RMG
RYE, MAN & GOR SECURITIES

MARKET WEEKLY

427 – 2 June 2003

Market Wrap

The RTS showed more strength last week, with the index crossing 470 points on Wednesday. However, there was a slowdown towards the weekend as profit taking set in. The index closed at 467.1 points on Friday, up 2.9% from a week earlier.

The shift to profit taking was led by UES, which lost 1.8% over the week. Sellers emerged on Wednesday as rumors circulated that shareholders could not agree on the company's "5+5" strategy document. Unexpected signing of the document on Thursday supported the share price, and there was little market reaction to the AGM on Friday, at which minority shareholder representation on the board was reduced. UES common shares stood at 23 cents by the end of the week.

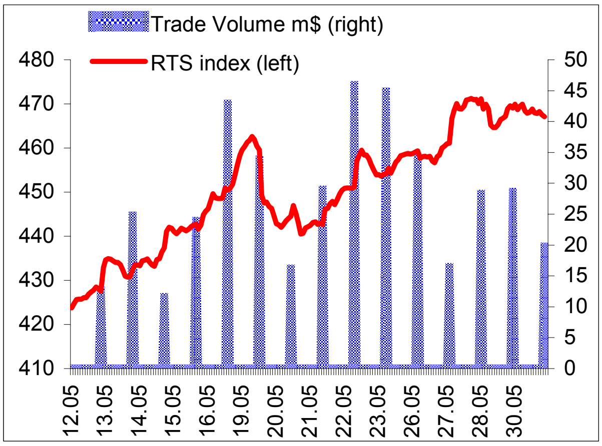
Strategic buying of Mosenergo seems to have come to an end and the stock lost 2.8% on very modest volumes. However, the rush into second-tier energy stocks is continuing and nine of the ten biggest price rises on the RTS last week were in energos and power stations, notably Kostroma GRES, which grew 16.6% on recorded volume of $331 000.

The main success story on the market was Lukoil, which gained 6.3% and showed second largest volumes after UES (in London Lukoil ADRs showed volumes three times greater than UES and rose by 5.8%). Lukoil is benefiting from expectations of good GAAP results for 2002, and there are also signs that the company will take all necessary steps to ensure that its Iraqi contracts are implemented despite the change of regime. Yukos (+4.9%) was helped by news of a contact for supplies to China, but interest in Surgut has dried up after the company completed legal dodges to foil its mystery hostile bidder – the stock rose 0.1% on just $4m of trading (it was even weaker in London, losing 0.2%).

Nerves of investors in Rostelecom snapped as the recent price leaps stayed unexplained. The stock showed a further rise of 8% last Monday, but lost 0.3% for the week on a bout of profit taking. Norilsk benefited from threats of a strike at Inco, the world's second biggest nickel producer, and gained 8.9% to make it the best-performing blue chip.

Continuation of the US stocks rally and good news on the US economy late last week should help the Russian market, but the new price levels of blue chips make stock picking among second-tiers look attractive as a strategy.

RTS Index & Volume



Key Figures

RTS Index	467.1	2.88%
RTS Volume ($m)	127.4	-24.98%
Ruble / Dollar	30.67	
Int'l Reserves (May 23)		$63.1b

Weekly data Fri-Fri.

Top Volumes ($m)

RAO UES com	54.2	42.6%
Lukoil com	29.6	23.2%
Rostelecom com	9.2	7.2%
Norilsk Nickel com	7.6	5.9%
Yukos com	6.2	4.9%
Surgutneftegaz com	4.2	3.3%
Sberbank com	2.9	2.3%
Total (Top 7)	113.9	89.4%

Winners

Yakutskenergo com	+24.3%
Kostromskaya GRES com	+16.6%
Orenburgneft com	+13.7%
Transneft pref	+11.2%
GMK Norilsk Nickel com	+8.9%
Dalsvyaz com	+8.2%

Losers

Rostelecom pref.	-5.6%
RAO UES pref	-4.1%
Mosenergo com	-2.8%
Bashkirenergo com	-2.2%
Irkutskenergo com	-1.9%
RAO UES com	-1.8%

Sector Statistics

Sector Name	Volume $	MC$'000	% of MC	Change -week	Change -month	Change -year
Power Utilities	58 546 713	15 644 838	12.84%	-0.88%	33.60%	66.78%
Oil & Gas	45 830 880	79 944 013	65.60%	3.97%	6.27%	20.06%
Telecom	12 043 684	7 213 921	5.92%	-0.93%	9.38%	43.69%
Metals	7 684 649	7 819 457	6.42%	5.69%	16.31%	2.33%
Banks	2 909 080	5 254 499	4.31%	-0.33%	16.27%	57.79%
Engineering	125 618	1 704 145	1.40%	0.64%	0.78%	-25.02%
Chemicals	109 763	428 653	0.35%	3.09%	13.61%	0.39%
Transportation	77 590	584 046	0.48%	4.64%	7.34%	13.22%
Other	62 728	3 106 415	2.55%	n/m	n/m	n/m
Retail	7 500	162 939	0.13%	-1.54%	-1.54%	-15.86%
Total	**127 398 205**	**121 862 926**	**100.00%**	**2.85%**	**10.24%**	**24.28%**

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VIEWPOINT: DUTCH DISEASE AGAIN

The Russian economy is showing some very strong results at present, but all the figures support a worrying conclusion: the positive performance is nearly all predicated on high oil prices.

Goskomstat, the state statistics agency, calculates a simple sum every quarter – the difference between total profits and total losses of all reporting Russian companies. In the first quarter this year, the positive result was nearly double its level in the first quarter of 2002. However, the improvement was concentrated in external trade (i.e. commodity exports, mainly oil and gas), where the profit-loss difference tripled. Various non-commodity industries are barely breaking even, and have clearly lost their post-crisis momentum.

Accompanied by rapid strengthening of the ruble, the situation is a reflection of the Dutch disease, of which Russia is a classic victim: commodity export sales bring a tide of hard currency, boosting the local currency to a level where locally produced goods cannot compete on the domestic market with better-quality and relatively good-value imports.

Pessimists might even see Russia in 2003 as moving towards the end of the second lap in a Catch-22 from which it will never escape. The first lap was completed in August 1998. That was when a prolonged period of low oil prices ended the precarious balance, where huge expansion of commodity (oil and gas) exports compensated the agony of Russian (Soviet) manufacturing. The end of the second lap will coincide with the next long period of low oil prices, and could also be painful, although this time there will be no GKO market to bury foreign investors under its collapse.

This scenario is not unrealistic and should not be shrugged off. Alexei Kudrin, the finance minister, said last week that current rapid growth of the ruble against the dollar is not a big problem, since ruble growth against the euro, the currency of Russia's major trade partners, has been negligible. That may be true to some extent, but the slowdown of growth in non-commodity industries suggests that there is a problem with ruble strength and, in any case, the rise of the euro is not something that Russia has any control over, and could easily be reversed (there were already signs of this last week as George Bush spoke out for dollar strengthening and US economic figures picked up).

The chief economist in the Kremlin, Andrei Illarionov, said that Russia has lost around $18b in the last year due to exchange rate differences by failing to use its rapidly accumulating, dollar-denominated hard currency reserves to pay off foreign debt ahead of schedule. That would have kept the ruble down, offsetting the Dutch-disease effect. It would also have sent an excellent signal to investors. Unfortunately, Illarionov has no direct control over government policy

Having said all this, it is obvious that managers, owners and investors have learnt a great deal from the last five years of growth, and it seems reasonable to hope that they can keep their businesses going through the next oil price shock, which will thus be less of a shock than a "cyclical low point". This is the optimistic view, which we take. But it still means that the Russian boom, promised in the 1990s is not around the corner. Whatever the stock market may suggest, we are circling the mountain on a slow ascent, and not going straight for the summit.

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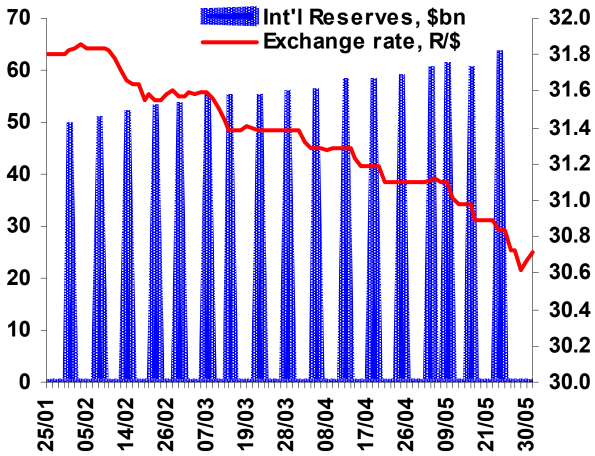
Economic Indicators



Key Macro Figures

CBR refinancing rate, %	18	17/02/03
M2, Rbn	2311.2	1/05/03
M0, Rbn	822.4	1/05/03
CPI, %	1.0	04/03
Inter'l Reserves, $bn	63.1	23/05/03
One-day MIACR, %	1.81	30/05/03
Exchange rate R/$	30.64	03/06/03
Exchange rate R/euro	35.91	03/06/03
OFZ yields, % p.a.	5.83	23/05/03
GKO-OFZ duration, days	803.42	30/05/03
Eurobonds Russia 03 YTM	2.89%	30/05/03

Russian state debt declined in 1Q 2003

Total Russian state debt declined by R88.9b ($2.8b) in 1Q 2003. Debt servicing from the federal budget in the first quarter of the year totaled R83.3b ($2.6b). Foreign debt was 84.4% and internal debt was 15.6% of total Russian state debt on April 1, 2003.

Federal budget surplus was 0.03% of GDP in 1Q 2003

The surplus of the federal budget was R0.8b ($25m) or 0.03% of GDP in 1Q 2003. Federal budget revenues were R580.9b in January-March or 24% of the full-year target. Expenditures were R580.1b or 24.7% of the full-year target. The volume of the financial reserve was R232b ($7.5b) on April 1, 2003. Tax revenues of the federal budget were R462.3b, which is R36.5b or 21.2% more than the planned level.

MEDT forecasts natural monopoly tariff growth and inflation in 2004

According to the forecast of the Ministry of Economic Development and Trade, planned increases of natural monopoly tariffs in 2004 will cause 2.5-3.5% growth of consumer prices and inflation in 2004 will be 8-10%.

The MEDT calculations assume that the wholesale gas price will grow by 20% from January 1, 2004, electricity tariffs will grow by 11.8% and the UES transmission fee will rise by 10.3%. Tariffs for electricity produced by nuclear power plants of Rosenergoatom will rise by 10.13%. The growth of electricity tariffs for consumers should not exceed 16% in 2004. Rail freight tariffs are expected to rise by 12% next year and passenger fares by 20%.

Growth of tariffs of natural monopolies in 2004

Wholesale gas price	20%
Electricity	11.80%
UES transmission fee	10.30%
NPP electricity	10.13%
Rail freight	12%
Rail passenger fares	20%

Source: MEDT

The MEDT estimates that growth of the wholesale gas price by 20% will allow Gazprom to finance an investment program of R200.3b ($6.5b). UES should have R15.1b ($0.5b) for investment, and capex in atomic energy in 2004 will be R23b ($0.74b).

World Bank forecasts Russian economic growth

The World Bank presented research on the Russian economy, suggesting that economic growth higher than 4% per year may not be achievable without intensification of the reform process. Average GDP growth from 1999 (the post-crisis year) to 2002 was 6%, and this was largely due to ruble devaluation, high oil prices and coherent economic policy. However, the WB report says that current economic policy will not be able to lift the growth rate higher than 4%, since potential for growth by relaunch of idle production capacities is now exhausted.

The WB points out that high rates of economic growth in the future are dependent on attracting investments and that capital flight from Russia in the last 10 years has totaled $250b. According to the WB, key measures for improvement of the investment climate in Russia are development of an electricity tariff strategy, upgrading of the financial sector by restructuring of the biggest state banks, WTO accession, and regional reform.

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The report assumes medium-term oil prices of $21-23 per barrel and continuation of the positive trade balance. Real GDP growth in 2003-2005 is expected to be 4% per year and growth of investments will be 6.4-6.5%. Average inflation in 2003 is expected to be 12.8%, 11.5% in 2003 and 10.4% in 2005. The federal budget surplus is estimated at 1% of GDP and the volume of GDP by 2005 will rise to $426b from $393b in 2004 and $362b in 2003. The real effective exchange rate (in respect of a basket of currencies) will grow by 2.9% y-o-y in 2003, 4.3% in 2004 and 5.7% in 2005. The WB raised its forecast of Russian economic growth from 5% to 5.5% in 2003. According to the MEDT forecast, the real effective ruble exchange rate will grow by 3-4% y-o-y in 2003.

Number of banks with foreign capital increases

The number of banks in Russia with foreign capital rose from 123 to 128 in 1Q 2003, according to the CBR. The share of non-residents in total share capital of Russian banks as of April 1, 2003 was 5.51% against 5.29% on January 1, 2003. There are 29 banks with 100% non-resident ownership of share capital. Banks with foreign capital are located in 26 regions, including 87 banks in Moscow, 8 in St Petersburg, 5 in Tyumen, and two in Nizhny Novgorod, Orenburg region, Samara region, Primorsky region and Udmurtia.

GDP in 1H 2003 could rise by 5.9%

The MEDT estimated GDP growth in 1H 2003 at 5.9% y-o-y. Growth of industrial production is expected to be 5.5%, and growth of agricultural production could be 0.9%. Investments in fixed capital will grow by 9.4% in 1H 2003, according to the MEDT prediction.

In January-April 2003 GDP grew by 6.6%, industrial production by 6.3%, investments in fixed capital by 10.9%. Inflation in this period was 6.2%. Foreign trade turnover grew by 26.8% to $61.5b. The volume of export from Russia was $40.7b (31.3% growth y-o-y) and import grew by 18.9% to $20.8b. The positive trade balance was $19.9b. The volume of export to non-CIS countries was $34.8b (31.8% growth) and $5.9b to CIS countries (up 27% y-o-y). Import from non-CIS countries was $16.7b (up 20.1% y-o-y) and $4.1b from CIS countries (14% growth).

The MEDT forecasts GDP growth of 4.6% in FY 2003. Industrial production should grow by 4.5% and investments in fixed capital by 7%. Growth of agricultural production is expected to be 1.1%, and retail turnover could rise by 8.4%. Growth in real incomes is expected to be 8.7%. Exports will rise by 7.9% y-o-y and imports by 9.9% y-o-y. Inflation is expected to be 12% in 2003.

Ministry of Finance describes draft budget for 2004

According to the Ministry of Finance, the 2003 federal budget draft is based on an exchange rate forecasts of R31.9/$ and $1.2/euro. GDP growth is expected to be 5%. The Ministry pointed out that GDP growth of 7-8% per year will be needed in order to double GDP by 2010. The 2004 budget will be balanced, or expenditures will be limited to equal what revenues would have been at a Urals oil price of $20 per barrel.

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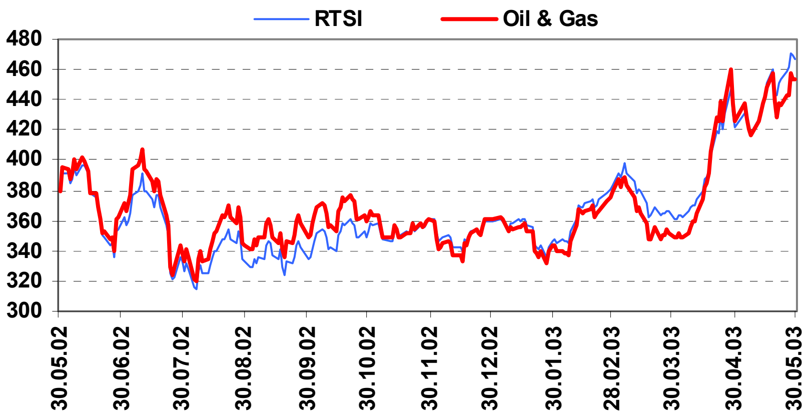
Oil & Gas Index vs. RTS Index



Oil & Gas Key Figures

Indicator	Value	Wk Change
Urals ($/b)	24.7	-2.1%
Brent ($/b)	26.3	0.3%
OIX (CBOE oil index)	272.1	2.0%
Dow Jones Energy Index	214.3	0.6%
US crude inventory change (EIA data) m bbl	286	0.4%
US gasoline inventory change (EIA data) m bbl	205	-1.6%
Tatneft ADR	21.75	2.4%
Lukoil ADR	73.50	5.2%
Surgutneftegaz ADR	20.60	-2.1%
Yukos ADR	50.00	3.6%
Sibneft ADR	24.75	5.3%

Sector Wrap

- The Lukoil BoD last week recommended the AGM to approve dividends of R19.5 ($0.63) per common share, up from R15 last year.
- Yukos and China National Petroleum Company (CNPC) have signed an agreement on road deliveries of 6mt of oil with value of $1.1b. Yukos will deliver 2mt of oil per year over three years, starting on June 1, 2003.
- A Yukos EGM on May 27 approved purchase of Sibneft shares, partly using a new issue of about 1b Yukos common shares.
- Transneft plans to place R12b ($387m) of ruble bonds by August 2003, according to the company CEO Semen Vaynshtok.
- Tatneft increased oil reserves by 72mt or 9.4% y-o-y in 2002. According to a Miller and Lents audit for December 31, 2002, proven reserves were 838mt.
- The Ministry of Economic Development and Trade forecast rise of Russian gas production in 2004-2006.
- Slavneft RAS net profit in FY2002 rose by 154% y-o-y to $312m. Sales fell by 12% to $1665.7m and cost of sales fell by 33% to $932.7m.

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 02	P/E 02
LUKoil com	**LKOH**	18.460	6.3	29.558	15 658.87	13.600	18.700	1.17	8.30
Megionneftegaz com	**MFGS**	9.025	1.4	0.009	1 014.26	4.500	10.500		
Megionneftegaz pref	**MFGSP**	3.815	-5.2			2.000	4.800		
Sakhalinmorneftegaz com	**SKGZ**	3.500	0.0		213.55	1.930	2.900		
Sakhalinmorneftegaz pref	**SKGZP**	1.560	0.0			1.000	1.700		
Sibneft com	**SIBN**	2.493	5.3	1.747	11 853.25	1.530	2.570	2.45	11.29
Surgutneftegaz com	**SNGS**	0.419	0.1	4.242	16 894.69	0.286	0.560		
Surgutneftegaz pref	**SNGSP**	0.252	3.9	0.300		0.183	0.320		
Tatneft com	**TATN**	1.078	2.1	2.200	2 448.53	0.545	1.140	0.71	6.94
Tatneft pref	**TATNP**	0.518	-1.4			0.375	0.540		
Udmurtneft com	**UDMN**	120.500	-3.2		323.26	81.000	115.000		
Udmurtneft pref	**UDMNP**	96.500	1.6	0.004		74.500	121.000		
Yukos com	**YUKO**	12.595	4.9	6.242	28 186.10	8.150	13.200	2.65	9.46

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Lukoil (BUY) BoD recommends dividends

The Lukoil BoD last week recommended the AGM to approve dividends of R19.5 ($0.63) per common share, up from R15 last year. The AGM will be held on June 26.

Lukoil produced 79.8mt of crude oil in 2002 compared with 78.3mt in 2001. Gas production was 5.1bcm (5.2bcm in 2001), including 1.2bcm of natural gas (1.1bcm in 2001). New oilfields were discovered in the Caspian offshore and Timano-Pechora provinces. In total 16 fields were discovered and 10 fields entered the development stage. The reserve replacement level was 246%. Unit finding cost decreased 2.3 times and is now $1.5 per ton of oil equivalent.

Oil refinery throughput was 41.5mt in 2002 against 38mt in 2001. The company processed 33.9mt of its crude in Russia and 7.7mt abroad (29.4mt and 8.6mt respectively in 2001). The reduction of Lukoil refining abroad was due to shut-down of the Petrotel refinery in Romania. In 2002 quality control systems at Lukoil international refineries were certified to comply with ISO 9001. Lukoil refined 2.1bcm of gas and 0.3mt of light hydrocarbons last year, and the company's petrochemical plants produced 1.6mt of products against 1.2mt in 2001. The company produced 431 600 tons of polyethylene in 2002, up from 368 000 tons in 2001.

Lukoil exported 34.2mt of crude oil (32.8mt in 2001) and 14.2mt of oil products (10.8mt in 2001). The total volume of oil product sales in Russia, Europe and the USA was 25.8mt. Lukoil's distribution network now includes 1691 filling stations in Russia and 2385 stations in Europe and the USA.

In 2003 Lukoil intends to add reserves of 150mt of oil equivalent, to produce 80mt of crude oil and 5.7bcm of gas, to process 44.5mt of crude oil and to sell 60mt of oil products. The company's investment program for 2003 totals $2.4b.

Yukos (BUY) and CNPC sign agreement on oil deliveries

Yukos and China National Petroleum Company (CNPC) have signed an agreement on road deliveries of 6mt of oil with value of $1.1b. Yukos will deliver 2mt of oil per year over three years, starting on June 1, 2003. In 2001 China imported 730 000 tons of oil by road and 1.05mt in 2002. The Russian budget will receive $300-400m of tax revenues from the deal.

Yukos and CNPC also signed a general agreement on principles of a long-term contract for oil delivery to China by pipeline. These deliveries will start in 2005 and the annual volume of supply will be 20mt during the first 5 years and 30mt from 2010. The total period covered by the contract is 25 years and its value is $150b. The Russian budget will receive $60b during the contract period.

Russia's national energy strategy envisages construction of a pipeline from Angarsk to Nakhodka with capacity of 50mt per year and a branch to Datsin (China) with capacity of 30mt per year. This project will allow development of new oilfields in the Russian Far East and East Siberia.

Yukos 1Q 2003 financials forecast

Following announcement of Yukos production results in 1Q 2003, we have made a forecast for company financials under US GAAP in this period. We estimate the average sale price of Yukos production at about $29 per barrel. The company produced 141m bbl in 1Q 2003 or 24% more then in the same period last year. We expect sales to exceed $4b in 1Q 2003 and 100% y-o-y growth of EPS. Yukos will publish is financials in June. We keep our BUY recommendation.

Yukos 1Q 2003 financials forecast

	1Q02	1Q03E	% y-o-y
Oil production, m bbl	114	141	24%
Crude oil price, $/bbl	19.9	29.0	46%
Sales, $m	2009	4089	104%
EPS basic, $	0.21	0.44	108%
EBITDA	692	1411	104%
Net income	462	940	104%

Source: Company data, RMG estimate

Yukos EGM approves transactions for Sibneft merger

A Yukos EGM on May 27 approved purchase of Sibneft shares, partly using a new issue of about 1b Yukos common shares. Shareholders gave their approval to a large-scale transaction (and associated transactions) to acquire 20% minus one share of Sibneft for $3b, and additional acquisition of up to 72% of Sibneft share capital in exchange for Yukos stock. The latter transaction will consist of placement of the new Yukos shares with payment in Sibneft shares. The purchase and exchange will be carried out by the end of 2003. Appropriate amendments to the Yukos charter will be made after the additional shares have been issued.

Transneft (BUY prefs) plans R12b bond placement

Transneft plans to place R12b ($387m) of ruble bonds by August 2003, according to the company CEO Semen Vaynshtok. The issue will have maturity of three years and will be the largest to date on the domestic corporate bond market. Due to the bond issue, Transneft will be able to reduce its borrowing from Sberbank by $1b. Funds from the issue will be used for work on the Baltic Pipeline System.

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Nakholdkanefteproduct AGM approves dividends

The AGM of Rosneft subsidiary, Rosneft-Nakhodkanefteproduct, approved dividends for 2002 at R102.02 per preferred share and R13.3 per common share. Net profit in 2002 was R288.221m, up 28% y-o-y. Cargo turnover of the company rose by 23% y-o-y to 5.8mt. In 2001 Nakhodkanefteproduct paid R79.37 per preferred share and R26.46 per common share. The payout ratio of the company for 2002 is 14%.

Tatneft (SELL) increased reserves in 2002

Tatneft increased oil reserves by 72mt or 9.4% y-o-y in 2002. According to a Miller and Lents audit for December 31, 2002, proven reserves were 838mt, which should support the current level of production for 34 years.

Tatneft plans to increase reserves by 60mt this year and financing of exploration in 2003 will be R1b ($32m). The company has only three oilfields with reserves over 10mt (Romashkinskoye, Novo-Elakhovskoye and Bavlinskoye) and most of its reserves present extraction difficulties. The company plans to close some of its unprofitable wells that now produce 2-3mt of oil per year, but will keep annual production levels at 24-25mt. About 10 000 employees will be axed by the end of 2003 as part of a cost cutting program. Tatneft currently employees 72 000 people.

Tatneft net profit up 84% y-o-y in 1Q 2003

Tatneft 1Q 2003 results (RAS)

	1Q03, $m	1Q02, $m	Change, %
Net sales	666.8	583.3	14%
CGM	635.7	405.8	57%
Gross profit	31.1	177.5	-82%
Operating profit	170.8	134.7	27%
- Operating margin	*26%*	*23%*	
Pretax profit	138.2	82.8	67%
- Pretax margin	*21%*	*14%*	
Profit tax	33.2	25.7	29%
- Effective tax rate	*24%*	*31%*	
Net profit	102.4	57.2	79%
- Net margin	*15%*	*10%*	

Source: Company data, RMG estimates

Tatneft announced 1Q 2003 financial results under RAS. The company increased net sales by 14% y-o-y to $666.8m, but cost of sales rose more, by 57% y-o-y to $635.7m. Gross profit was down, but operating profit rose by 27% to $170.8m. Tatneft improved operating margin, pre-tax margin and net profit margin.

The company showed reduced margins in 2002 when cost of sales rose by 13%. We keep our SELL recommendation as we do not expect improvement of company performance.

Tatneft FY 2002 results (RAS)

	FY02, $m	FY01, $m	Change, %
Net sales	3 465.8	3 456.5	0%
CGM	2 689.5	2 373.7	13%
Gross profit	776.3	1 082.8	-28%
Operating profit	559.7	852.3	-34%
- Operating margin	*16%*	*25%*	*-35%*
Pretax profit	313.9	662.1	-53%
- Pretax margin	*9%*	*19%*	*-53%*
Profit tax	104.4	155.1	-33%
- Effective tax rate	*33%*	*23%*	*42%*
Net profit	209.5	507.0	-59%
- Net margin	*6%*	*15%*	*-59%*

Source: Company data, RMG estimates

Gazprom (BUY) saved 3mt of fuel in 2002

Gazprom reported results of its energy-saving program in 2002. The company said that the program enabled savings of 3mt of oil equivalent, including 2.45bcm of natural gas, 460mkWh of electricity and 180 thousand Gkal of heat power. The program includes system optimization of technological processes, reconstruction and modernization of compressor plants, and reduction of gas loss.

Transneft will transport 400mt of oil in 2003

The CEO of Transneft said that the company will transport 400mt of oil in 2003. In 2002 Transneft transported 374mt of oil. Capacity will be increased this year by launch of the second stage of the Baltic Pipeline System. Export through Primorsk will rise by 6mt by mid-2003 and 12mt by the end of the year. The company will also transport 17mt of Kazakh oil and about 1mt of Turkmen oil in 2003.

MEDT predicts gas production growth to 605bcm in 2004

The Ministry of Economic Development and Trade forecast rise of Russian gas production to 605bcm in 2004, representing a 101.6% increase from the level of 2002.

The MEDT gas production forecast is based on alternative scenarios, assuming Urals oil prices of $18.5/bbl and $22-23/bbl in 2004-2006. MEDT predicts that export of gas will grow to 148bcm by 2006 in the first scenario and 153bcm in the second scenario. The growth will be based on Gazprom contracts on the European market. MEDT also forecasts growth of gas import from Central Asia from 3.2bcm in 2002 to 13bcm in the first scenario and to 29bcm in the second scenario by 2006.

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MEDT forecast

	2004	2005	2006
First scenario			
Gas production, bcm		605	607
Urals oil price, $ per bbl	18.5	18.5	18.5
Export to non-CIS, bcm	143		148
Export to CIS, bcm	50		
Import of gas from Central Asia, bcm			13
Second scenario			
Gas production, bcm			609
Urals oil price, $ per bbl	22	22	23
Export to non-CIS, bcm	143		153
Export to CIS, bcm	50		
Import of gas from Central Asia, bcm			29

Source: MEDT

MEDT also issued a forecast for oil production this year, which is expected to be 415mt, up by 9.2% y-o-y. The volume of refinery throughput is predicted at 190mt (2.7% growth y-o-y).

Oil production grew by 11% y-o-y in January-April 2003 to 133mt, of which 47% was exported. Major production growth was shown by Sibneft (23.5%), Yukos (21.9%), Slavneft (17.6%), Surgutneftegaz (10.7%), and Rosneft (4.5%). The volume of oil refined was 62.3mt in January-April 2003, up 4.2% y-o-y. Gas production in January-April rose by 2.3% y-o-y from 210bcm to 215bcm.

New alliance in Sakhalin projects

Rosneft, TNK and BP plan to combine their licenses in the Sakhalin-4 and Sakhalin-5 projects, ending the earlier situation where Rosneft and TNK were competitors in the projects. Rosneft has a license for the Astrakhanovskaya sea structure (Sakhalin-4) with reserves of 123mt of oil and 540bcm of gas and for the Kaygansko-Vasyukansky block (Sakhalin-5) with reserves of 600mt of oil and 600bcm of gas. Rosneft is developing these two deposits with BP, which will invest $200m in exploration. The share of Rosneft is 51% and the share of BP is 49%. TNK has a license for the Lopukhovsky field (part of Sakhalin-4 and Sakhalin-5) with oil reserves of 130mt and 500bcm of gas.

Slavneft shows RAS net profit 50% higher in 2002

Slavneft RAS net profit in FY2002 rose by 154% y-o-y to $312m. Sales fell by 12% to $1665.7m and cost of sales fell by 33% to $932.7m. The company improved efficiency and increased margins. Net margin rose to 19%, pre-tax margin was 27% and operating margin was 32%. The company is currently being divided between TNK and Sibneft, and the division should be completed by mid-2003.

Slavneft FY 2002 results (RAS)

	FY02, $m	FY01, $m	Change, %
Net sales	1 665.7	1 895.5	-12%
CGM	932.7	1 387.2	-33%
Gross profit	732.9	508.3	44%
Operating profit	538.5	267.2	102%
- Operating margin	*32%*	*14%*	*129%*
Pretax profit	430.2	167.6	157%
- Pretax margin	*26%*	*9%*	*192%*
Profit tax	118.2	44.6	165%
- Effective tax rate	*27%*	*27%*	*3%*
Net profit	312.0	122.9	154%
- Net margin	*19%*	*6%*	*189%*

Source: Company data, RMG estimates

Surgutneftegaz changes shareholder structure

Surgutneftegaz announced that there is only one shareholder with a stake of more than 5% in its register of shareholders. This is the private pension fund, Surgutneftegaz. Answering our question about the stake of the management-controlled structure, NK Surgutneftegaz, company officials said that it has less than 5%. We assume that the company has dispersed the NK Surgutneftegaz stake as defensive measure against the recent anonymous strategic investor, whose buying sent the share price into overdrive.

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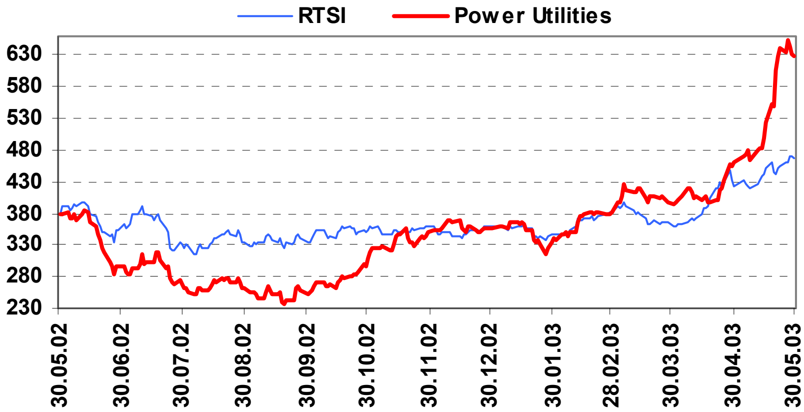
Power Utilities Index vs. RTS Index



Power Utilities Key Figures

Sector indicators: median	Russia	Discount to emerging markets
MC / Net sales	0.45	54%
EV / EBITDA	2.99	34%
MC / Owned inst. capacity	59.33	74%
MC / Retail supplies of elec.	9.53	79%

ADRs of Russian power utilities	Last sale	Wk change
RAO UES	22.600	-2.1%
Mosenergo	6.750	-4.3%
Irkutskenergo	4.400	0.0%

Sector Wrap

- UES board of directors approved the company's "5+5" program with a few, mainly positive, amendments.
- UES AGM last Friday showed major reshuffles in the company BoD, though the government managed to secure its position. New shareholders are likely to accelerate the pace of reforms in the power sector.
- UES reported 1Q parent company results under RAS showing revenue growth but fall in operating and net profits. Apart from cost pressure in 1Q 2003 the figures reflect one-off gains in the respective period of 2002.
- Mosenergo held its AGM last Friday, and elected a BoD with significant changes (new minority shareholders and a Moscow city government representative).
- Mosenergo released 2002 IFRS figures with disappointing operating and net profit lines due to insufficient tariff rise and one-off losses.
- Power utilities continue reporting 1Q 2003 RAS results.

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 02	P/E 02
Bashkirenergo com	**BEGY**	0.242	-2.2	0.392	259.75	0.105	0.252	0.50	14.07
Irkutskenergo com	**IRGZ**	0.089	-1.9	0.133	429.01	0.058	0.095	1.10	67.24
Lenenergo com	**LSNG**	0.468	4.9	0.063	382.58	0.237	0.470	0.53	9.37
Lenenergo pref	**LSNGP**	0.235	-1.6	0.121		0.157	0.254		
Mosenergo com	**MSNG**	0.069	-2.8	1.967	1 936.34	0.023	0.073	1.12	94.00
Permenergo com	**PMNG**	2.930	0.9		113.03	1.420	4.250	0.25	13.11
Permenergo pref	**PMNGP**	2.475	1.9			1.350	3.000		
UES com	**EESR**	0.229	-1.8	54.216	9 751.04	0.075	0.247	0.64	9.21
UES pref	**EESRP**	0.177	-4.1	0.316		0.065	0.190		
Samaraenergo com	**SAGO**	0.049	3.2	0.049	170.08	0.033	0.050	0.36	45.35
Samaraenergo pref	**SAGOP**	0.024	2.1	0.034		0.015	0.025		
Sverdlovenergo com	**SVER**	0.275	8.9	0.055	152.55	0.120	0.270	0.19	18.63
Sverdlovenergo pref	**SVERP**	0.130	4.0	0.019		0.075	0.130		

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UES (BUY) 5+5 concept approved

A meeting of the UES BoD last Thursday unanimously adopted the company's "5+5" strategic development plan. A version presented to the BoD a week earlier was revised due to objections from government officials and minority shareholders, but the changes were not significant.

"5+5" sets out the UES plan for reform of the power sector up to full liberalization in 2008 (the name represents five years of reform preparation up to now, and five years of reform implementation to come). Management bowed to government pressure and suppressed references in the first draft to a mechanism, which would guarantee compensation of losses incurred by strategic investors during the liberalization period via a special fund. UES also gave up the idea of creating management companies to supervise wholesale generating companies, and acquisition of stakes in these companies by the former. Finally, UES decided to reduce the list of generation assets, which may be sold on a contest basis instead of being divided through proportional distribution of assets. The initial plan was to sell 19 power stations, whose output is mostly taken by a single large industrial customer, but the list has now been reduced to 8 power stations. However, UES managers say that changes are still possible.

A crucial point for UES minority shareholders is inclusion in "5+5" of a mechanism allowing stakes in wholesale generating companies to be bought using UES shares. This would happen in two stages. First, each UES shareholder could take a stake in WGCs proportional to his holding in UES (proportional distribution). Then, in a second stage each shareholder could trade his remaining UES shares for shares of WGCs at an auction. UES shares used in such trades would then be cancelled. The mechanism would allow the government to increase its stake in UES (i.e. the national grid and System Operator), while other UES shareholders could increase their stakes in WGCs.

The new "5+5" is a good compromise for various UES shareholders and should be the road map for power sector reform in the next few years.

UES holds AGM

Results of the UES AGM on Friday were generally as expected by Anatoly Chubais in the interview given to Vedomosti. Both minority representatives in the previous BoD, Alexander Branis and David Hern were not re-elelcted to the 15-seat board, and their seats were captured by delegates of new strategic shareholders - MDM-Group and Base Element. MDM interests will be represented by Andrey Melnichenko, BoD chairman of MDM-Bank and Sergey Popov, BoD chairman of MDM's management company. Base Element voted for its director John Geovanis, who will represent the interests of the commodities group in the UES board.

The only successful candidate representing portfolio investors was Seppo Remes, executive director of the investment fund, Vostok Energo. He was supported by Alfa-Capital, Troika Dialog, Rosbank and some ADR owners. National Reserve Bank with 4-5% votes in UES failed to secure re-election to the board of its chairman, Alexander Lebedev. Earlier Lebedev stated that the NRB stake in UES could be sold, but it appears that none of new strategic shareholders expressed interest in it to have more votes at the meeting.

The remaining 11 seats were taken by UES management and state representatives. The new board thus looks more oriented to interests of the state and new shareholders, while minority shareholders will have little influence. However, UES CEO (and member of the new board) Anatoly Chubais said that he would encourage participation of Branis and Hern in restructuring committees, since they have useful experience in that field.

The AGM also approved 2002 dividend payments of R0.0337 (0.11 cents) per common share and R0.2916 (0.94 cents) per preferred share with a payment deadline in December 2003. And shareholders adopted changes to the charter, which should increase influence of the BoD in questions related to disposal of assets and improve the company's corporate governance.

Financials of the company were released earlier and indicated growth in all lines due to favorable decisions on the transmission fee and one-off gain from the Falcon deal (see previous RMG Weeklies).

UES gives 1Q 2003 RAS results

UES non-consolidated results for 1Q 2003 were mostly as expected. The company showed increase in revenues due to significant increase in the transmission fee at the beginning of the year following an earlier rise last summer. But operating profit failed to show a similar growth, and operating margin was down. The tendency has continued through recent quarters. Pre-tax profit and net profit were down in 1Q 2003, but this was mainly due to one-off gains from the Falcon deal in 1Q 2002.

Transmission fee receipts gave the bulk of revenues, and the share of the fee in revenues even increased from 79% in 1Q 2002 to 81% in 1Q 2003. In dollar terms transmission fee receipts rose by 26% to $412m from $327m in the same period last year. Domestic sales of electricity by power stations integrated in UES were 4% of total sales up from 3% in 1Q 2002 ($20m and $13m respectively).

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But UES lost much of its export sales. The share of exports in total revenues fell from 16% to 11%, and in dollar terms from $65m to $57m. The reason was fall in demand and reduction of tariffs. However, costs related to exports dropped even more dramatically, which resulted in a 54% increase in gross profit from exports (from $27m to $42m). This effect may be due to special accounting features.

Gross profits in other businesses also grew y-o-y except heat sales. Gross profit in the transmission fee rose by 5% to $270m, and by 37% in domestic sales of electricity (to $4m). The transmission fee showed gross margin of 65%, down from 79% in 1Q 2002, but gross margin in exports was high, rising to $74m from $42m.

UES 1Q 2003 results (RAS)

	1Q03, $m	1Q02, $m	Change, %
Net sales	506.5	413.7	22%
CGM	185.2	126.6	46%
Operating profit	300.0	273.3	10%
- Operating margin	*59%*	*66%*	
Pre-tax profit	288.8	758.9	-62%
Profit tax	83.8	189.4	-56%
- Effective tax rate	*29%*	*25%*	
Net profit	204.7	569.5	-64%
- Net margin	*40%*	*138%*	
	1Q03, $m	**FY02, $m**	**Change, %**
Receivables	635.4	703.1	-10%
Payables and debt	1 659.2	2 200.1	-25%

Source: Company data, RMG estimates

Mosenergo (BUY) holds AGM

The key point of interest at the Mosenergo AGM last Friday was elections to the company BoD. Doubling of market cap on massive trade volumes in recent months promised major changes in the ownership structure. These expectations were proved right at the meeting, where two candidates representing Renaissance Capital replaced minority directors from Troika Dialog and Nikoil. Based on the voting results we estimate Renaissance votes at 12%. One candidate of the Moscow government received a seat in the new board, presumably supported by the Bank of Moscow, which is controlled by the Moscow city government, and has accumulated a 5% stake in Mosenergo during recent months in addition to 3%, which it already held. A company called Businesses Development Corporation also secured one representative on the board, the CEO of Guta-Bank Artem Kuznetsov. The stake held by BDC in Mosenergo is estimated at some 6% and the company itself is likely affiliated with the city government. UES remains the major shareholder at Mosenergo and all other elected directors can be classed as its representatives, including Mosenergo CEO Arkady Evstafiev and his deputy and former head of the Russian SEC, Dmitry Vasiliev.

The new board could alter the company's restructuring plan. A Renaissance representative said at the AGM that transfer of four Mosenergo generating stations to WGCs is controversial and Renaissance may oppose it. Renaissance also expressed desire for more realistic tariffs (heat tariffs were even loss-making in 2002), and the board changes could make this easier by improving relations with the city authorities. We believe that Mosenergo restructuring plans are still rather vague, and could undergo major changes. The company is likely to be reformed later then other power utilities because of its strategic position as power supplier to the capital of Russia.

Answering questions from minorities, the Mosenergo CEO promised to release updated information on company shareholder structure and estimate of the free float in the near term, as UES recently did. By various estimates the free float may already be very low at 4-8%. Nothing was said about restructuring principles, which is evidence that that the plan is still subject to discussion. Voting on company reforms (detachment of businesses in a first stage) may only occur at the next AGM, according to Evstafiev. However, the CEO stressed that the company will focus on construction of new generation assets in the next few years, as demand for power is increasing rapidly in the region.

The AGM approved financial results under RAS (which we published earlier) for 2002, net profit distribution and dividend payments at R0.01837 (0.06 cents) per share. The company will thus allocate some 80% of its net profit to dividends and plans to make payments during the next 60 days (before July 30). The meeting approved changes to the company charter to make it accord with new legislation and to strengthen the power of the BoD in certain matters, particularly sale of assets. Various charter amendments were made, connected with company restructuring questions.

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Mosenergo publishes IFRS financials

At the meeting Mosenergo released company financial results under International Financial Reporting Standards (IFRS) for 2002 at its AGM. Revenue growth in dollar prices was quite modest, mainly due to ruble inflation. The company reported very low operating margin at 1% and EBITDA margin at 15%, down from 3% and 18% respectively in 2001. The margin reductions were mainly due to increases in fuel prices, the UES transmission fee and wages (by 9%, 36% and 11% respectively). Below the operating line Mosenergo showed losses due to one-off financial items (monetary effects and deferred taxes), which added up to a negative net result. Company IFRS results generally reflected the situation with tariffs and major tariff hikes this year promise improvements in 2003.

Mosenergo FY 2002 results (IFRS)

	FY02, $m	FY01, $m	Change, %
Revenues	1 771.2	1 689.1	5%
CGM	1 761.8	1 639.7	7%
EBITDA	267.1	301.5	-11%
- EBITDA margin	*15%*	*18%*	*-16%*
Operating income	9.4	49.5	-81%
- Operating margin	*1%*	*3%*	*-82%*
Net income	-73.7	59.1	n/a
- Net margin	*-4%*	*3%*	*n/a*

Source: Company data, RMG estimates

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Power utilities report 1Q 2003 results

The following table shows key results reported by power sector companies for 1Q 2003. We include our view of the **DYNAMICS** of these results, which may affect development of stocks in the short to medium terms.

Company	Dyna-mics	Net sales		Operating profit			Net profit			Receivables		Payables and debt	
		1Q03, $m	YOY, %	1Q03, $m	YOY, %	margin, %	1Q03, $m	YOY, %	margin, %	1Q03, $m	/ FY02, %	1Q03, $m	/ FY02, %
Altaienergo	**pos**	73	53%	11.0	n/a	15%	1.0	7%	1%	86	12%	159	3%
Amurenergo	**pos**	49	34%	10.0	162%	21%	1.3	-3%	3%	44	10%	99	0%
Arkhenergo	**neg**	61	23%	9.0	-25%	15%	11.3	-8%	19%	96	10%	107	-3%
Astrakhanenergo	**neut**	21	42%	0.7	n/a	3%	0.5	n/a	3%	38	14%	35	10%
Bashkirenergo	**neg**	155	14%	13.1	-55%	8%	3.7	-73%	2%	261	17%	227	16%
Chitaenergo	**pos**	37	20%	3.5	374%	10%	0.9	>1000%	3%	11	9%	13	0%
Dalenergo	**pos**	101	50%	14.1	>1000%	14%	1.7	878%	2%	93	9%	175	-4%
Irkutskenergo	**pos**	142	25%	17.6	58%	12%	11.2	740%	8%	180	6%	115	-11%
Kamchatskenergo	**neg**	31	2%	-3.9	n/a	neg	-1.1	n/a	neg	94	6%	365	1%
Khabarovskenergo	**pos**	124	34%	16.9	250%	14%	14.5	377%	12%	188	19%	250	4%
Kolenergo	**neut**	68	31%	3.9	-6%	6%	-0.1	n/a	neg	44	7%	55	12%
Komienergo	**pos**	73	23%	8.4	50%	11%	0.8	-76%	1%	66	5%	77	3%
Konakovskaya GRES	**pos**	29	32%	9.3	47%	32%	6.0	190%	21%	21	-15%	38	-13%
Kubanenergo	**neut**	92	51%	2.2	n/a	2%	0.1	n/a	0%	83	13%	135	7%
Kurskenergo	**pos**	41	51%	4.2	134%	10%	2.8	>1000%	7%	20	21%	13	-11%
Kuzbassenergo	**pos**	155	26%	32.3	77%	21%	16.7	117%	11%	151	30%	206	3%
Lenenergo	**pos**	257	29%	44.4	10%	17%	13.6	-8%	5%	150	18%	160	0%
Mordovenergo	**neut**	22	33%	2.3	-7%	10%	0.1	-59%	0%	24	4%	21	-4%
Mosenergo	**pos**	666	51%	130.0	86%	20%	71.9	85%	11%	383	7%	429	-3%
Nizhnovenergo	**neg**	109	7%	4.2	-81%	4%	-6.6	n/a	neg	101	-1%	140	5%
Novgorodenergo	**pos**	24	40%	2.2	326%	9%	0.9	n/a	4%	11	31%	11	10%
Orelenergo	**pos**	21	51%	2.7	552%	13%	1.3	>1000%	6%	26	-2%	44	-4%
Pechorskaya GRES	**pos**	12	61%	3.1	520%	26%	1.6	n/a	13%	12	12%	24	-1%
Permenergo	**neg**	146	19%	18.0	-10%	12%	2.3	-64%	2%	121	4%	127	-5%
Pskovenergo	**neut**	16	41%	0.3	-70%	2%	-0.2	n/a	neg	8	33%	6	2%
Rostovenergo	**pos**	94	33%	14.2	24%	15%	9.4	48%	10%	96	8%	95	-3%
Ryazanenergo	**neg**	29	23%	0.2	-90%	1%	-0.7	n/a	neg	12	2%	10	3%
Samaraenergo	**pos**	187	52%	37.9	148%	20%	14.3	41%	8%	84	30%	55	-28%
Stavropolenergo	**neg**	40	25%	-2.8	n/a	neg	-4.9	n/a	neg	20	10%	35	17%
Stavropolskaya GRES	**pos**	41	32%	5.8	10%	14%	2.9	n/a	7%	65	7%	83	-4%
Sverdlovenergo	**neut**	233	21%	34.7	-12%	15%	18.0	27%	8%	212	13%	257	2%
Tambovenergo	**pos**	31	42%	3.7	62%	12%	1.5	45%	5%	33	4%	36	-6%
Tomskenergo	**pos**	43	41%	7.6	>1000%	17%	4.1	n/a	9%	25	26%	13	-8%
Tulenergo	**pos**	69	73%	9.8	n/a	14%	3.9	n/a	6%	37	6%	29	-2%
UES	**pos**	506	22%	300.0	10%	59%	204.7	-64%	40%	635	-10%	1 659	-25%
Volgogradenergo	**neg**	86	20%	3.6	-31%	4%	-0.1	n/a	neg	69	12%	104	0%
Volzhskaya GES (Volzhskiy)	**pos**	11	64%	3.7	847%	33%	1.3	n/a	12%	12	8%	14	-9%
Voronezhenergo	**neut**	58	32%	1.8	-34%	3%	0.4	-50%	1%	43	31%	40	12%
Votkinskaya GES	**pos**	4	85%	1.5	721%	42%	1.0	n/a	29%	3	21%	1	-31%
Yarenergo	**neg**	63	-53%	6.0	-37%	10%	5.5	n/a	9%	29	25%	30	0%
Zeyskaya GES	**pos**	7	81%	2.9	402%	40%	1.4	n/a	20%	10	-1%	4	-14%

Source: Company data; RMG estimates

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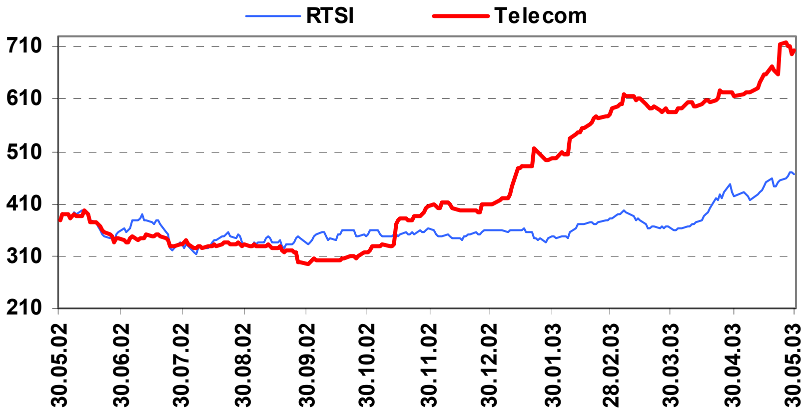
Telecom Index vs. RTS Index



Telecoms Key Figures

Sector indicators: median	Russia	Discount to emerging markets
EV / EBITDA	4.1	19%
EV / Net sales	1.3	44%
EV / Access lines	124	90%
EBITDA / Access lines	32	87%

ADRs of Russian power utilities	Last sale	Wk change
Rostelecom	10.980	2.6%
MTS	53.800	4.9%
Vimpelcom	45.000	4.7%

Sector Wrap

- Svyazinvest spends $153m for the Enterprise Resource Planning.
- Ural Svyazinform approves rises in local tariffs and reduction of long-distance tariffs
- Dalsvyaz follows cellular expansion policy of Svyazinvest.
- Alfa-Eko acquires Sibchallenge, steals a march on MTS and Svyazinvest in Siberia
- Vimpelcom reports attractive GAAP results for the first quarter of 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 02	P/E 02
Center Telecom com	ESMO	0.288	-0.4	0.151	549.67	0.191	0.293	1.05	15.90
Center Telecom pref	ESMOP	0.190	-1.6			0.100	0.195		
Dalsvyaz com	ESPK	0.765	8.2	0.209	88.59	0.525	0.800	0.52	14.06
Dalsvyaz pref	ESPKP	0.546	3.0	0.006		0.400	0.600		
Moscow City Telephone com	MGTS	7.125	0.7		625.06	5.950	7.250	1.94	17.33
Moscow City Telephone pref	MGTSP	4.470	-3.9			2.350	4.600		
North West Telecom com	SPTL	0.369	-0.1	0.027	321.97	0.345	0.520	0.97	29.27
North West Telecom pref	SPTLP	0.231	2.8	0.295		0.170	0.235		
Rostelecom com	RTKM	1.805	-0.3	9.169	1 566.62	0.948	1.990	1.93	1.60
Rostelecom pref	RTKMP	1.100	-5.6	0.202		0.520	1.140		
Siberia Telecom com	ENCO	0.030	-1.5	0.202	426.25	0.017	0.031	1.09	28.21
Siberia Telecom pref	ENCOP	0.019	1.4	0.099		0.009	0.019		
South Telecom com	KUBN	0.085	0.1	0.082	308.45	0.054	0.087	0.92	6.19
South Telecom pref	KUBNP	0.064	1.0	0.039		0.041	0.064		
Ural Svyazinform com	URSI	0.020	1.0	1.346	762.83	0.009	0.021	1.62	25.88
Ural Svyazinform pref	URSIP	0.015	0.0	0.025		0.008	0.015		
Volga Telecom com	NNSI	1.858	1.1	0.122	546.21	0.810	1.870	1.56	11.51
Volga Telecom pref	NNSIP	1.146	0.3	0.044		0.480	1.180		

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Svyazinvest to spend $153m on automation

Svyazinvest decided to pay $153m for the Enterprise Resource Planning (ERP) system, developed by Oracle, which provides computer-aided management of all aspects of enterprise activities. The size of the deal will set a new record for the Russian IT market. BoDs of Center Telecom, Volga Telecom, South Telecom, Dalsvyaz, and Sibir Telecom have approved implementation of ERP with the Russian company Open Technologies acting as system integrator. A decision by North West Telecom is expected this week.

The news has evoked strong negative reaction among investors due to the immense size of the contract (two times more than total net profit of all merged telecoms in the first quarter of 2003) and lack of any tendering competition. According to Vedomosti newspaper, the Association for Defense of Investor Rights sent a letter to Svyazinvest CEO Valeriy Yashin, requesting suspension of the deal.

Nevertheless, installation of ERP will improve efficiency of Svyazinvest, which is essential in the face of stiff competition from up-to-date alternative operators. ERP will also help the company to be more transparent, which is crucial for making it more attractive to Russian and foreign investors. The investor mood concerning Svyazinvest recently improved following good results by regional telecoms in the first quarter of 2003.

Ural Svyazinform (BUY) unifies tariffs

Uralsvyazinform, the united operator in the Urals region, approved rises in local tariffs and reduction of long-distance tariffs. The company CEO Vladimir Rybakin said last week that local tariffs for private subscribers would be raised from current R110 ($3.7) per month to R160 ($5.3) from August 2003 this year. Simultaneously long-distance tariffs will be reduced by 25-30% in Perm region, putting them on the same level as tariffs in Chelyabinsk. This will enhance company competitiveness and halt losses from local service provision. The company initiative is in line with Svyazinvest and Russian government plans to unify telecom tariffs and reduce cross-subsidization.

Siberia Telecom (BUY) recommends dividends, issues bonds

The BoD of Siberia Telecom recommended shareholders to approve dividends of R0.0066 (0.02 cents) per common share and R0.0119 (0.04 cents) per preferred share. The current dividend yield is 0.7% per common and 2.1% per preferred share, which is below the telecom average. However, Siberia Telecom is allocating almost 30% of net profit for dividends, which is the one of the highest payout ratios among merged telecoms. The Siberia Telecom AGM is scheduled for June 18, and the cut-off date was April 30.

In related news, the BoD of Siberia Telecom approved a $51m non-guaranteed domestic bond issue with three-year maturity, partly to finance acquisition of mobile operators Eniseitelecom and Baikalvestcom for $8.5m and $12.5m respectively in February 2003.

Dalsvyaz (BUY) invests in multi-service network and enters cellular BoDs

Dalsvyaz is planning to invest $0.8m in a multi-service network on the island of Sakhalin offering access to both television and the internet. At present growth potential of Dalsvyaz in value-added services (internet and data) is limited because customers usually choose an alternative operator to provide a full data and internet package.

Non-regulated services currently give 9% of company revenue, and this share will increase mainly due to company spending on the cellular market. Last week Dalsvyaz managers took places on BoDs and executive boards of three Far East cellular operators - Amur cellular telephone, Birobidzhan cellular connection and Khabarovsk cellular telephone. This may be a prelude to increase of the Dalsvyaz stakes in these operators, in line with the new cellular expansion policy of Svyazinvest. It is expected that Dalsvyaz managers will enter BoDs or executive boards of two other cellular operators, Far East Cellular systems-900 and Primtelephone, at AGMs in June. Dalsvyaz will probably acquire Primtelephone this year.

Bashinformsvyaz approves dividends, South Telecom (HOLD) gives recommendation

Bashinformsvyaz shareholders opened the Russian telecom AGM season last week, approving dividends of 0.08 cents (R0.0254) per common share and 0.67 cents (R0.2) per preferred share. Current dividend yields are 0.9% and 11.96% respectively, above the sector average. Bashinformsvyaz has stayed out of regional mergers so far, but is considering the possibility of merger with Volga Telecom.

The BoD of South Telecom recommended shareholders to approve dividends of 0.27 cents (R0.0812) per common share and 0.54 cents (R0.1607) per preferred share, representing dividend yield of 3.1% per common share and 8.3% per preferred share. The South Telecom AGM is scheduled for June 25, the cut-off date was May 8.

Lensvyaz posts FY 2002 results

Lensvyaz posted strong RAS results for 2002, showing 19% growth of net sales and 11% growth of

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CGM. The results are for Lensvyaz only (the company stays out of the north-west merger).

Lensvyaz FY 2002 results (RAS)

	FY02, $m	FY01, $m	Change, %
Net sales	33.5	28.3	19%
CGM	27.3	24.5	11%
Operating profit	6.2	3.8	65%
- Operating margin	*19%*	*13%*	
Pre-tax profit	3.3	1.7	93%
- Pre-tax margin	*10%*	*6%*	*62%*
Profit tax	0.8	1.1	-24%
- Effective tax rate	*24%*	*61%*	
Net profit	2.5	0.6	310%
- Net margin	*7%*	*2%*	

Source: Company data, RMG estimates

Kazan GTS gives financials

Kazan GTS, the fixed-line operators in the capital of Tatarstan, posted positive financial results for FY2002 and the first quarter of 2003 under RAS. However, the company market cap is only $7m and spread on its common shares is 67% due to perception of high investment risk. The company has stayed out of the regional merger process.

Kazan GTS FY 2002 results (RAS)

	FY02, $m	FY01, $m	Change, %
Net sales	12.6	8.2	52%
CGM	8.2	6.3	30%
Gross profit	4.3	2.0	122%
Operating profit	4.3	1.9	130%
- Operating margin	*34%*	*23%*	
Pre-tax profit	3.4	1.5	119%
- Pre-tax margin	*27%*	*19%*	
Profit tax	0.8	0.4	84%
Net profit	2.6	1.1	132%
- Net margin	*21%*	*14%*	

Source: Company data, RMG estimates

Kazan GTS 1Q 2003 results (RAS)

	1Q03, $m	1Q02, $m	Change, %
Net sales	3.9	2.5	51%
CGM	2.3	1.8	31%
Gross profit	1.5	0.8	97%
Operating profit	1.5	0.8	99%
- Operating margin	*39%*	*30%*	
Pre-tax profit	1.1	0.4	157%
- Pre-tax margin	*28%*	*16%*	
Net profit	0.8	0.3	137%
- Net margin	*21%*	*14%*	

Source: Company data, RMG estimates

Vimpelcom (BUY) steals a march on MTS and Svyazinvest in Siberia

Alfa-Eko, part of Alfa Group, which is the major shareholder of Vimpelcom, acquired Sibchallenge, the leading cellular operator in Krasnoyarsk, for $70m. According to Kommersant newspaper, Siberia Telecom and MTS also wanted to buy Sibchallenge, which has a GSM license for the entire Siberian federal district. MTS representatives say that the Sibchallenge asking price was too high. However, a relatively high price would seem justified due to high personal income levels in the region.

The Vimpelcom success is a setback for MTS and Siberia Telecom, although Siberia Telecom purchased two Siberian mobile companies, Eniseitelecom and Baikalvestcom, for $8.5m and $12.5m respectively earlier this year. We expect Siberia Telecom and Vimpelcom-R (Vimpelcom's regional arm) to be the main rivals on the Krasnoyarsk cellular market. MTS seems excluded due to lack of a license, though MegaFon may attempt entry.

Vimpelcom reports high EBITDA in 1Q2003

Vimpelcom posted attractive GAAP results for the first quarter of 2003. EBITDA margin of 44.2% exceeded all expectations, reflecting a profit from the company's regional business for the first time ever. The EBITDA result was mainly due to 5% decline of SG&A in the first quarter of 2003 compared with the fourth quarter of 2002 due to reduction of regional greenfield launches in 1Q03.

Vimpelcom 1Q03 results (GAAP)

	1Q03, $m	4Q02, $m	Change 1Q03-4Q02	1Q02, $m	Change 1Q03-1Q02
Net operating revenues	244.44	228.98	6.8%	145.06	68.5%
- Moscow	179.4				
- regions	65.1				
SG&A	85.3	89.8	-5.0%	50.0	70.6%
SG&A margin	*34.9%*	*39.2%*		*34.4%*	
EBITDA	107.94	84.62	27.6%	63.27	70.6%
- EBITDA margin	*44.2%*	*37.0%*		*43.6%*	
Gross margin	196.57	181.21	8.5%	117.89	66.7%
-Gross margin percentage	*80.4%*	*79.1%*		*81.3%*	
Net income	41.39	39.08	5.9%	28.05	47.6%
- Moscow	39.9				
- regions	0.04				
ARPU ($)	13.5	16.0	-15.6	19.4	-30.4%
MOU (min)	81.5	89.3	-8.7%	87.0	-6.3%
SAC ($)	20.8	20.9	-0.5%	30.4	-31.6%

Source: Company data, RMG estimates

The only disappointment was a fall in ARPU from $16 in the fourth quarter of 2002 to $13.5 in the first quarter of 2004. The decline in ARPU was due to

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lower MOU, caused by the growing proportion of regional subscribers who use their cell phones more sparingly than Muscovites. Tariff reductions were also a factor. The company cited seasonal factors as part of the reason for the ARPU decline (consumer spending is traditionally low in January and February).

Vimpelcom 1Q03 subscriber figures

	1Q03, $m	4Q02, $m	1Q03-4Q02	1Q02, $m	1Q03-1Q02
Moscow	3 945 600	3 712 700	6.3%	2 377 000	66.0%
- Contract	732 000	725 200	0.9%	667 000	9.7%
- Prepaid	3 213 600	2 987 500	7.6%	1 710 000	87.9%
Regions	2 242 400	1 440 400	55.7%	284 500	688.2%
Total number of subscribers	6 188 000	5 153 100	20.1%	2 661 500	132.5%
Churn (quarterly)	9.6%	8.7%		5.7%	

Source: Company data, RMG estimates

Vimpelcom subscribers currently total 6.92m, with 4.22m in the Moscow area. The company thus has one third of the Russian cellular market.

Vimpelcom recorded a $3.3m provision for doubtful accounts receivable in the first quarter of 2003, representing 1.4% of net operating revenues, compared with $6.7m reported in the fourth quarter of 2002 (2.9% of net operating revenues). This reduction in provision for doubtful accounts was largely the result of improved risk management, cash collection procedures and an increased share of prepaid subscribers. Capex in the first quarter of 2003 was approximately $175m ($49.2m in Moscow), of which $136.9m was spent on property and equipment, and $38.1m on acquisitions.

Vimpelcom issued $97m of ruble bonds last week to help finance its regional expansion. The bonds are guaranteed by Vimpelcom-R, the regional arm of the company.

We recommend to BUY Vimpelcom shares due to the company’s attractive financial performance and potential for growth despite fierce competition.

Telecom Ministry gives internet forecast

The Russian Telecom Ministry predicts that internet users in Russia will be 15% of the population by 2005. Ministry statistics show that internet users are currently 6% of the population, double the figure last year. However, telecom analysts J'son & Partners estimate current internet users in Russia at more then 9% of the adult population. Russian internet users own 9 million home computers, says J'son & Partners.

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NTMK (BUY) publishes IAS results for 9M2002

Nizhny Tagil Steel Works (NTMK) announced 9M02 financial results under IAS (the first-ever IAS figures from the company). Revenues in 9M02 were $595m and gross profit was $90.4m. Net profit was $10.5m and net margin was 2%. We expect full-year 2002 results under IAS to be presented in June and NTMK could show strengthening of net profit and operating profit margins. We keep our BUY recommendation for the company's common shares.

NTMK financials under IAS in 9M02, $m

	9M2002
Total revenues	595.0
Cost of sales	504.6
Gross profit	90.4
-Gross margin	*15%*
EBITDA	89.0
-EBITDA margin	*15%*
Net profit	10.5
-Net profit margin	*2%*

Source: Company data

CHEP (BUY) plans to increase revenue by 40% in 2003

Chelyabinsk Pipe Plant (CHEP) said that it is targeting increase of net sales by 40% y-o-y to $350m this year and increase of net income by 20% to $9m. Output should rise by 18.6% y-o-y to 700 000 tons. However, a company official said that financials are hard to predict due to price instability (higher metal prices are expected later this year). The company also confirmed plans to invest $150m for equipment modernization in 2002-2007, including $70m from internal sources.

The company also reported purchase of $30m of equipment for its electric welding shop using an EBRD credit, which was obtained in 2002. The main objective of CHEP's modernization program is improved quality of 508-820mm electric-welded pipes, which are used for oil and gas pipelines.

MMK holds AGM

The AGM of Magnitogorsk Steel Plant (MMK) on May 30 approved dividends of 0.035 cents per common share and 0.1 cents per preferred share. The total 2002 dividend payout is $5.6m.

RusAl presents plans

RusAL, the biggest Russian aluminum company, revealed plans to increase output by 1.5 times to 1.25m tons over the next five years. Implementation of the plan will cost an estimated $1b.

According to the company, existing facilities plus the second phase of the Sayanogorsk aluminum plant will allow raising of output by 250 000 tons. This will be followed by new acquisitions, allowing a further 400 000 ton increase. Planned acquisitions include the Tadzhikistan aluminum plan (with capacity of 520 000 tons yearly) and Nigeria Aluminum Smelter (with capacity of 190 000 tons yearly). A further 600 000 tons of new capacity may be constructed. This includes RusAL's stake in the Alukom-Tishet project with annual capacity of 250 000 tons.

The company estimates output this year at 962 000 tons. RusAl expects 3-4% growth in world demand and thus expects no difficulties in selling the metal.

AvtoVAZ (SELL) dividend saga continues

The Samara appeal court upheld a veto, preventing the BoD of AvtoVAZ and the company AGM from making a decision on 2002 dividends until completion of a court case challenging the company's dividend policy (the company annulled the requirement to pay 32% of net profit as dividends). The case was initiated by a Swedish shareholder of AvtoVAZ and the next court hearing is scheduled for June 17.

KamAZ (HOLD) increased net income in 2002 (RAS)

Kamaz 2002 financials (RAS)

	FY02, $m	FY01, $m	Change, %
Net sales	623.2	727.5	-14%
CoGS	510.7	644.2	-21%
Gross profit	112.5	83.3	35%
-gross margin	*18%*	*11%*	
SG&A	72.5	51.1	42%
Operating profit	40.0	32.2	24%
-operating margin	*6%*	*4%*	
EBIT	20.6	-6.9	n/a
-EBIT margin	*3%*	*-1%*	
Net profit	59.6	9.3	541%
-net margin	*10%*	*1%*	

Source: Company data, RMG estimate

The truck-maker, KamAZ, showed huge growth of RAS net income by 541% from $9.3m to $59.6m in 2002 thanks to cancellation of fines for late tax payment. The fines were canceled in order to compensate late payment to KamAZ for defense orders in 1994-1999. Developments above the EBIT line were less dramatic. The company showed a fall in net sales by 14% from $727m to $623m as output fell by 10% from 22 426 to 20 056 trucks due to reduction of domestic demand. This effect was partly compensated by a doubling of exports to 6098 vehicles and the company showed an increase of gross margin from 11% to 18% y-o-y. But SG&A expenses bit into this figure and growth of operating

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margin was more modest, from 4% to 6%. Nevertheless the company showed positive $20m EBIT compared with a negative result in 2001.

Power Machines splits its shares

The EGM of Power Machines (Siloviye Mashiny) approved a split of both common and preferred shares by 100 000 time with division of par value by 100 000 times. At present, common and preferred shares both have par value of R1000 ($32). Par value thus reduces to R0.01 ($0.00032).

Split effect

	Number of shares	Par value, $	Share capital, $
Before split			
Common	53 625	32	1 729 839
Preferred	10 500	32	338 710
After split			
Common	5 362 500 000	0.00032	1 729 839
Preferred	1 050 000 000	0.00032	338 710

Source: Company data

This split operation is part of Power Machine's plan to transfer its companies to a single share. The companies, which constitute Power Machines, are LMZ (Leningrad Metal Plant), Electrosila, ZTL (Turbine Shovel Plant), and KTZ (Kaluga Turbine Plant).

OMZ (BUY) sells metallurgy equipment subsidiary

OMZ has sold its metallurgy equipment subsidiary, OMZ-Metallurgical Equipment and Technologies (OMZ-ME&T), to Severstalmash (SM), the machine-building sub-division of the steel maker Severstal. SM also bought all rights to trade marks of OMZ-ME&T. The value of the deal has not been made public so far.

The sale is a logical step in OMZ's business restructuring, aimed at sharper focus on market segments where it has strong competitive advantages. OMZ-ME&T accounts for 12% of OMZ sales, but only 3% of its current order book. Sale of the company leaves OMZ focused on nuclear power plant equipment, oil and gas equipment, mining equipment, shipbuilding, metals and special steel.

Acquisition of OMZ-ME&T will allow Severstalmash to diversify its business, which will expand thanks to customers of OMZ-ME&T. The purchase should allow SM to increase sales to $150m in 2003.

ZMZ (HOLD) to pay no dividends

The AGM of engine maker ZMZ on May 30 decided not to pay dividends and to invest retained earnings in current projects. These include upgrade of production facilities and increased output of the 406 family of petrol engines.

GAZ (HOLD) prepares new issue

On May 29 the BoD of GAZ approved the placement price for a new issue at $18.7 per common share. The company intends to increase share capital by 18.9% from current 4.5m to 5.6m common shares. The shares are expected to be placed through open subscription with right of first refusal by current shareholders. Total value of the issue is $20m.

Minority shareholders led by the investment fund "Koltchuga", which owns 5-10% of GAZ, are concerned that their rights may be violated during the placement, since GAZ has not clarified details of the procedure. The concern seems to be that Rupromauto, the automotive holding owned by the commodities group, Base Element, may pervert the placement procedure to increase its stake in GAZ.

UTair (HOLD) to pay dividends

The supervisory board of air carrier UTair recommended the AGM, scheduled for June 18, to pay dividends of 0.096 cents per common share. The total payout will be 39.3% of net income or $0.56m. Dividend yield will be 1.69% based on the current share price of $0.57.

In separate news, it was reported that the company plans to acquire several foreign aircraft. An official said that a final decision may be taken at Russia's international aerospace show, MAKS-2003, in August.

United Confectioners sets ambitious targets

The confectionery holding United Confectioners said that it is targeting increase of annual net sales to $900m-$1b over the next four-five years (net revenue last year was $550m). The company also wants to extend its market share from current 25% to 40%. These results should be attained via restructuring of companies in the holding. United Confectioners is already overhauling its raw material supplies and distribution, unifying its accounting and improving trademarks. The holding plans to diversify its product range with launch of ice-cream and dried milk production. The company also says that it is considering the possibility of an IPO.

Baltika (BUY) publishes 1Q 2003 GAAP results (GAAP)

Baltika gave 1Q 2003 financial results, showing 11% y-o-y reduction of revenue from $145m to $130m, reflecting reduction of its market share from 22% to 21.4% and overall 5% shrinkage of the Russian beer market. However, the company increased exports by 9.5% y-o-y in 1Q 2003 to 183 000 hl and we expect further growth of exports as part of current strategy of the company. Total output in the first quarter was 3.2 hl.

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Baltika 1Q 2003 results (GAAP)

	1Q03, $m	1Q02, $m	Change, %
Net sales	129.8	145.1	-11%
COGS	75.8	84.0	-10%
Gross profit	54.0	61.1	-12%
-gross margin	*42%*	*42%*	
SG&A	35.8	28.8	24%
Operating profit	18.2	32.3	-44%
-operating margin	*14%*	*22%*	
EBIT	18.6	32.4	-43%
-EBIT margin	*14%*	*22%*	
Net profit	13.5	15.5	-13%
-net margin	*10%*	*11%*	

Source: Company data, RMG estimate

The company is changing its sales structure, increasing the share of PET packed beer to 38% from 34% in 1Q 2002. The brewer also started to promote new cheap regional brands and is now present in all price segments. We expect rewards from these efforts in the summer, when consumption increases. Baltika will be helped by launch of two new breweries in Samara and Khabarovsk with capacity of 1.5m hl and 1.0m hl respectively. Launch of the new breweries helps to explain growth of SG&A expenses despite decline of sales and CoGS.

Baltika has also spent significant sums on creation of a new distribution network, which should strengthen company control over sale of its products and enable price flexibility. The new system will also enable more impartial feedback about consumer preferences. This reorganization has supported a sales recovery since February and the company expects that sales volumes in May will be equal to those in May 2001.

Kalina (BUY) posts 1Q 2003 results (RAS)

Kalina, the biggest Russian personal and home care producer, showed 33% y-o-y growth of RAS net sales from $31m to $42m in 1Q 2003. The sales growth had a positive effect on efficiency: gross margin rose to 50% from 38% in 1Q 2002. Operating profit increased by 111% from $4.3m to $9.2m sending net income 170% higher, from $3m to $7m.

Kalina 1Q 2003 financials (RAS)

	1Q03, $m	1Q02, $m	Change, %
Net sales	41.6	31.3	33%
COGS	20.8	19.3	8%
Gross profit	20.8	12.0	74%
-gross margin	*50%*	*38%*	
EBIT	9.2	4.3	111%
-EBIT margin	*22%*	*14%*	
Net profit	6.9	2.6	170%
-net margin	*17%*	*8%*	

Source: Company data, RMG estimate

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