipe	AGM
12	Chelyabinsk Pipe	AGM
15	Macro	Government to discuss draft of deposit guarantee scheme
15	UES	Government session devoted to restructuring
Mid-April	Yukos	BoD to set agenda of AGM, ex-dividend date and dividends
19	ZMZ	AGM
19	Macro	Government to consider medium-term economic program for 2002 -2004
Second Half	GAZ	AGM
Second Half	Aeroflot	2000 operating and financial results (RAS)
Second Half	Aeroflot	Business briefing for investors and analysts
20	Macro	Spring meetings of the IMF and World Bank
20	TNK	EGM to approve share issue for subsidiary consolidation
21	Krasny Oktyabr	AGM
25	Sun Interbrew	AGM
27	GUM	AGM
28	UES	AGM
28	Irkutskenergo	EGM
28	PTS	AGM

Sources: Alfa Bank



Natalya Orlova  
(7 095) 795-3677

## Economics and Politics

**February's economic figures were negative but did not affect our annual forecasts (aside from inflation)**

The month's poor fiscal figures appear temporary and were the result of huge foreign debt payments, while the lower industrial production data confirmed the previous "stagnating" trend. February's inflation confirms our belief that any deceleration of inflation would not be enough to achieve the official 18% annual target, thereby leading us to raise our annual inflation forecast to 20%. At the same time, we believe that these economic figures will trigger a revision of market forecasts since the previous consensus was too optimistic (5.7% industrial and 4.1% GDP growth).

Even if macro expectations were to change, they would be unlikely to generate pressure on the stock market in light of expected progress regarding structural reform in April. The Duma plans to consider several issues:

- Approval of the IMF's banking package;
- Discussion of privatization legislation;
- Approval of changes to currency controls;
- Discussion of German Gref's deregulation bills;
- Approval of profit-tax amendments;
- Discussion of bill entitled "On the system of household bank-deposit insurance"

**If approved, this legislation would likely support positive market sentiment**

It is also important to note that there is no large downside risk: since the Duma is now generally friendly to the government's proposals, the only risk that these legislative initiatives face is delay rather than rejection. Vladimir Putin could send a positive signal to the market during his address to the Russian parliament on April 3 should he reaffirm the government's commitment to economic reform and outline specific structural goals.

**Figure 22. Main Macroeconomic Indicators**

	1997	1998	1999	2000	2001	2002
<b>Monthly - April</b>						
Inflation, m-o-m, %	0.9	0.4	3.0	0.9	1.5	
Exchange rate, end of month, R/\$	5.8	6.1	24.2	28.4	28.9	
CBR reserves, end of month, \$ bln	18.2	16.0	11.2	17.1	29.0	
<b>Annual</b>						
GDP growth, % annual	0.8	-4.9	3.2	7.7	1.5	2.0
Investment growth, % annual				17.7	9.0	
Private consumption growth, % annual				9.1	4.0	
Inflation, % annual	11.0	84.0	37.0	20.0	20.0	15.0
Exchange rate, R/\$, year-end	6.0	20.7	27.0	28.1	30.7	32.8
CBR reserves, year end, \$ bln	17.8	12.2	12.5	28.0	31.0	35.0
Trade balance	16.6	16.9	36.0	61.0	48.0	41.0
Exports	89.0	74.9	75.8	105.0	96.0	95.0
Imports	72.0	58.0	39.6	44.0	48.0	54.0

Sources: IMF, Alfa Bank estimates

**Figure 23. Expectations**

Date	Event
April 3	Putin's address to the Russian parliament
April 4	Duma to approve profit tax amendments
2HApril	IMF agreement to be submitted to the IMF's board

Source: Alfa Bank estimates



Figure 24. Key Events

Data	Event
March 2	<b>German Gref presents his “deregulation” program.</b> Simplifying the registration of private businesses and unifying licensing procedures on a nationwide basis may boost GDP growth to a level of 4-5% over the next few years. The program must be sent to the Duma in April.
March 6	<b>February’s 2.3% inflation figure not bad, but worries persist.</b> February’s figure puts 2M2001 inflation at 5.1% vs. 3.4% during the same period last year. Despite some slowing of price growth, worries about future performance persist. A possible 70% increase in railway tariffs combined with an expected 20% increase in wholesale electricity tariffs in 2H2001 may push inflation to 20%.
March 11	<b>Paris Club payments cause February’s R20.1 bln federal deficit.</b> The deterioration of fiscal results in February (compared to a R5.5 bln surplus in January 2001) was unsurprising given the \$1.3 bln in payments to the Paris Club. On the revenue side, fiscal receipts continued to exceed initial fiscal targets, reaching R106 bln mainly thanks to collections by the State Customs Committee. R180 bln in additional revenue must be collected in order to ensure a balanced budget in 2001.
March 12	<b>Russian government announces the virtual completion of IMF negotiations.</b> Progress towards a new IMF agreement is good news for Russia for three reasons. First, a new program would lead to the start of official negotiations with the Paris Club and improve the chances of an active resumption of talks. Second, it would speed passage of the crucial “IMF banking package” through the Duma. Third, the announcement helped calm rumors of a possible government reshuffle, thus lending support to the market.
March 14	<b>Duma’s no-confidence vote fails. The Duma failed to collect the minimum 226 votes needed to pass a vote of no-confidence in the government.</b> Once again, this confirmed that in the new Duma, left-wing parties have lost their political weight and that the only real force at present is the pro-government Unity and its allies. Unity showed its desire to maintain political stability and, despite an initial announcement, did not participate in the vote.
March 19	<b>Discussion of pension reform highlights conflicts of interest.</b> The meeting of the National Council on Pension Reform did not generate optimism. The initial proposals by the Ministry of Economics and Trade were significantly altered under pressure from the State Pension Fund. Instead of creating an accumulative pension system managed by private funds, the latest version of the bill calls for the creation of accumulative accounts funded by employers (not employees) and managed by the State Pension Fund. Given such a system, the main benefit of pension reform would be the government’s ability to finance foreign debt by increasing domestic debt.
March 19	<b>February’s poor industrial production figures may force a revision of market expectations.</b> Industrial production declined 1.3% m-o-m in February, the first such fall that month since February 1996. On a seasonally adjusted basis, industrial production merely returned to the level to which it fell following December’s decline in output. In light of the consensus forecast of 5.7% growth in industrial production in 2001, we believe that market expectations may be revised downward.
March 22	<b>Ten-year economic strategy confirms the government’s commitment to structural reform.</b> Expected average 5% GDP growth will be supported by rapid investment growth, low inflation and increasing real incomes. The good news is that for the first time, the government has outlined its debt strategy: the debt/GDP ratio is expected to decrease by half to 30% by 2010 thanks to debt repayment, real appreciation of the ruble and economic growth. However, the commitment to fulfill debt obligations does not automatically guarantee higher investment, while the anticipated launch of structural reforms is likely to result in significant growth in prices and 10-15% inflation over the next ten years.
March 26	<b>Government’s refusal to sign a short-term IMF agreement will renew concerns about 2003.</b> The IMF’s board of directors will merely be informed about a joint statement by the government and the CBR, and the Fund will monitor it without signing a program with Russia. This sends a confusing message to the Russian market and will renew concerns about 2003: it would be easier for Russia to fulfill a one-year precautionary arrangement (which does not impose strict structural requirements) than to sign a new medium-term agreement in 2002.

Source: Alfa Bank estimates



## Companies and Industry News

### Oil and Gas

**Konstantin Reznikov**  
(7 095) 795-3612

#### **OPEC supported oil prices**

As we expected, OPEC supported oil prices by cutting production 1 mmbpd starting in April. We used this assumption in our base-case scenario for the average price of Brent oil (\$23/bbl in 2001). Urals blend in North Europe trades at a \$2.30/bbl discount to Brent blend, which is lower than the \$3.0/bbl we assumed in our model for this year. However, Iraqi Kirkuk blend (a main competitor for Russian Urals in the Mediterranean) traded at a \$2.6/bbl discount to Brent and may cause spreads between Urals and Brent prices to widen.

#### **The negative impact from declining export prices will be offset domestically**

Regardless of the 20% decrease in oil prices, we expect the revenues of Russia's five largest oil companies to decrease only 7.5%. The negative impact of lower oil export prices will be partially offset by more stable domestic prices for crude oil and refined products as well as increased production.

#### **FY2000 results and dividends are usually announced in April**

In April, the boards of directors of Russian companies will set the agendas for their AGMs and dividend amounts. In particular, LUKoil's board will discuss these issues on April 6. We expect LUKoil will offer to pay R56 per preferred share, which implies an 18.6% dividend yield. Also, in April Russian companies must submit to the authorities their financial results according to Russian Accounting Standards (RAS). Therefore, these results may be published. However, Yukos' and Sibneft's RAS accounts will be non-consolidated and effectively meaningless. However, the reports of LUKoil, Surgutneftegaz and Tatneft according to RAS may be used for analysis of these companies' financial results in 2000

## Gazprom

**Figure 25. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
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	2.5	2.3	2.8	2.6
EV/EBITDA	4.2	3.2	3.6	3.4
Market Cap (\$ mln)	8,854.5			
Enterprise Value (\$ mln)	20,754.5			
Production, bcm	3.2			
Reserves, bcm	184.1			
Shares Outstanding (mln)	23,673.5			

Source: Alfa Bank estimates

**Figure 26. Company Snapshot**

<b>Strengths</b>	<ul style="list-style-type: none"> <li>• Large portion of revenues (63%) derived from exports</li> <li>• Strong position on the European gas market (exports 131 bcm)</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>• Low domestic gas prices (\$13-16 per thousand cm)</li> <li>• Non-payment by consumers for gas deliveries (\$3.4 bln)</li> </ul>
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>• New export pipeline projects (aim to increase exports to 175-200 bcm)</li> <li>• Domestic gas prices to rise faster than inflation</li> </ul>
<b>Threats</b>	<ul style="list-style-type: none"> <li>• Government holds 38% of the company's shares</li> <li>• Division into production and transportation companies</li> </ul>

Source: Alfa Bank estimates

## LUKoil

**Figure 27. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	12,736.8	11,853.4	12,701.5	13,181.9
EBITDA, \$ mln	5,310.3	3,923.4	4,291.6	4,456.4
Net profit, \$ mln	3,112.0	2,200.0	2,445.5	2,563.6
P/E	2.3	3.3	2.9	2.8
EV/EBITDA	1.8	2.5	2.3	2.2
Market Cap, \$ mln	7,982.6			
Enterprise Value, \$ mln	9,782.6			
Production, mln boe	578.5			
Reserves, mln boe	15,121.0			
Shares Outstanding, mln	815.6			

Source: Alfa Bank estimates

**Figure 28. Company Snapshot**
**Strengths**

- Large proved reserves of 18.7 bln barrels
- Dominant position on the Russian (22%) and Balkan oil markets

**Weaknesses**

- Domestic sales of 15-18 mln tons of crude oil
- Significant debt position (\$2.7 bln)

**Opportunities**

- Level 3 ADR issue in 2H2001
- Development of East European assets (40% of refining capacity)

**Threats**

- \$300 mln capex write-off in the event of low Caspian reserves
- Oversupply of shares from BP Amoco stake and future privatization

Source: Alfa Bank estimates

**Figure 29. Key Events**

Date	Event
March 15	<b>Delay in sale of 6.1% of LUKoil shares may not represent a buying opportunity.</b> Deputy Prime Minister Alexei Kudrin announced that due to the unfavorable market environment, for the time being the government has decided to delay the sale of 6.1% of LUKoil stock. This news may be positive since this lowers the risk that an overhang of company shares will develop. On the other hand, it may also fuel fears that the publication of LUKoil's financial results according to IAS might be delayed once again. Should this occur, the market would be disappointed, leading to negative pressure on LUKoil shares.
March 27	<b>LUKoil published its 1998-1999 U.S. GAAP financials. The results were mixed, but positive for market liquidity.</b> 1998's net profit of \$729 mln was much better than the same figure calculated based on RAS as well as our own forecast. The \$1.06 bln net income for 1999 was somewhat below our expectation and 14.0% below the relevant RAS financials. Following full disclosure of the U.S. GAAP results, the RFFI will begin preparing documents necessary for LUKoil's Level 3 ADR program planned for 2H2001. The publication of consolidated U.S. GAAP results and the provision of other information provided in preparation for its listing on NYSE will significantly improve the company's transparency.

Source: Alfa Bank estimates

## Sibneft

**Figure 30. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	2,757.8	2,503.6	2,591.2	2,716.2
EBITDA, \$ mln	1,266.4	1,057.5	1,365.1	1,395.5
Net profit, \$ mln	845.7	602.8	623.6	748.7
P/E	1.9	2.7	2.6	2.2
EV/EBITDA	1.5	1.8	1.4	1.4
Market Cap, \$ mln	1,647.6			
Enterprise Value, \$ mln	1,927.6			
Production, mln boe	125.6			
Reserves, mln boe	5,960.3			
Shares Outstanding, mln	4,741.3			

Source: Alfa Bank estimates

**Figure 31. Company Snapshot**
**Strengths**

- Professional management
- Owns Russia's most advanced refinery with 81% refining depth

**Weaknesses**

- Low (12%) free float
- Refinery far from export markets, exports only 18% of products

**Opportunities**

- 10.5% higher crude oil production in 2001 due to increased capex
- Received 33% of ONAKO

**Threats**

- Full (88%) control of the company by a small group of shareholders

Source: Alfa Bank estimates

**Figure 32. Key Events**

Date	Event
March 28	<b>Sibneft will receive a two-year, \$175 mln syndicated loan from Commerzbank (Germany), Erste Bank (Austria), Banque Cantonale Vaudoise (Switzerland), Moscow Narodny Bank and KBC Bank.</b> The company plans to use the loan to finance capex in upstream businesses. Sibneft expects to produce 19 mln tons of crude oil in 2001 (10.5% more than in 2000) as a result of a 147% boost in capex this year to \$595 mln. Taking account of this loan, Sibneft's 2001E D/E ratio is 0.17.

Source: Alfa Bank estimates

## Surgutneftegaz

**Figure 33. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	5,174.9	4,398.9	4,454.4	4,726.5
EBITDA, \$ mln	3,415.0	2,595.4	2,489.7	2,614.4
Net profit, \$ mln	2,513.0	1,757.0	1,743.9	1,830.7
P/E	3.2	4.6	4.6	4.4
EV/EBITDA	2.6	3.5	3.6	3.4
Market Cap, \$ mln	8,885.6			
Enterprise Value, \$ mln	8,995.6			
Production, mln boe	373.3			
Reserves, mln boe	21,893.0			
Shares Outstanding, mln	43,428.0			

Source: Alfa Bank estimates

**Figure 34. Company Snapshot**

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

Source: Alfa Bank estimates

**Figure 35. Key Events**

Date	Event
March 6	<b>Surgutneftegaz may pay dividends up to \$0.025 on pref shares (dividend yield 19.8%).</b> Surgutneftegaz shareholders sued the company for incorrect payment of dividends on preferred shares. According to the company's charter, 10% of its net profit must be paid as dividends on preferred shares. However, Surgutneftegaz calculated net profit as after-tax profit minus capital expenditures. As a result, it paid R660 mln in dividends on preferred shares in 1999, whereas 10% of its after-tax profit totaled R3,090 mln. We do not expect the company to reconsider dividends for FY1999, but it may be forced to calculate net profit correctly starting in FY2000. We estimate Surgutneftegaz's net profit (calculated as pre-tax profit minus profit tax) at \$2,512 mln. Thus, dividends on preferred shares may total as much as \$0.025 per share, representing a 19.8% yield to the share price. This is significantly above our expectation of \$0.009 per share and a 7.2% yield.

Source: Alfa Bank estimates

## Tatneft

**Figure 36. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	3,832.7	3,827.9	3,835.8	3,842.9
EBITDA, \$ mln	1,284.8	1,076.3	892.3	906.1
Net profit, \$ mln	808.6	640.7	518.1	551.0
P/E	1.1	1.4	1.8	1.7
EV/EBITDA	1.2	1.4	1.7	1.7
Market Cap, \$ mln	943.2			
Enterprise Value, \$ mln	1,543.2			
Production, mln boe	183.3			
Reserves, mln boe	6,206.0			
Shares Outstanding, mln	2,326.2			

Source: Alfa Bank estimates

**Figure 37. Company Snapshot**

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

Source: Alfa Bank estimates

**Figure 38. Key Events**

Date	Event
March 1	<b>Tatneft is considering increasing the par value of its shares to eliminate the cap on issuing ruble-nominated bonds, linked to shareholders' equity.</b> The company plans to increase its capital 10-25 times, thereby raising the par value of its shares from R0.1 to R1.0-2.5. We estimate that dividends on preferred shares will be at least R1.0 per share next year, compared with an expected R0.8 this year. Thus, Tatneft's preferred shares will become more attractive following approval of the increase in charter capital. Tatneft also announced plans to boost capital expenditures from \$441 mln in 2000 to \$517 mln this year. As a result of this increase, Tatneft expects to hike crude oil production 4.1% in 2001 to 24.1 mln barrels (excluding its share in JVs).

Source: Alfa Bank estimates

**Yukos**
**Figure 39. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	7,269.2	6,803.6	7,200.5	7,370.7
EBITDA, \$ mln	3,804.0	2,931.0	3,115.9	3,133.2
Net profit, \$ mln	2,584.0	1,952.0	1,687.8	1,786.1
P/E	2.3	3.0	3.5	3.3
EV/EBITDA	1.7	2.2	2.1	2.1
Market Cap, \$ mln	5,860.9			
Enterprise Value, \$ mln	6,540.9			
Production, mln boe	362.1			
Reserves, mln boe	14,709.5			
Shares Outstanding, mln	2,237.0			

Source: Alfa Bank estimates

**Figure 40. Company Snapshot**

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

Source: Alfa Bank estimates

**Figure 41. Key Events**

March 1	<b>Yukos acquired a 50% stake in the joint venture Urengoil from Canada's Eurogas for \$16.0 mln.</b> We expect Yukos will try to acquire the other half of this JV from the state exploration company Urengoineftegazgeologia. The JV has 406 mln barrels of proved oil and condensate reserves. Based on the price Yukos paid for 50% of the company, the acquired reserves are valued at \$0.08 per barrel, or four times cheaper than its own reserves. Thus, Yukos gained about \$100 mln (\$0.04 per share) on the deal. This leads us to confirm our recommendation to BUY Yukos shares.
March 15	<b>Yukos's Level 1 ADRs improved liquidity and added \$0.20 to the company's share price.</b> The current trading volume of Yukos shares on RTS averages \$2.0 mln, at times even higher than the volume of Surgutneftegaz shares. Due to inability of many investors to buy underlying shares, the ADR issue will significantly help increase the liquidity of Yukos shares. The company plans to raise the ADR issue to 20% of its charter capital in the future. Although Yukos current free float totals 14%, the company plans to increase it to 30-35% within 5-7 years. This would decrease the risk of investment in the company and further improve liquidity.
March 29	<b>Development of Yurubchen oil field by 2008 to add 15% to Yukos' production and boost EV by \$1.3 bln.</b> The company plans to invest R53 bln (\$1.8 bln) in development of the Yurubchen oil field in Eastern Siberia and reach a production level of 7.0-7.5 mln tons by 2005. Yukos will spend a significant portion of this capex on a 550-km pipeline to Transneft's trunk system. The total capex for this field is estimated at R94 bln (\$3.1 bln), which will facilitate a 13 mln ton (260,000 bpd) increase in production by 2008. The development of this field will add \$1.3 billion to Yukos' EV, or \$0.60 per share.

Source: Alfa Bank estimates

## Utilities

**Natalya Sazhina**  
(7 095) 795-5835

### Arthur Andersen's plans are controversial, from our point of view

We expect next month's major event to be a government meeting devoted to restructuring of the electric power sector. The government will examine two major documents before the meeting – a proposal by the restructuring working group and the plan of Arthur Andersen, the government's special consultant.

The consultant submitted its proposal to the Ministry of Economic Development and Trade at the end of March. It recommends the creation of a temporary holding based on UES' assets, which will include the grid company, up to five federal generating companies, a thermal power-plant holding and up to seven pan-regional distribution companies. UES' share in the new companies will vary from 51% to 100%, but later on UES will sell all the controlling stakes, except for the 51% stake in the federal grid company. We believe that the proposed plan is better than the one originally proposed by UES management, but it fails to satisfy the interests of all minority shareholders. The following are the main positive aspects of the proposal:

- Proportional share conversion has been promised for all minority shareholders;
- UES won't sell assets, but rather stakes during the course of restructuring.

However, we also see some possible obstacles. For example:



- Uncertainty about conversion ratios and property redistribution will probably affect the liquidity of utilities since the proposal, if implemented, would split up natural monopolies.

## UES

**Figure 42. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	11,295.3	12,974.0	14,593.0	15,195.0
EBITDA, \$ mln	2,178.7	2,675.0	3,389.0	3,283.0
Net profit, \$ mln	302.1	493.0	667.0	658.0
P/E	13.8	8.5	6.3	6.3
EV/EBITDA	2.2	1.8	1.4	1.5
Market Cap, \$ mln	4,216			
Enterprise Value, \$ mln	4,844			
Production, TWh	622			
Capacity, GW	156			
Shares Outstanding, mln	42,117			

Source: Alfa Bank estimates

**Figure 43. Company Snapshot**

<b>Strengths</b>	<ul style="list-style-type: none"> <li>• Market proxy (Russia's most liquid stock)</li> <li>• Benefits from any improvement in Russia's macro situation</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>• Obsolete equipment (54% accumulated depreciation)</li> <li>• Dependence on FEC and RECs regarding tariffs</li> </ul>
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>• \$100 mln EBRD credit and \$500 mln expected long-term financing of investment projects by Sberbank</li> <li>• Lower asset-stripping risk since the company's restructuring has been postponed</li> </ul>
<b>Threats</b>	<ul style="list-style-type: none"> <li>• Issue of property redistribution related to restructuring yet to be resolved</li> </ul>

Source: Alfa Bank estimates

**Figure 44. Key Events**

Date	Event
March 2	<b>35 candidates were proposed for election to the board of directors at the AGM on April 28.</b> The government proposed fourteen candidates, including Anatoly Chubais. Currently, the state has ten representatives on UES' board, but we expect it to lobby for at least eleven representatives at the upcoming AGM thanks to the votes of ADR holders (by our estimate at least 10% of all votes). We also expect three representatives of minority shareholders as well as Alexander Lebedev (the candidate of NRB) to join the board.
March 14	<b>UES distributed a draft document of its corporate governance code at a special conference dealing with corporate governance in Russia's electric power sector.</b> The draft includes several items regarding the board of directors, the executive board, the CEO and problems related to transparency and an independent company audit.
March 21	<b>For the first time, UES published summary information regarding theft of company equipment, particularly cables.</b> The latter are used for sale as non-ferrous scrap metal. There have been 43,660 cases of theft over the past two years, resulting in a loss of 8,000 km of cable (a distance equal to that between Moscow and Vladivostok). Damage from theft totaled R3 bln in 1999-2000, equivalent to 10-12% of UES' capex during this period. This problem does not exist in developed countries thanks to government legislation. In Russia, it seems that this benefits certain industrial groups who even hamper the adoption of special legislation.
March 26	<b>UES' board of directors approved non-audited financial results for UES Holding (grid) company.</b> In light of the 155% growth in ruble-denominated net income, UES decided to ask shareholders to approve higher dividends compared to the previous year. All shareholders listed in the register as of March 9 will receive dividends of R0.02 on common stock and R0.0738 on preferred stock (representing dividend yields of 0.7% and 6.8%, respectively). We note that UES' shareholders receive dividends based on the holding company's net profit, while UES' subsidiaries pay dividends from their own net profit.
March 26	<b>Arthur Andersen, the government's consultant on restructuring, submitted its proposal to the Ministry of Economic Development and Trade yesterday.</b> The proposal recommends the creation of a temporary holding based on UES' assets which will include the grid company, up to five federal generating companies, a thermal power-plant holding and up to seven pan-regional distribution companies. Federal generating companies will include some of the largest power stations from energos, and the thermal holding will include all others. Following their creation, the new companies will announce conversion ratios. UES' share in the new companies will vary from 51% to 100% during the initial phase of restructuring. Later on, UES will sell all the controlling stakes, except for the 51% stake it will own in the federal grid company. We believe that the proposed plan is better than the one originally proposed by UES management, but it fails to satisfy the interests of all minority shareholders.

Source: Alfa Bank estimates

## Mosenergo

**Figure 45. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	1,049.6	1,163.3	1,260.3	1,294.3
EBITDA, \$ mln	271.9	301.2	336.2	463.9
Net profit, \$ mln	78.0	111.8	145.6	205.8
P/E	11.9	8.3	6.4	4.5
EV/EBITDA	4.4	4.0	3.6	2.6
Market Cap, \$ mln	927.2			
Enterprise Value, \$ mln	1,195.4			
Production, TWh	68.9			
Capacity, GW	14.8			
Shares Outstanding, mln	28,267.0			

Source: Alfa Bank estimates

**Figure 46. Company Snapshot**
**Strengths**

- Strong customer base guarantees stable collections: 41% is supplied to residents and the commercial sector
- Largest and most liquid Russian regional utility: 0.9% bid/offer spread, \$0.8 mln daily volumes

**Weaknesses**

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

**Opportunities**

- Improving collection of sales to other utilities at open auctions (2% of total sales)
- \$100 mln credit from EBRD to build new power station, JV with EdF (meeting in May)

**Threats**

- Corporate governance problem may hamper development

Source: Alfa Bank estimates

**Figure 47. Key Events**

Date	Event
------	-------

March 2 **Mosenergo AGM scheduled for May 18.**

The company tentatively approved dividends at 0.6 kopecks for common stock, twice the amount of last year.

Source: Alfa Bank estimates

## Lenenergo

**Figure 48. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	364.9	432.4	487.3	488.6
EBITDA, \$ mln	20.9	29.0	40.6	44.4
Net profit, \$ mln	2.0	5.1	6.6	9.5
P/E	59.4	23.3	18.0	12.5
EV/EBITDA	6.4	4.6	3.3	3.0
Market Cap, \$ mln	126.3			
Enterprise Value, \$ mln	133.4			
Production, TWh	7.9			
Capacity, GW	5.3			
Shares Outstanding, mln	897.3			

Source: Alfa Bank estimates

**Figure 49. Company Snapshot**
**Strengths**

- Increased electricity consumption by the industrial sector (13% in 2000)
- Significant (14%) stake held by foreign strategic investors
- Professional, pro-active new management team

**Weaknesses**

- Tariff policy depends on local politics

**Opportunities**

- Export potential (due to location) to Finland and Nordpool countries (2% of total current supply)
- Level 1 ADR issue (April-May), planned introduction of IAS could boost stock liquidity in 2001

**Threats**

- Lack of financing to develop new strategic projects due to poor prior results

Source: Alfa Bank estimates

**Figure 50. Key Events**

Date	Event
------	-------

March 19 **Lenenergo reported net income of \$2 mln in 2000.** However, the company has a prior non-covered loss of \$39 mln. To exclude it from the balance sheet, Lenenergo will have to decide whether to reduce fixed assets or work in progress. This implies having to show an impairment loss in the company's income statement according to IAS. Lenenergo promised to publish non-official IAS results for last year and continue to do so officially starting in 2001. PricewaterhouseCoopers will likely be the auditor.

Lenenergo expects to earn a net income of R900 mln (\$32 mln) in 2001, but our expectation is more realistic at \$5.1 mln. However, we will review our estimates should Lenenergo be granted new tariffs in 3Q2001.

Source: Alfa Bank estimates

**Irkutskenergo**
**Figure 51. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	306.2	345.0	391.6	402.4
EBITDA, \$ mln	146.9	129.5	114.8	132.3
Net profit, \$ mln	54.7	45.1	48.0	53.7
P/E	5.4	6.5	6.1	5.5
EV/EBITDA	2.4	2.7	3.0	2.6
Market Cap, \$ mln	292.7			
Enterprise Value, \$ mln	346.5			
Production, TWh	53.8			
Capacity, GW	12.9			
Shares Outstanding, mln	4,767.0			

Source: Alfa Bank estimates

**Figure 52. 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	
•	Conflict between four groups holding large stakes
•	Cash problems after 50% tariff cut for aluminium companies before Eurobond redemption in April 2001
Opportunities	
•	Longer-term development of TMT business
Threats	
•	Property redistribution in favor of industrial groups of aluminum companies
•	43% coal price increase by Vostsibugol would reduce net income 13%

Source: Alfa Bank estimates

**Figure 53. Key Events**

Date	Event
March 6	<b>Irkutskenergo's 13% stake in Russia Petroleum was arrested.</b> A transaction between Irkutskenergo and Interros has been suspended. Irkutskenergo was about to use \$40 mln in revenue from the sale to redeem its Eurobonds. In total, Irkutskenergo must locate \$28 mln in cash before April 20, 2001. The company has expressed concern regarding this issue and even hinted that it might fail to make payment on time.
March 11	<b>Irkutskenergo to hold two EGMs on April 28; metals companies exert influence.</b> SUAL & RusAl did not wait for the acting board of directors' decision, and went ahead and scheduled an EGM for April 28. The board then scheduled its own EGM, and on the same date to boot. There cannot be two EGMs since one will inevitably fail to achieve a quorum. The two parties, represented by the board and metals producers, will probably settle the disagreement soon.
March 20	<b>Vostsibugol announced that it would raise coal prices.</b> The company controls 16% of the Russian coal market and is a leading supplier for some Siberian electricity producers such as Irkutskenergo (70% of the company's coal consumption). Unlike gas prices, coal prices are not regulated and there would be no obstacles should Vostsibugol decide to raise the prices it charges Irkutskenergo. An Irkutskenergo representative told us that Vostsibugol plans to raise its price from R145 per ton to R208 per ton, representing a 43% hike. Since Irkutskenergo cannot increase generation at hydroelectric power stations due to unexpectedly low water levels, thermal generation remains very important, even for electricity production. An increase in coal prices would reduce expected 2000 operating revenue 10% (from \$97 mln to \$88 mln) and harm the company's cash position.

Source: Alfa Bank estimates

## Telecoms

**Andrei Bogdanov**  
(7 095) 795-3613

### April could be quite eventful for various telecom operators

**We expect MTS to receive all necessary approval for the acquisition of Telekom XXI**

We expect MTS to receive all necessary approval for its acquisition of St. Petersburg's second GSM operator Telekom XXI and begin building a network in St. Petersburg and Leningrad region. As we mentioned previously, we value MTS' GSM license in St. Petersburg at \$2.09 per one ADS. As of the end of 2000, we estimate the size of the St. Petersburg cellular market at approximately \$170 mln.

**MTS may acquire MCT Corporation**

At the same time, it will be very important to keep an eye on any developments in the Moscow GSM market. Any resolution of Sonik Duo's frequency problem in the 900MHz band will be particularly important. To recap, the company may receive some frequencies from MTS "in return" for a problem-free entrance to the St. Petersburg market. We may also see some developments involving MTS' regional expansion, a part of which may involve the acquisition of MCT Corporation – a U.S.-based dedicated investor in Russian regional mobile assets with 24 regional licenses.

**VimpelCom likely to announce 4Q2000 and YE2000 results at the beginning of April**

VimpelCom is likely to announce its 4Q2000 and YE2000 results at the beginning of April. We do not expect the company to reveal any major breakthroughs or disappointments. We forecast revenues, EBITDA and



earnings (loss) at \$277.8 mln, \$45.7 mln and (\$27.0 mln), respectively. Despite an obvious improvement compared to 1999, we estimate that revenues and EBITDA will still be only 51.9% and 19.6% those of MTS, respectively.

**Arthur Andersen to submit its five-year business plan for Rostelecom**

Arthur Andersen is expected to submit its five-year business plan for Rostelecom. It will be interesting to see which strategy it suggests for Rostelecom based on different scenarios involving consolidation of the wireline industry. In any event, Svyazinvest will mainly determine the strategy to be employed and how to combine Rostelecom into the wireline sector's new structure.

We also anticipate hearing some news regarding the 62.5% stake in Golden Telecom, currently up for sale by GTS. We expect the stake to be acquired by a new investor(s) in the near future.

**We expect MTS to perform better than other telecom stocks in April**

We expect MTS to perform better than other telecom stocks in April as the market comes to recognize its qualities relative to other companies and the recent depreciation of its ADS prices (the stock has fallen 20.7% from its 2001 peak of \$30.3). We rate MTS stock as BUY with a target price of \$34. Good 4Q2000 and YE2000 results and/or the landing of a strategic partner for VimpelCom-R (50-50 chance) could be catalysts for VimpelCom stock, which has already fallen 26.4% from its 2001 peak. We reiterate our SPECULATIVE BUY recommendation on VimpelCom shares.

We also rate Golden Telecom as SPECULATIVE BUY on the high likelihood of clarification of the situation involving its new partners and the stock's low valuation (Golden Telecom shares have already depreciated 50.8% from their 2001 peak). We do not anticipate any major positive news involving Rostelecom and reiterate our REDUCE recommendation with a \$0.69 target price for the company's common shares.

## Alternative Operators

### Golden Telecom

**Figure 54. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	107.9	126.4	157.8	184.8
EBITDA, \$ mln	16.7	34.3	46.3	58.6
Net profit, \$ mln	(8.7)	(16.4)	(7.9)	15.5
P/E	(25.1)	(13.3)	(27.6)	14.1
EV/EBITDA	7.0	3.4	2.5	2.0
Market Cap, \$ mln	218.2			
Enterprise Value, \$ mln	116.2			
Shares Outstanding, mln	24.1			

Source: Alfa Bank estimates

**Figure 55. Company Snapshot**

<b>Strengths</b>	<ul style="list-style-type: none"> <li>• Large cash position</li> <li>• Provides a full range of telecom and Internet-related services</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>• Limited growth potential in CLEC businesses</li> <li>• Lack of attractive mobile assets</li> </ul>
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>• Acquisition of 50% stake in Sovintel from Rostelecom</li> <li>• Capitalize on economies of scale in ISP business</li> </ul>
<b>Threats</b>	<ul style="list-style-type: none"> <li>• Uncertainty regarding the buyer of a 62.5% stake in GTI from GTS</li> <li>• Lack of acquisition opportunities could marginalize growth</li> </ul>

Source: Alfa Bank estimates



## MTS

**Figure 56. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	523.7	707.6	914.6	1,022.8
EBITDA, \$ mln	235.7	290.1	365.8	398.9
Net profit, \$ mln	104.7	124.5	160.1	173.9
P/E	26.0	21.9	17.0	15.6
EV/EBITDA	12.2	9.9	7.9	7.2
Market Cap, \$ mln	2,720.9			
Enterprise Value, \$ mln	2,881.9			
Subscribers, '000 sub.	2,731.6			
ADRs Outstanding, mln	99.7			

Source: Alfa Bank estimates

**Figure 57. Company Snapshot**
**Strengths**

- Excellent growth momentum with the largest share of business subs
- Very strong financial position
- Entry into 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**

- MGTS' potential acquisition by Svyazinvest to increase interconnection
- Frequent network failures could eventually harm reputation

Source: Alfa Bank estimates

**Figure 58. Key Events**

Date	Event
March 20	<p><b>MTS' entrance to the St. Petersburg GSM market adds \$2 (6%) to our target price of \$34 per ADS.</b></p> <p>MTS had an excellent year in 2000: the company's subscriber base grew 290.9% with 49.5%, 37.4% and 5.0% increases in revenues, EBITDA and earnings, respectively.</p> <p>We reiterate our BUY recommendation on MTS stock with a target price of \$34.00 per one ADS. We raised our target price from \$31.88 on the basis of MTS' entrance to the St. Petersburg GSM market. The next catalysts for MTS will be its financial performance in 2001, its degree of success in gaining a sizeable market share of the St. Petersburg mobile market, and resolution of the situation surrounding its frequencies in Moscow.</p>

Source: Alfa Bank estimates

## VimpelCom

**Figure 59. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	277.8	369.5	392.0	417.7
EBITDA, \$ mln	45.7	108.3	126.6	149.8
Net profit, \$ mln	(27.0)	2.2	18.0	32.5
P/E	(30.2)	371.0	45.3	25.1
EV/EBITDA	18.8	8.0	6.8	5.7
Market Cap, \$ mln	816.2			
Enterprise Value, \$ mln	861.2			
Subscribers, '000 sub.	958.0			
ADRs Outstanding, mln	46.9			

Source: Alfa Bank estimates

**Figure 60. Company Snapshot**
**Strengths**

- Best GSM network in Moscow
- Most attractive tariffs

**Weaknesses**

- Shrinking market share including many low-end subscribers
- Lack of capital for regional expansion

**Opportunities**

- To receive a strategic partner for regional expansion
- Catch-up to competition by adding new subscribers

**Threats**

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

Source: Alfa Bank estimates

## Traditional Operators

### MGTS

**Figure 61. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	205.8	230.5	216.2	221.5
EBITDA, \$ mln	106.7	116.3	95.1	99.8
Net profit, \$ mln	28.3	24.8	19.0	29.8
P/E	18.3	20.9	27.3	17.4
EV/EBITDA	6.5	6.0	7.3	7.0
Market Cap, \$ mln	540.4			
Enterprise Value, \$ mln	696.5			
Lines in Use, '000	177.3			
Shares Outstanding, mln	95.8			

Source: Alfa Bank estimates

**Figure 62. Company Snapshot**
**Strengths**

- Relatively liquid among regional telecoms

**Weaknesses**

- One of the most outdated networks among regional telecoms
- Strong local opposition to tariff hikes and per-minute billing

**Opportunities**

- May become the hub for the Central Telecom
- Greatest upside from tariff restructuring due to its size
- Liquidity boost via issue of Level 3 ADRs by March 2001

**Threats**

- Very limited participation in VAS in Moscow

Source: Alfa Bank estimates

**Figure 63. Key Events**

Date	Event
March 19	<p><b>MGTS began repaying \$150 mln in Eurobonds; EV to decrease 6.2%.</b></p> <p>The company managed to secure a \$90 mln credit line from Sberbank in the first half of January 2001. In our view, these funds will mostly be used to repay the company's Eurobonds. Nevertheless, we reiterate our HOLD recommendation on MGTS stock, given the high leverage and limited growth potential from its current business.</p>
March 21	<p><b>Sell-off of four CLECs to strip MGTS (MGTS) of 29% of its equity-consolidated 2000 revenue of \$303 mln.</b></p> <p>In 2001, MGTS plans to establish a new company on the basis of its four daughter companies (MTU-Infom, Comstar, Golden Line and Telmos) and attract a foreign strategic partner. The new company will issue ADRs in 2002.</p> <p>We believe there is a possible risk that MGTS will sell its stakes in the four above-mentioned companies to Systema-Telecom given the increasing likelihood that MGTS will participate in the consolidation of regional telecoms in the Central region.</p>
March 26	<p><b>MGTS repaid its \$150 mln Eurobond issue; upside still limited.</b></p> <p>As we expected, MGTS successfully repaid its \$150 mln Eurobond issue due on March 19, 2001. The last 12.5% coupon was paid on March 16. In order to redeem the Eurobonds, the company bought back a significant proportion and secured a \$90 mln credit line from Sberbank. However, the company remains highly leveraged and its growth potential is limited due to restricted access to high-margin, value-added businesses.</p>
March 27	<p><b>MGTS may place Level 3 ADRs before March 2002; Svyazinvest's approval still required.</b></p> <p>The actual scenario involving the issue of ADRs will be determined only after the announcement of a decision regarding MGTS' participation in the Central Telecom, expected by May 2001.</p>

Source: Alfa Bank estimates

## Rostelecom

**Figure 64. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	831.6	821.5	807.2	895.9
EBITDA, \$ mln	362.8	354.8	382.2	364.5
Net profit, \$ mln	56.4	108.5	158.3	187.5
P/E	11.6	6.0	4.1	3.5
EV/EBITDA	3.3	3.4	3.2	3.3
Market Cap, \$ mln	747.0			
Enterprise Value, \$ mln	1,208.1			
Shares Outstanding, mln	971.6			

Source: Alfa Bank estimates

**Figure 65. Company Snapshot**

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

Source: Alfa Bank estimates

## Metals

**Maxim Matveev, CFA**  
(7 095) 795-5835

### Realization of Norilsk Nickel's restructuring program remains the major issue

Realization of Norilsk Nickel's restructuring program remains the major issue affecting the company's share price performance. On March 23, the company began the swap of Norilsk Nickel shares for those of MMC (Mining and Metallurgical Company) exclusively for company employees. However, in order to proceed with the share swap for other minority shareholders, MMC must register the new share issue with the FSC.

On April 5, the Moscow Arbitration Court will consider the suit filed by the FSC against Norilsk Nickel. The Court initially scheduled its session for March 26, but the beginning of the case was delayed due to the absence of required documents. We believe that Norilsk Nickel will succeed in proving its case, although this may require some time.

We expect the FSC to finalize its investigation into Norilsk Nickel's restructuring program by May and register the new MMC share issue. Accordingly, Norilsk Nickel will be able to proceed with implementation of its restructuring plan, and this in turn increases the investment attractiveness of Norilsk Nickel shares.

## Norilsk Nickel

**Figure 66. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	5,364.3	4,522.9	4,291.7	4,050.2
EBITDA, \$ mln	2,891.3	1,450.7	1,076.1	821.1
Net profit, \$ mln	1,843.7	819.0	555.0	387.8
P/E	0.9	2.1	3.2	4.5
EV/EBITDA	0.5	1.0	1.4	1.8
Market Cap, \$ mln	1,869.2			
Enterprise Value, \$ mln	1,509.5			
Shares Outstanding, mln	189.0			

Source: Alfa Bank estimates

**Figure 67. Company Snapshot**
**Strengths**

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

**Weaknesses**

- Low technological level compared to western peers
- 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

Source: Alfa Bank estimates

**Figure 68. Key Events**

Data	Event
March 5	<p><b>Norilsk Nickel's decision to issue ADRs will help improve share liquidity.</b></p> <p>The board of directors of Mining and Metallurgical Company Norilsk Nickel (formerly Norilsk Mining Company) approved a Level 1 ADR program involving the company's shares with the Bank of New York. The company has yet to receive SEC approval for the issue, but the company plans to use it to maintain share liquidity during the swap of Norilsk Nickel shares for those of MMC Norilsk Nickel.</p> <p>Since during the course of the swap RTS will suspend trade in Norilsk Nickel shares, the company is interested in maintaining share liquidity through this ADR program. The exact mechanism for the ADR placement has yet to be determined, but the company intends to take the interests of shareholders into account. This would increase the company's investment attractiveness.</p> <p>The board also decided to begin the swap of Norilsk Nickel shares for those of MMC exclusively for company employees who own Norilsk Nickel stock. One Norilsk Nickel share will be exchanged for one MMC Norilsk Nickel share. The stock will be swapped with the use of MMC Norilsk Nickel shares currently belonging to Interros, which controls 64% of the company. The swap will not significantly distort the shareholding structure of Norilsk Nickel and MMC Norilsk Nickel since employees own 4- 5% of Norilsk Nickel's shares.</p>
March 13	<p><b>Norilsk Nickel pushed its restructuring program past the Anti-Monopoly Ministry.</b></p> <p>The Anti-Monopoly Ministry has allowed Mining and Metallurgical Company Norilsk Nickel (former Norilsk Mining Company) to acquire 70% of Norilsk Nickel and raise its ownership of Norilsk Nickel to 100%. Approval is necessary for Norilsk Nickel to proceed with its restructuring program and accomplish the share swap of Norilsk Nickel shares for MMC stock.</p> <p>The decision of the Anti-Monopoly Ministry suggests that it generally approves of Norilsk Nickel's restructuring program and that it will not support the Federal Securities Commission's attempt to question the legitimacy of Norilsk Nickel's restructuring. This increase the chances that Norilsk Nickel will win the suit filed by the FSC in the Moscow Arbitration Court.</p>
March 19	<p><b>Norilsk Nickel (NKEL) begins share swap for employees; other shareholders to wait at least two months.</b></p> <p>Mining and Metallurgical Company Norilsk Nickel (formerly Norilsk Mining Company) announced the starting date for company employees of the share swap of Norilsk Nickel shares (the decision to initiate the share swap was taken by MMC's Board of Directors on March 5.) The share swap will be carried out in two stages: March 23 to May 15, 2001 and June-July 2001.</p> <p>To proceed with the share swap for other minority shareholders, MMC must register the new share issue with the FSC. In the event the FSC approves the restructuring program, the company will be able to begin the share swap within two months – at the end of May.</p> <p>The initiation of the share swap indicates that Norilsk Nickel's management and Interros (the company's largest shareholder) are interested in carrying out the restructuring as soon as possible. This in turn increases the value of Norilsk Nickel shares for minority shareholders.</p>

Source: Alfa Bank estimates

## Severstal

**Figure 69. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	2,100.0	1,796.9	2,057.2	2,005.6
EBITDA, \$ mln	811.9	435.9	577.9	525.1
Net profit, \$ mln	470.0	204.6	281.5	247.9
P/E	1.4	3.3	2.4	2.7
EV/EBITDA	0.3	0.5	0.4	0.4
Market Cap, \$ mln	671.1			
Enterprise Value, \$ mln	215.0			
Production, mln ton	8.2			
Shares Outstanding, mln	22.1			

Source: Alfa Bank estimates

**Figure 70. 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

Source: Alfa Bank estimates

**Figure 71. Key Events**

Data	Event
March 22	<p><b>Severstal ended 2000 with 30% net margin, in line with our expectations.</b></p> <p>Severstal announced preliminary financial results according to RAS. The company's revenues jumped 42% to \$2.1 bln, while net profit skyrocketed by 65% to \$626 mln. Accordingly, net margin reached 30% last year, compared to 26% in 1999. The company's outstanding financial performance was largely due to the favorable situation on world metals markets.</p> <p>Severstal's results are in line with our forecasts. We expect the company to report an operating profit according to IAS of \$671 mln and a net profit of \$470 mln, representing a healthy operating margin and net margin of 33% and 22%, respectively. We believe that steel prices have already bottomed out and will gradually recover this year, resulting in a 14% y-o-y average decline in Severstal's export prices in 2001.</p> <p>Nevertheless, we expect the company to continue demonstrating good profitability, with operating margin reaching 17%. Moreover, Severstal remains highly undervalued compared to western peers, with a 63% discount based on P/E (2001E) and a 95% discount based on EV/EBITDA. We therefore maintain our BUY recommendation on Severstal common shares.</p>
March 19	<p><b>Severstal to strengthen control over ZMZ engine plant.</b></p> <p>ZMZ's board of directors decided to increase the company's charter capital 75%. Currently, ZMZ has 112.7 mln outstanding common shares and 37.6 mln preferred shares, while 450 mln common and 150 mln preferred shares are authorized. The company is seeking to raise about R450 mln (\$16 mln) via the placement of 112.7 mln common shares at R4.0 (\$0.14) per share.</p> <p>Currently, Severstal controls more than 50% of ZMZ shares by virtue of agreements with several other shareholders. Severstal-Invest (part of Severstal Holding, which currently owns about 20% of ZMZ shares) will definitely participate in the new placement in order to increase its stake in the company. This in turn will allow Severstal to strengthen its control over ZMZ.</p> <p>On the whole, control over ZMZ improves Severstal's chances of success in turning UAZ into a profitable business. Thus, the move may prove beneficial in terms of Severstal's long-term financial performance.</p>

Source: Alfa Bank estimates

## Engineering and Automotive

**Maxim Matveev, CFA**  
(7 095) 795-5835

### On March 21, the FSC registered Uralmash-Izhora Group's first bond issue

On March 21, the FSC registered Uralmash-Izhora Group's first bond issue. We expect Uralmash-Izhora Group to place R280 mln (\$9.8 mln) in bonds on MICEX in April. The two-year bonds will pay an 18% semi-annual coupon. After the first issue, the company also plans on placing a R700 mln (\$24.5 mln) bond issue with a four-year maturity. The company must issue the bonds in order to finance its sizeable investment program (\$230 mln in capex between 2001-2005).

The placement of two bond issues will increase Uralmash-Izhora Group's total debt 62%. Respectively, the company's EV will rise about 30%. Nevertheless, the discount based on EV/EBITDA to the average figure for international peers will still amount to 55%

## Uralmash-Izhora Group

**Figure 72. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	226.4	318.0	365.7	402.3
EBITDA, \$ mln	25.2	49.7	60.2	73.2
Net profit, \$ mln	12.3	26.4	32.6	41.0
P/E	6.2	2.9	2.4	1.9
EV/EBITDA	3.8	1.9	1.6	1.3
Market Cap, \$ mln	76.7			
Enterprise Value, \$ mln	96.8			
Shares Outstanding, mln	38.1			

Source: Alfa Bank estimates

**Figure 73. Company Snapshot**

### Strengths

- Monopoly position on the Russian equipment market; 70% of the drilling market,
- 78% of metallurgical, 95% of mining equipment markets
- 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

Source: Alfa Bank estimates

**Food and Retail**

Mariya Chechurina

(7 095) 795-3735

**Dispute between sanitary inspectors and brewers ended in favor of the latter**

Deputy Health Minister Gennady Onishchenko announced the cancellation of a resolution to strengthen the supervision of brewing production. Thus, the three-month dispute between sanitary inspectors and brewers has ended in favor of the latter. This represents good news for Russia's brewing companies.

**We assumed this decision in our forecasts**

Since the beer lobby is one of the country's most powerful, very few believed that the case would end negatively for Russia's brewers. We concurred and formed the basis of our five-year forecast of 8% average growth in the beer market as well as Sun Interbrew's and Baltika's good financials on such a decision by the Health Ministry.

**Sun Interbrew remains our favorite stock**

Last month, Sun Interbrew released its financial results for 2000. Although they were below our expectations, the results were still good. As we expected, the company's share price performed very well during the latter half of March, increasing 47%. Currently, Sun Interbrew is still trading with a 43% discount to emerging-market peers based on its 2001E EV/EBITDA multiple as well as a 52% discount to its target price of \$7.0. We therefore see great growth potential for the company and believe that it offers one of the highest upside potentials among Russian consumer goods stocks. Sun Interbrew remains our favorite stock.

**Some revival involving other consumer stocks is possible**

At the very beginning of April, Krasny Oktyabr confectionery company and Trade House GUM will report their financials for 2000 according to RAS. In light of these companies' very low share liquidity, we do not expect any price jumps following the announcements. However, some revival on the market for these companies' shares is possible.

**FOOD****Sun Interbrew****Figure 74. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
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	4.84	4.46	3.14	2.56
EV/EBITDA	3.11	2.58	2.03	1.68
Market Cap, \$ mln	209.9			
Enterprise Value, \$ mln	225.4			
Production, mln hl	10.1			
Shares Outstanding, mln	81.3			

Source: Alfa Bank estimates

**Figure 75. Company Snapshot**

<b>Strengths</b>	<ul style="list-style-type: none"> <li>• Second-largest Russian brewer with well-recognized brands</li> <li>• Strategic investor is a major shareholder</li> <li>• Developed distribution network</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>• Widely-distributed breweries prevent economies of scale</li> </ul>
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>• 12% 2001E growth of beer consumption in Russia and 16% in Ukraine</li> <li>• Core brands program to boost revenues and promote the company nationwide</li> </ul>
<b>Threats</b>	<ul style="list-style-type: none"> <li>• Purchase of Rogan brewery may lower profitability in 1H2001</li> </ul>

Source: Alfa Bank estimates

**Figure 76. Key Events**

Date	Event
March 16	<p><b>Sun Interbrew reported results for 2000.</b></p> <p>Output in 2000 doubled, boosting revenue 2.5 times; net income reached \$10.0 mln (\$0.092 per share), up from 1999's net loss of \$5.2 mln. Sun Interbrew's beer sales volume in 2000 almost doubled to 9.7 mln hl compared to 4.9 mln hl in 1999. The company's sales increased 138% compared to the same period last year to \$261.6 mln, which reflects additional revenues from acquired breweries, price increases and a shift in sales focus to core brands. As a result of Sun Interbrew's core brands support program, sales and distribution expenses rose 164% to \$36.9 mln. General and administrative expenses decreased as a percentage of sales to 7% (from 15% in 1999), but this decline was less than expected. Operating profit in 2000 totaled \$32.9 mln, or 431% above the previous year's result. However, this was below our expectation of \$42.4 mln. Net income amounted to \$10.0 mln, compared to a \$5.2 mln net loss in 1999. However, in 4Q2000 Sun Interbrew managed to earn only \$0.01 mln in net income compared to \$11.4 mln in 3Q2000.</p> <p>Although these results are below our expectations, they are still good and we see great growth potential for the company. Sun Interbrew completed its 18-month acquisition program, and has now shifted its priority to improving the company's cost structure. We believe that the company will manage to increase its profitability this year.</p>

Source: Alfa Bank estimates

## Baltika

**Figure 77. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
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	5.62	4.15	4.13	3.54
EV/EBITDA	3.82	2.88	2.43	2.05
Market Cap, \$ mln	496.3			
Enterprise Value, \$ mln	512.8			
Production, mln hl	10.7			
Shares Outstanding, mln	1.5			

Source: Alfa Bank estimates

**Figure 78. 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**

- Growing beer consumption in Russia
- Desire and ability to increase its market share

**Threats**

- Strategy of sacrificing prices in favor of volume may lower profitability

Source: Alfa Bank estimates

**Figure 79. Key Events**

Date	Event
March 1	<p><b>Expected share split and dividend approval could increase Baltika's share price.</b> On March 28, Baltika brewery will hold its annual shareholders' meeting (the shareholders register was closed on February 9). Aside from ordinary questions (such as approval of the company's results and dividends on common and preferred shares for 2000), the agenda includes a proposal to split common and preferred shares by converting one share with a par value of R80 into 80 shares with a par value of R1. The main obstacle to increasing Baltika's share price is low liquidity. Thus, the approval of a stock split would help solve this problem.</p>
March 14	<p><b>Baltika's dividends for 2000 are in line with our expectations.</b> At the company's annual shareholders' meeting on March 28, Baltika brewery will approve dividends for 2000 at R253 per common share (2.5% dividend yield) and R329 per preferred share (6.8% dividend yield). These dividend amounts are in line with our expectations.</p> <p><b>Baltika to expand business via investment in the Belorussian brewing industry.</b> Following a meeting between Baltika's General Director Taimuraz Bolloyev and Belorussian President Alexander Lukashenko, Russia's largest brewer announced its intention to invest \$50 mln in Belarus' brewing industry before the end of 2002. The money will likely fund an upgrade of Belarus' largest brewery Krinitsa, 90% of whose shares belong to the Belorussian government and 10% to employees. The first \$25 mln will be released this year. Completion of the entire program will facilitate the annual production of 1.5 mln hl of beer. Belarus' 18 breweries produced only 2.35 mln hl of beer in 2000 (including 0.73 mln hl produced by Krinitsa), whereas Baltika produced 10.6 mln hl last year. Taking into account low annual beer consumption in Belarus (26 liters per capita, compared to 37 liters in Russia) and the absence of financing for independent Belorussian breweries, Baltika will be able to take over the entire local market within a few years.</p>

Source: Alfa Bank estimates

## RETAIL

### Trade House GUM

**Figure 80. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
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	5.12	4.58	3.98	3.61
EV/EBITDA	4.05	3.62	3.14	2.85
Market Cap, \$ mln	72.0			
Enterprise Value, \$ mln	72.2			
Shares Outstanding, mln	60.0			

Source: Alfa Bank estimates

**Figure 81. Company Snapshot**
**Strengths**

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

**Weaknesses**

- Dependent 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

Source: Alfa Bank estimates

**Figure 82. Key Events**

Date	Event
March 14	<p><b>GUM's dividend yield of 3.7% is higher than expected.</b> By decision of the company's board of directors, GUM's shareholders' meeting (April 27) will be asked to approve dividends for the second half of 2000 amounting to R0.7 (\$0.024) per common share with a par value of R1.0. The company paid intermediate dividends for the first half of 2000 of R0.5 (\$0.018) per common share. Thus, total dividends for 2000 will be R1.2 (resulting in a dividend yield of 3.7%), which is above our expectation of 3.2%. Dividends will be paid in cash starting May 21, 2001. These dividends could be the result of the company's better-than-expected net profit (we forecast \$14.1 mln for 2000) or alternatively a higher share of dividend payments in GUM's net profit. In either event, this is positive news and further highlights the competence of the company's management.</p>

Source: Alfa Bank estimates

**Transport**Olga Filippova  
(7 095) 795-3735**Tightening of ICAO standards will help Aeroflot recover international market share**

Starting April 1, the rules contained in the second chapter of ICAO standards will take effect. In particular, they require world airlines to equip all aircraft flying to Europe with the TCAS aviation system. According to the State Civil Aviation Service, it costs Russian airlines about \$200 mln to equip one Tu-154, Il-62 or Il-76 with TCAS.

It is obvious that many small airlines and charter carriers (with a great number of such aircraft in their fleets) will not be able to modernize their aircraft in accordance with ICAO standards. Since all of Aeroflot's aircraft flying to Europe meet ICAO demands (as a result of \$11.2 mln in investment to modernize Russian aircraft), the company will gain a considerable competitive advantage on its routes to Europe. We believe that along with measures to optimize Aeroflot's network, this will help the company increase its market share on international routes to 58% (up from 54.6% in 2000 and 58.6% in 1999).

**GDRs to be included in Vienna's RTX; positive for the company's image**

Starting April 17, Aeroflot's GDRs will be included in the Russian Traded Index on the Vienna stock exchange. This is very positive for the company's image and will facilitate higher liquidity in the medium- and long-term.

**Aeroflot****Figure 83. Key Financial Indicators**

FY Ending December	2000	2001E	2002E	2003E
Revenue, \$ mln	1,350.6	1,507.6	1,639.2	1,735.4
EBITDA, \$ mln	214.3	277.9	325.3	362.8
Net profit, \$ mln	(17.7)	30.6	51.9	61.6
P/E	(19.3)	11.2	6.6	5.6
EV/EBITDA	5.5	4.3	3.6	3.3
Market Cap, \$ mln	342.1			
Enterprise Value, \$ mln	1,185.0			
Shares Outstanding, mln	1,110.6			

Source: Alfa Bank estimates

**Figure 84. Company Snapshot****Strengths**

- Leading Russian airline (32.4% market share in terms of RPK in 2000)
- Largest domestic market share (11.8% in terms of RPK in 2000)

**Weaknesses**

- High leverage (overall debt \$1,186 mln, or 88% of total revenues) and exchange risk (most debt is dollar-nominated)
- Fuel costs comprise 23-25% of total operating costs

**Opportunities**

- Growth in passenger load factor due to network optimization (55.1% in 2001)
- Increased passenger yields driven by higher percentage of business travelers

**Threats**

- Tighter competition on international routes from foreign airlines and charter carriers
- Tighter competition on domestic routes from regional carriers (mainly due to quota system)

Source: Alfa Bank estimates



Lyudmila Khrapchenko  
(7 095) 795-3743

## Fixed Income

**Russian market one of the few to post a monthly gain**

As we expected, March was marked by high volatility in debt markets. Both the continuing decline on American equity markets and the very unstable situation in emerging markets (namely Argentina, Turkey and in part Brazil) increased risk aversion among investors. Russian bonds were strong in the first week of March, but prices declined thereafter. By the end of the month, Russia was one of few markets to post growth on a year-to-date basis. It should be also noted that Russian bonds enjoyed much stronger support compared to other emerging-market debt instruments. Sovereign Eurobonds lost only 0.3-1.5% m-o-m on the long end, while MinFins gained 3% on average in response to S&P's upgrade at the beginning of March.

**Russian bonds to remain volatile in April**

In April, the Russian bond market will remain volatile. Investors will carefully monitor development of the situation in the main centers of instability. However, we believe that the Russian market is very likely to recover. Investors are reluctant to sell Russian bonds: although at the end of March sovereigns on the long end were trading 6-8% higher on a year-to-date basis, they still look very cheap with an average spread over U.S. Treasuries of 1050-1080 bpts.

**Figure 85. Dollar-denominated Bonds, as of March 29**

	Maturity	Price	Change %	YTM %	Current yield %	M Duration years
<b>MinFin Bonds</b>						
MinFin 4	5/14/03	65.88	4.15	25.7	4.55	1.60
MinFin 5	5/14/08	40.25	5.92	18.9	7.45	4.80
MinFin 6	5/14/06	52.50	2.44	17.9	5.71	3.79
MinFin 7	5/14/11	39.50	6.04	15.0	7.59	6.48
MinFin 8	11/14/07	44.50	3.49	18.6	6.74	4.75
<b>Eurobonds</b>						
Euro-01	11/27/01	100.13	0.12	9.0	9.24	0.61
Euro-03	6/10/03	97.88	0.26	12.9	12.01	1.82
Euro-05	7/24/05	82.00	-0.46	14.5	10.67	3.31
Euro-07	6/26/07	77.75	-1.11	15.7	12.86	4.11
Euro-10	3/31/10	67.50	0.19	16.3	12.22	0.16
Euro-18	7/24/18	73.75	-1.17	15.4	14.92	6.15
Euro-28	6/24/28	87.75	-0.57	14.6	14.53	6.53
Euro-30	3/31/30	40.63	0.31	16.9	12.31	0.17
<b>Municipal Bonds</b>						
St-Peterburg	6/18/02	98.00	1.03	11.3	9.69	1.09
Nizh. Novgorod	3/10/02	58.00	-1.69	31.7	5.28	0.28
Yamalo-Nenets.AO	12/15/02	84.00	0.60	17.6	11.31	0.14
<b>Corporate Bonds</b>						
Tatneft	10/29/02	92.50	1.65	14.4	9.73	1.36
Mosenergo	10/9/02	91.00	0.00	15.2	9.20	1.31
Irkutskenergo	4/20/01	99.38	0.38	21.7	12.58	0.06

Sources: Reuters, Alfa-Bank estimates



**Figure 86. Key Events**

Date	Event
March 5	<b>World Bank executive Kemal Dervis appointed Turkey's economics minister.</b> This gave the market hope of an economic recovery and stimulated a rally in emerging-market bond prices.
March 5	<b>Lopez Murphy appointed Argentina's economics minister.</b> Lopez Murphy is well known for his conservative fiscal policy. This news also boosted bond prices.
March 5	<b>Standard &amp; Poor's upgraded the rating of all MinFin tranches from "CCC+" to "B-".</b> MinFin prices increased 2.3-5.5% over the course of 2-3 days.
March 5	<b>The CBRs board of directors discussed the regulation of S-accounts.</b> Several measures were approved, including: 1) the free repatriation of revenues from securities (dividends, coupon revenues); 2) an instruction enabling foreign investors to make direct investments from S-accounts (limit for 2001 of R2 bln); 3) non-residents will be allowed to transfer funds on S-accounts amongst each other (this implies the free trade of funds on S-accounts).
March 15	<b>Brazil swapped Brady bonds (maturing in 2012, 2014 and 2024) for new Brazilian Eurobonds (maturing in 2024).</b> The results were worse than expected (\$2.15 bln versus an anticipated \$2.5-3.0 bln) and had a negative effect on bond prices.
March 19	<b>Several Argentine ministers dissatisfied with Lopez Murphy's economic proposals (including budget cuts of \$4.45 bln over two years) announced their resignations.</b> This news provoked anxiety among investors.
March 19	<b>Fitch upgraded Tatneft's debt rating to "B-" from "CC".</b> This news had already been priced into Tatneft's Eurobonds and had no effect on prices.
March 19	<b>Redemption of MGTS Eurobonds and \$113.69 mln coupon payment.</b>
March 20	<b>The resignation of Argentina's newly appointed economics minister destabilized emerging markets.</b> However, the market later welcomed the appointment of Domingo Cavallo as Argentina's new economics minister.
March 20	<b>The FOMC's decision to cut interest rates 50 bpts was neutral for bond prices as it had already been priced-in.</b>
March 22	<b>\$100 mln currency auction targeting non-resident holders of S-accounts.</b> The 3.6% market premium indicates that foreign investors are not willing to pay an excessive premium against the background of Russia's relatively stable economic situation.
March 26	<b>Fitch upgraded Moscow's long-term debt rating to "B-" from "CCC", short-term rating to "B-" from "C".</b>
March 27	<b>Alan Greenspan's address to the National Association for Business Economics devoted to monetary and credit policy in slowing economic conditions did not clarify the scale of further U.S. interest rate cuts.</b>
March 31	<b>\$334 mln coupon payment on Eurobonds maturing in 2010 and 2030 issued under the restructuring of London Club debt.</b>

Source: Alfa Bank estimates



This page is intentionally left blank

**This page is intentionally left blank**

# Contact Information

## Research Department

Head of Research, Utilities	Andrei Roudenko
Strategy, Oil & Gas	Sergei Glaser, CFA
Macroeconomics, Banking	Natalya Orlova
Oil & Gas	Konstantin Reznikov
	Anna Butenko
Utilities	Natalya Sazhina
Telecoms/Internet	Andrei Bogdanov
	Elena Rogovina
Metals, Autos, Engineering	Maxim Matveev, CFA
Retail, Consumer Goods	Maria Chechurina
Transport	Olga Filippova
Fixed Income	Lyudmila Khrapchenko
	Valentina Krylova
Editor	Erik DePoy
	Valentina Belkina
Telephone	(7 095) 795-3676, (7 095) 795-3677
Facsimile	(7 095) 745-7897
E-mail	research@alfa-bank.com

## Alfa-Bank (Moscow)

Head of Equities	Dominic Gualtieri
Telephone	(7 095) 795-3649
Facsimile	(7 095) 745-7897
E-mail	dgualtieri@alfa-bank.com

## Alfa Securities Limited

Co-head of Equities	Guven Giray
Co-head of Equities	Paul van den Boogaard

## Equity Sales (London)

Telephone	(44 20) 7588-8500
Facsimile	(44 20) 7382-4170
Address	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.