



20 February 2000

IN BRIEF

"L'empire c'est la paix"
[The Empire means peace]

Louis Napoleon, 1852



Russia and the West Look Ahead Together

Good news continues to dominate Russian media as the March presidential elections draw near.

From the routing of Chechen "bandits" to visits by foreign dignitaries, Russia's electorate is being fed a steady diet of positive developments which make all but certain Putin's election as president in the first round of elections on 26 March. However, the rhetorical demands of the US presidential campaign will effectively cut Russia off from any large-scale IMF financing.

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Recent opinion polls give acting president Putin about 58% of the vote. Russia's Central Electoral Commission rejected the application of Vladimir Zhirinovskiy the leader of the Liberal Democratic Party, who polls suggest would only receive 4 percent of the vote.

The west is anxious to discern the policies of the Putin administration. Following the visit of NATO's General Secretary Robertson, the head of Britain's Foreign Office, Robin Cooke, announced plans to visit Moscow this 21-22 February. EBRD President Horst Keller added his voice to those westerners seeking a more stable relationship with Russia, calling Russia's economic growth in 1999 "important and hopeful."

As NATO faces up to a costly and protracted presence in Kosovo, and England is preoccupied with its own internal conflict in Ireland, Russia hears fewer objections to the management of its recurring Chechen conflict, the west's main argument for withholding promised IMF funding.

However, with America's own presidential election on 7 November, we expect the Clinton ad-

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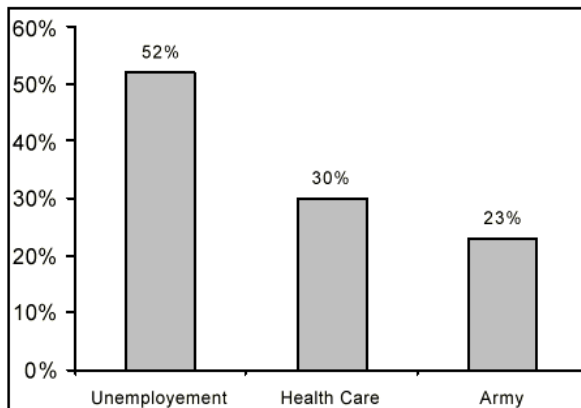
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IN BRIEF (CONTINUED)

What Issues Do You Consider Should be the Most Important for the Next President?



Source: Public Opinion Fund; February 11, 2000

ministration will hedge itself and, in particular, candidate Vice President Al Gore, against further criticism of its ineffective policy in Russia and indefinitely delay approval of further IMF disbursements.

In the lead up to its presidential elections, Russia's government continues to tighten its grip on the mass media, thereby ensuring everyone is singing to the same tune. New legislation has been introduced in the Duma to restrict Russian broadcasters' use of satellite transmission capacity to Russia's underutilized, aging satellite fleet, controlled ultimately by the Kremlin. After resigning from NTV last month, ostensibly over editorial issues regarding the Chechen conflict, Oleg Dobrodeyev, among Russia's most highly respected journalists and one of NTV's founders, has been handed the chalice of running a new state controlled media group which is rumored to include broadcasters RTR and TV Centre. And after first arresting Andrei Babitsky, a particularly irritating and tenacious Radio Liberty journalist covering Chechnya, Russia's army released him to Islamic Chechen rebels in exchange for three captured Russian soldiers. Whether or not Babitsky was seeking a sensational scoop in the bargain, he is not expected to be found alive anytime soon. Following the barter of Babitsky, Putin instructed Russian se-

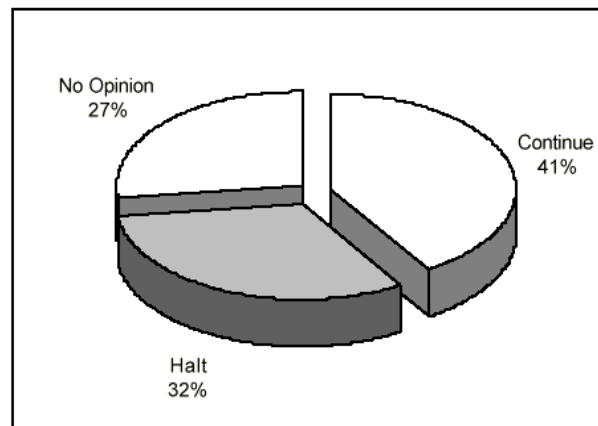
curity services to find and safeguard the journalist. In spite of this noble gesture, the development and nourishment of an independent media does not appear to be one of the Kremlin's pre-election policy priorities.

The AP reported about 7,000 Chechen rebels are holding out amid continued strikes by Russian forces to destroy the few pockets of resistance left in the breakaway republic after five months of conflict. Citing Interior Minister Vladimir Ruchailo, *Interfax* reported Chechen fighters shot down a Russian helicopter on Friday, killing 15 people,

In the 21 month war of 1994-1996, 3,963 soldiers and officers were killed, working out to 188 deaths per month. After about 6 months of renewed fighting in Dagestan and Chechnya, 1,173 have died or 204 a month. There have been 3,487 wounded and 53 people are missing.

Throughout February, news media reports disputing official figures have come more and more frequently, and the government's new information center, Rosinformtsentr, appears to be making an effort to demonstrate official openness. The center's new director, Sergei Yastrzhembsky, set up the new press-center at military headquarters in Mozdok. First Deputy Chief of Russian Staff General Valery Manilov will direct the center.

Should Russia Continue or Halt Economic Reforms?

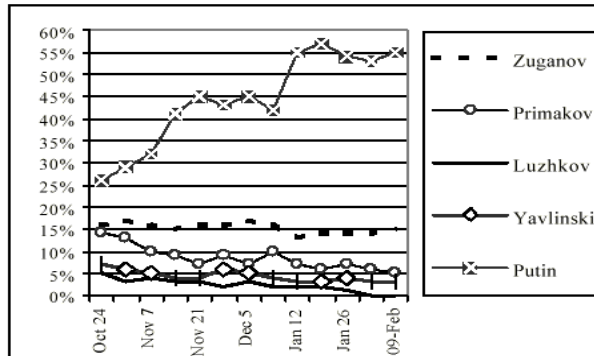


Source: Public Opinion Fund; January 30, 2000



IN BRIEF (CONTINUED)

Electoral Ratings for Presidency



Source: Public Opinion Fund; February 9, 2000

The conflicting casualty figures came as Yastrzhembsky, an aid of Acting President Vladimir Putin, attempted to coordinate news coverage of the conflict and smooth relations with the media. Yastrzhembsky said Thursday that the government will issue an official toll every Friday.

Yastrzhembsky said 93,000 troops are now serving in the North Caucasus region: 57,000 from the Defense Ministry and 36,000 from the Interior Ministry.

On Tuesday, the government raised its estimate from 900 dead to the 1,173 figure, with officials attributing the higher number to close-quarter street fighting in Grozny and other towns.

Russian media's tepid criticism of the war in Chechnya is rising as casualty figures are soaring, often faster than the government admits.

Interfax, which previously reported only official casualty figures, reported that 1,152 Russian soldiers have been killed and 3,246 wounded as of 25 January. Russian television station *NTV* said casualty figures could be ten times as high as government figures.

Doubting official statistics is no longer confined to veteran government critics such as human rights groups. Even hawkish former Interior Minister Anatoly Kulikov has joined in.

"I watch television just as you do," he said in an interview with the *Segodnya* newspaper the week of 28 January. "One officer says that in the past day the losses are five dead, 10 wounded. Another, ten dead, 12 wounded. But I haven't lost professional connections. I talked with an officer who came here for vacation and he says that in such and such brigade, 26 people actually perished."

"That is why I am seriously afraid that the information on losses is seriously understated."

Colonel Viktor Baranets, former spokesman for the Defense Ministry and now a journalist for the *Komsomolskaya Pravda* newspaper, in a 14 January report estimated the number of casualties to be at least 1,300 troops killed, 5,000 wounded and 300 missing in action and kidnapped.

Lieutenant General Alexander Mikhaikov, a spokesman at Rosinformtsentr, said he does not



Chechen refugees awaiting passage at Shatili, Chechen-Georgia Border, 14 December 1999. By Eddy Van Wessel/wesphoto@xs4all.nl

believe that official figures on casualties are being distorted. "There is a special technology for reporting on casualties," Mikhaikov said. "A person who is being put in a helicopter just barely alive is not considered dead, but wounded. If he dies in that helicopter, he is registered as being a hospital loss."



IN BRIEF (CONTINUED)

"I can't tell you whether and how those losses are counted, and whether they are added to the list of the dead," Mikhailov said.

Valentina Melnikova, spokeswoman for the Moscow-based Soldiers' Mothers Committee, said on the "*Glas Naroda*" program on NTV that "the number of the perished and those who died of wounds the military reduces by at least three times. The number of wounded is being reduced by at least two times."

"I am sure about his because every day we get back questionnaires from our regional branches." The committee assists parents of dead and missing soldiers.

Whatever the casualty figures, they are unlikely to have an adverse impact on the rating of acting President Putin. Russians are much less sensitive to war casualties than audiences in the West. Moreover, when Russia began to lose the greatest number of casualties during fighting in Grozny, its pliant media refocused the population's attention on the Duma crisis.

McDonald's celebrated its tenth anniversary in Russia on 31 January. It opened the world's largest McDonalds, at 28,000 square feet, on Moscow's Pushkin Square shortly after the fall of the Iron Curtain. The location is also the world's busiest McDonalds, serving over 80 million customers since opening. McDonalds has contributed over US\$4 million to numerous Russian charities for projects ranging from the purchase of medical equipment to providing meals for those in need.

POLITICS AND GOVERNMENT

Putin Mentor Sobchak Dies

20 Feb: Anatoly A. Sobchak, former mayor of St. Petersburg's and mentor to Vladimir Putin,



The late A Sobchak with V Putin in the background in earlier days.

died early Sunday at 62. In the early 1990s, during the heady upward swing of his career,

Sobchak was a heroic defender of democracy, a man many thought would rise higher. But Sobchak sank fast in an ignominious spiral: Sobchak grew unpopular, was voted out of office in 1996 and was dogged by a corruption investigation.

In the end, it was not Sobchak but his former deputy and right-hand man who was to make the dizzying rise: Vladimir V. Putin, named Russia's acting president New Year's Eve and expected to win the presidential election March 26.

When Putin took office, Sobchak, after several years of relative obscurity, suddenly was sought after. His star was seen as being on the rise again. He was stationed as Putin's campaign manager in Kaliningrad, on the Baltic coast, when he died, reportedly of a heart attack. A doctor who treated him for a major heart attack in 1997, Nikita Semigolovsky, said Sobchak had been seriously ill for two and a half years and could have died at any time.

The 1997 attack, his third, came while he was being interrogated about corruption charges by officials from the St. Petersburg prosecutor's



POLITICS AND GOVERNMENT (CONTINUED)

office. Sobchak's opponents sneered that he was faking the illness.

After he flew to Paris for further medical treatment, critics contended that he was fleeing to avoid prosecution. Sobchak did not return to Russia for two years, during which time the prosecutor filed bribery charges against him, reinforcing the critics' view. When Sobchak returned to Russia from Paris last summer, Putin - by then director of the FSB, the main successor agency to the Soviet KGB - was there to meet him at the St. Petersburg airport in a gesture of protection and support.

Sobchak was born in Chita, in eastern Siberia. He was a law professor at Leningrad State University before going into politics. One of his students was Putin. When Sobchak became mayor of St. Petersburg, then still called Leningrad, in 1991, he made Putin his deputy.

After Sobchak lost office in 1996, Putin went to Moscow. But Sobchak, like other pro-Western "reformers," was tainted by the 1997 allegations that he had taken bribes in the form of property from a real estate company.

Like retired President Yeltsin, Sobchak had worked to pull down the Communist Party in the late 1980s, but he was more eloquent and cerebral than Yeltsin. As a member of the Congress of People's Deputies, the Soviet parliament, he took on Communist hard-liners in televised debates. Later, during the hard-liners' attempted coup in 1991 against then-President Mikhail S. Gorbachev, he mobilized tens of thousands of people in the streets and refused to let troops enter St. Petersburg.

While Sobchak was mayor, Leningrad reverted to its old imperial name and many architectural treasures were restored. But people who had rallied behind his democratic banner complained that he neglected basic social services, like col-

lecting garbage. He set his sights high, aiming to make St. Petersburg an international city, the doorway to Europe. But his efforts, and those of his deputy, Putin, to build the city as a financial power to rival Moscow failed, and St. Petersburg also fell short of expectations as a tourist destination. What it did become, on their watch, was one of the most criminalized cities in Russia.

Determined to hold onto power in the May 1996 elections, Sobchak resorted to media manipulation in a negative campaign that many said soiled his reputation as a democrat. He tried for a seat in the Russian parliament in last December's election but lost. Sobchak's fortunes and his fall trace those of democracy itself in Russia. By the time he lost office, "democrat" was a pejorative term.

"He in fact symbolized the Russian epoch of the last decade with all its contradictions and complexities. He was a man who fulfilled his task when it was somewhat easier and when it was quite difficult," said Anatoly B. Chubais, one of Sobchak's supporters and another discredited "reformer" from St. Petersburg who heads Unified Energy Systems of Russia, the electric power monopoly. Sunday night, Chubais spoke bitterly about those who pursued Sobchak for corruption, claiming that they had hounded him to his grave.

Pavel I. Voshchanov, a journalist with the daily *Tribuna*, is one of those pursuers and is writing a book on what he says were Sobchak's crimes. Also speaking Sunday night, Voshchanov said: "If Sobchak symbolized anything, it was the false democracy built in Russia, based on all-embracing corruption and total lack of morals ... He and many other so-called liberal politicians effectively counterfeited democracy in Russia."

The gulf between the two viewpoints represents the legacy of men like Sobchak and Yeltsin: a nation deeply divided about the merits of the trail they blazed.



POLITICS AND GOVERNMENT (CONTINUED)

Putin Opposes Monopoly Breakups

16 Feb (*Reuters*): Acting President Vladimir Putin has announced that he is against the breakup of natural monopolies RAO Gazprom, RAO UES and the Railway Ministry into several separate companies. ...**Comment:** *This is positive for shareholders as earlier rumors about the possibility of demonopolisation produced a drastic decline in share prices.*

Moscow Cops Bust Highwayman

11 Feb (*Vremya*): Russian police said yesterday it arrested Oleg Khomenko, director of SU-802 and one of the main contractors in charge of reconstruction of Moscow's ring road MKAd, suspected for stealing 103 billion rubles (\$359.4 million) of the city's money, Russia daily *Vremya* reported.

The authorities claim Khomenko paid the money to fictional companies under non-existing contracts and transferred it abroad. Khomenko's company had won the city's work in a tender. The investigators claim the stolen money could have been used to expand the 109 kilometer highway by an additional 15 centimeters in width, the paper said.

Moscow's three-year reconstruction of the MKAD highway built in 1961 included widening it and rebuilding more than 70 bridges, 70 crossing, 12 tunnels and 46 junctions.

25 Jan (*www.interfax.ru*): The first post-Yeltsin summit of the Commonwealth of Independent States (CIS) took place in Moscow Tuesday, bolstering the presidential election prospects of Russian leader Vladimir Putin with his unanimous appointment at the organization's new chairman. On Monday, Georgian President Eduard Shevardnadze said that he would like to see Putin as CIS Chairman.

MACROECONOMY

Money Supply Rose 57% in 1999

17 Feb (*Prime-TASS*): Russia's M2 money supply rose 57.2% in 1999 to 704.7 billion rubles. ...**Comment:** *The rise in M2 exceeds the 37.6% increase in CPI for 1999. This is most likely the result of increased currency barriers which the Central Bank imposed in the spring of 1999. These currency barriers resulted in a decline in the velocity of money of approximately 15% last year. The barriers "made" Russian companies and consumers "trust" the ruble by making them hold more of the currency in bank accounts or cash. The IMF had imposed, as an additional condition of funding, that the Central Bank lift most of these barriers by the end of 1999. With the barriers largely lifted, CentreInvest Research predicts that money circulation velocity will not fall further in 2000 but, more likely, will increase. As a result, the inflation rate may exceed the increase in the money supply.*

Russia Pays \$325 million to IMF

11 Feb (*Interfax*): Russia made a \$125 million payment to the International Monetary Fund on its loans today, Russian news agency *Interfax* reported.

Russian made a \$200 million payment to the IMF on Tuesday, part of the \$3.6 billion it owes

"The impulse for development of the economy is investment. We cannot count on raising it in Russia - most of those resources - must come from abroad."

Mikhail Kasyanov
Finance Minister
1 February 2000



MACROECONOMY (CONTD)

to the fund this year on its total debt of about \$15 billion. Last year, Russia paid \$3.61 billion to the Fund, the agency reported.

Direct Investment to Rise in 2000

9 Feb (*Bloomberg*): Russia may receive about \$5 billion in foreign direct investment in 2000, said Russian Minister of the Economy Andrei Shapovalyants.

Russia saw \$3.1 billion in FDI in the first nine months of 1999, more than double the amount of foreign investments for all of 1998. Shapovalyants didn't say how much FDI flowed into Russian for the full year.

Capital Flight Declining

4 Feb (*Bloomberg*): Bank of Russia Deputy Chairman Viktor Melnikov, speaking at a press conference, said \$15 billion was taken out of Russia last year compared with \$25 billion in 1998. Currently, capital flight is about \$1 billion a month.

"We are doing our best to maintain the trend and prevent capital flight," he said. "We hope we will succeed."

"If we can solve these problems we can pay our debts," he said. "Capital flight will continue, but we are taking steps to fight the problem."

Capital flight includes citizens holding savings in dollars and exporters failing to repatriate foreign exchange earnings. However, only 3 percent of foreign exchange earnings on exports are not being repatriated to Russia, Melnikov said.

ECONOMIC INDICATORS 18 February:
(*Interfax, Bloomberg*)

- Russia's **GDP could grow 2.5 percent to 3 percent in 2000** instead of 1.5 percent as earlier forecast, according to Russian First Deputy Prime Minister of Finance Mikhail Kasyanov. He added "If the tendency of growth of tax collections will persist, then no one would talk about an unreal budget."
- The **foreign trade surplus rose to \$42.2 billion** in 1999 from \$16.9 billion in 1998.
- Russia's **monthly inflation rate for the first half of February was 0.8%. January inflation was 2.3 percent.**
- Russia's **foreign currency and gold reserves rose by \$300 million to \$13.4 billion in the week ending 11 February.** The reserves fell by \$200 million in the previous week. Russia's reserves in 1999 reached a low on 1 April, when they were about \$10.8 billion in April. About 2/3 of reserves are in cash and 1/3 in precious metals.
- Russia's January **budget revenue** totaled 61.1 million rubles whereas spending totaled 61.4 million rubles, making a budget deficit of 300 million rubles.
- Russia's Tax Ministry reported that January federal budget tax collections were 40.4 billion rubles, which is 27.4 percent above the target set by the government. The Ministry said it collected 337.4 billion rubles in **taxes** in cash in 1999, more than double the amount collected in 1998. The Tax Ministry aims to collect 390 billion rubles in taxes in 2000.
- Russia's **money supply grew by 7 billion rubles (\$244 million), or 2.3 percent**, to 307 billion rubles in the week ended 7 February.



FINANCE

Kolotukhin Appointed Deputy Finance Minister

18 Feb (*www.Interfax.com*): Russia's Sergei Kolotukhin, the advisor to the board of Troika Dialog in Moscow, has been appointed Russian deputy finance minister, news agency *Interfax* reported.

Kolotukhin graduated from Moscow Financial Institute in 1983. "Kolotukhin probably will be in charge of the department for macroeconomic policy and issues connected to international financial organizations, notably the IMF," the agency said, citing an unnamed Finance Ministry spokesman.

On 10 January, Russia's acting President Vladimir Putin promoted Finance Minister Mikhail Kasyanov and Emergency Situations Minister Sergei Shoigu in the first government reshuffle since he took over as acting president on New Year's Eve.

18 Feb (*Interfax*): Russia's Sobinbank and Flamingo Bank had been laundering money via the Bank of New York, the Interior Ministry said on Friday. The two banks' involvement in "irretrievable multimillion payments via the Bank of New York is a proven fact," Yuri Demidov, head of the Interior Ministry's economic crime department said at a meeting at the Tax Ministry.

Government to Issue Treasury Bills

16 Feb (*Bloomberg*): Russia announces plans to sell 5 billion rubles (\$174m) of Treasury bills on February 23. ...**Comment:** *The government expects this issue of new ruble-denominated securities will cover the federal budget deficit, expected to be approximately 5 billion rubles in February. The move is intended to reduce government money emissions, with offered ruble yields at about 25%. However, if the practice of*

"This is definitely a tactical victory, because investors wanted this debt restructuring. But in three to five years ahead, this even makes economic growth more difficult. This agreement, I think, is not a final restructuring of Russia's debts."

Mikhail Zadornov
Finance Minister
14 February 2000
Radio Ekho Moskvy

borrowing continues through the year, when some decline in oil prices can be expected, yields may go up and significantly complicate attempts to cover the budget deficit by non-inflationary means.

Russia Stuffs London Club

11 Feb (*Bloomberg*): Russia has agreed with the London Club of creditors to reduce its \$31.8 billion debt and extend payments over a 30-year period. ...**Comment:** *The restructuring deal calls for a \$10.6 billion debt write-off. Russia gave the London Club no other choice than to accept those restructuring terms referred by Russia. According to media sources, after seven rounds of negotiations failed to produce a consensus, Russia decided to offer the London Club just one more round while threatening a unilateral restructuring if consensus was not found in the final round. This forced the London Club to accept terms much closer to Russia's initial proposals.*

Hansa AG Buys 5% Troika Dialog

7 Feb (*Bloomberg*): Hansa AG, a Swiss-based private investment company, bought a 5 percent stake in Troika Dialog, a Moscow-based brokerage and asset management company, to expand



FINANCE (CONTINUED)

its Russian investments.

“Our investment in Troika is a foothold,” said Hansa owner **Georg von Opel**. “We expect to diversify in private equity in smaller companies. This is where we particularly need Troika’s team.”

Troika, whose main shareholder is Bank of Moscow, which handles the city’s accounts, expanded its Western and Russian client base last year and earned a profit in 1999, beating earlier projections, said Troika Dialog President Ruben Vardanian.

“We believe that Russia is going to make tremendous progress,” von Opel said.

4 Feb (*Vedomosti*): **Vnesheconombank**, Russia’s state-owned bank, is suing **AO Sibur**, Russia’s No 1 gas refining holding, over its subsidiary OAO Sibneftegazpererabotka’s 60 million rubles (\$2.1 million) of debts, said Russian daily *Vedomosti*. Vnesheconombank received SNGP promissory notes worth 32.6 million rubles after bankruptcy proceedings started against Russia’s Bank Imperial in 1998. Vnesheconombank also plans to claim 23.8 million rubles interest on the debts, said the newspaper.

24 Jan (*Bloomberg*): Bank Austria AG, that nation’s largest bank, said its Russian retail-banking unit returned a profit in 1999 as an improving economy helped it attract more customers.

Bank Austria Creditanstalt (Russia) LLC posted preliminary profit of 128 million schillings (\$9.3 million) in 1999 after a 403 million-schilling loss the year before. The unit also doubled its assets to about 2.25 billion schillings, said Bank Austria Creditanstalt International AG, which operates the bank’s business outside Austria.

The bank opened three retail branches in Mos-

cow in September to fill a gap left after many Russian rivals went bankrupt when the government defaulted on \$40 billion in debt in August 1998.

Shares of Bank Austria, which opened its fourth branch in Moscow this month, rose 1 euro, or 2 percent, to 51.40 euros today.

MONEY MARKETS (*Bloomberg, at the close of trading, 18 February*)

The Bank of Russia’s **overnight deposit rate was fixed at 1 percent**, down from 3 percent on Wednesday. On 20 January, the rate was 5%.

One-day rates on the Moscow Interbank Currency Exchange, Russia’s main currency exchange, **were bid at 5.8 percent**, compared with 5.6 percent on Thursday. They were offered at 11.4 percent, compared with 11.2 percent on Thursday.

The official **CBR exchange rate was set at 28.74 rubles per dollar** for Saturday compared with 28.79 rubles per dollar today. The rate was set at 28.51 rubles on 20 January.

The **refinancing rate** was set at 45% on 24 January.

MEDIA AND COMMUNICATIONS

Iridium to be Scrapped

20 Feb: Eagle River Investments, the investment group led by cellular phone magnate **Craig McCaw**, has reduced its proposed financing support to **Iridium** from US\$74.6 million to US\$5 million. This amount would keep the ill-fated mobile satellite telephony venture operating through mid-March instead of mid-June as previously announced. Eagle River Investments plans to sell the company on auction by mid-April for at least US\$600 million. Iridium still holds

RUSSIA REVIEW

20 February 2000

GRIFFIN CAPITAL



MEDIA AND COMMUNICATIONS (CONTINUED)

contracts for satellite launches on Rokot, Delta 2 and CZ-2C/SD vehicles.

"Space junk ... It'll be a hell of a garage sale."

Paul Kagan
Independent Telecom Analyst
Regarding Iridium Bankruptcy filing
and planned liquidation sale

Iridium LLC today secured new interim financing on 17 February in an effort to expedite the transition of its assets and personnel to a new operating company.

The motion, approved by the U.S. Bankruptcy Court for the Southern District of New York, provides the company a total of \$5 million from Eagle River Investments LLC, telecommunications pioneer Craig McCaw's investment company, and Motorola to finance the continued operation of the company through March 6, 2000.

The plan approved by the Court today supercedes the proposal for debtor-in-possession (DIP) financing filed with the court last week. The company advised the court that it anticipates that an investor group led by Eagle River will make a near-term proposal for the purchase of Iridium's assets under Section 363 of the Bankruptcy Code.

Iridium LLC expects to file a motion with the court by early March to establish procedures for the Section 363 sale and to secure additional DIP financing for the period March - April, looking toward completing the sale by mid-April. The company expects an Eagle River-led investor group to submit a bid similar to the terms contemplated in the DIP financing documents filed last week with the court. The procedures would allow other potential offers to be made for the

assets, as required by Section 363.

Iridium CEO John Richardson said: "We are pleased by this new development. This approach should result in a more expeditious transition to a new operating company, which will benefit our customers."

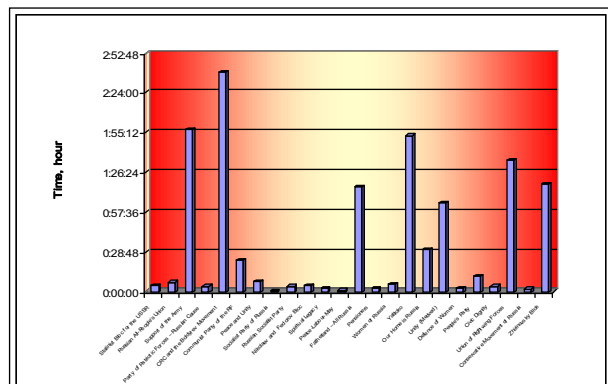
Iridium LLC filed for Chapter 11 bankruptcy protection on August 13, 1999.

Iridium LLC became the world's first global satellite phone and paging company on November 1, 1998. Its network of 66-low earth orbiting satellites combined existing terrestrial cellular systems, enables customers to communicate around the globe. Iridium World Communications, Ltd. (IRIDQ) is the public investment vehicle of Iridium LLC.

Advertising Market Declines 43%

20 Feb (*Russian Research*): The expert evaluation of the **Russian advertising market** in 1999 was \$760 million total with the TV share of 25% (\$190 million). Compared to 1998, the total volume of the Russian advertising market in 1999 was 43% down.

During the parliamentary election campaigns, the 5 major television channels and networks booked political advertising time by party or bloc as shown on the following chart. Medved ranked fifth. No revenue figures were available. It is expected that even smaller advertising budgets will be allocated for Presidential elections.





MEDIA AND COMMUNICATIONS (CONTINUED)

The preceding chart shows the Volume of Political Advertising by Party or Bloc on National Television for 5 Major Channels and Networks from 28 November through 18 December 1999.

Call Metering Mandated in Russia

18 Feb (*Interfax, Prime-TASS*): Deputy Telecommunications Minister **Yuri Pavlenko** announced at a press-conference that local call metering is to be introduced everywhere and for all categories of subscribers in Russia's telephone networks.

MGTS, controlled by **AFK Sistema**, a holding company with interests in telecom, banking, media, oil and insurance sectors, previously announced on 15 February it would finalize the introduction of per-minute billing for local calls by April 1, 2000.

MGTS (and PTS) are set to gain the most from sectorwide implementation of per-minute local call billing in 2000-2001.

According to CentreInvest Research, about 80% of MGTS's corporate clients are charged for local calling service at the following monthly rates: 165 rubles (\$5.70) for private business entities and 55 rubles (\$1.90) for public sector users. However, per-minute metered subscribers will enjoy up to 613 minutes free of charge, after which each additional minute will be charged to the monthly bill of private sector subscribers at the rate of 0.40 rubles (1.4 cents) and public sector customers at 0.11 rubles (0.4 cents).

According to MGTS statistics, about 65% of metered subscribers do not exceed the 613-minute limit in the course of normal business activity. On the other hand, MGTS specialists estimate that only 25 – 30% of residential subscribers will exceed the 613-minute limit, in particular those who do business from home by tel-

ephone. This caller group may consist largely of the growing number of both teenage and adult Internet enthusiasts rather than on-line businessmen, who mostly prefer logging on from the office. MGTS expects approximately 15% of subscribers will pay twice (about 100 rubles or \$3.5) the current monthly rate of 52 rubles (\$1.8) for unlimited telephone use. It is still an open question as to how soon MGTS will introduce per-minute billing for residential subscribers, who account for about 80% of the company's customer base. The determination of MGTS to charge residential customers on a per-minute basis is shared by the Antimonopoly Ministry and the idea is widely supported in both the Ministry of Telecommunications and Svyazinvest. The Moscow city government, however, opposes per-minute billing of local calls for city residents. In addition, the public itself will strongly resist any such move. Considering that Moscow city hall, rather than Svyazinvest, has retained a controlling stake in MGTS via AFK Sistema, CentreInvest expects to see a struggle over this issue, the outcome of which is highly uncertain. Rates for per-minute metered telephone services are still subject to discussion and compromise between federal authorities and local governments.

Vimpelcom Soars

18 Feb (*Vimpelcom*): AO Vimpelcom shares have soared 146 percent in three months and are set to rise further as Russia's largest mobile phone company offers cheap handsets to new customers, who will make more calls as the economy improves.

Vimpelcom, the first Russian company to list on the New York Stock Exchange, cut prices to win back users it lost in 1998 when the ruble fell and banks crashed. The company's new prepaid phone service and handsets priced as low as \$50 have attracted new customers as the ruble's decline has slowed in recent months after a decline of more than 75 percent. Vimpelcom

RUSSIA REVIEW

20 February 2000

GRIFFIN CAPITAL



MEDIA AND COMMUNICATIONS (CONTINUED)

has almost tripled its customers in the past year, to 352,000 from 124,000.

“As real incomes rise, the segment they’re grabbing will get wealthier,” said Tim McCarthy, portfolio manager of the \$120 million Lexington Troika Dialog Russia Fund, in which VimpelCom accounts for about 8 percent. “Middle class Russians are emerging slowly. By 2001, they’ll have a much bigger subscriber base.”

Russia’s market for cellular communications is expected to expand as incomes rise and conventional phones requiring installation of new lines can’t keep up with demand. VimpelCom will double its subscriber base this year, according to Moscow brokerage Troika Dialog.

VimpelCom’s long-term credit rating was raised yesterday by Standard & Poor’s to ‘CCC+’ from ‘CCC’. **The outlook for the company was revised to positive from stable.**

The company’s market value has jumped to \$1.7 billion from \$695 million in three months.

“Because Russia’s fixed-line infrastructure remains poor, nascent growth and economic stability have renewed demand for cellular services,” S&P said.

About 6 percent of Moscow residents, and 1 percent of Russia’s 130 million people, use a mobile phone, compared with more than 60 percent in Finland. About 20 percent of Moscow residents will use mobile phones in 2002, estimated Moscow brokerage United Financial Group.

“When the political and economic situation gets stabilized, there will be essential growth,” said Veli Lane, director of Nokia’s Russian network operations.

VimpelCom will probably report a profit this year

from a loss last year, according to Troika Dialog, which rates the stock “long-term outperform.”

Foreign investors are taking up stakes in the industry, betting on market growth. **Telia AB**, Sweden’s largest phone company, bought a 29.5 percent stake in Russia’s First National Holding, for 700 million Swedish kroner (\$80.4 million). First National Holding owns 51 percent of St. Petersburg-based **Telecominvest**, whose subsidiaries include North-West GSM, a St. Petersburg-based digital cellular phone operator.

Sonera Oyj, Finland’s top phone company, is considering applying for a cellular phone license in Moscow. Sonera already owns a 23 percent stake in North-West GSM.

VimpelCom attracted **Telenor East Invest AS**, a unit of Norway’s state-owned phone company Telenor AS, which bought 8.9 million new VimpelCom shares in May 1999 for \$162 million, giving it a 25.7 percent voting stake and 31.6 percent common stock ownership. Management owns 40 percent of VimpelCom.

Telenor appointed senior executives to VimpelCom’s management and introduced an aggressive marketing strategy that’s helped broaden the client base.

“What makes VimpelCom stand out is its management,” said Tom Adshead, senior analyst at Troika Dialog. “There is no other situation in Russia where a foreign investor takes a minority stake and revamps the management style.”

VimpelCom, which sells its services under the brand name “*Beeline*”, introduced dual-band GSM service, the most popular digital system, on July 5th, allowing the phones to be used more widely in Russia and abroad. Previously, it operated only DCS 1800 and DCS 900 services.

GSM subscribers rose to 132,000 from 21,000 in 1998.



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VimpelCom also recently signed an agreement with Nokia to deliver a general packet radio service core network in central Russia, allowing mobile phone access to the Internet.

The company is also offering multipurpose phones from France's Sagem SA, the world's number 6 mobile phone maker, that function as digital cordless phones near their base and as GSM mobile phones away from home.

The company is also expanding its GSM service to Russia's regions, including Voronezh, Tver, Samara, Rostov and Novosibirsk through local partners.

VimpelCom said it is in negotiations with Telenor and other possible partners to finance **a new project to expand coverage in Russia's regions** costing about \$500 million. VimpelCom would contribute cash and its licenses, while its partner would contribute cash.

Still, while the number of VimpelCom's subscribers has increased, **ARPU (average monthly revenue per subscriber) has fallen to \$99 in 1999 and \$68 in the fourth quarter, down from \$215 in 1998.**

VimpelCom is trying to counter the decline in ARPU by marketing to high-end small-business and corporate subscribers in a broad range of industries, offering volume discounts of 50 percent on tariffs for users of more than 20 handsets, according to United Financial Group.

VimpelCom is competing for clients with privately owned **Mobile TeleSystems (MTS)**, which holds almost an equal share of the market and was the first to receive a GSM license. MTS said it will start building networks in the regions in the first quarter, putting pressure on VimpelCom to move forward with its expansion plans. MTS also is considering an initial public offering.

"Even when this IPO does happen, we do not expect that it will draw money away from VimpelCom," said Adshad. **"VimpelCom has proved there's a mass market in Russia for mobiles."**

Golden Buys Sovam Teleport Kiev

18 Feb: Golden Telecom Inc (GTI) (NASDAQ: GLDN), a leading facilities-based provider of integrated telecommunications and Internet services throughout Russia and other countries of the Commonwealth of Independent States (CIS) today announced that its Ukrainian subsidiary, Golden Telecom LLC, has acquired the outstanding interests in Sovam Teleport Kiev, increasing its ownership position from 49 percent to 100 percent.

The merger of Sovam Teleport Kiev, a leading provider of data and Internet services across Ukraine, with Golden Telecom LLC, a leading independent provider of international telephony to Kiev-based businesses, allows the combined company to be the first digital telecom network in Ukraine to offer integrated voice and data services on a nationwide basis.

Stan Abbeles, GTI's chief operating officer, said; "The integration of Sovam Teleport Kiev and Golden Telecom LLC better positions us to provide our clients with telecommunications tools needed to conduct and grow their businesses. We find our clients want imaginative, forward-looking, integrated telecommunications solutions. Our combined experience in the Ukrainian telephony and data markets, together with the introduction of new IP-based products and extended geographic coverage, ensures we are the best provider to meet this need."

Golden Telecom LLC's new integrated product portfolio is unique within the Ukrainian telecommunications industry. Businesses can now benefit from an independent national corporate voice and data network, which offers international data

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services based on frame relay and private leased circuits, digital telephone lines, ISDN, banking services and countrywide high-speed Internet. **Stewart Reich**, GTI's chief executive officer, said; "This acquisition and integration is consistent with our strategy of streamlining operations while offering integrated solutions where GTI does business."

Systema Reports \$180 million Profit

17 Feb (*Moscow Times*): AFK Systema, a holding company with interests in Russian telephone, banking, media, oil and insurance companies, reported a \$180 million net profit for 1999 and assets of \$2.8 billion, the *Moscow Times* reported, citing Systema Vice President Anatoly Adamishin who spoke at a presentation to investors in Paris.

The holding is seeking partners in telecommunications, electronics, machine building and consumer goods production, Systema spokesman Gennady Talalayev said. The company is also seeking to expand its foothold in retail gasoline sales in Moscow, where it has about 7 percent market share the paper said.

Systema owns a stake in AO Moscow City Telephone Network, the phone company for the Russia capital known as MGTS.

Increased Revenue for Golden Telecom

14 Feb (*Interfax*): Golden Telecom (GTI) (Nasdaq: GLDN), a leading facilities-based provider of integrated telecommunications and Internet services throughout Russia and other countries of the Commonwealth of Independent States (CIS), announced results for Q4 and FY 1999. ... **Comment:** *The company reported consolidated 99FY revenues at \$97.9m or 14% higher than in 1998. Meanwhile, annual EBITDA*

showed a positive figure of \$16.4m versus \$2.8m losses recorded a year ago. In the fourth quarter of 1999 EBITDA grew 23% from their 3Q99 number due to increased contributions from long distance and data transmission services. However, revenues from mobile telecommunications declined, reflecting the negative effect of recent tariff reductions, which failed to generate additional sales proceeds from an increased customer base as had been expected.

Golden Telecom has concentrated its core business in the most lucrative areas of the telecommunications market. Moreover, the company is working aggressively to expand its market share in other areas through tariff wars and the acquisition of its closest competitors in order to attain a dominant position in the respective market. Telecom services presuppose high profit margins (St. Petersburg Internet providers can make up to 200% of their operating profit margin) and promise accelerated sales, which keep far ahead of expenses. CentreInvest Research expect that the company will expand into the area of on-line mass media by purchasing advanced Russian web-sites and offering web-hosting and web-design services. In addition, the company has a substantial market capitalization (currently \$630 million at \$27.7 per share), which has risen 73% since the company's IPO on NASDAQ, as well as sufficient share liquidity enhanced by wide exposure to world markets.

Proton K Rides Again

13 Feb (*Bloomberg*): **Lockheed Martin Corp.**, the world's number one defense contractor, said it successfully launched a satellite on a **Russian Proton rocket**, resuming a business stalled since last year by investigations of two crashes.

GKNPTs Khrunichev supplied the three-stage Proton K vehicle while the Block DM3 upper stage was manufactured by **RKK Energiya**. After three burns of the DM3 upper stage, the satellite, called Garuda 1, was released onto a 6,233 x 35,946 km geostationary transfer orbit



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inclined 16 degrees on the Equator.

The **International Launch Services** joint venture, known as ILS, yesterday put into orbit the \$600 million mobile telephony satellite built by Lockheed Martin Commercial Space Systems for Asia Cellular Satellite International, or ACeS, which plans the first Asian regional satellite telephone service. Garuda 1 is the heaviest single commercial satellite launched on a Proton, weighing 4.5 tons. ILS plans up to eight Proton launches this year.

Satellite makers "continue to demand services for larger and heavier satellites," said **Anatoly Kiselev**, director of Krunichev Space Center, which produces the Proton. "Our Proton launch vehicle is uniquely capable of supporting (those) requirements."

Officials blamed the earlier crashes, in July and October, on a faulty engine constructed shortly after the breakup of the Soviet Union in 1991 when quality controls were weak. Yesterday's launch used engines produced in 1998.

ILS is planning another satellite launch on a Proton rocket in April for US-based Sirius Satellite Radio Inc., which plans to broadcast music from a satellite network to cars.

ACeS's regional-based satellite telephone service in Southeast Asia will compete with GlobalStar Telecommunications, which began a worldwide service 1 January with a network of 48 satellites, and Iridium LLC, with a 66 satellite global phone network. GlobalStar, 45-percent owned by Loral Space & Communications Ltd., also used Russian rockets to launch satellites.

ACeS shareholders include Lockheed Martin Global Telecommunications, Philippine Long Distance Company, Jasmine International Public Co. Ltd. Of Thailand and Pasifik Satelit Nusantara of Indonesia.

ACeS plans to provide commercial satellite communications service on GSM mobile phones beginning in August. The project needs 120,000 subscribers to break even and expects to sign up that number within a year of operations.

Russia earned US\$900 million from its commercial space launch activities in 1999 according to Interfax (see below).

Svyazinvest Projects Big Profits

10 Feb (*Interfax, AK&M*): OAO Svyazinvest, the holding company for Russia's phone operators, estimates its net profit in 2000 will total 13.9 billion rubles (\$484.8 million), Russian news agency *Interfax* reported. That represents a 12 percent increase from the previous year. The company expects gross income of 66.8 billion rubles this year, the agency said.

Mustcom Ltd., a Cyprus-based company that financier George Soros helped set up, bought a 25 percent plus one share interest in Svyazinvest in 1997 for about \$1.8 billion, later calling it one of the worst investments of his career.

Svyazinvest is anticipating net income of 13.9 billion rubles (\$458 million) by year end 2000.

...Comment: While this represents 12% growth in ruble terms, it implies a 13% decline in dollar terms due to a 25% ruble devaluation in 2000. Revenues will likely reach RUR 66.8b (\$2.2b), a 19% increase over the 99 FY result. Operating profits will likely amount to RUR18.3b (\$603m), showing a 16% growth rate. Meanwhile, the latter two figures when denominated in dollars indicate a 6% and a 9% decline respectively, which could be a benchmark for the sector's average performance this year. Receivables (4.5 billion or \$157 million) from state-financed subscribers are of special concern for Svyazinvest.

9 Feb (*Interfax*): Russia's regional telecoms have invested about **\$100 million into call**



MEDIA AND COMMUNICATIONS (CONTINUED)

metering equipment since 1992. ... Comment: *Local call metering is about to be introduced throughout the country. According to Svyazinvest, installed meters cover about 15 million out of Russia's total network capacity of 29 million access lines. During the coming three years the holding intends to spend an additional \$100 million to equip another 12 million telephone lines with time meters. It will require roughly \$500 million to replace outdated switches with electronic systems compatible with per-minute counting instruments. To date, the number of step-by-step exchanges totals two million access lines, including over one million laid in Moscow and St. Petersburg, where the network digitization rate is particularly low. While the overall effect of introducing a per-minute billing principle to local networks is considered to be conducive to profit generation, Svyazinvest will not recommend this approach in rural areas with smaller subscription rates and low traffic.*

Golden Telecom Buys Fat Pipe to Increase Data Capacity

7 Feb (*Business Wire*): Golden Telecom, Inc. (GTI) (Nasdaq: GLDN) announced today announced that it has acquired **STM-16 capacity (2.4 Gbps) from Moscow to Stockholm** from Sonera Corporation (Nasdaq: SNRA). In Stockholm, this capacity will connect directly to the Global TeleSystems network, providing access to complementary broadband Internet and data networks in Europe and the United States.

Stan Abbeloos, GTI's chief operating officer, said: "The acquisition of this capacity is strategically important to the development of both our Internet and business-to-business data services. With the advent of multimedia streaming, Web casting, multi-cast events and bandwidth-intensive ASPs, this broadband capacity will ensure that GTI is well positioned for the foreseeable future to be the leading quality Internet and data

service provider across Russia and the CIS."

Golden Telecom's Russia-On-Line service is currently the only dial-up ISP in Russia with over 35 points-of-presence (PoPs) including Moscow and St. Petersburg. The recent acquisitions of Glasnet, a Moscow-based ISP, and Nevalink, a St. Petersburg ISP, have allowed GTI to consolidate the bandwidth requirements of these organizations, which ultimately allows for significantly reduced access costs. GTI's business-to-business data services currently operate more than 100 PoPs across the CIS. This additional capacity will greatly enhance GTI's ability to continue to provide global connectivity to its customers. GTI will also have the ability to tie into e-Business data centers and capitals throughout Europe and the United States. GTI acquired the capacity through a multimillion dollar 15-year lease agreement that approximates an Irrevocable Right of Use (IRU) on the new Sonera fiber optic network. Sonera's Russian subsidiary has a fiber network from Finland to Moscow using utility-company rights-of-way. Sonera expects that the network will be commercially operational during the first quarter of 2000. **Initially, GTI will activate the equivalent of an STM-1 (155Mbps) and will upgrade to STM-4 (622 Mbps) and then to STM-16 as required.**

GTI also announced the appointment of Ashley Dunster, Izzet R. Guney, Stewart J. Paperin and Jeffrey H. Von Deylen to its Board of Directors in January 2000.

Launching Birds Yields Serious Money

7 Feb (*Interfax*): Russia earned \$900 million from commercial satellite launches last year, Russian daily *Interfax* reported, citing Deputy Prime Minister Ilya Klebanov. This is a "serious sum," he said. Russian space companies are working at full capacity, he added.

Last November, Lockheed Martin Corp., the



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world's largest defense contractor, delayed a planned satellite launch on a Proton rocket following the crash of a Russian Proton rocket, the second that year.

5 Feb (*Interfax*): Kazakhstan lifted a ban on Russian Proton rocket launches from its Baikonur space center, *Interfax* reported, citing head of Kazakhstan's Aerospace Committee Meirbek Moldabekov. The country lifted its ban, imposed after a Proton rocket crashed in October 1999, because it was satisfied with Russian measures to prevent future accidents, Moldabekov said. Russia paid Kazakhstan 57 million tenge (\$408,600) in damages the agency said.

US Company Invests in Russian Cable and Internet Access

1 Feb (*Wall Street Journal*): **Andersen Group Inc.**, a US company with stakes in a Russian telecommunications and metal company, said it plans to a \$350 million joint venture in Moscow to provide cable television and high-speed Internet access.

Andersen said its joint venture with **Moscow Telecommunications Corp.**, an eight-year old company started with support from the city government, initially will target 1.5 million homes in central Moscow. Each partner will provide \$33 million in equity for the project. Other financing, to be spread over four years, will come in part from US-supplied equipment and bank loans.

The 50-50 joint venture, to be called **Comcor-TV**, expects 70 percent of households in its coverage area to subscribe to cable TV and between 5 and 8 percent to Internet coverage.

Andersen Group and its fellow investors are contributing \$33 million in cash to Comcor-TV, while Moscow Telecommunications is providing

access networks valued at \$33 million; an additional \$100 million will be financed with debt and the remaining \$200 million out of cash flow from the joint venture.

Andersen, based in New York, is counting on 50,000 subscribers for its Comcor-TV service in the first year alone, offering high-tech equipment at higher rates than the lower-cost provider in a city of close to 10 million. Analysts said that could be difficult given the strength of AO Moscow City Telephone Network, which dominates the market.

"This is a very new venture and a very ambitious venture," said Vladimir Bagrov, a telecommunications analyst at CentreInvest Securities in Moscow. "The major problem is - how can I put it - that **the (Moscow) telecommunications market is a very hard one to break into.**"

Comcor-TV will offer a wide range of cable TV and Internet access, and in the future will offer such services as video-on-demand and on-line marketing. Troika Dialog in Moscow is the investment banker for the transaction with Andersen.

"There's a huge economic opportunity in Moscow," said Frank Baker, chairman of Andersen Group. "This is an underserved market."

Return of Kremlin Spinmeister Yastrzhembsky

24 Jan (*The Moscow Times*): Vladimir Putin appointed Sergei Yastrzhembsky, Kremlin spinmeister, with the unenviable task of spinning the Chechen war, dealing with the media to smooth over Russia's tattered image. According to the Kremlin, he will be in charge of "coordinating the flow of information concerning Chechnya".

A career diplomat, Yastrzhembsky is no stranger to handling tough public relations tasks. It was



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he, after all, who had to clean up after Yeltsin's frequent public spectacles.

He is also adept at handling the media. Covering Yeltsin and US President Clinton's 1997 summit in Helsinki, Yastrzhembsky oversaw a well-run press center and exhibited an uncanny ability to spin the Western press. Foreign reporters watched in awe as he fielded questions in several languages without a translator and without missing a beat.

A Foreign Ministry spokesman and ambassador to Slovakia, Yastrzhembsky is seen to be angling for the top job at the Foreign Ministry. This latest appointment by Putin has all the appearances of a proving ground for that job.

Yastrzhembsky's appointment comes at a time when the Chechen conflict - upon which so much of Putin's prospects rest - is reaching a critical stage. On the battlefield, Russia troops are on the verge of being bogged down in a drawn out bloodbath. Abroad, Moscow is facing increased criticism and possible isolation.

Perhaps Yastrzhembsky was recruited to help clean up the diplomatic and public relations mess as the Kremlin seeks a face-saving end to the conflict.

WAP and GPRS to be Introduced by Kuban-GSM

31 Jan (*AK&M*): Cellular operator **Kuban-GSM**, a daughter company of Kubanelectrosvyaz, plans a sizeable expansion in 2000. ... *Comment*: According to Kubanelectrosvyaz' management, which holds 51% in Kuban-GSM, the joint venture will further increase its mobile capacity in the Kuban Region to 100 radio base stations (the 51 stations currently available cover about 30% of the region). In 1999, the JV's customer base rose 154% to 27,000 subscribers and is

expected to reach 50,000 by the year end.

The company is preparing implementation of advanced value-added technologies, such as GSM-Internet using WAP (Wireless Applications System) and GPRS (General Package Radio Service) for wireless access to the World Wide Web and prepaid intelligent network services to be introduced in 2000. The GPRS offers instant package-switched connections to data networks based on the GSM technology. Besides faster and easier access to the Internet (with transmission rates of over 150 Kb/sec.), the continuous connection enables the use of multimedia messaging, corporate wireless Intranet, remote appliance control and maintenance, as well as numerous monitoring and surveillance applications. There are plans to further expand roaming potential, currently supporting operations in more than 150 Russian cities and 37 countries.

Telco Operators Improve Performance in 1999

27 Jan (*Interfax*): The financial condition of nearly all Russia's telecom operators significantly improved in 1999. ... *Comment*: Only MGTS, the largest Russia's local telephone operator, reported the 1999 loss, due to the remaining foreign debt in the sector (\$210 million). The company's prospects remain uncertain in the short term, considering its debt service obligations on its Eurobond maturing in 2001.

Urktelecom to Issue Eurobonds to Fund Partner Buy-out

27 Jan (*Prime-TASS*): **Urktelecom**, the major Ukrainian telecom carrier, plans to issue \$40-50 million 2-3 year convertible Eurobonds in Q1 '00. ... *Comment*: Funds will be used to purchase foreign partners' stake in its 51% controlled JV, Ukrainian-American-German-Dutch telecom operator Utel, a near monopoly in international services with a 42% market share in



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the domestic Ukrainian long distance market (the remaining 58% handled by Ukrtelecom). CentreInvest Research estimates Ukrtelecom's outstanding debt to yield 25% interest to its holders, while the Ukraine's sovereign debt is currently trading at approx. 30% interest. Ukraine plans to privatize the state-owned Ukrtelecom, thus in 2000 a blocking stake of 25% plus one share is expected to be traded on the open international auction with the starting price of \$500 million. For reference, the same blocking stake of Svyazinvest was traded for \$1.8 billion three years ago. Besides, Ukrtelecom's charter capital is about \$456 million (2.5 billion hryvna) therefore, the starting price seems to be overpriced with a 440% premium for blocking participation in the company. This play is not for the faint of heart.

lending telephone channels to independent ISPs—primarily because the company has begun to develop its own project to render fast Internet access using modern ADSL (Asymmetric Digital Subscriber Line) technology. MGTS was the sole provider of cheap assigned cable channels for Moscow ISPs (one copper twisted pair for \$12 a month and \$200-300/month to rent a fibre-optic channel). It is possible several ISPs will file lawsuits with the Anti-Monopoly Committee against MGTS's actions, some of whom are likely to prevail despite MGTS's significant

Rostelecom Adopts MMT Staff

20 Jan (*Rostelecom*): The staff of Moscow MMT was transferred to Rostelecom's business structure in January 2000. ...**Comment:** *According to Moscow MMT management, the company's staff was transferred to Rostelecom's newly created subsidiary, MMTS-10 in accordance with the acquisition plan. In March–April the two operators intend to call a mutual general meeting where shareholders will vote for the final date of the share swap as well as approve the 2.41 to 1 conversion rate. We expect that Moscow MMT will remain a legal entity in the registry of the Moscow Registrar's Office until its accounts are cancelled, presumably on the same date of the share swap.*

MGTS Muscles Competing ISPs

14 Jan (*Internet sources*): MGTS is using its monopoly position on the Moscow market of public telecom services to influence competing Internet service providers (ISP). ...**Comment:** *As of January 1, 2000, Moscow GTS suspended*

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lobbying power.

The following graph shows the correlation between five indicators of portfolio investment activity in Russia and its telecom sector based on publicly quoted share and index values reported for the twelve months ending 20 February 2000.

The five indicators, charted on the basis of a 2-day moving average are i) the widely followed AK&M Index of Russian Telecom shares, ii) shares of Global TeleSystems, Inc., approxi-

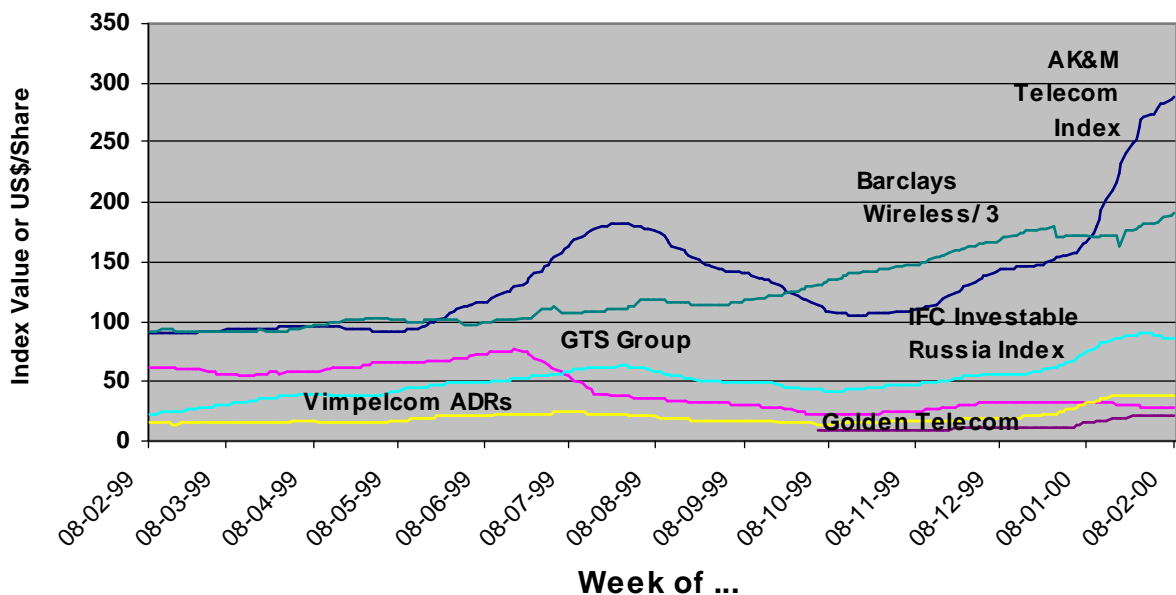
mately half of whose revenue is derived from its Russian network, iii) ADRs of VimpelCom, Russia's largest mobile phone operator, iv) the IFC's Index of Investable Russian shares and v) the Barclays Wireless index (scaled by a factor of 1/3).

On 1 October, Global TeleSystems listed its 65% owned Russian operations subsidiary on the Nasdaq as "Golden Telecom" (NASD: GLDN), from which time we included those shares in our monthly report.

Russian Telecoms Proxies

12 Months Through 20 February 2000

(20-day Moving Average)



Prepared by Griffin Capital



ENERGY

18 Feb (*Vedomosti*): **AO Gazprom**, Russia's natural gas monopoly, said it plans to increase its stake to 25 percent share in OAO Permskiye Motory, a Russian engineering company minority-owned by United Technology Corporation's **Pratt & Whitney** unit, together with OAO Permskiy Motorny Zavod and PAP Aviadvigatel, both close partners of Perm Motors, Russia daily *Vedomosti* reported. The gas company holds 2.9 percent stake in Perm Motors, 16.3 percent in Aviadvigatel and does not have any share in Permskiy Motorny Zavod. Gazprom proposes to issue new shares at the three companies, said the newspaper.

Gazprom is a major client of the engineering companies providing roughly 50 percent of their contracts and about the same share of the plant's revenue.

"Gazprom will only improve its activity in trading and in management. We acquired too many excessive assets, which we do not need."

Rem Vyakhirev
Chief Executive of Gazprom
4 February (Krasnodar)

Gazprom to Buy Turkmen Gas

17 Feb (*Bloomberg*): OAO Gazprom chief Rem Vyakhirev said the company will negotiate a long-term contract tomorrow to buy gas from Turkmenistan.

"We plan to discuss a long-term contract for gas supplies to Russia and its further possible transit," said Gazprom spokesman Igor Ivantsov. "The shipments will be handled by Itera," a US-registered gas trading company.

The Russia company will discuss a possible 30-year gas contract with delivery of 20 billion cubic meters of gas annually, Russian news agency *Interfax* reported, citing industry sources. The

contracted volumes could be increased to 50 billion cubic meters of gas per annum.

Turkmenistan has refused to sign long-term contracts with Gazprom in the past, said Deputy Chief Executive Yuri Komarov. Gazprom signed a one-year contract with Turkmenistan to purchase 20 billion cubic meters of gas for deliveries to Russia late last year. Itera handle this years supplies as well.

The gas is sold at the Turkmenistan-Uzbekistan border for \$36 per mcm. About 40 percent of the volumes are due to be paid in cash with the rest to be offset in goods, Vyakhirev said earlier.

Turkmenistan has been competing with Gazprom to deliver gas to Turkey under the Caspian Sea. But the former Soviet republic faces extra competition from Azerbaijan offshore projects, which have essential gas reserves and are unwilling to export it to Turkey.

YUKOS Proposes Modernizing Croatia's Adria Pipeline

14 Feb (*Vedomosti*): AO Yukos Oil Company, Russia's number two oil producer, has proposed investing \$20 million to modernize the Adria oil pipeline in Croatia to enable it transit crude from Siberia to the Adriatic, *Vedomosti* reported. The oil company also has committed to shipping 5 million tons of oil through the 3,000 kilometer route by the end of the year. The route, which will join the Druzhba pipeline, has to secure a transit tariff of \$0.64 per ton of oil transported per 100 kilometers to make the export of Russian oil feasible, the paper said.

Yukos also has plans to participate in a construction of a \$1.7 billion oil pipeline from Russia to China.

Why Does Putin Praise YUKOS?

10 Feb (*NGV*): Acting President Putin praised



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YUKOS subsidiaries for their performance and compliance with payments to the budget. ...**Comment:** *Earlier Putin praised subsidiaries of Surgut Holding in a similar way. Acting President Putin appears to disagree with stock market sentiment and does not believe YUKOS is among the worst managed companies. A source close to YUKOS said that in early January, YUKOS CEO Mikhail Khodorkovsky signed two memoranda with Chinese oil companies. The Chinese party committed itself to accepting 20m tonnes of oil from Russia by 2004. This means a major breakthrough in YUKOS' Russia-China export pipeline project, as the Chinese commitment is a prerequisite for getting project financing from the banks.*

This project is intended to enable the company to increase output by one third, from the current 45mt to 60mt annually. The project will be completed, at earliest, in three years.

8 Feb (Bloomberg): **OAQ Gazprom** shares traded abroad tumbled 9.6 percent in two days on concern Russia's natural gas monopoly will sell an additional stake on foreign markets.

Gazprom, the world's largest natural gas company, is **seeking government approval to sell American depository receipts representing 14.5 percent stake over three years**, according to a December 17th proposal made public Sunday. The stake would be valued at about \$3 billion, based on today's ADR price.

The ADRs traded in London fell 4.4 percent today to \$8.68 after a 9 percent decline on Monday. One Gazprom ADR represents 10 Gazprom shares.

"They plan to increase the volume of ADRs by more than seven times and **there is no market for that**," said Steven Dashevsky, an analyst at Aton brokerage, which changed its recommendation on Gazprom ADRs to "sell" from "hold".

The government, which holds 38.4 percent of the company, is considering the plan. Gazprom or its major shareholders could buy back domestic stock, which trades at less than one-third the price of the ADRs.

Gazprom domestic shares, which foreign investors are excluded from buying, rose by 12.8 percent today, or 0.94 rubles, to 8.26 rubles (\$0.29) traded at Moscow Stock Exchange.

Foreign investors are allowed to hold no more than 20 percent of Gazprom under Russian law. Currently, 1.98 percent of the shares are traded as ADRs while **Ruhrgas AG**, a German gas distribution company, holds a 3.5 percent stake.

Igor Shuvalov, chairman of Russia's Federal Property Fund, said Gazprom's proposal to sell additional ADRs is still under consideration.

According to **Igor Shuvalov**, chairman of the Russian Federal Property Fund, Government won't consider selling 14.5% until shares rise to \$11.50, the price at which authorities have committed themselves to sell the next stake. The government and Ruhrgas agreed **the next sale must preserve the value of Ruhrgas's investment**. The market could take half a year to reach this level according to Olga Rybak, director of the Ministry of State Property's Fuel and Energy Department]. The company's directors are scheduled to discuss the sale at their meeting on 14 February. The gas company plans to present some terms of the selling terms if directors approve the program. Gazprom also said its board meeting would review the agenda for the company shareholder's meeting to be held in western Siberia on 30 June. The Russian government has nominated 11 candidates to the Gazprom board, of which only five will secure a seat on the board. The state has six seats on the Gazprom board at present.

The government plans to sell a 3.37% stake to foreign investors. The gas company also has



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government approval to sell 6.02 percent abroad. It needs separate government approval to allow the sale of a further 5.13 percent stake held by current shareholders directly to foreign banks.

Japanese Invest in Kazakh Refinery

3 Feb (*Interfax*): The Japanese Bank of International Cooperation has approved a \$450 million project to rebuild the Atyrau Oil Refinery in Kazakhstan, *Interfax* reported. The reconstruction will boost capacity at the refinery to 4.5 million tons of oil a year; in the first 11 months of 1999, it refined just over 1.7 million tons. Kazakh national oil company Kazakhoil owns 86 percent of the refinery's shares the agency said.

A Chevron-led group of companies and governments is currently building a \$2.4 billion pipeline to take Kazakh oil to international markets through the Black Sea port in Novorossiysk, Russia.

Gazprom Starts Blue Stream Build

3 Feb (*Bloomberg*): OAO Gazprom started construction of the \$2.9 billion Blue Stream pipeline project aimed at delivering gas to Turkey from Russia under the Black Sea.

"The gas of northern Siberia will reach in a year's time the coast of Turkey," said Gazprom Chief Executive Rem Vyakhirev.

Gazprom, together with its trading unit and subcontractors on the project, have a \$25 billion contract with Turkey's Botas company to ship about 360 billion cubic meters of gas to the capital, Ankara, between 2001 and 2025. The first shipment of 2 billion cubic meters will start to flow in 2001, with the full capacity of 16 billion cubic meters a year expected by 2010.

Saipem SpA, the oil services company partly

owned by Italy's Eni SpA, said in November it won together with partners a \$1.7 billion contract to build the undersea pipeline for the project. Gazprom is working on the land portion of the pipeline, for which it received government tax breaks.

Blue Stream Pipeline Co BV, equally owned by Eni and Gazprom, has a contract with Saipem, Bouygues Offshore SA, Mitsui Co. Ltd., Sumitomo Corp and Itochu Corp for the pipeline construction and tubulars.

Russia now sells 14 billion cubic meters of gas to Turkey through pipelines, which pass through Ukraine, Gazprom officials previously stated.

The total length of the pipeline will be 1,200 kilometers of which 380 kilometers will stretch across the southern regions of Russia. Italy's Ilva SpA supplies pipe for the land-portion of the pipeline within Russia.

Energy Ministry Proposes Gazprom Breakup

1 Feb (*Bloomberg*): OAO Gazprom, the world's number one natural gas company, should split transport and gas production assets and give up its monopoly, Russia's energy minister said.

Russia's government, owner of 38 percent of Gazprom, wants a more transparent company that enables independent producers to access pipelines, said Fuel and Energy Minister Viktor Kalyuzhny. Gazprom's Rem Vyakhirev, chief executive since 1992 and opposed to such a shift, has offered only to break off service units.

Gazprom, which accounts for 30 percent of Western European gas imports and most of East Europe's, operates like a state within a state, as politicians fight for its billions of dollars of revenue and uncollected debt. The company's executives include a former prime Minister and an ex-central bank chief.



ENERGY (CONTINUED)

"The restructuring, if actually enacted, would be excellent news," said Eric Kraus, an analyst at Nikoil Investment. "If even this cow is not sacred, then reform is truly on the way."

Analysts said discussions on changing Gazprom's structure have gone on for two years and a change is certain.

"It will happen," said Eric Wigertz, an analyst with Moscow based Brunswick Warburg brokerage. "They are serious about either splitting the company or opening easy access of oil companies to Gazprom pipelines."

Splitting Gazprom would allow Russian oil companies, which also produce gas, to compete in the market. OAO Lukoil Holding, Russia's number one oil producer, OAO Surgutneftegaz, Russia's number three producer and others say they face problems gaining access to the Gazprom-controlled transport network to ship gas.

"We have to build relations with independent gas producers," said Kalyuzhny. "They have a potential of 30 to 70 billion cubic meters of gas production and we cannot neglect this."

28 Jan (*Bloomberg*): Gazprom said it will spin off its service units, turning them into contractors to the producing units to save money, Russian news agency Interfax reported.

Gazprom CEO Rem Kyakhirev said Gazprom will move forward with the program this year, in remarks during a visit to Surgut in Western Siberia.

"It sounds quite sensible," said Jim Henderson, director of research at Renaissance Capital Brokerage. "If he's talking about splitting the money-making side and the services side, that's a posi-

tive sign. One of the problems with some Russian companies is they've had divisions doing absolutely everything, including the gardening, which are underutilized."

Under pressure from the IMF, Gazprom earlier reorganized its 17 gas transport-subsidiaries into limited liability companies owned by Gazprom.

"Gazprom's restructuring program does not assume a spin-off of key producing and transportation assets," said Vladimir Nosov, an analyst with Moscow-based Fleming UCB investment bank.

"The program is only to separate service units, while the pipelines and gas production will always belong to Gazprom."

Russia's gas transport network and gas production units cannot be split under Russian law, said Nosov. Gazprom would possibly create a separate unit within its structure to monitor the transport subsidiaries without separating the company's unified cash flow, analysts said.

"This is a positive development for Gazprom," said Ivan Mazalov, an oil analyst at Moscow-based Troika Dialog brokerage. "Oil companies did similar service unit spin-offs last year to cut their production costs when oil prices were low."

LUKoil Spurns Norsi Refinery Terms

3 Feb (*Prime-TASS*): LUKoil announced it would refuse to buy Norsi refinery in Central Russia unless its \$200m debt is restructured, an altogether encouraging sign for LUKoil shareholders.

2 Feb (*Prime-TASS*): LUKoil announced preliminary financial results. The company's 1999 consolidated net income is reported to be \$1.3b, or \$1.63 per share. ...**Comment:** At the current price of \$11.1 per share, LUKoil's P/E ratio is 6.8, considerably below that of its western peers.



ENERGY (CONTINUED)

2 Feb (*Reuters*): YUKOS expects 1999 pre-tax profits of about \$600 million, according to the company's CEO Mikhail Khodorkovsky said. ...**Comment:** *This is considerably below the estimate of \$800 million previously provided by company officials.*

Currently, free float of company shares does not exceed 13%. The company said that its charter capital structure is as follows: two banks owned by **Menatep group** have 52% of shares, 11% belongs to the affiliated companies of the Menatep group, 19.8% belongs to the Standard Bank of London, 2.6% is held by BCEN Eurobank (France), 2% belongs to the employees, and 12.6% belongs to legal entities which received these shares in exchange for the subsidiaries' shares they previously held.

25 Jan (*Bloomberg*): A Russian court extended bankruptcy proceedings against OAO **Chernogorneft**, previously the biggest oil-producing unit of OAO Sidanco, until June, while new owner Tyumen Oil Co. negotiates its transfer back to Sidanco.

Chernogorneft was sold to OAO Tyumen Oil Co. for \$176 million at a bankruptcy auction last year that was opposed by Sidanco shareholders. In December, Tyumen Oil and Sidanco shareholders, including BP Amoco Plc agreed on returning Chernogorneft to Sidanco. In exchange, Tyumen would get 25 percent of Sidanco and would participate in Chernogorneft's management.

The agreement made possible the ending of Sidanco's bankruptcy and will allow its shareholder BP Amoco, the world's third-largest publicly traded oil company, to recover its \$571 million investment in the Russian company.

"We'll have more time to register the sale off to TNK-Nizhnevartovsk (Tyumen Oil subsidiary)

and to pay off the debts," said Chernogorneft spokesman Kirill Nam. "We needed that bankruptcy extension because of technical grounds."

Chernogorneft creditors hold company debts worth 2.5 billion rubles (\$87.9 million). The oil producer also is a creditor of Sidanco claiming \$35.8 million debts to the holding.

Chernogorneft assets will be transferred to TNK-Nizhnevartovsk which will become a Sidanco subsidiary according to the oil companies' shareholders' agreement.

SPORTS

1 Feb (*Soviet Sport*): Former **CSKA Moscow midfielder Dmitry Ulianov** has said he is keen to play for Israel in the 2002 World Cup qualifiers, the Soviet Sport Daily reported.

Ulianov is playing with the Israeli top flight side Hapoel Haifa and married a local woman one year ago. He has applied for Israeli citizenship.

Ulianov said former Israeli national coach Shlomo Sharf had told him he would like to see him in the squad once the former Russian footballer gets his citizenship.

"I understood that I will never fit [Russian coach Oleg] Romantsev's selection, so I have nothing to lose," Ulianov said.

"Israel's squad must be seriously changed after their Euro-2000 fiasco and I think I have a much better chance of becoming an Israeli national squad player even though I did not talk to Nielsen about it," he added.

Former Denmark and Finland coach **Richard Moller Nielsen** succeeded Sharf as coach of the Israeli national side after Israel lost their European qualifier play-offs to Denmark 8-0 in the aggregate.



SPORTS (CONTINUED)

Kafelnikov Falls to Agassi in Oz

Following his defeat by Andre Agassi in the finals of the Australian Open, Yevgeny Kafelnikov ranks second in the ATP Champions race for 2000 with 166 points, close behind Andre Agassi with 200 points.

Anna Blows It To Davenport

24 Jan: Anna Kournikova lost to No 2 seed Lindsay Davenport of the US in the fourth round of the Australian Open. Davenport won 6-4, 6-3 as number 11 seed Kournikova committed 33 unforced errors in the match.





UPCOMING EVENTS

21-23 Feb: London Metropole: IIR's **Next Generation Internet**: www.irr-conferences.com/isp/ngi/splashstatic.html

28 Feb-1 Mar: Anaheim Hilton Hotel and Towers: Ambit International's 2nd **Internet ASP Forum: Business without Barriers. Anytime. Anywhere.** <http://www.ambitsf.com/>

28-29 Feb: Oslo, The Holmenkollen Park Hotel Rica: IBC's 23rd Annual Conference and Exhibition on **Offshore Pipeline Technology**: www.ibt-uk.com/

29 Feb: New York:, Patterson, Belknap, Webb & Tyler LLP, 9-10:30AM: "**Recent Developments in Russia's Finance Sector**", with **Oleg Sysuev, Vice Chairman Alfa Bank, Oleg Vyugin, Executive Vice-President of Troika-Dialog Investment Bank** and **Otto Latsis Deputy Chief Editor Noviy Izvestiya** sponsored by Eurasia Group. Contact Arrun Kapoor, Eurasia Group, +1 212 366-9560/fax 366-9699

3 Mar: New York:, Patterson, Belknap, Webb & Tyler LLP, 9-10:30AM: "**Opportunities in Russia's Mining Sector**", with **Sergei Nedoroslev, President of Kaskol Group** and **Igor Ignatiev, Vice-President, Kaskol Group and former head of Press Service under President Yeltsin**, sponsored by Eurasia Group. Contact Arrun Kapoor, Eurasia Group, +1 212 366-9560/fax 366-9699

6-7 Mar: New York, Eurasia Group - **Boris Berezovsky** - Member of Parliament. Contact Arrun Kapoor, Eurasia Group, +1 212 366-9560/fax 366-9699

7-8 Mar: Los Angeles: LAX Sheraton Hotel "**DBS 2000: The Five Burning Questions**" sponsored by The Carmel Group +1 831 643-2222/fax 645-1055: www.carmelgroup.com

8-10 Mar: London, One Whitehall Place: IBC's Third Annual **Global VSAT & IP Satellite Summit** www.ibctelecoms.com/ipvsat2000 or +44 171 453-5495

13-14 Mar: London, Mayfair Conference Center: **Wireless Network Infrastructure** www.ibctelecoms.com/cr1304

14 Mar: New York, Eurasia Group: **Sergei Kiriyyenko** - former Prime Minister of Russia and leader of the Pravoe Delo Party. Contact Arrun Kapoor, Eurasia Group, +1 212 366-9560/fax 366-9699

14-16 Mar: Amsterdam: **ISP 2000 Europe** <http://www.isp2000europe.com>

14-16 Mar: Prague, The Hilton: IBC's Second Annual International Conference on **SDH & WDM in Central & Eastern Europe, Russia and CIS**: www.ibctelecoms.com/sdhwdmcee

14-16 Mar: London Wembley Conference Center. "**New Media Marketing**" +44 (0) 20 8910 7887 clarie.gill@reedexpo.co.uk www.nmmexpo.co.uk



UPCOMING EVENTS (CONTINUED)

16-17 Mar: Tbilisi, Georgia, Hotel Sheraton-Metechi: **“Georgia as an Emerging Investment Market”**, sponsored by Eurasia Group and Metromedia International. Contact Arrun Kapoor, Eurasia Group, +1 212 366-9560/fax 366-9699

27-31 Mar: London Marriott Hotel: IIR’s **ASP European Summit**: www.asp-summit.com.asp2000.htm

10-12 Apr: London, Royal Lancaster Hotel: IBC’s Fifth Annual **Mobile Internet 2000** www.ibctelecoms.com/mi2000 or +44 171 453-5495

10-15 Apr: Rio de Janeiro **ITU Telecoms Americas 2000** www.itu.int/Telecom

8-11 May: Cannes, Royal Hotel Casino: IBC’s Third Annual **GPRS Conference**: www.gprscongress.com

14-19 Jun: Silicon Valley, California: IEEE International’s **3Gwireless 2000** www.3Gwireless.com

15-17 May: London, The Dorchester Hotel: **“Assessing International Broadband Wireless Access Markets”** IBC Conferences Limited +44 171 637-4383 www.ibctelecoms.com/bwa



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