

Market Wrap

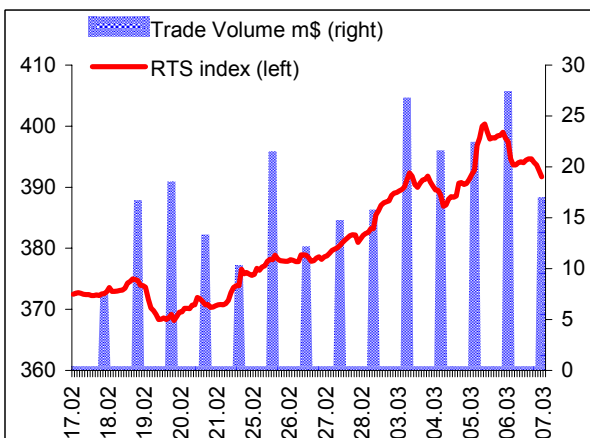
The RTS skipped like a spring lamb last week, but still lacks a mature sense of direction. Starting the week in the mid-380s, the index touched 400 points for a short period on Thursday, but closed Friday at 392. Volumes were high, reflecting renewed interest from foreign investors, and the market was helped by closing of short positions.

The outlook this week is had to gauge. Returning to work on Tuesday after a long weekend, the RTS is off to a bad start after six-month lows of the DJ and S&P on Monday, but an OPEC meeting and crucial UN vote on Iraq could change the picture today.

UES was very strong last week. The stock rose 8.9%, helped by interest from foreign investors. But the second Russian energy stock, Mosenergo, was the undoubted market star with a rise of 16.6% and volumes larger than Yukos or Surgut. Buyers were not conclusively identified, but seem to be a mixture of strategic and portfolio.

The oil sector was less exciting, despite more oil price highs. Surgut and Lukoil were the best performers with rises of 3.5% and 3.4%. The division of spoils with TNK did not help Sibneft, which had minimal growth, and Yukos was in negative territory with a fall of 1.2%. However, there was surprising 8.8% growth by Tatneft despite absence of positive news. Buying by management, ahead of rumored sale of the Tatarstan government's controlling stake, is the most likely explanation

Telecoms were impressive. Advances by regionals included 10% for Siberia Telecom, a 7.9% rise by Volga Telecom and 6.8% rise by Ural Svyazinform. Telecom prefs were also popular. Rostelecom prefs rose 7.8% with \$1m of trading.

RTS Index & Volume

Key Figures

RTS Index	391.73	2.22%
RTS Volume (\$m)	113.44	80.8%
Ruble / Dollar	31.59	
Int'l Reserves (Feb 28)	\$53.1b	

Weekly data Fri-Fri.

Winners

Mosenergo com	+16.6%
Siberia Telecom com	+10.0%
Bashneft com	+9.0%
RAO UES com	+8.9%
Tatneft com	+8.8%
OMZ com	+8.1%

Top Volumes (\$m)

RAO UES com	28.9	25.5%
Lukoil com	20.3	17.9%
Mosenergo com	11.2	9.9%
Surgutneftegaz com	11.2	9.9%
Yukos com	5.6	5.0%
Norilsk Nickel com	5.4	4.8%
Rostelecom com	4.4	3.9%
Total (Top 7)	87.1	76.8%

Losers

Astrakhanenergo com	-5.1%
Arkhenenergo com	-4.9%
Uralkaliy com	-3.3%
Khabarovskenergo pref	-2.7%
Baltika com	-2.7%
Yukos com	-1.2%

Sector Statistics

Sector Name	Volume \$	MC\$'000	% of MC	Change -week	Change -month	Change -year
Oil & Gas	44 754 109	68 110 735	66.63%	1.02%	10.18%	24.79%
Power Utilities	41 727 630	10 736 471	10.50%	7.27%	14.04%	-5.80%
Telecom	12 836 795	6 754 967	6.61%	2.78%	16.58%	18.01%
Metals	5 801 141	6 833 456	6.69%	n/m	0.56%	2.38%
Other	4 242 294	2 932 892	2.87%	n/m	n/m	n/m
Banks	3 892 756	4 278 210	4.19%	3.32%	14.41%	127.23%
Transportation	84 195	561 680	0.55%	2.02%	2.74%	5.72%
Engineering	72 500	1 466 636	1.43%	n/m	6.82%	-32.21%
Chemicals	25 740	386 133	0.38%	n/m	2.23%	0.78%
Retail	n/m	155 634	0.15%	n/m	1.97%	-19.97%
Total	113 437 160	102 216 815	100.00%	1.87%	10.07%	19.71%

VIEWPOINT: THREE SWALLOWS THAT MAKE A SPRING

Significant volumes on the RTS last week are one sign of increased interest in the Russian market from foreign funds. Lack of foreign interest in recent months has been put down to nerves about any equity investments in the long-standing international bear market, and tension over Iraq.

However, if foreign money has stayed out of Russian equities recently, the reason might just be the lack of a “story”. It has not been clear for the last year whether the Russian economy is on track for strong growth or stagnation. Russian political and economic reform achievements have not gained international resonance since Putin’s centralization of executive power and the tax laws of 2000-2001.

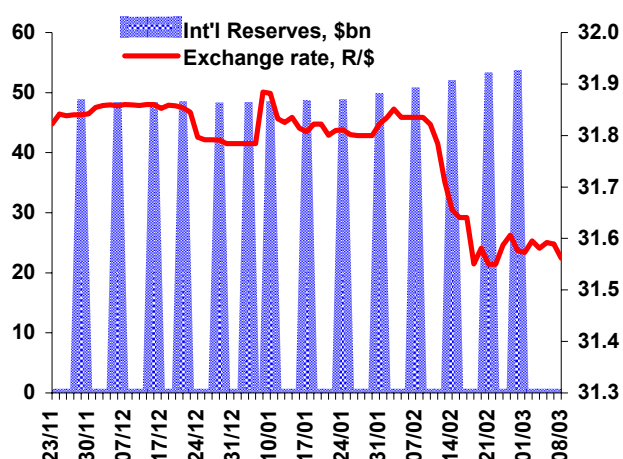
With the whole world to choose from, the absence of bad news from Russia, and even consistently high oil prices, has not been enough to fire the imagination of investors. We see three items, which are finally delivering the much-awaited good news at present.

The first is reform of Russia’s power sector, which has finally been given the green light in recent weeks. The surge in UES buying last week reflects a delayed foreign reaction to this development.

The second factor is the BP-TNK deal. The huge scale of BP’s commitment to Russia is still being digested by other foreign investors, and we think that it will be offer highly positive ongoing publicity for Russia as an investment destination (final signing of the deal and definition of the BP-TNK strategy will come later this year).

Finally, Russia is obtaining dividends from the Iraq situation quite apart from high oil prices. Daily reports from the UN remind the word that Russia is still a member of the UN Security Council, and the country’s low-key opposition to hostilities seems to chime with the international mood, avoiding the excesses of the US, UK and France in favor or opposition to the war.

Economic Indicators



Key Macro Figures

CBR refinancing rate, %	18	17/02/03
M2, Rbn	2026.5	1/02/03
M0, Rbn	709.0	1/02/03
CPI, %	1.6	02/03
Inter'l Reserves, \$bn	53.1	28/02/03
One-day MIACR, %	1.29	07/03/03
Exchange rate R/\$	31.56	08/03/03
Exchange rate R/euro	34.79	08/03/03
OFZ yields, % p.a.	7.99	05/03/03
GKO-OFZ duration, days	749.54	07/03/03
Eurobonds Russia 03 YTM	2.61%	10/03/03

Inflation in February was 1.6%

According to Goskomstat, inflation in February was 1.6% against 2.4% in January 2003. Inflation in the two months together was 4.1% against 4.3% in January-February 2002. Inflation in February was lower than forecast 2%, but higher than the government needs to achieve its full-year target (about 1% per month). In February 2002 inflation was 1.2%.

The food prices index grew by 1.2% in February, non-food prices rose by 0.9% and tariffs for services rose by 4.2%. The highest inflation in February was in Krasnoyarsk region (7.8%), where prices and tariffs grew by 1.3 times. In Moscow consumer prices rose by 0.7% and in St Petersburg by 1.8%.

Consolidated budget results in 2002

The Finance Ministry and Goskomstat published budget execution results for FY 2002. The federal budget surplus in 2002 was 1.5% of GDP or R156.2bn. In 2001 the surplus was R272.1b or 3% of GDP. Federal budget revenues were 20.3% of GDP against 17.6% in 2001. Tax revenues were 15.6% of GDP against 16.2% in 2001. Expenditures were 18.8% against 14.6% in 2001. The consolidated budget surplus was 1.03% against 2.92% of GDP in 2001. The consolidated budget surplus was R111.9bn and the federal budget surplus was R156.2bn.

Budget execution (FY 2002, Rb)

	Consolidated budget	Federal budget
Surplus	111.9	156.2
Revenues	3515.6	2202.2
Tax revenues	2796.3	1696.1
- Profit tax	463.4	172.2
- Value-added tax	752.9	752.6
- Foreign trade taxes	323.4	323.4
- Excises	264.1	214.9
- Natural resources taxes	330.8	214.2
Non-tax revenues	263.5	150.6
Revenues of purpose funds	160.7	15.1
Expenditures	3403.7	2046.0
- Social and cultural	1371.6	618.3
- Defense	295.3	295.3
- Debt servicing	237.2	223.7
- Law-enforcement and state security	241.4	190.4
- Financial aid to budgets of other levels		318.3
Expenditures of purpose funds	170.4	15.1
State government		56.2
Transport, roads, telecommunications		7.5
Industry, energy and construction	253.2	105.5
Social tax	819.5	339.1

Source: Goskomstat

Interest payments in 2002 fell to 10.9% of federal budget expenditures (from 17.5% of total expenditures in 2001).

Finance Ministry plans to reduce external debt to \$113b by 2006

The Finance Ministry is targeting reduction of Russia's external debt to \$113.3b by 2006, while internal debt will grow to R1200b (\$34.4b). On January 1, 2003 external debt was \$123.5b and internal debt was R680b (\$21.4b).

Targets for Russian state debt structure

	1.01.03	1.01.04	1.01.05	1.01.06
External debt, \$b	123.5	126.8	122.7	113.3
Internal debt, \$b	21.4	25.7	29.5	34.4
Total debt, \$b	144.9			
State debt, % of GDP	42.4%			29%

Source: Ministry of Finance

In 2003-2005 Russia will borrow \$23-24b on domestic and foreign debt markets. State debt repayment during 2004-2005 will total \$29.3b, including \$18.9b of external debt and \$10.4b of internal debt.

The Finance Ministry plans to increase the volume of OFZs (government bonds) with maturity between one and 15 years. Floating-coupon bonds will be issued to help development of the pension and insurance

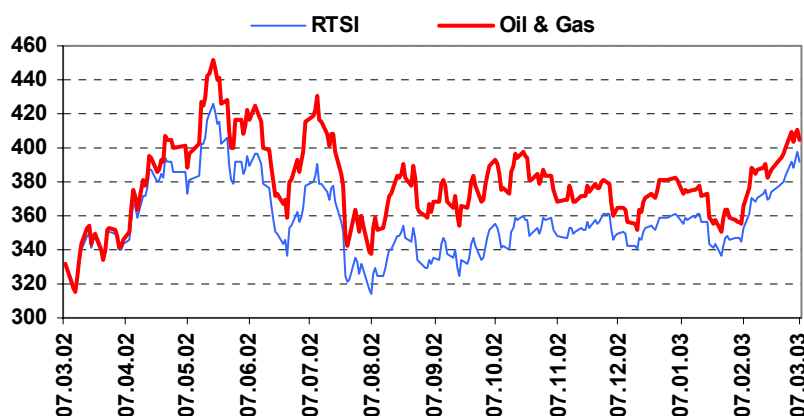
systems, and will take 3-4% of market. The Ministry wants to stop using foreign tied credits after 2004 and to reduce projects with international financial organizations.

The volume of state debt should fall from 42.4% of GDP in 2003 to 29-30% of GDP in 2006. External debt is currently 36.2% of total debt and 6.3% of GDP. By 2006 internal debt should be about 23% of total debt and 7.2% of GDP. The aim indicator for yield is 1-2% higher than the inflation rate. Debt maturity should rise by 3-4 years.

Finance Ministry places longest issue OFZ-AD46014

The Finance Ministry has placed the longest issue of OFZs, with serial number AD46014 and maturity in August 2018. The Ministry placed 83% of the target sum. The weighted average price was 97.344% of nominal, equivalent to 9.7% yield. The cut-off price was 97.1% (9.75% yield). Pension funds did not participate in the auction.

Oil & Gas Index vs. RTS Index



Oil & Gas Key Figures

Indicator	Value	Wk Change
Urals (\$/b)	33.1	0.9%
Brent (\$/b)	33.8	5.4%
OIX (CBOE oil index)	242.5	-1.0%
Dow Jones Energy Index	198.4	-0.2%
US crude inventory change (EIA data) m bbl	274	0.6%
US gasoline inventory change (EIA data) m bbl	206	-1.0%
Tatneft ADR	18.12	7.9%
Lukoil ADR	61.35	2.4%
Surgutneftegaz ADR	16.50	2.8%
Yukos ADR	160.76	-2.3%
Sibneft ADR	21.55	-0.4%

Sector Wrap

- TNK and Sibneft have reached a preliminary agreement to avoid any cross ownership in division of Slavneft. Exploration, production and retail assets of Slavneft will be divided equally, while Slavneft refineries will be available for use by both companies, with possibility of throughput capacity swaps. Sibneft minority interest in Onaco and its subsidiary Orenburgneft will be bought out by TNK.
- The CEO of NewCo, the new entity joining Russian assets of TNK International and BP, will be Robert Dudley, the vice-president of BP with responsibility for Russia, the Caspian region and Africa.
- TNK International reported consolidated financial results under US GAAP for 9M 2002. Net revenues rose by 28% y-o-y in 3Q 2002 to \$1764.5m and by 3% y-o-y in 9M 2002 to \$4138.4m. Net margin was 16.3% in 9M 2002 against 21.6% in 9M 2001.
- The Gazprom budget draft for 2004, signed last week by CEO Alexei Miller, foresees reserve growth of about 1120mt of equivalent fuel (three times more than in 2002) and targets R200b consolidated net profit (\$6b).
- Gazprom has asked to be included in a government and business committee set up to coordinate development of the giant Kovykta gas deposit in Irkutsk region.
- Russian gas export volumes were unchanged y-o-y in January 2003, while oil export volumes rose by 10%. Oil production averaged 8m bbl per day over the two months.
- Yukos published preliminary operating results for FY 2002. Oil production rose by 19.3% y-o-y in 2002 to 508m bbl. Refinery throughput increased by 13.8% y-o-y to 241m bbl.

Sector Statistics

Issue	Issue RTS Code	Mid Market Price, \$	Weekly Change, %	Weekly Volume, \$mln	Market Cap, \$mln	52 week Low, \$	52 week High, \$	P/S 02E	P/E 02E
LUKoil com	LKOH	15.455	3.4	20.313	13 098.67	12.750	18.620	0.98	6.95
Megionneftegaz com	MFGS	9.250	0.0	0.009	1 053.35	4.500	10.500		
Megionneftegaz pref	MFGSP	4.263	-1.4	0.004		1.800	4.800		
Sakhalinmorneftegaz com	SKGZ	2.350	3.5		171.90	1.930	3.400		
Sakhalinmorneftegaz pref	SKGZP	1.497	-0.7	0.008		1.000	1.700		
Sibneft com	SIBN	2.155	0.1	1.245	10 162.17	1.370	2.235	2.10	9.68
Surgutneftegaz com	SNGS	0.333	3.6	11.237	13 760.64	0.286	0.475		
Surgutneftegaz pref	SNGSP	0.243	4.9	0.841		0.183	0.260		
Tatneft com	TATN	0.913	8.8	2.629	2 048.48	0.545	0.931	0.59	5.80
Tatneft pref	TATNP	0.530	7.9	0.172		0.375	0.615		
Udmurtneft com	UDMN	107.750	-28.2		349.97	81.000	115.000		
Udmurtneft pref	UDMNP	97.250	-4.2			54.000	121.000		
Yukos com	YUKO	10.800	-1.2	5.637	24 159.51	7.430	11.420	2.27	8.11

TNK (BUY) and Sibneft (HOLD) divide Slavneft with no cross ownership

TNK and Sibneft have reached a preliminary agreement to avoid any cross ownership in division of Slavneft. Exploration, production and retail assets of Slavneft will be divided equally, while Slavneft refineries will be available for use by both companies, with possibility of throughput capacity swaps. Sibneft minority interest in Onaco and its subsidiary Orenburgneft will be bought out by TNK.

TNK and Sibneft are currently joint owners of 98.5% of Slavneft. The two companies bought 74.95% on equal terms from the Russian government for \$1.86b last December, 10.83% was bought by Sibneft from the Belarus government for \$207m with TNK paying in half of the sum afterwards, and the two companies also own a trust company controlling 13% of Slavneft and stakes in its subsidiaries Megionneftegaz (production) and Yaroslavlnefteorgsintez (refining). Slavneft was the eighth biggest oil producer in Russia last year, pumping about 15mt. Slavneft also has 550 filling stations in central and northwestern Russia.

TNK has agreed to purchase Sibneft's 1% stake in Onaco and 38% stake in Onaco production subsidiary, Orenburgneft. Earlier TNK offered to swap these stakes for 8.6% in TNK International. TNK owners have paid more than \$120m to Sibneft as its share of Onaco revenues in 2001, and will reportedly pay from \$500m to \$800m to buy out the Sibneft stakes.

Scrapping of earlier cross-ownership plans by TNK and Sibneft is not unexpected after the new partnership of TNK with BP. We consider this as positive for corporate governance of the two companies, which are competitors.

TNK and Sibneft will carry out due diligence of Slavneft subsidiaries in a period of three months and will then decide how to divide licenses and filling stations. The companies are also negotiating with Surgutneftegaz on possible sale of the Yaroslavlnefteorgsintez refinery. Licenses of Slavneft in Eastern Siberia could be purchased by Yukos. The asset carve-up will be completed by the end of the year.

BP will supply NewCo CEO

The CEO of NewCo, the new entity joining Russian assets of TNK International and BP, will be Robert Dudley, the vice-president of BP with responsibility for Russia, the Caspian region and Africa. Mikhail Freedman, the chairman of Alfa Group, will be BoD chairman for the first year, to be probably succeeded by Victor Vekselberg, the head of Access-Renova, which is joint owner of TNK with Alfa. These

candidatures are subject to approval by shareholders. Legal questions on NewCo organization are scheduled for resolution by June.

NewCo will include TNK, Sidanko, Onaco, Rusia Petroleum and some other assets. We expect that TNK's share of Slavneft, following division with Sibneft, will also be included in NewCo. Representatives of BP, Alfa Group and Access-Renova will fill the twenty top managerial positions in NewCo.

TNK International reports results for 9M 2002 under US GAAP

TNK International reported consolidated financial results under US GAAP for 9M 2002.

TNK International financials under US GAAP 9M2002

	3Q02	3Q01	9M02	9M01
Gross revenues	1 968.1	1 617.0	4 693.3	4 766.0
Net revenues	1 764.5	1 376.7	4 138.4	4 016.2
Cost of sales	(759.8)	(525.0)	(1 819.1)	(1 629.9)
Depreciation and amortization	(101.1)	(76.7)	(296.5)	(269.8)
Gross profit	903.6	774.9	2 022.8	2 116.4
<i>Gross margin</i>			43.1%	44.4%
Selling, general and administrative expenses	(354.1)	(236.2)	(938.1)	(733.0)
Operating profit	549.5	538.7	1 084.7	1 383.4
<i>Operating margin</i>			23.1%	29.0%
Interest expenses	(38.8)	(75.9)	(219.1)	(215.5)
Other non-operating income / (expenses)	18.0	23.1	78.8	76.4
Pre-tax profit	528.7	486.0	944.4	1 244.4
<i>Pre-tax margin</i>			20.1%	26.1%
Taxation	(35.0)	301.6	(113.6)	46.0
Minority interest	(31.8)	(165.5)	(66.6)	(262.0)
Net income	462.0	622.1	764.2	1 028.4
<i>Net margin</i>			16.3%	21.6%
EBITDA	668.6	638.6	1 460.0	1 729.7
<i>EBITDA margin</i>			31.1%	36.3%

Source: Company data

Net revenues rose by 28% y-o-y in 3Q 2002 to \$1764.5m and by 3% y-o-y in 9M 2002 to \$4138.4m. Operating profit fell from \$1383m to \$1084.7m or by 21.6%. Pre-tax profit was \$944.4m in 9M 2002, down 24% from the same period of 2001 due to increase of taxes (the united tax on natural resources). Fall in pre-tax profit, EBITDA and net income in 9M 2002 was mostly due to lower international and domestic oil prices in 1Q 2002 and higher transportation tariffs. The company showed reduction of all margins. Net margin was 16.3% in 9M 2002 against 21.6% in 9M 2001.

Minority interest was \$66.6m in 9M 2002 compared to \$262.0m in 9M 2001. Minority interest fell mostly due to a decrease in earnings attributable to minority interest owners and due to TNK completing a share consolidation in December 2001, thereby reducing the number of subsidiaries with minority shareholders.

Oil production rose 8% y-o-y in 9M 2002 to 747 000bbl per day, but the effect of increased oil production on revenues was partially offset by lower crude purchases and lower international and domestic prices in the first nine months of 2002. At the same time, oil prices in the CIS outside Russia were higher in the nine months ended September 2002.

Sales of crude oil increased by 1.4% y-o-y to \$2299.3m in 9M 2002 from \$2268.1m in 9M 2001, due to higher production and increased export sales volumes, partially offset by lower prices and lower crude purchases. Increased crude oil production was mainly due to enhanced recovery techniques.

Export crude sales volumes (including exports to the CIS) increased to 391 mbpd in 9M 2002, compared to 331 mbpd in 9M 2001. In 9M 2002, export sales were \$2284.6m compared with \$2050.5m in 9M 2001. The average sales price for exports (including export to CIS) and domestic crude oil sales was \$21.28 per bbl in 9M 2002 compared to \$20.87 per bbl in 9M 2001.

Gazprom (BUY local shares) CEO signs budget

The Gazprom budget draft for 2004, signed last week by CEO Alexei Miller, foresees reserve growth of about 1120mt of equivalent fuel (three times more than in 2002) and targets R200b consolidated net profit (\$6b).

Main parameters of Gazprom 2004 budget

	2004	2003
Gas production, bcm	541.9	531.7
Gas condensate production, mt	10.9	9.6
Oil production, th.t	760	710
Gas processing, bcm	33.5	32.7
Gas condensate processing, mt	10.4	9.2
Oil processing, th.t	680	630
Export, bcm	196.9	187.8
Net profit, \$b	6	
Debt, \$b	5.3	6
Revenues, \$b	32	
Expenditures, \$b	36	

Source: Company data

Company revenues are targeted at R1056.1b (\$32b) in 2004 and R1179.2b (\$35b) in 2005. The company expects a deficit of own funds at R127.1b in 2004 and a surplus of own funds at R25.6b (\$800m) in

2005. Debt repayment in 2004 will be R176.1b (\$5.3) and R76.6b in 2005 (\$2.3b).

The \$800m surplus for 2005 is very optimistic, since it would be the highest ever achieved by the company. Such a surplus would allow Gazprom to reduce debt by \$3b and do without short-term credits next year. The optimistic forecast is based on expected growth of international gas prices, which have a lag of 6-9 months to oil prices. Peaks in oil prices are expected in March 2003, so the gas price maximum could be reached by the end of this year. Gazprom is also counting on government support to raise domestic gas tariffs.

Gazprom wants to be on Kovykta committee

Gazprom has asked to be included in a government and business committee set up to coordinate development of the giant Kovykta gas deposit in Irkutsk region. The first meeting of the committee will consider possible gas pipeline routes from Kovykta and approve the volume of supply from the field, which is expected to be 25bcm or 30bcm per year. It is likely that South Korea will buy 10bcm of gas and China will purchase 15–20bcm per year. The committee will also include representatives of Russia Petroleum (the Kovykta licence holder), the Chinese state oil company CNPC, the Korean gas company Kogas, as well as representatives of the Russian Ministry of Energy and the Irkutsk regional administration. After the BP-TNK agreement NewCo will be one of the main participants in the Kovykta project, since it is the major stakeholder in Russia Petroleum.

Lithuania gives Gazprom more time for Lietuvos Dujos bid

The government of Lithuania decided to give Gazprom until April 11 to bid for the Lithuanian gas company, Lietuvos Dujos, after Gazprom failed to make an offer for a 34% stake before the original deadline of February 28. The sticking point is the price: Lithuania wants \$37m, while Gazprom is proposing \$25.6m.

Export and production in January-February

Russian gas export volumes were unchanged y-o-y in January 2003, while oil export volumes rose by 10%. The value of gas export rose by 10% to \$1.8b and the value of oil export rose by 11% to \$1.6b. The major importers of Russian oil and gas are Germany, Italy, Ukraine and Belarus.

Export of oil and gas from Russia

	Export of gas, bcm, Jan 2003	Export of oil, mt Jan 2003
Export from Russia, bcm	18.75 (0% y-o-y)	13.98 (+10% y-o-y)
Value of export, \$b	1.80	1.6 (+11%)
Export to non-CIS, bcm	13.76	11.48
Export to CIS, bcm	4.99	2.50
Export to Germany, bcm	3.2	1.8
Export to Italy, bcm	2.05	1.38
Export to Ukraine, bcm	2.7	1.06
Export to Belarus, bcm	1.89	1.22

Source: Custom Ministry

Russian gas production rose by 2.5% y-o-y in January-February 2003 to 108.1bcm, of which 51.1bcm was produced in February, according to the Ministry of Energy. Gazprom pumped 94.97bcm in January-February, Surgutneftegaz 2.3bcm, Rosneft 1.1bcm and Lukoil 847.7mcm.

Gas production in January-February 2003, bcm

	Jan	Feb	Jan-Feb
Gazprom	50.08	44.89	94.97
Vertically integrated oil companies, including	3.53	3.2	6.73
Surgutneftegaz	1.2	1.1	2.3
Rosneft	0.5268	0.5732	1.1
Lukoil	0.4346	0.4131	0.8477
Other oil & gas companies	3.36	3.04	6.4

Source: Energy Ministry

Oil and gas condensate production rose in January-February 2003 by 11% y-o-y to 64.9mt (or by 6.5mt), of which 30.9mt was in February. Oil production averaged 8m bbl per day over the two months. Largest volumes were produced by Yukos (12.5mt), Lukoil (12.4mt), Surgutneftegaz (8.4mt), TNK (6.4mt), Sibneft (4.69mt). Gazprom produced 1.83mt of oil.

Oil production in January-February 2003, mt

	Jan	Feb	Jan-Feb
Vertically integrated oil companies, including	30.76	28.0	58.76
Yukos	6.52	5.98	12.5
Lukoil	6.5	5.9	12.4
Surgutneftegaz	4.41	3.99	8.4
TNK	3.33	3.07	6.4
Sibneft	2.44	2.25	4.69
Tatneft	2.09	1.89	3.98
Gazprom	0.96	0.87	1.83

Source: Energy Ministry

Yukos (BUY) preliminary FY2002 operating results

Yukos published preliminary operating results for FY 2002. Oil production rose by 19.3% y-o-y in 2002 to 508m bbl. Refinery throughput increased by 13.8% y-o-y to 241m bbl. Gas production was 2.39 bcm in 2002, up from 1.71 bcm in 2001.

Yukos produced 140m bbl of crude oil in 4Q 2002, up 24.3% y-o-y. Refinery throughput increased by 30.6% y-o-y in 4Q to 70m bbl, mainly due to consolidation in the company's operating results of 13m bbl of crude oil refined by the new Lithuanian subsidiary, Mazeikiu Nafta. Exports of crude oil in 4Q including sales to Mazeikiu Nafta were 78m bbl, an increase of 60.2% y-o-y. Full-year exports of crude oil outside Russia, including sales to Mazeikiu Nafta, were 269m bbl, a 31.1% increase from 2001.

Exports of oil products were 19m million bbl in 4Q 2002, up 25.3% y-o-y. Exports of oil products rose 12.4% to 10.374m bbl in 2002.

Yukos drilled 230 200 meters of production wells in 4Q 2002, up 44.3% from 4Q 2001, and 941 500 meters of production wells in FY2002, which was 40.5% more than in 2001.

Yukos operating results, m bbl

	4Q02	4Q01	FY02	FY01
Crude oil production	140	113	508	426
Refinery throughput	70	54	241	211
International oil sales	66	53	259	220
International sales of oil products	32	16	89	71
Domestic sales of oil products	32	33	136	127

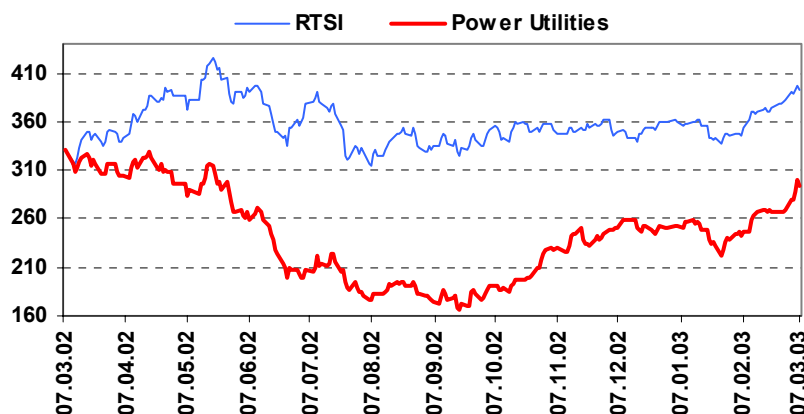
Source: Company data

Lukoil (BUY) to complete asset exchange with Rosneft by April

Lukoil intends to complete its exchange of assets with Rosneft by the beginning of April. Lukoil is currently carrying out valuation of assets, to be exchanged with Rosneft.

Assets of oil Rosshelf and Arkhangelskgeoldobycha (AGD) are undergoing independent valuation. Lukoil owns 74% of the latter, while Rosneft has 25.5%. The asset exchange could involve Rosneft's exit from AGD, and exit of AGD from Rosshelf. AGD has a 13.6% stake in Rosshelf, where Rosneft is the major shareholder.

Power Utilities Index vs. RTS Index



Power Utilities Key Figures

Sector indicators: median	Russia	Discount to emerging markets
MC / Net sales	0.34	53%
EV / EBITDA	2.61	26%
MC / Owned inst. capacity	43.90	75%
MC / Retail supplies of elec.	8.46	75%

ADRs of Russian power utilities	Last sale	Wk change
RAO UES	14.150	8.8%
Mosenergo	4.750	13.1%
Irkutskenergo	3.500	0.0%

Sector Wrap

- Power utilities reported lists of candidates to their BoDs. In many cases the lists reveal the identity of recent strategic share buyers.
- Senators are due to vote on the power bills package this week. We expect the package to be approved.
- UES BoD approved sale of a 40% stake in its export subsidiary to Rosenergoatom, entailing reduction in UES non-consolidated profits and potential reduction of dividend payments.
- UES CEO Anatoly Chubais said that he will not leave UES until the company's break-up.
- Mosenergo raised its 2002 RAS net profit estimate and offered to pay as much as 80% in dividends.
- A potential rival to Mosenergo, established by the Moscow city government, may start work in 2H 2003.

Sector Statistics

Issue	Issue RTS Code	Mid Market Price, \$	Weekly Change, %	Weekly Volume, \$mln	Market Cap, \$mln	52 week Low, \$	52 week High, \$	P/S 02E	P/E 02E
Bashkirenergo com	BEGY	0.165	4.1	0.139	174.59	0.105	0.184	0.34	9.46
Irkutskenergo com	IRGZ	0.087	0.6	0.155	412.33	0.058	0.095	1.06	neg
Lenenergo com	LSNG	0.350	7.5	0.488	291.97	0.237	0.497	0.40	14.45
Lenenergo pref	LSNGP	0.250	6.5	0.002		0.157	0.299		
Mosenergo com	MSNG	0.049	16.6	11.249	1 387.95	0.023	0.055	0.82	116.63
Permenergo com	PMNG	3.200	1.4		127.83	1.420	4.250	0.28	9.23
Permenergo pref	PMNGP	2.100	1.9			1.350	2.900		
UES com	EESR	0.142	8.9	28.889	6 107.70	0.075	0.172	0.40	5.77
UES pref	EESRP	0.130	6.6	0.146		0.065	0.138		
Samaraenergo com	SAGO	0.040	1.3		146.27	0.026	0.044	0.31	29.61
Samaraenergo pref	SAGOP	0.021	1.2	0.018		0.015	0.023		
Sverdlovennergo com	SVER	0.208	4.0	0.006	114.20	0.120	0.220	0.16	6.37
Sverdlovennergo pref	SVERP	0.119	0.9			0.075	0.120		

Power utilities publish BoD election lists

Several power utilities reported BoD candidate lists for elections at AGMs this year. The lists were much awaited, since they reveal parties who stood behind massive buying of power stocks in 4Q 2002-1Q 2003.

The **UES** list has 32 candidates to the BoD, but brought few major surprises as recent strategic buyers had already been revealed. The government (52% in UES) proposed 15 candidates to the 15-seat UES board, National Reserve Bank (4%) offered 13 candidates, a group of portfolio shareholders managing a 3.4% stake offered two candidates, MDM and Base Element (total up to 20%) delegated three representatives, another group of portfolio investors (>2%) delegated six candidates, and the Association for Protection of Shareholders Rights proposed four candidates.

Although the cumulative number of candidates is 44, some of them were proposed by different groups, and the number of candidates without double counting is 32. It looks realistic that, as in previous elections, the government will take 10 seats with the support of NRB (their lists mainly coincide). MDM and Base Element representatives also seem sure of election. The remaining seats are likely to be taken by two of three minority candidates – current UES directors David Herne and Alexander Branis, and Vadim Kleiner from Hermitage Capital Management.

Renaissance Capital caused a stir last week when it delegated seven candidates to the 13-seat **Mosenergo** BoD. The company did not specify how large a stake it has consolidated (or on whose behalf) but said that it has above 2% of shares. The Mosenergo stock price jumped strongly on this news, and we expect some technical correction. Two representatives of minority shareholders in the current Mosenergo board, Anatoly Chabak and Pavel Teplukhin, will also be delegated for re-election. UES holds 51% in Mosenergo, which enabled it to win 10 seats at previous elections. The balance of power at this year's elections may shift in favor of minority groups due to the recent share buying. The Moscow city government has a 3% stake in Mosenergo and will delegate one candidate to the board.

There is little excitement concerning elections to the **Irkutskenergo** board. The federal government is not aiming for a majority in the BoD as it cannot oppose the RusAL-SUAL aluminum alliance, which controls Irkutskenergo. With 40% of votes the government delegated 11 representatives to the 11-seat BoD, and RusAL-SUAL proposed 14 candidates. We expect five seats to be taken by the government and the rest by the aluminum companies.

BoD election results also seem predetermined at **Tomskenergo**. The seven-seat board currently has three UES representatives and three Yukos representatives, and the last seat is occupied by Tomskenergo CEO, Nickolay Vyatkin, who was backed by UES and Yukos. UES is now proposing seven candidates and Yukos is proposing six, and the balance of forces is likely to stay unchanged.

MDM-group has reportedly bought stakes in several regional utilities. The company delegated four candidates to the nine-seat **Tulenergo** BoD (UES proposed nine) and four candidates to the seven-seat board of **Orelenergo** (MDM says that it has a 12.5% stake in Orelenergo). Both Tulenergo and Orelenergo are part of a UES pilot project for integration by business types with **Bryanskenergo** and **Kalugaenergo**, and MDM may also have holdings in the latter two.

An MDM affiliate, Dalmenio Investment Ltd, also proposed four candidates to the **Altaienergo** BoD, which has nine members (UES proposed nine candidates and Brunswick UBS Warburg, a nominee holder, delegated two). MDM may take major representation on the BoD of **Dalenergo**, where it has accumulated a 30% stake. Recent MDM acquisitions are also believed to include major stakes in **Amurenergo**, **Buryatenergo**, **Chitaenergo**, **Khabarovskenergo**, **Magadanenergo** and **Sakhalinenergo**, all located in the areas where MDM has coal production facilities.

Vedomosti newspaper reported last week that Sibneft intends to sell, or possibly already sold, its stake in **Omskenergo** and that the buyer is MDM, which thus takes as much as 12% stake in the energo. It is also highly possible that MDM is in the market for more than 30% of **Kuzbassenergo**, which could be sold by Renaissance Capital. The latter apparently accumulated the stake in 2001-2002 on the order of RusAL, but the aluminum company subsequently reviewed its plans.

Another large production group, SUAL aluminum holding, announced acquisitions in the power sector last week. A SUAL affiliate, Complex Energy Systems, said that it has bought major stakes in **Permenergo**, **Sverdlovenegero**, **Komienergo**, **Pechorskaya GRES** and **Rostovenergo**. The company will also manage the SUAL stake in Irkutskenergo (10%). SUAL has production facilities in almost all of the regions, which are serviced by these power utilities, which explains its interest to the power sector. CES still has time to delegate candidates to the BoDs of the named companies, and refused to disclose its exact stakes.

Senate to vote on power bills this week

The Senate (upper house of Russia's parliament) will meet on Wednesday, March 12, to vote on the power bills package, which was approved by the Duma (lower house) in a third reading in February. Three Senate profile committees met last week to elaborate their positions on the bills. Afterwards the first deputy-speaker of the Senate, Valery Gorelyand, said that the industrial policy committee agreed with all Duma amendments and will recommend senators to vote for all six draft laws, the natural monopolies committee will recommend support for only four bills, and the economy, business and property committee had not yet reached a decision.

The Senate legal department commented last week on some issues in the proposed bills, which contradict acting federal laws. These include making retail customers pay extra to cover system risks. The legal department also noted that the bills could lead to collisions between regional executive authorities and energy commissions, as competence over some questions is doubled.

Reservations of Senate committees and the legal comments suggest opposition in some Senate circles to adoption of the power bills. However, support for the bills in the Russian establishment appears too strong for a last-minute upset and we expect them to go through.

UES (BUY) BoD approves sale of stake in export subsidiary

UES said that its BoD approved sale of a 40% stake in its wholly-owned subsidiary Inter RAO EES to the nuclear power holding Rosenergoatom. The deal was not unexpected as the parties reached a preliminary agreement in 2002. UES was forced to make concessions to Rosenergoatom after the latter won Antimonopoly Ministry support on the issue. Inter RAO EES has a monopoly on power exports from Russia, and Rosenergoatom has proved its right to participation in electricity exports as the second biggest deliverer of grid power after UES.

The UES board said that it will sell the stake for about \$8m, which is much lower than UES export revenues: UES reported export revenues of \$190m in 9M 2002 and export operating margin at 43% (operating profit at \$82m). However, Inter RAO EES is only an intermediary and has no fixed assets on its balance, which generate electricity or transmit it. So the price of the deal is only based on Inter RAO EES finances, and may be justified.

The main loss to UES will be reduction of its share in export revenues: we understand that Rosenergoatom may take as much as 40% of UES export volumes. The impact on consolidated P&L is likely to be

insignificant as exports are only 2% of group revenues and operating profit. However, electricity exports are 15-20% of non-consolidated RAS revenues, and some 10% of operating profit, so UES will lose 10% in sales and 5% in operating profit. There will thus be an impact on dividends, which are paid from non-consolidated RAS net profit. We however do not expect the UES stock price to suffer due to this news, as restructuring aspects are more important for investors at present.

UES starts power trades in Nord Pool

The UES subsidiary RAO Nordic Oy reported start of electricity trades on the major Scandinavian power exchange, Nord Pool, confirming UES intentions to develop electricity exports to East and North Europe, using established export infrastructure. Russian power is still attractively priced for markets in these regions due to low production costs so further rise in UES export sales can be expected.

A UES subsidiary, Kolenergo, has also reported plans to increase supplies of electricity to Norway in coming years, including deliveries of 650m kWh under a contract with Troms Kraft and Varanger Kraft in 2003, which represents 6% of Kolenergo electricity output. There are also plans to extend transmission capacity between the Kola Peninsula and Norway to deliver more energy volumes.

UES restores option program

An important issue at the UES BoD meeting in late March will be discussion of the option program for UES management. The company already studied this question in 2002 but encountered negative reaction from minority shareholders, who objected that proposed conditions for the options created no real stimulus for management to increase company capitalization (shares could be bought at very low price levels).

Chubais rules out early departure

Speaking with journalists last Monday UES CEO, Anatoly Chubais, reconfirmed earlier statements that he would not resign from his post until UES is restructured. Chubais said earlier that he may step down at the time of UES break-up in May 2004. However, due to protracted adoption of the power bills package in the Duma, UES break-up was first shifted forward by a year and then left without a precise schedule. The latest Chubais statement is evidence that the government has no plans to replace the UES CEO.

Mosenergo (BUY) rival plans launch

Mosgorenergo, a power company established by the Moscow-city government, reported plans to start energy supplies in the second half of 2002. The company is headed by the ex-CEO of Mosenergo, Alexander Remezov (fired by UES in 2001), and owns some power facilities in the city. Its balance sheet includes high-voltage electricity lines with 3500-5000km total length and lower-voltage facilities with direct access to retail suppliers, including households. There are also generating plants in Moscow (total 165MW), which do not belong to Mosenergo and are likely controlled by the city government (such as a power station at the ZIL automaker). Speaking last Tuesday Remezov noted that Mosgorenergo may compete with Mosenergo by offering lower tariffs, and may buy power from Mosenergo and the wholesale power market as well as using its own generating capacity.

Mosenergo finances will not be much affected, even if the plans of Mosgorenergo are realized, since the Mosenergo franchising area is much greater than the coverage zone of Mosgorenergo.

Mosenergo raises net profit forecast, comments dividends

Mosenergo has again revised its RAS net profit for 2002 and now expects R650m (\$21m) vs. earlier stated R500m (\$16m) and our initial forecast of \$12m. According to the company minority director, Pavel Teplukhin, the dividend pool should be R519m, which is 80% of expected net profit and translates as a per share dividend of 0.0183, i.e. the same level (in rubles) as for 2001. Based on this figure the dividend yield would be still low at 1%. Payout of 80% of Mosenergo net profit as dividends is recommended by UES as the major shareholder and is an evident reflection of its policy, though the financial situation at the energo hardly justifies such a step.

Mosenergo FY 2002E financials (RAS)

	FY02E, \$m	FY01, \$m	Change, %
Net sales	1 700.0	1 489.6	14%
EBITDA	302.9	381.8	-21%
- EBITDA margin	18%	26%	
Net profit	20.7	71.1	-71%
- Net margin	1%	5%	

Source: Company estimates, RMG estimates

Sverdlovennergo (BUY) reports net profit increase

Sverdlovennergo anticipates its FY 2002 RAS net profit at \$11.2m, which is lower than we expected (\$18m) but still higher than \$5.1m in 2001. Net margin is expected to be only 2%. Company officials want to increase dividend payments, and we expect

both common and preferred dividends at 0.62 cents per share based on the anticipated net profit figure (up from 0.43 cents per share in 2001). Such payments would represent reduction in the preferred share dividend yield to 5% from previous 8%, which is on par with sector average and lower than in 2001.

Sverdlovennergo FY 2002E financials (RAS)

	FY02E, \$m	FY01, \$m	Change, %
Net sales	695.4	635.5	9%
EBITDA	91.7	111.1	-18%
- EBITDA margin	13%	17%	
Net profit	11.2	5.1	119%
- Net margin	2%	1%	

Source: Company estimates, RMG estimates

Zeyskaya GES net profit higher in 2002

Zeyskaya GES (hydropower station) reported a preliminary FY 2002 net profit figure under RAS at \$0.7m compared with a net loss of \$2.1m in 2001 (we expected net loss as in 2001). The company did not comment the improvement, but we believe that it may be due to reduction of bad debt provision. We still expect reduction in company EBITDA, though margin will remain high, and a fall in revenues as a result of 15% output decline y-o-y.

Zeyskaya GES FY 2002E financials (RAS)

	FY02E, \$m	FY01, \$m	Change, %
Net sales	16.1	18.4	-13%
EBITDA	7.1	8.6	-17%
- EBITDA margin	44%	47%	
Net profit	0.7	-2.1	n/a
- Net margin	4%	neg	

Source: Company estimates, RMG estimates

Tomskenergo reports FY 2002 highlights

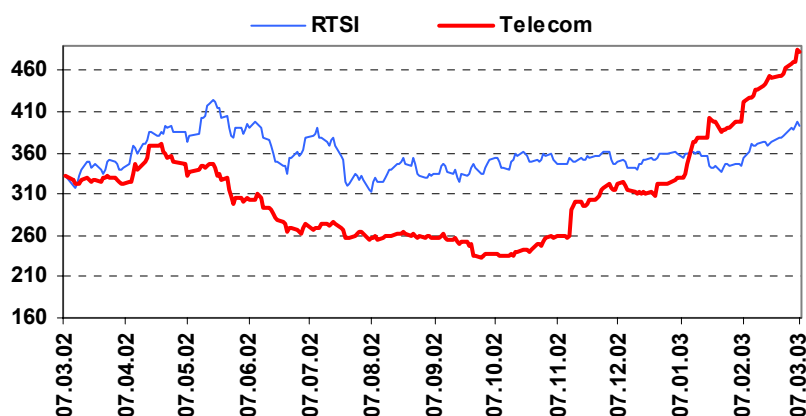
Tomskenergo reported financial highlights for 2002 under RAS. The company increased operating profit, which, with a double growth in depreciation charges, caused a 54% rise in EBITDA. However, net profit halved, which may lead to proportional fall in dividends for 2002. We estimate company common and preferred dividends at 0.011 cents, representing 1% and 2% yield respectively.

Tomskenergo FY 2002E financials (RAS)

	FY02E, \$m	FY01, \$m	Change, %
Net sales	118.7	99.5	19%
EBITDA	23.8	15.5	54%
- EBITDA margin	20%	16%	
Net profit	1.2	2.5	-50%
- Net margin	1%	2%	

Source: Company estimates, RMG estimates

Telecom Index vs. RTS Index



Telecoms Key Figures

Sector indicators: median	Russia	Discount to emerging markets
EV / EBITDA	3.7	14%
EV / Net sales	1.3	34%
EV / Access lines	115	87%
EBITDA / Access lines	33	87%

ADRs of Russian power utilities	Last sale	Wk change
Rostelecom	8.090	-1.9%
MTS	42.750	0.0%
Vimpelcom	36.250	-3.0%

Sector Wrap

- Rostelecom has made a deal with MGTS on LD payments in 2003. The basic division will not change, but Rostelecom will pay a larger part of revenue from extra traffic.
- Dalsvyaz released preliminary 2002 financials close to forecasts. The company expects growth in 2003, but is likely to remain the least developed among merged traditional operators.
- J'son & Partners reported February statistics for the Russian cellular market. MTS progress is unimpressive, but MegaFon continues to show rapid subscriber growth.
- MTS received an important license for the Samara region, which will add 3% to MTS population coverage. However, MTS will face tough competition in the region.
- Golden Telecom reported remarkable growth in financials under US GAAP last year.

Sector Statistics

Issue	Issue RTS Code	Mid Market Price, \$	Weekly Change, %	Weekly Volume, \$mln	Market Cap, \$mln	52 week Low, \$	52 week High, \$	P/S 02E	P/E 02E
Center Telecom com	ESMO	0.274	6.1	1.559	527.32	0.191	0.331	1.01	13.71
Center Telecom pref	ESMOP	0.186	1.8	0.031		0.100	0.186		
Dalsvyaz com	ESPK	0.726	0.3	0.036	84.97	0.525	0.800	0.50	21.73
Dalsvyaz pref	ESPKP	0.559	4.0	0.081		0.400	0.600		
Moscow City Telephone com	MGTS	7.225	8.6	0.063	593.13	5.950	7.300	1.83	16.96
Moscow City Telephone pref	MGTSP	4.275	6.2	0.013		2.350	4.450		
North West Telecom com	SPTL	0.364	4.4	0.472	311.40	0.345	0.540	0.93	28.31
North West Telecom pref	SPTLP	0.226	4.8	0.140		0.170	0.300		
Rostelecom com	RTKM	1.379	1.6	4.390	1 260.57	0.948	1.670	1.96	7.00
Rostelecom pref	RTKMP	1.084	7.8	1.017		0.520	1.103		
Siberia Telecom com	ENCO	0.028	10.0	1.336	410.67	0.017	0.032	1.05	15.65
Siberia Telecom pref	ENCOP	0.019	3.3	0.104		0.009	0.019		
South Telecom com	KUBN	0.081	3.2	0.302	304.33	0.054	0.098	0.90	4.79
South Telecom pref	KUBNP	0.061	4.5	0.070		0.041	0.061		
Ural Svyazinform com	URSI	0.017	6.8	1.439	652.71	0.009	0.018	1.40	22.25
Ural Svyazinform pref	URSIP	0.012	7.9	0.543		0.008	0.013		
Volga Telecom com	NNSI	1.490	7.9	0.986	442.94	0.810	1.490	1.27	8.70
Volga Telecom pref	NNSIP	1.053	8.8	0.254		0.480	1.090		

Rostelecom (BUY prefs) and MGTS (BUY) strike deal on LD revenues

Rostelecom and MGTS have reached a deal on sharing LD receipts in 2003. Rostelecom payments to MGTS for LD calls in Moscow will stay at their level in 2002. In 2002 receipts from Rostelecom represented some 10% in total RAS revenues of MGTS. According to the new agreement, if Rostelecom receipts exceed 2002 levels it should pay 30% of the excess to MGTS. Rostelecom will also pay for specific MGTS services, including data base support.

MGTS had wanted a larger increase in receipts from Rostelecom, but the current agreement is favorable for both parties, stimulating them to increase traffic, which has declined in recent months. The decline has been mainly due to increased competition on the Moscow LD calls market from various small providers, offering more attractive tariffs.

Dalsvyaz (HOLD) reports merged company results and 2003 targets

Dalsvyaz released preliminary 2002 RAS results for the merged company, confirming our estimates for revenues and EBITDA but exceeding our net profit forecast. The overall financial picture is as we expected. Growth in revenues and EBITDA increase last year matched sector tendencies, but EBITDA margin of 22% remains the lowest among traditional telecoms, and is unlikely to improve in the foreseeable future. Net profit fell to \$5.5m from \$8.1m in 2001 probably due to bad debt provisions. Alternative businesses (mobile, internet, paging) represented 4.2% of revenues, which is much lower than for other merged telecoms.

Dalsvyaz FY 2002E financials (RAS)

	FY02E, \$m	FY01, \$m	Change, %
Net sales	169.9	143.8	18%
EBITDA	37.8	30.2	25%
- EBITDA margin	22%	21%	
Net profit	5.5	8.1	-32%
- Net margin	3%	6%	

Source: Company estimates, RMG estimates

In 2003 the company is targeting increase in revenues by 22%, a 30% rise in operating profit and 25% rise in net profit. Management anticipates traffic growth and increase in line numbers (by 10%) as the main drivers for rise in traditional revenues. At the same time we expect only marginal contribution of tariffs in the revenue growth, as LD tariffs are likely to fall by 20% and local tariffs to increase by 30%. Dalsvyaz plans a 50% hike in revenues from alternative businesses, which is achievable if it takes advantages of the current market situation.

Mobile figures for February 2003

Telecom consultancy J'son & Partners released estimated figures for the Russian mobile market as of the end of February 2003. The total number of cellular subscribers is estimated at 20.45m, a growth of 6% from January, but lower than an 8% rise in Dec02-Jan03. Most growth is in the regions, while the share of the Moscow license area in total subscriber numbers is gradually falling and currently stands at 40%. The penetration rate has reached 14.2%.

Mobile subscribers in February 2003 (millions)

	MTS	Vimpel-com	Mega-Fon	Other operators
Moscow	3.40	4.00	0.38	0.20
Other regions	3.94	1.97	3.18	3.38
Total # of subscribers	7.34	5.97	3.56	3.58
Feb 2003/Jan 2002 change, %	4.0%	6.2%	10.2%	

Source: J'son & Partners, RMG estimates

MTS results were unimpressive in February with only 4% growth, though its market dominance remains unchallenged. Vimpelcom keeps its leading position in the MLA but runs behind leaders in a group of regions except MLA. MegaFon again showed remarkable growth in the regions except the MLA, coming closer to MTS.

MTS receives GSM license in Samara region

The Russian Telecommunications Ministry granted MTS a GSM900/1800 license for the Samara region last week. This is an important event for the company as the Volga federal zone, which includes the Samara region, has been little covered by MTS due to lack of licenses. In its press-release MTS noted that the region has population of 3.3m, adding 3% to company coverage. However, the Volga federal zone is already highly developed by other mobile operators: Vimpelcom and MegaFon, have operations there, as does the fourth largest Russian cellular, SMARTS. MTS expansion along the Volga is therefore likely to be difficult and expensive. The current penetration rate in the Samara region is 19%, which is higher than the Russian average (14%) and the fifth highest among Russian regions.

Golden Telecom reports US GAAP 2002 results, secures S&P rating

One of the Russian leading alternative providers, Golden Telecom, released US GAAP figures for last year. The company reported impressive growth in all P&L lines thanks to aggressive reduction of costs and consolidation of businesses. It is also notable that reported figures exceed the company's own estimates (see [RMG Weekly #411](#)), which makes 2003 targets credible: the company earlier announced plans to earn \$320-340m in revenues and \$100-120m in EBITDA this year.

Golden Telecom took several steps last year to optimize its business strategy, selling loss-making subsidiaries and expanding value of its profitable assets. The company thus sold internet firms bought during the Russian internet boom, which had failed to generate profits. One of the most notable events was acquisition of a 50% stake in Sovintel from Rostelecom in 2002. Sovintel was merged with another GT subsidiary, TeleRoss, to provide local and LD telephony services in Moscow.

Golden Telecom FY 2002E financials (US GAAP)

	FY02E, \$m	FY01, \$m	Change, %
Net sales	198.7	140.0	42%
EBITDA	61.4	27.4	124%
- EBITDA margin	31%	20%	
Operating profit	31.4	-45.3	n/a
- Operating margin	16%	neg	
Net profit	29.8	-39.0	n/a
- Net margin	15%	neg	

Source: Company estimates, RMG estimates

According to management, the program of trimming businesses is now generally completed. Future development will focus on strengthening positions on the highly competitive Moscow market and expansion in the regions.

S&P reported last week that it assigned a long-term credit rating to Golden Telecom at "BB-" with a stable outlook. S&P noted that the current rating reflects the risky business model of Golden Telecom, which faces possible increase in competition from other alternative operators, particularly those, which are affiliated with fixed-line providers. On the positive side S&P noted strong financials, the company's leading position on the Moscow office market, where it holds 80% share, and total 30% share on the city's alternative service market.

Severstal output rose y-o-y in January-February

Severstal increased rolled-metal output by 8% to 414 000 t in the first two months of 2003, and other products also showed positive dynamics. Launch of upgraded facilities in March will further increase rolled-metal capacity.

Severstal 2M 2003 output

	2M03	2M02	Change, y-o-y
Rolled metal, '000 t	1 414	1 309	8%
Steel, '000 t	1600	1 495	7%
Coke, '000 t	667	654	2%
Cast iron, '000 t	1 250	1214	3%

Source: Company data, RMG estimates

Total Russian export of ferrous metals rose 7% y-o-y in 2002 to 39m tons, with estimated value of \$6.4b, according to Russian customs.

Ferrous metal export in 2002

	FY02	FY01	Change, y-o-y
Rolled metal and steel, '000 t	10 210	7555	26%
Coke, '000 t	3 180	1399	56%
Cast iron, '000 t	4 090	3394	17%
Ferroalloy, '000 t	384	365	5%

Source: Customs Committee data, RMG estimates

Non-ferrous output rose in January 2003

Goskomstat reported 15.1% y-o-y growth of output in non-ferrous metallurgy in January 2003. There was significant increase in tungsten-molybdenum and gold output, though copper production declined. Aluminum output rose 6% y-o-y, while bauxite production soared by 66%. Uncertainty over Iraq makes the US and European market unpredictable in the near future.

Russian non-ferrous metallurgy output change

	Jan 2003, y-o-y
Non-ferrous metallurgy total	15.1%
Aluminum	6%
- bauxite	66.0%
- alumina	3.1%
- primary aluminum	3.1%
Copper	-0.1%
Lead-zinc	12.4%
Nickel-cobalt	11.3%
- nickel	10.9%
- cobalt	18.1%
Tungsten-molybdenum	40.5%
Tin	-18.6%
Gold mining	23.8%

Source: Goskomstat

RusAl invests \$27m in alumina plant

RusAl intends to increase investments in one of its main raw material suppliers, the Nikolaevsk alumina plant (Ukraine), by 59% to carry out reconstruction and modernization over the next 12 months. The project is estimated at \$27m and will allow increase of annual production capacity from 1m to 1.3m tons of alumina. The Nikolaevsk plant also includes a seaport and a railway terminal with respective capacities for 5m and 2m tons of annual goods turnover.

The growth of production capacity of Nikolaevsk plant strengthen the RusAL's independence from other alumina producers.

Automotive sales fell 31% y-o-y in January

ASM holding, which coordinates production by Russian carmakers, reported that sales of Russia cars were down 31% y-o-y in January 2002. Biggest sales falls were at AvtoVAZ and UAZ (28% and 39% respectively).

Russian passenger car sales in January 2003

	Jan 02	Jan 01	Change, y-o-y
AvtoVAZ	41 597	57 774	-28%
Izhmash-Avto	4 240	4 609	-8%
UAZ	1 933	3 169	-39%
SeAZ	1 251	1 455	-14%
KamAZ/Oka	2 300	2 190	5%
Other	3 613	12 609	-71%
Total	54 934	79 614	-31%

Source: ASM-holding; RMG estimates

Russian customs published 2002 figures for car imports, showing 19% growth y-o-y to 628 977 vehicles and \$1.5b of import duties paid. Legal persons brought in 20% of the total, while the rest were imported by individuals. The main source countries were Japan and Germany (52% and 40% of the total respectively).

Car imports by individuals in 2002

	Cars	Share in total
Less than 3 years old	60 382	12%
3-7 years old	211 336	42%
More than 7 years old	231 464	46%
Total	503 182	100%

Source: Customs Committee data; RMG estimates

ZMZ (HOLD) and UAZ (HOLD) could be reorganized

Shareholders of UAZ have approved a doubling of share capital via a new issue. Severstal-Auto currently controls 71% of voting shares and 54% of total charter capital. We assume that the Severstal-Auto stake will rise to more than 75%, allowing an AGM vote in favor of reorganization and merger with ZMZ, the engine plant, which is also controlled by Severstal-Auto. We also noted last week that preferred shares of ZMZ will be voting after its AGM approves non-payment of dividends on preferred shares, giving Severstal-Auto sufficient votes to approve a merger with UAZ at the ZMZ meeting.

Possible corporate reorganization and a 14% y-o-y fall in production by ZMZ in January-February 2003 make us downgrade our recommendation on ZMZ from BUY to HOLD. Reduction of output by GAZ and UAZ, the two main customers of ZMZ will lead to a fall in operating results of the company.

GAZ (HOLD) plans new issue

The BoD of GAZ decided last week to increase number of common shares by 18.9% (1.127m common shares with \$0.03 par). The company wants to increase its capitalization from current \$188m to \$224m. Necessary documents will be delivered to the Federal Securities Commission in the near future. We view additional issue in frame of restructuring which carries out Ruspromavto to consolidate all its effective automotive assets.

In separate news, the automaker is targeting sales of 207 000 vehicles in 2003, of which 167 000 in Russia and the rest abroad. The CEO said that the company has been forced to raise sales prices due to growth of metals prices, electricity tariffs and component prices. GAZ estimates that its factory-gate prices will rise by 7.5%.

AvtoVAZ (SELL) cuts January-February output and creates industrial park

The automaker showed a 35% y-o-y production drop in January-February, assembling 76 345 vehicles compared with 118 016 in the same period of 2002. AvtoVAZ also reduced output of its most profitable model, the VAZ-2110 by 35% y-o-y from 35 743 to 23 413 vehicles. However, exports were stable y-o-y in the first two months of 2003. The company reverted to full shifts on March 3 after conveyor halts and slow-downs, which have lasted since the end of November due to overproduction.

In separate news the AvtoVAZ BoD has decided to create a new company, Automobile Industrial Park, with the help of foreign strategic partners. The facilities will be near main production shops in

Togliatti. The Park will be organized as a company and will produce components mainly for the new AvtoVAZ model, the Kalina, which will start production in 2004. AvtoVAZ says that the park will allow quality improvement, reduce costs of the main assembly line and create a just-in-time regime for component supplies.

KamAZ (HOLD) shows higher RAS net income for 2002

The BoD of automaker KamAZ considered preliminary 2002 results (RAS) on March 3. According to the company, net income increased by 9.9% y-o-y to \$2.5m while revenue rose by 1% y-o-y to \$621m. The company slightly reduced output to 20 560 vehicles from 22 426 vehicles in 2001.

In the previous weekly we published KamAZ 9M 2002 financial results under IAS, showing \$36m net loss.

S&P rates OMZ (BUY)

On March 4 the rating agency S&P assigned its ruBBB Russian national scale rating to bonds issued by OMZ. According to S&P, OMZ has the ability to further improve cash flows to service its debts. However, the company is more susceptible to financial and economic factors than higher-rated debtors. S&P also confirmed its long-term corporate credit rating for OMZ at CCC+.

WBD (HOLD) sales up 21% y-o-y

WBD reported 2002 sales volumes up 21% y-o-y. Juice production rose strongly by 45.7% from 327 000 tons to 477 000 tons while dairy sales increased by 11.7% to 946 000 tons. The company plans to publish 2002 financials on March 17.

In separate news, WBD continues to expand its capacities on the domestic market. It recently invested \$10m in new production lines at the Lianozovsky dairy plant (Moscow region) and the Aninnskoeye moloko dairy plant (Voronezh region).

WBD plans to launch upgraded juice production facilities this year with 2000 tons daily capacity. The facilities, located in Moscow region, will be the biggest juice plant in East Europe. We believe it will positively influence on the company's cash flow.

Cherkizov holding plans IPO after 2004

The largest Russian meat-processing holding is planning an IPO at the end of 2004. The aim is to place a blocking stake on the London Stock Exchange for \$150m-\$200m. The president of the holding stated that an audit has been completed and that ING and Morgan Stanley have been recruited as underwriters. He also said that 2002 company revenue is expected at \$450m vs \$380m in 2001.

The holding includes 30 companies (nine meat-processing plants, seven battery farms and 20 trade houses).

Baltika (BUY) sues Krinitza

Baltika resubmitted a bankruptcy suit against the Belarus brewery Krinitza on March 5. In 2001 the Russian company invested \$10m in modernization of Krinitza based on an agreement with the Belarus government that Baltika would then buy a new issue of Krinitza shares (the Belarus government owns 80.57% of Krinitza). However, the issue failed to occur.

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