

**Market Wrap**

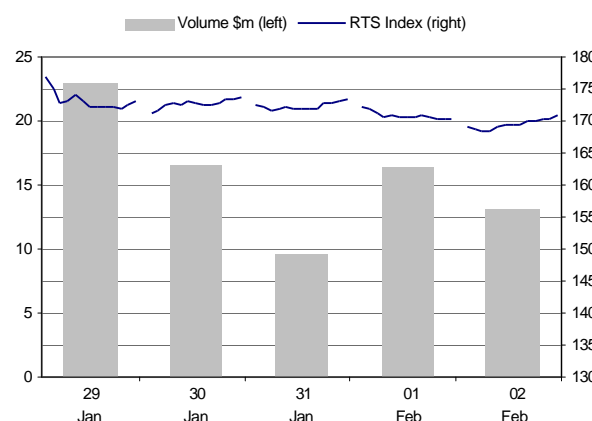
The RTS went into reverse after its four-week climb, dropping 4% to 170.84 over 7 days to Friday. Main factors were a major fall by Lukoil and bad news on the US economy.

Lukoil lost nearly 10% Monday after BP Amoco announced it was selling a 7.7% stake, inherited from ARCO. In fact the sale, carried out Tuesday, was highly successful, proving popularity of Lukoil with international investors. However, the stock failed to bounce back, due to fears of excess supply (the Russian government plans to place over 6% of Lukoil on Wall Street later this year), and negative reaction to another postponement of Lukoil 1998-99 GAAP financials, promised for the end of January. The stock lost 11.3% for the week and was a close second to UES for volumes.

RTS traders had expected the week to hinge on Wednesday's decision by the Federal Reserve to knock a further 0.5% off US rates. Nasdaq, Wall Street and the RTS reacted with massive climbs to a rate cut in early January. However, Nasdaq actually fell after this week's decision due to profit taking and investor focus on bad US statistics (consumer confidence and output were at lows in January). The RTS followed suit with a 1.84% fall on Thursday.

Oil stocks (apart from Lukoil) had a very mixed week, despite encouragement from international oil prices, which rose in reaction to the OPEC production increase. Yukos was well ahead of the market with a 3% rise and Tatneft dropped 1%, outperforming the RTS index. Surgut was pulled in opposite directions with a 5% rise for preferred stock and a 6.69% fall for common.

We see potential for RTS price growth in February as the US company result season comes to an end, rate cuts start to impact the American economy, and OPEC maintains its defence of oil prices. However, the debate over Soviet debt re-scheduling will gain in importance as it becomes crucial for the 2001 budget, and latest signs are that Germany, the main creditor, has no intention of withdrawing demands.

**RTS Index & Volume**

**Key Figures**

|                 |         |          |
|-----------------|---------|----------|
| RTS Index       | 170.0   | -5.0%    |
| RTS Volume      | \$78.7m | -\$26.7m |
| Ruble / Dollar  | 28.45   | +0.05    |
| Brent Oil (bbl) | \$28.98 | +2.04    |
| Urals Oil (bbl) | \$27.20 | +1.13    |

Key Figures are weekly data Fri-Fri.

**Top Volumes (\$m)**

|                      |             |              |
|----------------------|-------------|--------------|
| RAO UES com          | 24.6        | 31.3%        |
| Lukoil               | 21.4        | 27.7%        |
| Tatneft com          | 8.7         | 11.1%        |
| Surgutneftegaz com   | 6.7         | 8.5%         |
| Yukos                | 5.7         | 7.2%         |
| Surgutneftegaz pr    | 3.0         | 3.8%         |
| Mosenergo            | 2.5         | 3.1%         |
| <b>Total (Top 7)</b> | <b>72.4</b> | <b>92.0%</b> |

**Winners**

|                       |        |
|-----------------------|--------|
| Tyumentelecom com     | +70.4% |
| Lenenergo pr          | +33.3% |
| Autovaz pr            | +32.5% |
| Kamaz com             | +24.5% |
| Kuzbassenergo com     | +18.9% |
| Kuban Electrosvyaz pr | +11.1% |

**Losers**

|                           |        |
|---------------------------|--------|
| Yarenergo pr              | -37.1% |
| Volzhskaya HPS com        | -34.2% |
| Tomsktelecom pr           | -25.4% |
| St Peterburg Telecom. com | -24.9% |
| LMZ com                   | -24.7% |
| Bryansksvyazinform com    | -18.8% |

**Sector Statistics**

| Sector             | # Issues   | #Traded   | Change     | Volume \$         | % of Total    | Change        | MC \$ '000        | % of Total    | Change        |
|--------------------|------------|-----------|------------|-------------------|---------------|---------------|-------------------|---------------|---------------|
| Oil & Gas          | 44         | 12        | -3         | 47,607,706        | 60.5%         | -4.3%         | 26,922,139        | 65.7%         | -5.3%         |
| Power Utilities    | 87         | 13        | 0          | 27,430,953        | 34.8%         | -38.4%        | 6,568,078         | 16.0%         | -1.9%         |
| Non Ferrous Metals | 10         | 2         | 0          | 1,487,408         | 1.9%          | -73.5%        | 1,787,973         | 4.4%          | -1.1%         |
| Telecom            | 147        | 16        | -9         | 1,337,175         | 1.7%          | -70.3%        | 2,811,986         | 6.9%          | -3.2%         |
| Transportation     | 7          | 1         | -1         | 256,550           | 0.3%          | -27.3%        | 297,201           | 0.7%          | -3.7%         |
| Banking            | 7          | 2         | 0          | 212,565           | 0.3%          | 154.1%        | 381,307           | 0.9%          | -14.4%        |
| Automotive         | 8          | 3         | 0          | 162,131           | 0.2%          | 6.1%          | 423,538           | 1.0%          | 7.8%          |
| Ferrous Metals     | 13         | 1         | -2         | 153,550           | 0.2%          | -18.9%        | 728,157           | 1.8%          | -1.6%         |
| Engineering        | 21         | 3         | 0          | 27,000            | 0.0%          | -85.0%        | 247,417           | 0.6%          | 6.2%          |
| Aviation           | 2          | 1         | 0          | 25,200            | 0.0%          | 223.1%        | 48,049            | 0.1%          | 0.2%          |
| Chemicals          | 15         | 1         | 1          | 13,000            | 0.0%          |               | 490,363           | 1.2%          | -3.0%         |
| Consumer / Retail  | 11         | 0         | -1         |                   | nm            |               | 238,536           | 0.6%          | -1.6%         |
| Pharmaceuticals    | 1          | 0         | 0          |                   | nm            |               | 3,591             | 0.0%          | 0.0%          |
| Other              | 2          | 0         | 0          |                   | nm            |               | 139               | 0.0%          | 0.0%          |
| <b>Total</b>       | <b>375</b> | <b>55</b> | <b>-15</b> | <b>78,713,237</b> | <b>100.0%</b> | <b>-25.3%</b> | <b>40,948,471</b> | <b>100.0%</b> | <b>-21.6%</b> |

## Viewpoint: Banks are a lesson in owner-manager evils

The sad story of Russia's busted banks will be back in the headlines this week, hopefully for the last time. On Friday the bank restructuring agency, ARCO, will try and persuade SBS-Agro creditors to accept a brokered agreement instead of bankruptcy. Inkombank retail depositors are about to get the last installment of a full payout.

The very idea of portfolio investment in privately owned Russian banks now seems ludicrous, like playing football with hand grenades. But three years ago Inkombank, for example, was a relatively hot stock. Indeed, banks should be among the fastest growing businesses in Russia, where ordinary people are sick of keeping savings that probably average \$1000 per family in a glass jar under the floor boards.

The core reason why Russian banks went bust was not the crisis, but appalling risk management. And risk management was so bad because the people who owned the banks were also trying to manage them. A lot of the owner-managers did not want banks in the proper sense, but treasuries to

serve their other businesses (thus Menatep, Unexim, and to a lesser extent Rossiisky Kredit and Most). In some cases the owner managers were inept or crooked, or both (SBS and Inkombank).

It is interesting that the only failed bank, where creditors are getting full satisfaction is Inkombank, which has been under the control of a bankruptcy manager, Vladimir Alekseyev, since early 1999. Alekseyev has been a professional manager, with no ambitions to own, representing the interests of all creditors impartially. He is what these banks so badly needed three years ago.

From busted banks to Norilsk restructuring to Lukoil disinterested in GAAP accounts to Gazprom and Itera, the lesson is the same: running a public company is a job for hired hands, not for insiders.

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### Consumer price index

According to Goskomstat, the consumer price index for January 2001 was 102.4-102.6%, slightly higher than in January 2000 and implying 50% higher inflation than in December. The inflationary spurt is mainly due to significant tariff increases by the natural monopolies UES and Russian railways.

### Growth rates slow

Goskomstat figures for 2000 show a 9% increase in industrial output compared with 1999. The year-on-year output increase for December was only 2.5%, and zero in November.

The figures confirm fears that growth (and also capital investment) is slowing down. This is due to continued lack of structural reform, although the effect is exaggerated by massive year-on-year increases in late 1999 and most of 2000 due to the extremely low comparison periods (the 1998 crisis and its immediate aftermath).

The fuel industry (one third of total Russian industrial output), and particularly the export-oriented oil sector, continues to lead production growth. There was also strong growth during 2000 in light industry (15.6%), machine-building (15.5%), and chemicals and petro-chemicals (14.3%). The oil sector should continue to show strong growth, as should the food industry, and some domestic-

market-oriented producers, who still have the advantage of a relatively weak ruble.

### Legislative plans for 1H 2001

The government's economic team has declared that improvement of the investment climate will be the main criterion for legislative initiatives in 2001. In particular, the government will ask the Duma to approve amendments to the law "On investment activity in the Russian Federation through capital investments". The amendments should reduce costs and time for completion of pre-project agreements by reducing the amount of official paper work, which they require. However, Russia's traditional problem with implementation makes it hard to predict the practical effect of such changes (there is bound to be resistance by regional and lower-level bureaucrats).

The Federal Securities Commission plans to propose amendments to the law "On the Securities Market". The most controversial point is introduction of obligatory licensing for "provision of investment consulting services." This will be met with hostility by professional market participants.

We see a certain amount of inconsistency in the government's structural measures to support economic growth. Despite recent declarations on the necessity of liberalizing the economy, government action has lacked coordination, failed to maintain a definite course, and sometimes looks more like repression than liberalization.

### Lukoil fails to save its share price

*The BP Amoco sale of 7% in Lukoil caused a steep fall in the share price, but Lukoil could have countered the effect by announcing GAAP results on time. The company failed to do that.*

Lukoil stocks tumbled by more than 10% on January 30 on news that BP Amoco plans was selling a 7% stake in Lukoil for \$657m on the open market. BP Amoco said it was selling the Lukoil stake because it was too small to give influence on management decisions. It inherited the chunk of equity when it took over the US company ARCO last year. On January 31, 41% of the stake was sold in the form of ADRs priced at \$40.375 per ADR, while the remainder was placed in bonds with a three-percent coupon, convertible into Lukoil ADRs. According to BP finance vice president Tony Hayward, there was very substantial, high-quality demand for both the placement and offering, and the book-building process was completed in a single day.

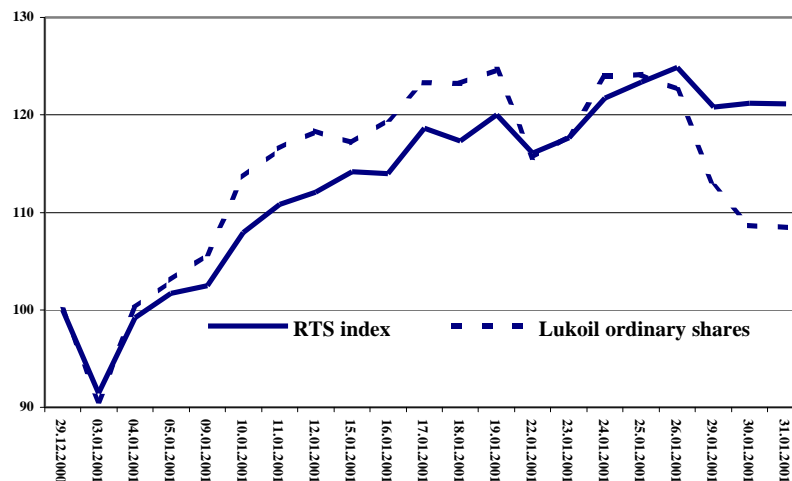
BP Amoco's decision to pull out of Lukoil has perplexed the Russian government, which intended to sell a 6% state-owned stake in Lukoil through Level-3 ADRs later this year. However, after BP Amoco's deal was completed, Lukoil vice president Leonid Fedun said that his company was impressed by \$10 billion in bids for the BP Amoco stake but hopes that its new ADRs would do better.

Nevertheless, neither the successful placement nor bold announcements by Russian officials could cheer Lukoil stock prices. The company could have helped the situation

by publishing GAAP financials for 1998 and 1999 as promised. Last November a delay in release of the results resulted in a 13% plunge of Lukoil shares. Commenting then, Leonid Fedun said that his company was very anxious about the price fall and promised to release GAAP financials by the end of January. This deadline was also missed. The excuse was that Lukoil wants to publish the financials to coincide with the launch of the ADR placement. According to Leonid Fedun the GAAP results are almost complete and are positive but would not be released for the time being. "Publishing these results is a very serious step. We will time it to coincide with important marketing events scheduled for the year, in particularly, with the placement of ADRs," he said.

The longer the delay in release of 1998 and 1999 GAAP results, the longer Lukoil shares will remain depressed. The company has turned the routine practice of informing financial results to shareholders and investors into a mystery wrapped in an enigma. Presentation of GAAP results during the road show will be a valuable marketing step but withholding financial data from current shareholder in order to show them to prospective buyers seems odd. The readiness of a top Russian company to play such games is bad for the reputation of the Russian stock market.

**Return on RTS Index vs. Lukoil ordinary shares in January 2001 (%)**



### **Tatneft pays interim dividends**

Tatneft is starting to pay interim dividends for the first half of 2000. Dividends are paid at a rate of 400% on preferred shares and 200% on common shares with a par value of 0.1 rubles. The total amount of dividend payout constitutes rubles 494 m (\$17.5m). The deadline for payouts is scheduled on June 1, 2000.

### **Gazprom will have two auditors**

Minority shareholders in Gazprom said on February 1 they had hired Deloitte & Touche to carry out an independent audit of the company's relations with gas firm Itera. Itera is a minor gas producer but a major exporter of indirectly purchased Gazprom gas to the CIS countries. It exports some 80 billion cubic meters per year via Gazprom pipelines. Minority shareholders with a 10% stake in the gas giant, led by Boris Fyodorov who represents them on the Gazprom board, objected to a Gazprom board decision last week to give the audit contract to the company's regular auditor PricewaterhouseCoopers (PWC), saying there could be a conflict of interest. Boris Fyodorov was reported as saying that PWC had audited Gazprom for five years and never reported on the company's links with Itera. Fyodorov said minority shareholders would pay for the audit, which they want done by June, ahead of the annual shareholders meeting.

### **Lukoil to expand operations in Balkans**

Lukoil said on February 1 it intends to expand its operations in the Balkans and Eastern Europe through acquisition of "big networks" of gas stations and participation in privatizations. Lukoil vice-president Ralif Safin told a news conference in the Bulgarian capital Sofia that Lukoil is in talks over buying filling stations in Greece, Turkey and Macedonia to expand the market for its Bulgarian unit, the Lukoil Neftochim oil refinery in the Black Sea port of Bourgas. Safin also said that Lukoil was eyeing several petrochemical plants in the former Communist Block member states. He did not name the plants but said: "It could be Hungary, Slovakia, the Czech Republic, Romania." According to Safin, Lukoil is also interested in firms being privatized in Yugoslavia.

### **TNK and Sibneft split Onako**

Tyumen Oil Company (TNK) and Sibneft signed an agreement, under which Sibneft will receive a 33% stake in the Onako holding after the holding issues unified shares. TNK's share in Onako along with other shareholders will amount to 67%, but TNK will keep a controlling stake in any case. On September 19, 2000, Tyumen Oil Company purchased an 85% in Onako at auction for \$1.08bn. Sibneft already owned a 40% stake in Orenburgneft, the only upstream unit of Onako.

## Chelyabenergo shows better output but financial problems in 2000

*The company showed pre-tax profits down by 30%. A slowdown in demand growth is expected this year. Tariff rises to compensate fuel price increases are doubtful and the company has problems with a changeover to coal*

Chelyabenergo managing director, Vyacheslav Seredkin, released results for 2000 at a press conference last week. The utility increased electricity output by almost 7%, mainly thanks to higher demand from local industry, while heat production decreased by 2.8%. Industry boosted power consumption by 16%, but company officials expressed doubt that such dynamics will be repeated in 2001, when sales of industrial goods may decline.

Financial results in 2000 were less impressive. The company posted only R591m pre-tax profit, down from R910m rubles in 1999. The net figure was an R189m loss compared with an R536m million net profit in 1999. However, we found some inconsistency in the statistics. The company said that it included R250m in the 2000 net figure, carried over from losses made in 1999. But we found no such losses in either the cash-based or accrual-based P&L statements for 1999.

Chelyabenergo officials also said that losses were due to a tariff freeze in the second half of 2000. In the middle of January 2001 regional authorities gave the green light for tariff hikes of 25% for residential users and 11-14% for industrial customers, or some 17% on average. Further tariff rises are scheduled for April 15, motivated by growth in prices for gas and equipment. However, it is not yet certain that these further increases will go through.

In our forecasts we estimated Chelyabenergo accrual net sales at R10.7bn, but company statistics suggest a lower result. Mr Seredkin said that overall sales were R9.4bn on accrual basis and 19% on a cash basis. Some 70% of sales were collected in cash. Chelyabenergo lacks internal investment resources for renovation of equipment, while external cash inflows have dried up due to investor concerns about company restructuring. Seredkin said that the situation with coal deliveries to power stations has worsened as the company has been forced to increase the coal component in its fuel balance due to reductions in gas supplies. Gas still dominates total fuel consumption, accounting for 65%. Local mines produce low-quality coal and may face closure. Coal from Krasnoyarsk region is of higher quality but Krasnoyarsk mines have an unpredictable pricing policy.

## Permenergo posts good industrial and financial results for 2000

Permenergo reported a 4.8% increase in electricity production in 2000 to 19,436 million kWh. That includes the company's own output and purchases of electricity from the grid, which account for roughly 50% of total production. Using the growth multiplier we estimate 15,500 million kWh supplied to regional power users last year. The company expects further rises in power output in 2001 to 20,130 million kWh, while heat is scheduled at last year's

level of around 18 million Gcals. The preliminary net sale result for last year is R8.9bn on a cash basis, which is 26.5% higher than in 1999. That is less than we estimated, although our estimate was accrual based – our forecasts gave R11.2bn of net sales. Customer debts fell to R3.7bn from R5.6bn in 1999 and payables fell to R4bn (R6.6bn in 1999).

## Mosenergo plans dividend at 0.0075 rubles

According to company officials Mosenergo plans to spend R211m on dividend payments for 2000. This gives a dividend of R0.0075 per share or a 0.7% dividend yield at the current price.

## Novosibirsk governor fails to help local utility in acquisition of Novosibirsk hydroelectric station

The Novosibirsk governor Viktor Tolokonsky seems unlikely to help Novosibirskenergo to acquire a key generating complex, now owned by UES. We previously reported that UES wants to cancel a leasing agreement with Novosibirskenergo, under which the Novosibirsk hydroelectric station would be operated by the company till the end of 2002, and to reassert direct control of the station as part of the wholesale grid. The governor only said that he hopes UES will leave the lease agreement in place until the scheduled date.

## Novosibirskenergo may lose railroad customers

The Novosibirsk regional energy commission allowed tariff rises for Novosibirskenergo starting February 1. Electricity tariffs will grow by 34.2% on average to R0.49 per kWh and heat tariffs to R229.14 per Gcal (a 55.2% increase). However, West-Siberian railroad officials have said they will react by refusing purchases of electricity from Novosibirskenergo and seeking other energy sources, possibly direct access to the grid. Novosibirskenergo tariffs for railroads have risen by 52%. Novosibirskenergo may lose some 10% of its electricity market if the West-Siberian railroad stops purchases.

## Novosibirskenergo acquires shares via arbitrage

Novosibirskenergo general director Vitaliy Tomilov has obtained an arbitrage decision to acquire a 24.6% block of company shares from its current owner. The holder of these shares, the company Alemar, allegedly failed to fulfill an agreement that prescribed a GDR issue for the stake. Alemar, which has been the nominal owner of the shares since 1995, must now sell the full block back to Novosibirskenergo at nominal value (R1), and Novosibirskenergo must then resell it to a third party. Alemar officials have appealed against the decision and say that the action is an attempt by Novosibirskenergo top managers to obtain the shares. They say that Mr Tomilov himself prevented the

GDR issue from going ahead, disobeying an order by company directors. Anatoly Chubais already recommended Tomilov's dismissal in 2000, but apparently agreed to postpone this until the shareholders meeting. It is possible that Tomilov and his supporters are trying to obtain a stake in the power utility before he is fired.

### Krasnoyarskenergo secures coal costs

Krasugol, a coal supplier in the Krasnoyarsk region, has increased its prices for all groups of customers except for Krasnoyarskenergo. The latter consumes some 50% of Krasugol coal and has problems with payment due to the cold winter, increasing power consumption and low financial resources. Krasnoyarskenergo will pay R96.26 per ton instead of R129.9 per ton until the regional energy commission sets new tariffs for electricity.

### UES will not sell electricity to Turkey

UES has failed to negotiate with Georgian authorities regarding transit supplies of electricity across Georgia to Turkey. The Russian power monopoly initially planned to write an agreement, under which it committed to secure gas deliveries for idle blocks of the Tbilisi power station in return for the right to sell some of the generated energy to Turkey via the Georgian grid. However, Georgian officials have reached a direct agreement with the gas company It-era, outflanking UES.

### Oil producers in Tomsk seek stakes in generators

Tomskenergo says that some regional fuel suppliers want to acquire a controlling stake in the company. Yukos, which owns several facilities in the region, says that it is eager to invest a total \$55m in construction works at the Tomsk-3 power station, increasing capacity to 560 MW from current 140 MW, and settling the station's debts for gas. Local stations were designed to operate on gas and Yukos wants to use its own secondary gas for these purposes. The agreement will be possible if the company takes over 51% of Tomskenergo, Yukos officials said. However, UES may only allow such a deal after the Russian government approves its restructuring conception for the power industry. Gazprom, which has a subsidiary in the region, also says that it wants to acquire generating facilities of Tomskenergo. Tomskenergo is likely to be more disposed towards Gazprom for political reasons, although company earnings would be at least two times greater under the Yukos deal.

### Local gas fields should improve Sakhalinenergo fuel structure and finances

Sakhalinenergo plans to rebalance its fuel structure during the next few years and to use more gas for power generation. The decision is due to permanent problems with deliveries of coal, which is currently the principal fuel source, while energy consumption in the region is on a growth trend. In 2001 the regional administration plans to spend \$12m on gas-field and communication works. The current

plan is to raise the share of gas to 50% from 22%. This will help the company to economize on costs.

### Nuclear power monopoly is postponed till reformers understand future structure of power sector

Officials with Rosenergoatom, which supervises nuclear power production in Russia, have announced planned creation of a holding company uniting Russia's nuclear power stations. If this happens Russia will have a new monopoly in the power sector with the cheapest electricity generation costs. Last year nuclear plants had some 10% of total Russian generating capacity, and some 40% of grid sales of electricity were nuclear power. The deputy-premier Viktor Khristenko has expressed caution about the Rosenergoatom plan and said that the Russian government has not yet discussed any such project. He added that a final decision will be made after reforms in the power sector are clarified.

### Power project in Urals waits for clear reform conception

Creation of UralTEK, which is intended to unite Ural-based power stations with coal mines, will not be launched till April at least, according to UES vice-CEO Valentin Zavadnikov. Talks on this project started long ago, but no final decision has yet been made. UralTEK will be further discussed after the Russian government determines its position on power sector reforms and after pilot projects have shown the best model for reform.

### Official estimates of electricity production in 2003

The Ministry for Economic Development published forecasts for energy production for 2003. Comparisons with 1999 indicate estimated growth of 12% to 949 billion kWh. Experts expect a 15% increase in generation at fuel-fired stations to reach 648 billion kWh, moderate 2% growth in hydroelectric output to 165 billion kWh and a 12% rise in generation by nuclear power station to 136 billion kWh. Industry is expected to increase consumption by 18.3% and households by 7%.

### Energos publish industrial results:

| Vologdaenergo                           | 2000  | 1999  |
|---|-------|-------|
| - electricity production, '000,000' kWh | 3 152 | 3 219 |
| - electricity purchased, '000,000' kWh  | 6 358 | 5 860 |
| - electricity delivered, '000,000' kWh  | 8 616 | 8 139 |
| - heat delivered, '000' GCal            | 1 206 | 1 206 |
| - installed capacity, MW                | 665   | 665   |
| - electricity tariff, rubles/kWh        | 0.443 | 0.279 |
| - heat tariff, rubles/GCal              | 168.9 | 140.8 |

| Komienergo                              | 2000  | 1999  |
|---|-------|-------|
| - electricity production, '000,000' kWh | 3 054 | 2 986 |
| - electricity purchased, '000,000' kWh  | 2 893 | 2 958 |
| - electricity delivered, '000,000' kWh  | 4 627 | 4 555 |
| - heat delivered, '000' GCal            | 6 279 | 6997  |
| - installed capacity, MW                | 758   | 770   |
| - electricity tariff, rubles/kWh        | 0.501 | 0.351 |
| - heat tariff, rubles/GCal              | 172.6 | 127.4 |

### Chelyabinsk Svyazinform plans share sale, shows worse results

We are sceptical that the company will be able to raise \$8m from a planned share sale, since investors have little interest. Also the company showed worse results in 2000 than in 1999

Officials of Chelyabinsk Svyazinform announced plans to sell a 7.11% share stake. The stake, consisting of B-type preferred shares, will automatically convert to common shares following their sale. The shares were not sold during the company's original privatization and are now the property of the Russian Federal Property Fund. It is expected that the sale will be in the form of an auction with investment conditions and will take place in 2001, before unification of telecom companies in the Urals region, which is due under the Svyazinvest restructuring plan.

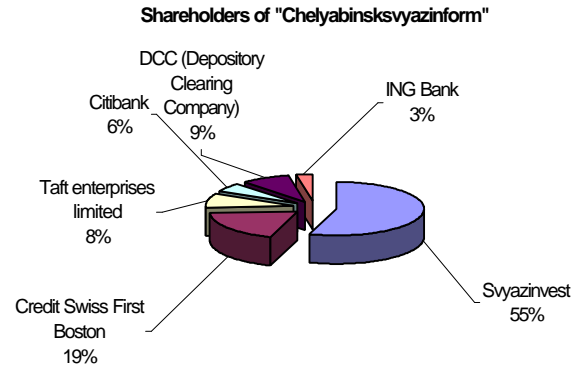
Company managers expect to raise \$8m from sale of the stake, of which \$5.3m will be used for capex. However, we think that such expectations are unrealistic. Investment competitions for this block of shares were attempted in 1995 and 1998, and there was no investor interest on either occasion. Chelyabinsk Svyazinform is not actively traded on the Russian share market, with just \$2.4m turnover in 2000.

Also, sale of the stake for \$8m would imply price per share of \$16.9 compared with current best RTS buy/sell prices of \$15/16.8. The company already has a fairly high market valuation of \$135.7 per line and P/E=35.66 (respectively 2.7 and 1.35 times higher than the average for Russian telecoms with line numbers above 500,000).

Doubts about the sale are increased by current uncertainties surrounding the Svyazinvest plans for mergers between regional telecoms.

If the stake can be successfully sold, Svyazinvest will not lose its control over Chelyabinsk Svyazinform, retaining 51% of voting stock in the company.

Chelyabinsk Svyazinform share capital is currently divided as follows:



We forecast some deterioration of Chelyabinsk Svyazinform results for 2000. Despite a 23% increase in sales, net profit could fall by 42% compared with 1999 in dollar terms. High debts to suppliers are one of the main reasons for this. Company management says that \$12m was paid to foreign equipment suppliers in 2000, mainly in the form of restructured debts on contracts signed in 1997.

### Chelyabinsk Svyazinform results and result forecasts (RAS)

|                              | 2000 E* | 1999 | 00/99 increase (%) |
|------------------------------|---------|------|--------------------|
| Sales (\$ millions)          | 49.4    | 40.0 | 23.3               |
| EBIDTA (\$ millions)         | 19.0    | 15.3 | 23.6               |
| Net Profits (\$ millions)    | 2.3     | 3.9  | -42.8              |
| Cash Flow (\$ millions)      | 11.9    | 8.9  | 32.7               |
| Capitalization (\$ millions) | 80.5    | 72.2 | 11.5               |
| P/S                          | 1.6     | 1.8  |                    |
| P/E                          | 37.5    | 18.3 |                    |

\*Preliminary estimates by RMG

### PTS repays debts, modernizes exchanges

The company reduced long-term debts for equipment supplies by \$25m in 2000. According to company management, long-term equipment debt at the end of 1999 was \$70m, and this has now declined to \$45m. The company plans to pay off a further \$12m of equipment debts in 2001. Most of these debts are to NEC.

PTS continues to carry out modernization of its network. Some of the oldest exchanges, with capacity of 65,000 numbers, will be replaced with electronic switching this year. The remaining 160-170,000 numbers at the oldest PTS exchanges will be replaced by 2004. According to our

estimates, the digitalization rate will increase by 3.4% in 2001 to 30.85% and will reach 37.15% at the start of 2004.

### Rostov Electrosvyaz publishes preliminary 2000 results

According to preliminary results published last week company sales grew 34% last year to R1.28bn (by 15.5% to \$45.7m in dollar terms). At the same time, costs grew by 39% to R1.05bn (or by 21.8% to \$37.3m), mainly due to wage increases of around 50% during the year. As a result, the ruble net profit increase was small and the company showed a net profit decline in dollar terms.

#### Rostov Electrosvyaz results and result forecasts (RAS)

|                              | 2000 E* | 1999   | 00/99 increase (%) |
|------------------------------|---------|--------|--------------------|
| Sales (\$ millions)          | 45.677  | 39,546 | 15.5               |
| CGS (\$ millions)            | 37.258  | 30.587 | 21.8               |
| EBIDTA (\$ millions)         | 11.745  | 12.672 | -7.31              |
| Net Profits (\$ millions)    | 3.813   | 4.939  | -22.80             |
| Cash Flow (\$ millions)      | 7.148   | 8.651  | -17.37             |
| Capitalization (\$ millions) | 46.5    | 47.1   | -1.24              |
| Valuation per line (\$)      | 76.8    | 77.70  | -1.16              |
| P/S                          | 1.00    | 1.19   | -15.97             |
| P/E                          | 12.20   | 9.53   | 28.0               |

\*Preliminary estimates by RMG

### Telecominvest chooses Siemens as partner for North Caucasus cellular project

Telecominvest has chosen Siemens as its equipment supplier for creation of a GSM 900/1800 cellular network in the North Caucasus region. Telecominvest plans to set up similar networks, under the brand name "Megaphone", in many Russian regions, and chose Siemens equipment based on delivery time and price. Siemens will initially supply and assemble equipment to the value of \$50m under a turnkey arrangement, to be paid in the form of a trade credit. Total investment in the Megaphone project will be \$100m in 2001 and \$150m in 2002, and the North Caucasus network is due to enter service in the third quarter of 2001. Three commutators (in Rostov, Krasnodar and Stavropol) and 300 base stations will be created over a period of two years.

Four operators now have licenses to provide cellular service in the North Caucasus region: Kuban GSM (subsidiary of Kuban Electrosvyaz), Vimpelcom, Mobil-Caucasus (subsidiary of Telecominvest) and StavTeleSot. However, only Kuban GSM will offer serious competition to Mobil-Caucasus. Vimpelcom has not yet been able to find an investor for development of a North Caucasus network, and if Mobil-Caucasus can take significant market share from Kuban GSM there may not be room for a third operator.

**Correction:** paragraph 4 of the first telecoms story in the previous weekly should have referred to particular risks associated with **MGTS** and not **Moscow Region Electrosvyaz**.

### **Cybiko receives \$16m in second-round financing**

A consortium of investors led by Sun Capital Partners, a UK-based \$100 million venture capital fund, invested \$16m for a minority stake in a second-round of financing by Cybiko Inc. ([www.cybiko.com](http://www.cybiko.com)), a privately held US-based company of Russian origin, which was established in 1999 to develop and market innovative Internet-driven wireless personal entertainment and communication equipment.

Cybiko designs manufactures and distributes wireless hand-held personal computers for teenagers offering a variety of innovative Internet-driven features from a personal ICQ-like communicator to an MP3 player to a multilingual translator, spell checker and personal organizer.

The average retail price per Cybiko device is about \$100 with roughly 50% gross margin. Cybiko Inc. reports production of over 500,000 units in 2000, which yields an estimated \$50 million sales figure for the last year provided that the company managed to sell all of its output last year.

The first-round financing closed last September was led by the strategic technology investor AOL ([www.aol.com](http://www.aol.com), NYSE ticker AOL), which acquired about 20% in Cybiko for an estimated \$25m. According to sources close to the transaction, the Cybiko pre-money valuation was about \$60m.

Headquartered in Illinois, USA, Cybiko has R&D located in Russia with distribution and marketing focused on the US and Canada targeting a teenager group aged 12 to 16 years. This cross border operational-distributional structure is becoming increasingly popular both with Russian hi-tech projects and foreign venture capitalists as it helps improve cost efficiency and reduce sales volatility, currency and political risks associated with investments in Russian projects.

### **E-Metex online metal pipe goes live**

E-Metex ([www.emetex.ru](http://www.emetex.ru)), an online metal pipe trading exchange, launched last October in beta test mode, started its first trading session on January 31, 2001. E-Metex is a B2B Internet trading system for pipe manufacturers and business customers backed by the offline professional association of Russian pipe manufacturers.

Unistal and Seversky Tube Works Trading House became the first online customers of the E-Metex market place. All members of the online trading system are required to provide full information disclosure before they can join the

trading system, to mitigate counterparty risk. However, the trading system will not be able to execute payment online until a digital signature law is passed by the Duma.

By the end of this year E-Metex management expects to achieve an online trading volume equal to 5% of annual metal pipe output in Russia, which is estimated at over \$1bn.

### **Moscow-based ISP Tochka.ru crosses threshold of 600 subscribers**

MGTS ([www.mgts.ru](http://www.mgts.ru)) and its subsidiary PTT-Teleport Moscow ([www.ptt.ru](http://www.ptt.ru)) announced on January 30 that their wide-band ADSL network [Tochka.ru](http://Tochka.ru) has over 600 subscribers.

The Tochka.ru project was launched by PTT-Teleport in June 2000 for developing a wide-band network for data transmission based on the existing city telephone network. At present, small and medium size businesses account for about 75% of Tochka.ru customers, and individuals take up the remaining 25%.

About one-third of all MGTS telephone stations now have Orckit ADSL equipment installed and remaining stations will be gradually equipped with Cisco Systems ([www.cisco.com](http://www.cisco.com), NASDAQ 100 ticker CSCO) and Lucent Technology ([www.lucint.com](http://www.lucint.com), NYSE ticker LU) ADSL hardware. By the end of this year project management expects to install ADSL hardware at all automatic telephone stations in the Moscow city area.

### **Venture capital investment reached a record \$103 bn last year**

The National Venture Capital Association and Venture Economics estimated total global venture capital investment at \$103bn in 2000, which represents a 73% increase versus 1999 (\$59.4bn). Internet companies received over 40% of total investments.

However, in Q4 2000 the volume of investments shrunk to \$19.6bn, a 30% decrease versus Q3 in the previous year, after five-year steady growth. The slump in venture capital financing was partially triggered by last year's e-commerce sector crisis. At the same time, investments in telecommunication, software development and microchip production kept growing.