

An EYE on Russia


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coming from used cars. Russia is currently one of the few countries where the effective import duty on used cars (more than three years old) can be almost 70% lower than that applied to new car imports. The Russian Government will have to review its import tariff policy before serious investment by domestic and foreign manufacturers starts.

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Economy. The Russian economy slowed down in the last month of 2001. Nevertheless, the downturn was not dramatic, and total industrial growth for the year was reported at about 4.9%, confirming the earlier 5% estimate for GDP growth.

Financing. Heineken in February announced that it had signed an agreement to acquire Bravo International, a leading Russian brewery. The transaction, valued at a maximum amount of USD 400 million, is one of the biggest in the Russian history.

Focus - Anti-Money Laundering Issues



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The terrorist attacks of September 11, 2001, shocked the world and started the new round of anti-money laundering (AML) regulation initiatives, as national governments sought to adjust the control of the financial system to enable it to filter out money transfers by terrorist groups. While Russian companies, and banks in particular, are hardly sponsoring terrorists, Russia's financial system is thought to be used to launder large amounts of money generated by bribery, drug cartels and illegal international arms trading. Accordingly, Russia is on the Financial Task Force on Money Laundering's (FATF) black-list of countries that have not taken adequate measures to prevent money laundering.

*As American, British and Western European financial institutions see their compliance costs soaring, they are sure to shift some of the burden onto their **Russian correspondent banks**. For that reason it is now becoming essential for Russian banks and corporate treasuries to under-*

stand how international anti-money laundering regulation works and how it is going to impact their business as early as spring 2002.

"Money-laundering" is defined as processing the proceeds of criminal activities to disguise their origins. It is used to legalise cash from illegal arms sales, smuggling, and organised crime activities such as drugs trafficking and prostitution rings, as well as embezzlement, insider trading, bribery and computer fraud schemes. The volume of money laundering transactions performed world-wide is estimated by the IMF to be anywhere between \$600 billion and \$1.5 trillion. This is between two and five times Russia's GDP.

Long before the September 11 attacks, banks were already facing intensified regulatory scrutiny of their anti-money laundering activities. Now they have been conscripted into the war against terrorism in a major way, as regulators and law enforcement officials seek their assistance in identifying and freezing the assets of terrorists. Below is a review of some of the new legislation initiatives that will significantly impact Russia's banks doing business abroad.

US

The United States was the first country to react. The USA Patriots Act of 2001 (the Act), a compre-

hensive bill that includes (among many other security measures) new requirements for financial institutions relating to AML, was passed October 26, six weeks after the attack.

The Act provides the Secretary of the US Treasury with discretionary authority to designate certain areas, such as foreign jurisdictions, financial institutions operating outside the U.S., a class of international transactions or certain types of accounts, as areas of "primary money laundering concern". The Treasury may require financial institutions to take special measures for any transaction involving these areas. This could include obtaining and retaining records of accounts opened or maintained by foreign persons or their agent.

Beginning December 26, 2001 banking institutions in the United States are prohibited from providing correspondent accounts directly to foreign shell banks and are required to take steps to avoid providing banking services indirectly to such shell banks. In addition, US banking institutions are required to keep records of the owners of foreign banks to which they provide **correspondent accounts** and the foreign banks' agents for service of legal process.

The Act also establishes a number of milestones that the US financial institutions are required to meet.

By April 24, 2002, it requires all financial institutions to establish AML programs. These programs must include the establishment of policies, procedures and controls, the appointment of a designated Compliance Officer, the establishment of ongoing employee training, and the provision of an independent audit function to test the AML program.

By October 26, 2002, the US Treasury, the SEC and other federal regulators are required to prepare regulations that set "know your customer" standards for financial institutions to identify and verify customers in connection with the opening of new accounts. This will include the requirement for financial institutions to establish "reasonable procedures" to verify the customer's identity, maintain information records, and refer to the government's list of known or suspected terrorists or their organizations.

UK

The UK adopted its Anti-Terrorism, Crime, and Security Bill in December 2001. This bill contains some provisions of the more comprehensive 304-page Proceeds of Crime Bill which is currently being discussed in the House of Commons (as of the end of January 2002). Specific measures established by the Anti-Terrorism Bill

with respect to terrorist financing include:

- The power to freeze assets at the start of an investigation, reducing the risk that funds will be used or moved. The assets can include those of overseas individuals or groups that carry out or support terrorist acts where neither the UN nor EU has yet agreed a course of action, or in cases where it is appropriate for the UK to impose sanctions unilaterally;
- The right for relevant authorities to obtain a court order requiring an institution to provide information on a named account for a period of 90 days;
- Restraining orders that will now be available during an investigation into terrorist funding and prevent any person with notice from dealing in the named property. Presumably, this will prevent banks from operating transactions on named accounts;
- The right for authorities to seize cash found anywhere in the UK.

The UK has implemented UN sanctions against the Taliban and Osama Bin Laden and it is now an offence to make funds available to either of these parties or persons connected with them. The consolidated list, published on the Bank of England web site, consists of 300 individuals and organizations suspected of helping terrorists.

FATF and others

FATF, an AML country group sponsored by the OECD, has also issued a set of 8 recommendations in response to the September 11 attacks. They are added to its 40 recommendations issued previously which suggest how a "cooperative" jurisdiction should behave.

Some of the new FATF recommendations are general, saying that the financing of terrorism should be criminalized everywhere in the world, suggesting that all countries should join a 1999 UN Convention for the Suppression of Financing of Terrorism, and calling for international cooperation.

Nonetheless, other recommendations are quite specific, including the freezing and confiscation of terrorist assets, the requirement to report suspicious transactions, and a requirement to ensure that non-profit organizations are not misused by terrorist organizations. Another potentially costly requirement is that information about a person or entity originating a wire transfer should remain with the transfer through the payment chain.

The recent global anti-terrorist activity has prompted the adoption of new anti-terrorist and AML legislation in many countries around the world. More than a dozen countries have announced the

drafting or adoption of AML laws over the past five months. Some of the countries that adopted laws (e.g. Dominica, the Philippines, Hungary), or drafted them (e.g. Indonesia and Egypt) are on the FATF black-list of non-cooperative countries and needed to adopt and implement these laws to be excluded from the list. Other countries that are not black-listed by the FATF, including the United Arab Emirates, Hong Kong, Ukraine, and Oman, have also said they plan changes to their legislation relating to AML procedures.

Russia

Russia adopted AML legislation last year: the Russian AML law was enacted on February 1, 2002. The new law broadly corresponds to the FATF recommendations, even if some provisions appear ambiguous. However, Russia was not removed from the black list during the February meeting of the FATF. Russian officials say that this is primarily because the committee would like to see how the law works in practice before making any decisions. Furthermore, the Russian AML law was adopted before the new Anti-Terrorist Money recommendations were issued. Nevertheless, Russia's authorities hope that the country will be removed from the list in the summer of 2002

What does it mean for the business?

It is already clear that Western financial institutions will incur significant incremental costs in accumulating information on people who use their services and in taking action against a growing list of unwanted organizations and individuals. Substantial effort is involved in screening because the lists involve numerous aliases and possibly stolen identities. Moreover, account activity must be reviewed going back five years, and law enforcement officials are not yet able to advise banks on what they should do when they encounter such suspicious transactions.

Non-banking financial institutions such as insurers, asset managers and investment banks, which have never before been required to monitor accounts for suspicious activity, may now be required to do so. The new US anti-terrorism legislation defines "financial institution" very broadly, meaning that insurers, securities brokers/dealers and asset managers will be required at least to enhance their anti-money laundering programs and related internal-audit activities.

It is inevitable that Western banks and non-banking organizations will share their new compliance burden with their foreign correspondent banks. In fact, the US anti-terror-

ism law contemplates that any foreign bank with an account (but without a facility) in the U.S. will have to designate an agent for the service. That opens the foreign bank up to substantial new liabilities and increased costs. Moreover, the U.S. can at some stage freeze an account of a foreign bank simply because it has not yet frozen certain "terrorist" accounts in a home country.

Moreover, all Russian banks may be affected by the various special measures the U.S. Treasury may impose on relationships with problem foreign jurisdictions and/or institutions. And apparently Russia may be considered as a problem jurisdiction at least as long as it stays on the FATF black-list. Taken together, all this means that Russian entities that have correspondent accounts or do business with American, British and other Western financial institutions should be prepared to comply with the law of the jurisdiction in question.

Russian companies outside the financial services sector will be less directly impacted. Nevertheless, given that many of them have quite a complicated "group" structure spanning to several jurisdictions, corporate CFOs may also have to initiate an extensive review of the structure to minimize risk of having their payments disrupted or overseas assets frozen because of suspicious transactions.

How Ernst & Young can help

E&Y understands that many financial institutions are addressing the account identification and analysis initiative by diverting key resources from the internal audit and compliance functions leaving major gaps in day-to-day operations.

- For Russian and Western banks and companies we can help to identify key measures that need to be taken to comply with changing international legislation and new Russian AML legislation enacted on February 1, 2002.
- We also can add value to the account and compliance analysis process by providing project management, coordination and expert resources.
- We can assist clients by helping in those areas that are understaffed due to ongoing special projects.
- We can also assist clients in preparing comprehensive documentation and workpapers supporting the efforts. We believe that it is very important to document how the account or compliance analysis was performed since this will likely be of interest to the regulators and, perhaps, law enforcement bodies.

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Industry Update - Automotive



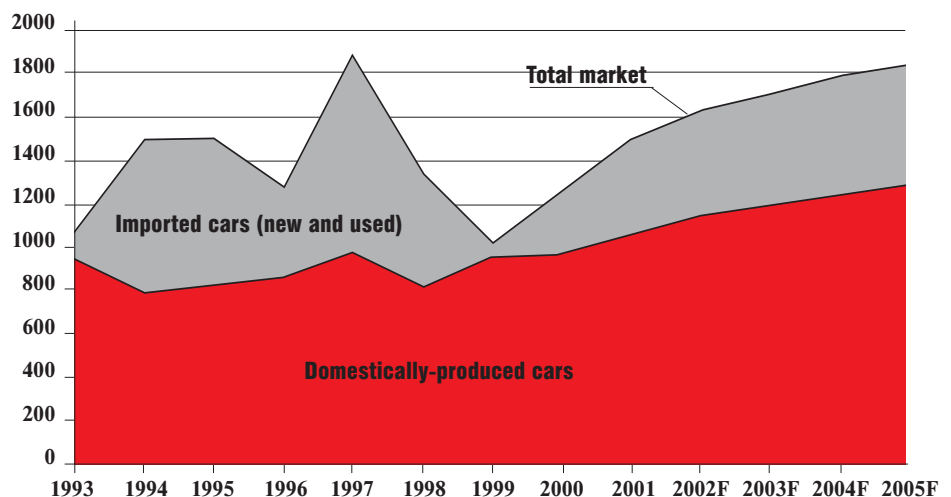
Dr. Vasily Boitsov,
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Car manufacturing is the most important industry in many economies, playing a key part in contributing to the national stan-

dard of living. For one thing, it utilizes many of the latest technological achievements in the metals, chemicals and electronics industries, and its product - the car - is a mass consumption commodity. Economists over the world very often measure the prosperity of a country and its citizens by the number of cars owned by the population.

The automotive industry has acted as an economic locomotive on many an occasion, dragging various countries out of recession and revitalizing their national economy. Many countries invest enormous effort in attracting original equipment manufacturers (OEM) in the hope of increasing the inflow of direct foreign investments into manufacturing, revitalizing local producers, upping tax revenue, and creating new jobs.

The Russian market for cars ('000 units)



Source: Scientific Automotive and Engine Institute (NAMI)

The past ten years have shown that the absence of targeted state support has prevented investments in the Russian automotive industry on the scale that is required.

According to various market estimates, by 2005 Russia will have the capacity to consume up to two million new cars a year. Despite ambitious plans on paper, however, there have been no visible foreign investments into production projects over the past few years.

Searching for the right policy

Russian and foreign manufacturers are now waiting for the Government to formulate a clear policy with regard to the automotive industry. The importance of the role of state support for developing the automotive industry is evidenced by such countries as Hungary, Poland, Turkey, the Czech Republic, and Brazil, whose macroeconomic conditions and automotive industries resemble those of Russia. The governments of these countries have earmarked the automotive industry as a strategic industrial development factor, leading to qualitative breakthroughs over a short period of time in terms of output levels and technical quality.

For example, direct foreign investments in the national automotive industry exceed \$1.4 billion in

Hungary and over \$4 billion in Poland. These figures do not include investments into related industries, such as component manufacturing and services.

The following factors are identified by international automotive manufacturers as impeding investments in the Russian automotive industry:

- The absence of a predictable government policy on the regulation of the automotive industry;
- An ambiguous tariff policy on new and second-hand car and component imports, leading to a snowballing of second-hand foreign car imports;
- Problems with day-to-day import and export transactions, primarily due to complicated and time-consuming customs procedures;
- Red-tape complicating any non-routine business operation - for instance, over 130 approval applications must be filed with various government agencies in order to start automotive production in Russia;
- Lack of adequate protection for shareholder and creditor rights.

Customs regulation is clearly one of the most important instruments the state has for managing the national automotive industry. The most widespread customs regulation mechanism used is import duty, which enables countries to

protect domestic car and components manufacturers and to regulate the structure of the national car fleet.

The countries that have secured the highest level of investment in their national automotive industries of late are coincidentally those placing the highest import duties on cars: Indonesia (up to 200%), China (up to 100%), Brazil (70%), South Africa (61%). The Czech Republic, Belarus and Poland also consider raising their import duties as a convenient way of protecting their industries. Since Poland reduced import duties from 30% to 20% two years ago, four of the country's sixteen automotive factories were forced to close.

Against that backdrop, the current 25% import rate applied by Russia looks extremely low, even for a WTO candidate-member country. The maximum customs duty rate on imported cars accepted by the WTO in 1999 is 35%. During the 1990's, a number of countries, specifically Brazil and Indonesia, got into trouble with other member countries for implementing excessively protectionist customs policies with regard to their domestic automotive industries. Both countries successfully resolved their disputes with the other WTO members.

Used cars

Russian-manufactured new cars suffer from stiff competition from used foreign cars. Russia is currently one of the few countries in which the effective import duty on used cars (more than three years old) imported by individuals is almost 70% lower than the duty applied to new car imports. This leads to significant increases in used car imports, which is now a well-organized business that makes widespread use of private individuals for customs clearance purposes. By one estimate, around 1.7 million used cars were imported into Russia in the period 1997-2000, leading to a 40% increase in the number of cars on Russian roads during the period.

Snowballing imports of used cars pose many problems for automotive industry in Russia:

- A substantial short term fall in demand for new Russian cars, which cost the same as imported used cars;
- Constant price pressure from the used car market is preventing Russian OEMs from implementing medium term plans to develop and launch new models;
- Russia's roads are being filled with large numbers of technically unfit cars that do not comply with Russian technical standards;

- Lost revenue collections due to underpayment of customs duty and VAT (replaced by a single customs charge for private individuals), and the logistical issues associated with collecting tax and duty from such large numbers of private individuals;
- An indirect reduction in customs revenue due to wide use of custom duties based on engine capacity as compared to ad valorem custom duty;
- Criminal gangs which practice stealing cars and selling them to Russia are flourishing;
- Environmental damage due to the poor technical condition of imported cars and the fact that they are halfway through their service life.

Moreover, the European Union countries are at present introducing strict rules on environmental compliance with regard to exhaust and noise emissions (Euro 1/2/3). The European Council of Ministers approved a directive in July 2000, establishing special procedures with regard to used cars in the EU. The implementation of those standards will inevitably lead to the mass removal of aged cars from the market, falling prices on the second-hand car market, and a massive outflow of second-hand cars from Western Europe and into countries such as Russia. This will only worsen the negative factors described above.

Clearly, the Russian Government needs to summon the political will to mitigate the adverse factors described above. Furthermore, the recent (January 2002) decision taken by Russian Prime Minister Mikhail Kasyanov against a simple increase in customs duties on used cars (aged 3 years or more) imported by individuals shows that the Russian Government appreciates that the problem is far more complex than one of merely protecting the market from used vehicle imports. In order to understand better the position the automotive industry finds itself in, the Ministry for Economic Development & Trade together with Ministry for Industry and Sciences have established a working group to draft a Conceptual Framework for the Development of the Russian Automotive Industry. The working group incorporates representatives of the Russian automotive industry, government officials and professional industry associations; one of which is the Russian Automotive Investment Center (hereinafter - RAIC).

RAIC

RAIC is a non-profit public organization that unites multinational OEMs with production facilities in Russia. Its members include Ford, Renault, FIAT, Bosch and Michelin. The project was jointly launched by Ernst & Young CIS

and the International Tax and Investment Centre, a non-profit organisation. One of the main reasons behind the members' decision to join forces was the need to convince the Russian Government to make radical improvements to the investment environment in the Russian automotive industry.

RAIC's goal is not to secure preferential treatment for any one company, but rather to create an effective automotive industry in Russia capable of competing on an international level.

RAIC is open for co-operation with any organisation within the automotive industry

For further information on the Russian automotive market and RAIC activities please contact Vasily Boitsov, Manager of the Russian Automotive Investment Center and Manager with Corporate Finance Department of Ernst & Young (CIS) Ltd at +7 (095) 705 92 92, e-mail vasily.boitsov@ru.eyi.com.

Creating Value Internal Audit Services



Alla Usanova,
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Business in Russia is undergoing drastic change, particularly in the energy, telecommunications and consumer products sectors.

Russian companies are entering international markets, expanding their businesses, and attracting new investors.

To establish reputations as solid and reliable market players and raise market capitalization, companies are striving to improve their competitive position and achieve higher standards of corporate governance and transparency. This is bringing about change in companies' risk profiles, and requires:

- The ability to anticipate and control business risks
- Strong financial controls and meaningful management information
- Effective and efficient business processes
- Effective management of relationships with investors, regulators, suppliers and customers

Managing Risks through Internal Audit Functions. As organizations grow and expand, it becomes more difficult for middle and executive management to have personal knowledge of current operations. In order to guide a business successfully, management needs assurance that control systems and processes function effectively, and that critical elements for achieving strategic objectives are in place.

Internal audit provides that assurance. Many leading organizations around the world recognize the strategic importance of the internal audit function for achieving their business objectives and managing risks. Internal audit also helps organizations enhance their control and governance processes.

Building an Effective Internal Audit Department. Critical elements for effective internal audit functions are people, knowledge and methodology.

People and Knowledge. Internal auditing requires well-trained and capable professionals with knowledge and experiences in areas such as:

- Auditing techniques for identifying and prioritizing risks, developing work plans, and applying effective testing procedures
- Internal controls and corporate governance

- Understanding of various lines of business, and areas of operations
- Understanding of regional and international market specifics and business practices
- Specialized skills in areas of technology, computer assisted analysis, and complex business transactions
- Project management, communication and reporting skills

Effective and Appropriate Audit Methodology. Effective internal audit functions use a risk-based audit approach to build audit plans that concentrate effort on the areas that need it most. They apply effective methodologies for assessing and testing controls, then report findings and recommendations to appropriate organizational levels.

Establishing an effective internal audit department can be challenging, even for the largest of corporations. For many, this task is beyond their area of expertise. Others have found out that they cannot afford to spend years attempting to build the internal audit function they need.

At Ernst & Young, we have invested millions of dollars in developing our internal audit methodology and technology, and in training people. For that reason, many leading companies throughout the world have turned to Ernst & Young to help them to build and transform

internal audit functions or to team with our internal audit professionals.

2002 Internal Audit Survey. As part of our effort to help companies in Russia and the CIS to better understand and benchmark their internal audit groups, Ernst & Young (EY) is pleased to announce the launch of our Internal Audit Survey. The survey, which we launched in February, focuses on Russian and CIS companies that are listed on stock exchanges or have publicly traded securities, as well as other leading companies in each industry sector. The survey is the first of its kind in Russia and the CIS, and will provide valuable insight into this evolving area of leading business practice.

If you would like to participate in the survey but have not yet received the survey forms, please contact Alla Usanova at 7 (095) 705-9292, ext. 5517, e-mail: Alla.Usanova@ru.eyi.com. We look forward to sharing our results with you in May 2002.

Economy news

Industrial output growth slowed as predicted in December by 2.6% y-o-y, due to near-zero growth in the metals, petrochemicals and heavy engineering industries. The fuel and energy sector, meanwhile, continued to perform strongly with 5.4% growth. One encouraging sign is the fact that growth in invest-

ments into machinery and construction was still strong in December at more than 11% year-on-year.

Preliminary data released for 2001 show 4.9% growth in industrial output. Investment growth for the year is reported at 8.7%, and that figure is likely to be further revised upwards. Official GDP growth reports are likely to be released next month.

CPI growth was reported at 18.6% December-to-December, with the average index increase reported at 21.6%. Services were the fastest growing component of the CPI. The service prices index was up 36.9% December-to-December, roughly twice the increase in the broader CPI.

Trends towards accelerating utilities prices may continue for the next five to ten year as the disbalance between service prices and prices of goods and food is liquidated. Many services - including urban public transport and railroad transportation, telecommunications, housing and utilities - are currently subject to price regulation. A subway ticket in Moscow, for example, currently costs around US\$0.18 cents, while the monthly utilities and rental payments on a medium-sized apartment are around \$15. We expect prices for services to grow by 30% this year, with overall CPI growth at 16%.

Financing news

Heineken has signed an agreement to acquire Bravo International, a Russian brewery. The transaction is valued at a maximum amount of USD 400 million provided volume and price targets are met in the next twelve months. This deal is one of the biggest in the new Russian economic history.

It is quite likely that the deal will draw attention to Russia, and not only to the brewing industry. The Russian economy is one of the fastest growing in the world (or one of the few that are growing at all). As the ruble is likely to revalue in real terms, the Russian consumer market can grow quite significantly. Many Western companies might

realise that they can't afford to stay away from the Russian market.

Russian asset prices continued to rise in January. The improved sentiment was illustrated by a further 11.4% increase in the RTS following on foot of the 88% increase seen in 2001. Bond yields, meanwhile, continued their downward

Currency-Denominated Bonds

	Maturity	Modified Duration	Yield, % p.a.	Yield chg, % m-o-m	Yield chg, % y-t-d	Spread to U.S. Tsy, bp
Sovereign dollar denominated						
Russia, '03	10.06.03	1,31	5,91%	-1,40%	-1,40%	355
Russia, '07	26.06.07	4,11	9,60%	-1,07%	-1,07%	501
Russia, '10	31.03.10	4,75	10,86%	-0,93%	-0,93%	578
Russia, '30	31.03.30	8,19	11,99%	-0,81%	-0,81%	656
Sovereign Euro-Denominated						
Russia' 03	30.04.03	1,14	6,39%	-0,28%	-0,28%	242
Russia' 05	31.03.05	2,63	7,68%	-0,45%	-0,45%	371
Corporate						
Sibneft	30.01.07	3,71	11,45%	-0,02%	-0,02%	722
Tatneft	29.10.02	0,68	9,03%	-0,27%	-0,27%	719
Mosenergo	09.10.02	0,63	8,23%	-5,88%	-5,88%	639

Source: Renaissance Capital, Reuters

Russian Traded Equity Benchmark Valuations

Sector	Total 00 sales, \$m	Total 00 profit, \$m	P/E		EV/EBITDA		P/S		Companies in sample
			99	00	99	00	99	00	
Oil&Gas	54 600	20 929	9,3	3,7	5,2	2,2	1,6	1,1	Lukoil, Surgut, YUKOS, Tatneft, Sibneft, Gazprom
Utilities	11 962	16	288,1	378,1	16,2	7,8	0,9	0,9	UESR, Mosenergo, Lenenergo
Metals	5 470	2 044	5,0	2,2	2,1	1,1	0,8	0,5	Norilsk Nickel, Severstal, MMK
Automotive	3 889	-309	neg	neg	10,1	7,6	0,3	0,6	AvtoVAZ, GAZ, KamAZ
Airlines	1 486	33	neg	14,2	65,8	6,2	0,4	0,4	Aeroflot, Tyumenaviatrans
Telecoms	1 377	-50	40,9	9,7	7,1	4,8	1,6	1,3	Rostelecom, MGTS, Novosibirsk ES, SPTL
Food & Beverage	733	91	25,3	38,6	29,5	8,7	4,1	2,1	Baltika, Sun Interbrew, Red October
Machinery	241	0,34	neg	538,1	neg	7,3	1,9	0,8	UHM

Source: Renaissance Capital

Ruble-Denominated Bonds

	Maturity	Modified Duration	Yield, p.a.	Yield chg, m-o-m	Yield chg, y-t-d	Yield chng, points y-o-y
Government						
3-month	22.05.02	0,26	13,31%	1,53%	1,53%	-1,72%
12-month	05.02.03	0,88	14,05%	0,32%	0,32%	-4,78%
3-year	15.03.05	2,39	16,08%	1,03%	1,03%	2,00%

Source: Renaissance Capital, Reuters

Russian Economic Indicators

	1997	1998	1999	2000	2001*	2002*	07-01	08-01	09-01	10-01	11-01	12-01	01-02
General													
Nominal GDP, RUR trillion**	2,52	2,68	4,61	7,06	8,93	10,68		2,54			2,43*		
Real GDP, y-o-y chng**	0,9%	-4,6%	5,4%	8,3%	5,0%	3,8%		4,9%			4,8%*		
Fixed-capital investment, y-o-y chng	-5,0%	-6,7%	1,0%	17,7%	8,7%	5,0%	7,8%	8,4%	9,5%	11,1%	8,9%	11,5%*	7,0%*
Industrial output, y-o-y chng	2,2%	-5,2%	8,1%	9,0%	4,9%	3,5%	2,9%	5,1%	5,5%	3,5%	4,7%	2,6%*	3,0%*
Corporate profits, \$ b	30,1	-11,8	29,3	42,3	37,7	32,7	2,54	3,24	2,92	3,13	3,30	2,31*	3,22*
Prices													
Change in CPI, y-o-y	12,0%	84,4%	36,5%	20,2%	18,6%	16,5%	22,0%	20,8%	20,0%	18,9%	18,7%	18,6%*	18,3%*
GDP Deflator, change to previous year	14,4%	14,5%	64,6%	37,1%	20,5%	15,2%		21,0%*			16,0%*		
Money													
M2, RUR b	374	448	705	1119	1569	1882	1330	1366	1414	1441	1439	1569*	1537
Gross international reserves eop, USD b	17,8	12,2	12,5	27,9	36,5	35,0	36,2	37,5	37,0	37,0	37,3	36,6	36,5*
Average exchange rate, RUR/USD	5,8	9,8	24,6	28,1	29,2	32,0	29,2	29,3	29,4	29,5	29,8	30,1	30,5
Real RUR/USD exchange rate eop (1997=100)	100,0	187,5	179,6	155,8	140,3	131,9	142,8	143,3	142,6	142,9	141,4	140,3	139,4*
Federal Budget													
Revenue, % GDP	12,4	10,2	13,1	16,2	17,2	16,8	17,1	15,1	14,0	16,6	17,7	19,5*	16,3*
Expenditure, % GDP	19,6	15,2	14,8	14,4	14,4	15,3	12,8	14,3	13,7	12,4	10,6	22,0*	10,7*
Surplus/(Deficit), % GDP	-7,3	-5,0	-1,6	1,8	2,9	1,5	4,3	0,8	0,3	4,2	7,1	-2,5*	5,8*
Interest payments, % GDP	4,7	4,0	3,5	3,5	3,1	2,6	1,8	4,3	3,4	0,5	1,0	1,1*	3,2*
Trade													
Exports, USD b	88,2	74,2	74,7	105,5	104,0	96,8	8,3	9,2	8,6	8,2	8,4	9,4*	7,4*
Imports, USD b	73,6	59	40,4	44,9	52,9	59,5	4,5	4,6	4,3	4,8	5,1	5,4*	3,7*
Trade Balance, USD b	14,6	15,2	34,3	60,6	51,163	37,4	3,8	4,6	4,2	3,5	3,3	4,0*	3,7*
Oil price (Urals Med) avg, \$/bbl	18,3	11,8	17,2	26,6	23,0	18,0	22,9	24,5	25,0	19,7	17,9	18,5	18,2*

* estimate, the precise data is not available

Source: Goskomstat, Ministry of Finance, Central Bank, Russian European Center for Economic Policy, MICEX, Bloomberg

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path. Yields for five-year bonds were 1.1% lower y-t-d at 9.6% per year.

There was plenty of evidence last month that the cost of financing for Russian companies is falling. Sibneft, one of the Russian oil majors, placed a \$250 million Eurobond issue in late January. The issue carries a coupon of 11.5% per year and was reportedly placed at par. Therefore, yield was about 1.5% per year less than the last Eurobond placement by

another big Russian company, the state-owned Rosneft.

Two more borrowers on the Eurobond market, MMK (the biggest steel mill) and Gazprombank, carried out Eurobond placements in euro. The steel company has secured 100 million at 10.1% per year for three years, while Gazprombank has taken 200 million for two years at 9.75% per year. Also, Vneshtorgbank reported that it has borrowed \$100 million for a year

from Deutsche Bank at about 5% (2.5% spread to LIBOR). These figures are all around 1-1.5% per year lower than would have been seen in the last quarter of 2001. This is a favorable development for smaller Russian companies, which are also likely to see cost of financing decrease as benchmark yields slowly move downwards.

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