

Research

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Aeroflot

Hard times are coming

Recommendation: HOLD

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Bullet moments

- According to 2007 results, Aeroflot's income appeared to be at the expected level and formed 3,807 mn USD, which is by 28% higher than in 2006. The transfer of passengers is by 20% higher than it was planned, due to favorable situation at the air services market. The fleet renewal, new planes and implementation of expenses decrease program has a positive effect on net margin. Thus, EBIT margin formed 15.2% against 12.9% the year before. It should be mentioned that Aeroflot's efficiency appeared to be higher than other air companies have, which are also providing services at the foreign markets. The fleet renewal had a positive influence on company's fuel expenses, which growth is appeared to be not as high as company expected. The fuel expenses increased by +11.2% including jet fuel and lubricant expenses, which increased 20-25% in 2007 in comparison with 2006.
- In spite of operating results, Aeroflot's income is appeared to be lower than we have expected and formed 313.4 mn USD (21.4% growth), while the expected figures were 35%. A negative influence on net income had written off VAT expenses of freight transportations, which were provided in 2002-2004 and they formed about 32 mn USD. However, such expenses are not expected in the near future, as almost all of them were written off in 2007.
- The last year was the most successful for Aeroflot. Over 2008 and next 5 years, the company does not expect such good results. The main problem, which company has to face is a sharp growth of fuel prices. However, the prices correction can be seen in Europe, but in Russia, the prices of jet fuel market continue. For the first time the prices of jet fuel in Russia overgrew the world's level. Since May, the stock transactions show the decrease of jet fuel prices by 8% in Europe, while the prices in Russian airports have not changed. The fuel transactions in countries of West Europe were closed at 1270 USD per t level and these figures reached 1380 USD per t in Russia. Aeroflot has certain discounts due to direct contracting. Also the company passes 50% of fuel prices to consumer in terms of fuel penalty in air ticket cost. As it was planned earlier, the average growth of air services tariffs in 2008 forms 5-6%, but now these figures are changed to 10-11% growth.
- We reviewed company's financial model, taking into account 2007 results, including future potential risks and trends of air services development. As the result we decrease our estimation price form 4.71 USD to 4.17 USD per common share. Growth potential, according the current market situation, could form 6.19%. We change our recommendation from "BUY" to "HOLD".

Principal estimates

Company's shares vs RTS index



Company profile

RTS code	AFLT
Common share price, USD	3.93
Min/max share price in 52 weeks, USD	2,67 / 4,48
Fair value of the share/ADR by the year end, USD	4.17
Growth potential (com.), %	6.19
Total number of shares, items	1,061,675,980
Market capitalization, mn USD	4,167
EV, mn USD	5,154

Financial coefficients (IAS)

	2007	2008 (F)	2009 (F)
Sales, mn USD	3,808	4,762	5,975
EBITDA, mn USD	484	723	639
Net profit, mn USD	305	205	390
EBITDA margin, %	12.7	15.2	10.7
Net profit margin, %	8.0	4.3	6.5
NOPAT, mn USD	337	264	464
ROIC, %	27.1	13.1	20.5
ROE, %	38.9	18.4	30.6

Coefficients

	2007	2008 (F)	2009 (F)
P/E	13.6	20.4	10.7
P/S	1.1	0.9	0.7
P/BV	3.7	3.3	2.6
$EV/EBITDA$	8.6	5.8	6.5
EV/S	1.4	1.1	0.9
EV/IC	4.1	2.6	2.3
$ROIC/WACC$	2.7	1.3	2.0

FINANCIAL AND PRODUCTION RESULTS OF 2007

Aeroflot's IAS financial results of 2007

	2005		2006		2007
	mn USD	Change, %	mn USD	Change, %	mn USD
Income	2,526	18.1	2,983	27.7	3,808
passenger transfer	1,831	20.7	2,210	30.9	2,894
freight transfer	248	6.6	264	2.8	272
Other income	447	13.7	508	26.4	642
Operating expenses, including:	(1,862)	12.8	(2,099)	20.5	(2,530)
Jet fuel	(741)	24.2	(920)	11.2	(1,023)
Maintenance	(346)	13.3	(393)	26.8	(498)
Salaries	(142)	16.8	(166)	25.3	(208)
Service	(202)	(11.1)	(180)	16.0	(209)
Operational lease	(129)	4.7	(135)	26.5	(170)
General and administrative expenses	(93)	4.3	(97)	21.5	(117)
Passenger facilities	(67)	13.1	(76)	38.8	(106)
Other expenses	(141)	(5.7)	(133)	49.3	(199)
Staff expenses	(342)	19.5	(409)	35.7	(555)
Amortization	(80)	21.5	(97)	49.2	(145)
Operating income	242	55.7	377	53.3	578
Operating income margin, %	9.6	3.1	12.6	2.5	15.2
EBITDA	322	47.2	474	52.5	723
EBITDA margin, %	12.7	3.1	15.9	3.1	19.0
Interest paid	(25)	21.3	(31)	73.3	(53)
Interest yield	7	(42.0)	4	1,450.0	62
Income share of subsidiaries	6	47.4	8	(28.6)	6
Income/(expenses) due to exchange difference	(13)	(402.3)	39	-	-
Non-operating income/expenses, net	62	(115.3)	(10)	487.4	(56)
Income before tax (EBT)	279	39.1	388	38.4	537
EBT margin, %	11.0	2.0	13.0	1.1	14.1
Income tax	(89)	45.8	(130)	72.3	(224)
Net income	190	36.0	258	21.4	313
Net income margin, %	7.5	1.1	8.7	-0.4	8.2
Minority interest	6	(51.8)	3	200.0	8

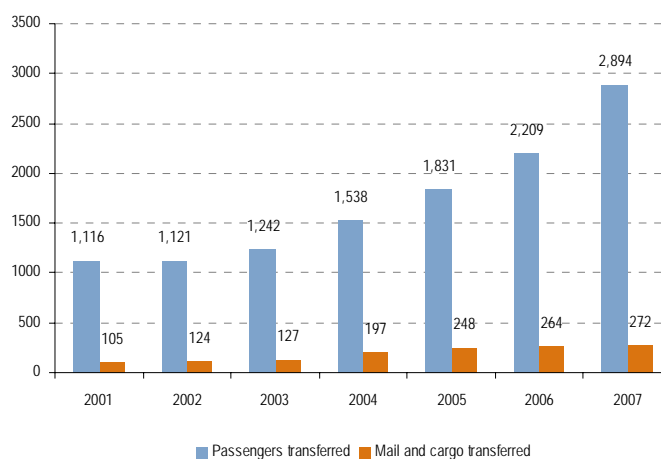
Source: company's data; Estimation: Veles Capital

Production results of 2007

	2004	Change, %	2005	Change, %	2006	Change, %	2007
Passengers transferred, mn people	6.6	3.03	6.8	29.41	8.8	15.91	10.2
Mail and cargo transferred, th tons	14.5	-0.07	145.4	4.40	151.8	1.25	153.7
Passenger traffic, bn p/km	20.6	0.49	20.7	17.39	24.3	14.81	27.9
Cargo traffic, bn t/km	2.7	0.00	2.7	25.93	3.4	0.00	3.4

Source: Company's data, Estimation: Veles Capital

Income structure, mn USD



Source: company's data; Estimation: Veles Capital

Financial model

Balance sheets, mn USD

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
Current assets	1,007	1,303	1,353	1,674	1,952	2,331	2,504	2,308	2,671	3,104	3,776	4,914	6,156	7,449
Cash and equivalents	181	91	56	185	229	261	294	280	274	285	299	315	331	350
Accounts payable and prepaid cash	701	1,054	1,180	1,354	1,549	1,700	1,855	1,731	1,659	1,680	1,726	1,779	1,841	1,914
Inventory	79	104	117	134	153	168	184	171	164	166	171	176	182	189
Short-term financial investments	45	54	0	0	21	201	171	125	574	973	1,579	2,644	3,800	4,995
Other current assets	0	1	1	1	1	1	1	1	1	1	1	1	1	1
Non-current assets	1,400	2,095	2,367	2,702	3,094	3,490	4,238	5,090	5,216	5,304	5,172	4,885	4,461	3,918
PPE	1,228	1,709	1,932	2,200	2,516	2,854	3,210	3,445	3,961	5,862	7,170	8,319	9,328	10,214
Long-term investments	19	22	27	34	42	48	54	51	50	52	55	58	61	64
Other non-current assets	153	365	408	469	536	588	642	599	574	581	597	616	637	662
Prepayments for PPE	0	0	0	0	0	0	332	995	631	(1,192)	(2,650)	(4,107)	(5,565)	(7,023)
TOTAL ASSETS	2,406	3,398	3,721	4,377	5,046	5,821	6,742	7,398	7,887	8,409	8,948	9,799	10,617	11,367
Short-term liabilities	888	1,013	1,141	1,394	1,679	1,892	2,115	2,003	1,949	2,013	2,106	2,202	2,310	2,430
Accounts payable and short-term liabilities	476	630	788	988	1,215	1,383	1,559	1,484	1,452	1,510	1,588	1,669	1,758	1,857
Short-term loans	229	131	147	169	193	212	231	216	207	210	215	222	230	239
Short-term share of financial leasing	52	67	0	0	0	0	0	0	0	0	0	0	0	0
Other (inc. deferred and uncollected income)	131	184	206	237	271	297	325	303	290	294	302	311	322	335
Long-term liabilities	729	1,200	1,227	1,312	1,227	1,275	1,393	1,614	1,595	1,455	1,271	1,290	1,112	636
Long-term liabilities	6	380	380	680	532	532	600	1100	1100	950	750	750	550	50
Financial leasing	453	531	516	245	245	245	245	0	0	0	0	0	0	0
Deferred tax liabilities	33	53	67	83	103	117	132	125	123	128	134	141	149	157
Other	238	236	265	304	348	382	416	388	372	377	387	399	413	429
Equity	785	1,112	1,274	1,582	2,036	2,533	3,095	3,624	4,168	4,746	5,356	6,068	6,927	7,996
Authorized capital	52	52	52	52	52	52	52	52	52	52	52	52	52	52
Retained earnings	753	1,015	1,176	1,485	1,939	2,435	2,997	3,526	4,071	4,648	5,258	5,970	6,829	7,898
Own shares	(34)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)
Reserve for revaluation	11	13	13	13	13	13	13	13	13	13	13	13	13	13
Reserve for change of currency rate	3	63	63	63	63	63	63	63	63	63	63	63	63	63
Minority interest	4	73	78	89	104	121	139	157	175	195	215	239	268	304
TOTAL LIABILITIES	2,406	3,398	3,721	4,377	5,046	5,821	6,742	7,398	7,887	8,409	8,948	9,799	10,617	11,367

Source: company's data; Estimation: Veles Capital

Income and loss report, mn USD

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
Sales	2,992	3,808	4,762	5,975	7,345	8,359	9,428	8,973	8,777	9,130	9,604	10,092	10,630	11,227
Transfer	2,473	3,165	4,033	5,123	6,356	7,269	8,237	7,919	7,817	8,192	8,673	9,168	9,714	10,317
Other income	519	642	729	852	989	1,090	1,191	1,054	960	938	931	924	917	910
Operating costs	(2,606)	(3,230)	(4,325)	(5,311)	(6,382)	(7,355)	(8,338)	(7,956)	(7,715)	(8,025)	(8,470)	(8,820)	(9,138)	(9,429)
Operating costs	(2,100)	(2,530)	(3,424)	(4,148)	(4,936)	(5,697)	(6,454)	(6,047)	(5,771)	(5,951)	(6,090)	(6,211)	(6,315)	(6,404)
Staff costs	(408)	(555)	(699)	(935)	(1,187)	(1,361)	(1,547)	(1,529)	(1,538)	(1,607)	(1,687)	(1,762)	(1,841)	(1,923)
Amortization	(98)	(145)	(202)	(228)	(260)	(297)	(337)	(379)	(407)	(468)	(693)	(847)	(983)	(1,102)
EBITDA	484	723	639	892	1,223	1,302	1,427	1,397	1,469	1,573	1,827	2,119	2,475	2,900
EBITDA margin, %	16.2	19.0	13.4	14.9	16.6	15.6	15.1	15.6	16.7	17.2	19.0	21.0	23.3	25.8
Primary activity income (EBIT)	386	578	437	664	963	1,004	1,090	1,017	1,062	1,105	1,134	1,272	1,492	1,798
Interest expense	(32)	(53)	(73)	(74)	(103)	(91)	(92)	(100)	(118)	(117)	(103)	(85)	(86)	(67)
Interest income	42	62	2	0	0	1	6	5	4	17	29	47	79	114
Other income	(8)	(50)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)
EBT	388	537	348	572	842	896	986	904	930	987	1,043	1,216	1,468	1,827
EBT margin, %	13.0	14.1	7.3	9.6	11.5	10.7	10.5	10.1	10.6	10.8	10.9	12.1	13.8	16.3
Payments/refund of income tax	(130)	(224)	(138)	(172)	(253)	(251)	(256)	(217)	(223)	(237)	(250)	(292)	(352)	(439)
EAT	258	313	210	400	589	645	729	687	707	750	792	924	1,116	1,389
Minority interest	(3)	(8)	(5)	(10)	(15)	(17)	(19)	(18)	(18)	(19)	(20)	(24)	(29)	(36)
Net profit	255	305	205	390	574	628	711	670	689	731	772	900	1,087	1,353
Net profit margin, %	8.5	8.0	4.3	6.5	7.8	7.5	7.5	7.5	7.8	8.0	8.0	8.9	10.2	12.0

Source: company's data; Estimation: Veles Capital

Price estimation

Weighted average cost of capital calculation (WACC)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Risk-free yield:														
k_{rf} \$ (GT10 aver(5)), %	4.63	4.63	4.63	4.63	4.63	4.63	4.63	4.63	4.63	4.63	4.63	4.63	4.63	4.63
Current spread of default of Russia, %	1.56	1.56	1.56	1.56	1.56	1.56	1.56	1.56	1.56	1.56	1.56	1.56	1.56	1.56
k_{rf}^{RUR} , %	6.19	6.19	6.19	6.19	6.19	6.19	6.19	6.19	6.19	6.19	6.19	6.19	6.19	6.19
Required yield of shareholders:														
Share premium, %	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Premium for non-liquidity, %	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49
β coefficient	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Premium for quality of corporate management, %	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80
k_s , %	12.45	12.45	12.45	12.45	12.45	12.45	12.45	12.45	12.45	12.45	12.45	12.45	12.45	12.45
Required yield of creditors:														
Credit rating, S&P scale	B	B	B	B	B	B	B	B	B	B	B	B	B	B
Premium for credit risk, %	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80
k_d , %	8.99	8.99	8.99	8.99	8.99	8.99	8.99	8.99	8.99	8.99	8.99	8.99	8.99	8.99
Capital structure:														
Source fraction: "own capital", %	77%	69%	71%	65%	74%	77%	79%	73%	76%	80%	85%	86%	90%	97%
Source fraction: "borrowed capital", %	23%	31%	29%	35%	26%	23%	21%	27%	24%	20%	15%	14%	10%	3%
WACC, %	10.96	10.18	10.39	10.30	10.83	11.09	11.22	10.95	11.11	11.34	11.59	11.67	11.88	12.25

Source: company's data; Estimation: Veles Capital

Calculation of free cash flows, mn USD

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
NOPAT	257	337	264	464	674	723	807	773	807	839	862	967	1,134	1,367
Amortization	(98)	(145)	(202)	(228)	(260)	(297)	(337)	(379)	(407)	(468)	(693)	(847)	(983)	(1,102)
Gross operating cash flow	355	482	466	693	934	1,020	1,144	1,152	1,214	1,307	1,555	1,814	2,117	2,469
Capital costs	(262)	(374)	(425)	(496)	(576)	(635)	(1,025)	(1,277)	(1,223)	(1,210)	(1,206)	(1,202)	(1,197)	(1,193)
Changes in turnover capital	33	(333)	41	39	47	28	34	40	34	39	36	31	32	32
FCFF	126	(224)	82	236	405	413	152	(85)	25	136	385	643	951	1,307
Discount rate, %		10.18	10.39	10.30	10.83	11.09	11.22	10.95	11.11	11.34	11.59	11.67	11.88	12.25
Discount coefficient		1.00	1.00	0.91	0.81	0.73	0.65	0.59	0.53	0.47	0.42	0.37	0.33	0.28
Discounted FCFF		(224)	82	214	330	301	99	(51)	13	64	160	238	310	367

Source: company's data; Estimation: Veles Capital

Estimation of Aeroflot's shares fundamental price

Target growth rate, %	3
Cash flow amount, mn USD	2,046
Terminal value, mn USD	14,557
Discounted terminal value, mn USD	3,638
Company's cost, mn USD	5,684
Debt cost, mn USD	987
Share capital cost including minority interest, mn USD	4,697
Minority share, mn USD	272
Share capital cost, mn USD	4,425
Quantity of common shares, mn USD	1,061,675,980
Common share's fundamental cost, USD	4.17
<i>Underestimation (overestimation) of common shares, %</i>	<i>6.19</i>

Source: company's data; Estimation: Veles Capital

ESTIMATION OF FINANCIAL STATE AND BUSINESS EFFICIENCY

Cost creation estimates

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
Invested capital growth (IC), mn USD	885	1,246	2,010	2,261	2,490	2,756	3,060	3,706	4,535	4,627	4,647	4,442	4,081	3,575
Equity, mn USD	559	785	1,112	1,274	1,582	2,036	2,533	3,095	3,624	4,168	4,746	5,356	6,068	6,927
Economic profit spread, %	18	17	3	10	16	15	15	10	7	7	7	10	16	26
EVA	160	211	55	232	404	418	463	367	303	315	324	448	649	929

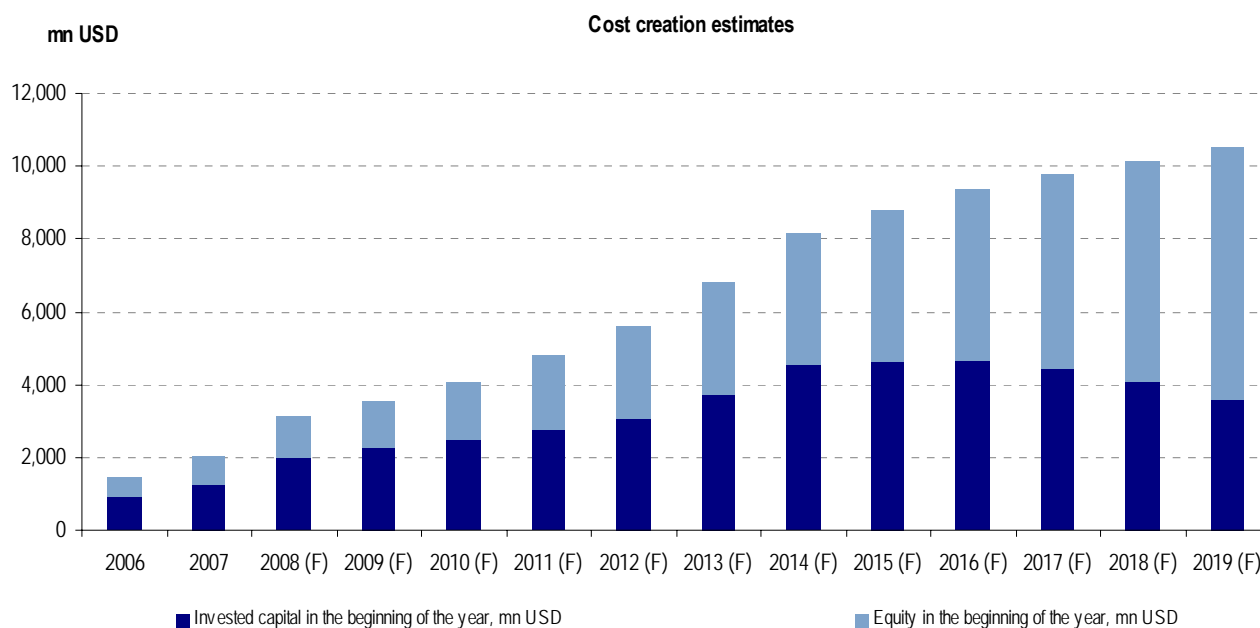
Business efficiency analysis

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
ROIC, %	29.0	27.1	13.1	20.5	27.1	26.2	26.4	20.9	17.8	18.1	18.6	21.8	27.8	38.2
ROE, %	45.7	38.9	18.4	30.6	36.3	30.9	28.1	21.6	19.0	17.5	16.3	16.8	17.9	19.5
ROA, %	10.6	9.0	5.5	8.9	11.4	10.8	10.5	9.1	8.7	8.7	8.6	9.2	10.2	11.9
EBITDA margin, %	16.2	19.0	13.4	14.9	16.6	15.6	15.1	15.6	16.7	17.2	19.0	21.0	23.3	25.8
EBIT margin, %	12.9	15.2	9.2	11.1	13.1	12.0	11.6	11.3	12.1	12.1	11.8	12.6	14.0	16.0
Net profit margin, %	8.5	8.0	4.3	6.5	7.8	7.5	7.5	7.5	7.8	8.0	8.0	8.9	10.2	12.0

Financial state analysis

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
Financial leverage	0.30	0.46	0.41	0.54	0.36	0.29	0.27	0.36	0.31	0.24	0.18	0.16	0.11	0.04
liquidity estimates														
coverage coeff.	0.99	1.13	1.08	1.10	1.06	1.04	1.02	1.00	0.99	0.98	0.96	0.95	0.94	0.93
fast liquidity coeff.	1.13	1.29	1.19	1.20	1.16	1.23	1.18	1.15	1.37	1.54	1.79	2.23	2.66	3.06
absolute liquidity coeff.	0.20	0.09	0.05	0.13	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
business activity indicators														
ratio of debt arrearage, days	84	100	89	82	76	73	71	69	68	66	65	63	62	61
ratio of supplies, days	10	10	9	8	8	7	7	7	7	7	6	6	6	6

Source: company's data; Estimation: Veles Capital



Source: company's data; Estimation: Veles Capital

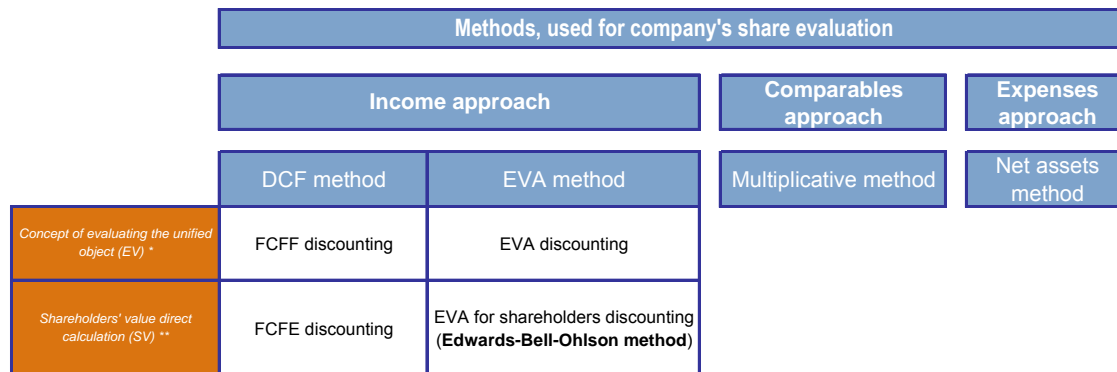
PUBLIC COMPARABLES

Sector companies' multipliers and coefficients

		Current capitalization, mln USD	Enterprise value, mln USD	Market multipliers						Financial coefficients				
				P/IS	EV/IS	EV/EBITDA	P/E	P/BV	EV/IC	ROE, %	ROA, %	ROIC, %	EBITDA margin, %	ROIC / WACC
Developed markets														
Deutsche Lufthansa AG	GERMANY	10,250	12,752	0.27	0.33	3.04	7.19	0.96	0.97	13.93	6.09	13.12	10.86	1.32
Air Berlin PLC	GERMANY	512	1,716	0.10	0.34	4.90	-	0.59	0.83	5.66	3.96	2.33	7.02	0.23
Austrian Airlines AG	AUSTRIA	512	1,685	0.13	0.43	4.33	-	-	0.73	-	-	-	9.98	-
SkyEurope Holding AG	AUSTRIA	66	107	0.16	0.26	-	-	-	2.87	167.50	-	-	-	-
Air France-KLM	FRANCE	7,330	11,816	0.19	0.30	2.81	6.65	-	0.56	7.55	3.32	5.18	10.69	0.60
Qantas Airways Ltd	AUSTRALIA	5,464	7,621	0.35	0.49	2.71	5.60	1.09	1.06	18.00	8.10	13.69	18.15	1.20
Virgin Blue Holdings Ltd	AUSTRALIA	550	1,354	0.25	0.62	4.44	4.78	0.86	0.94	16.09	6.67	8.57	13.98	0.67
Air New Zealand Ltd	NEW ZEALAND	883	1,064	0.24	0.29	2.52	8.15	0.65	0.69	9.63	4.32	10.30	11.54	1.07
All Nippon Airways Co Ltd	JAPAN	7,260	13,783	0.51	0.96	7.75	27.71	1.60	1.25	6.13	3.87	3.98	12.41	0.75
Japan Airlines Corp	JAPAN	5,581	11,102	0.27	0.54	6.58	46.65	1.23	1.10	2.87	1.55	2.92	8.15	0.72
Alitalia SpA	ITALY	958	2,821	0.13	0.38	-	-	-	0.98	0.99	-	-	-	-
SAS AB	SWEDEN	995	1,681	0.11	0.19	5.36	19.16	-	-	2.80	0.50	3.20	3.50	0.36
Finnair OYJ	FINLAND	933	1,076	0.26	0.30	3.48	9.80	0.61	0.64	5.80	1.59	5.00	8.48	0.51
Westjet Airlines Ltd	CANADA	1,889	2,989	0.75	1.18	5.78	9.99	1.99	1.46	17.68	6.75	11.37	20.43	1.55
ACE Aviation Holdings Inc	CANADA	1,090	2,932	0.10	0.26	2.45	14.74	2.52	1.29	2.38	10.27	13.48	10.55	2.66
Discovery Air Inc	CANADA	118	253	0.73	1.56	5.53	7.78	0.60	0.76	7.00	-	8.47	28.23	1.16
Jazz Air Income Fund	CANADA	743	1,547	0.48	1.00	9.46	5.79	0.82	0.90	112.00	0.58	0.46	10.52	0.06
Air Canada	CANADA	900	5,689	0.08	0.51	5.59	8.00	2.60	1.11	-	3.64	3.72	9.16	0.84
JetBlue Airways Corp	UNITED STATES	891	2,965	0.26	0.87	14.45	-	0.67	0.87	-	1.70	0.18	6.05	0.03
Alaska Air Group Inc	UNITED STATES	670	1,390	0.18	0.38	8.49	-	0.70	0.83	5.67	3.90	-	4.46	-
Airtran Holdings Inc	UNITED STATES	297	823	0.11	0.31	-	-	-	0.58	0.79	-	2.89	-	-
Southwest Airlines Co	UNITED STATES	10,325	10,061	0.95	0.93	10.03	48.36	1.44	1.45	5.03	1.90	3.77	9.23	0.45
Continental Airlines Inc	UNITED STATES	1,406	4,677	0.09	0.30	45.89	-	0.95	0.99	-	-	-	0.66	-
Allegiant Travel Co	UNITED STATES	462	363	0.94	0.73	7.45	22.71	2.25	3.41	8.90	8.86	20.72	9.86	2.10
Mesa Air Group Inc	UNITED STATES	15	451	0.01	0.34	7.22	9.53	-	0.79	1.10	-	3.94	4.71	0.62
US Airways Group Inc	UNITED STATES	290	1,247	0.02	0.10	-	-	-	0.59	-	5.47	-	-	-
Skywest Inc	UNITED STATES	810	2,015	0.22	0.56	3.73	5.39	0.66	0.83	8.26	5.10	8.85	14.96	1.31
AMR Corp	UNITED STATES	1,529	7,490	0.06	0.31	34.16	-	0.61	0.89	-	-	-	0.92	-
UAL Corp	UNITED STATES	900	4,532	0.04	0.22	-	-	-	0.78	-	-	-	0.13	-
British Airways PLC	BRITAIN	4,868	7,206	0.27	0.41	4.11	17.44	0.81	0.86	4.77	2.74	4.70	9.85	0.54
easyJet PLC	BRITAIN	2,381	1,913	0.53	0.42	4.94	10.27	1.03	1.04	10.30	5.95	11.05	8.60	1.05
AER Lingus	IRELAND	1,357	398	0.61	0.18	3.06	21.54	0.98	0.94	6.40	5.53	9.66	5.82	0.91
Ryanair Holdings PLC	IRELAND	6,894	7,133	1.34	1.39	10.11	22.23	1.85	1.79	8.49	5.11	9.06	13.74	0.85
Developed markets weighted average		2,398	4,080	0.25	0.45	4.70	11.25	1.12	0.96	9.77	4.19	7.40	10.65	0.85
Developing markets														
China Southern Airlines Co Ltd	CHINA	3,690	10,556	0.40	1.15	8.67	10.40	8.18	1.44	16.74	4.50	2.66	13.31	0.29
China Southern Airlines Co Ltd	CHINA	3,690	9,984	0.40	1.08	11.68	6.01	3.71	1.37	24.77	2.38	11.38	9.23	1.08
Air China Ltd	CHINA	11,452	18,381	1.32	2.11	11.68	17.58	7.41	2.17	10.32	5.62	6.56	18.08	0.43
China Eastern Airlines Corp Ltd	CHINA	3,578	10,830	0.51	1.53	11.51	29.19	-	1.47	21.70	2.90	1.19	13.33	0.13
Shanghai Airlines Co	CHINA	829	1,655	0.39	0.78	56.34	44.91	3.81	1.59	-	-	-	1.38	-
Malaysian Airline System BHD	MALAYSIA	1,628	264	0.34	0.06	1.19	9.15	1.30	-	16.43	6.82	-	4.67	-
AirAsia BHD	MALAYSIA	589	2,118	0.82	2.94	11.06	5.39	1.22	1.05	17.17	6.18	4.18	26.55	0.37
Turk Hava Yollari	TURKEY	842	2,100	0.19	0.47	3.09	4.27	0.52	0.73	11.00	5.15	7.41	15.06	0.46
Singapore Airlines Ltd	SINGAPORE	12,948	11,258	1.05	0.91	4.68	11.12	1.18	1.21	9.41	6.87	11.88	19.48	1.16
Korean Air Lines Co Ltd	SOUTH KOREA	3,747	11,573	0.39	1.20	10.83	-	0.75	0.90	-	-	0.35	11.04	0.04
Asiana Airlines	SOUTH KOREA	973	4,351	0.24	1.05	11.40	19.65	0.82	0.95	3.86	1.83	3.74	9.23	0.35
Thai Airways International Pcl	THAILAND	1,072	4,596	0.17	0.74	4.90	6.67	-	0.80	8.78	2.54	4.51	15.15	0.59
China Airlines	TAIWAN	2,070	6,996	0.47	1.59	17.57	-	1.09	1.02	-	-	-	9.05	-
Eva Airways Corp	TAIWAN	1,886	5,029	0.59	1.56	19.81	-	1.38	1.12	-	0.23	-	7.88	-
Copa Holdings SA	PANAMA	1,358	2,308	1.07	1.81	10.37	10.22	3.62	1.74	22.86	10.85	12.51	17.50	1.08
Cathay Pacific Airways Ltd	HONG KONG	7,848	10,572	0.69	0.93	7.28	10.54	1.21	1.15	8.86	5.14	6.31	12.82	0.65
Gol Linhas Aereas Inteligentes SA	BRAZIL	2,555	3,029	0.60	0.71	8.72	16.28	4.17	2.78	19.04	6.14	23.23	8.10	2.39
Tam SA	BRAZIL	3,655	4,311	0.60	0.71	6.83	14.20	7.23	3.71	39.93	7.17	22.40	10.40	2.24
Lan Airlines SA	CHILE	3,629	5,432	0.85	1.27	7.81	9.94	-	-	30.15	7.70	-	16.26	-
Jet Airways India Ltd	INDIA	1,047	2,325	0.51	1.13	26.68	-	2.03	1.30	-	0.28	-	4.25	-
Air Arabia	UAE	2,401	1,477	5.28	3.25	12.46	18.74	-	-	9.18	9.31	-	26.04	-
Developing markets weighted average		3,404	6,150	0.62	0.78	7.07	11.09	1.71	1.29	15.45	5.56	8.82	14.50	0.83
Russia														
Kuban Airlines		55	58	0.58	0.61	-	-	3.39	3.03	-	-	-	-	-
Aeroflot - Russian International Airlines		4,387	5,374	0.92	1.13	8.41	21.43	3.94	2.56	18.41	5.50	13.12	13.41	1.26
Siberia Airlines		427	708	0.35	0.57	6.89	13.06	-	2.45	37.82	0.59	32.26	8.35	-
KrasAir		160	341	0.26	0.56	22.73	-	10.38	1.74	5.20	0.18	0.25	2.46	0.04
UTair Aviation		391	592	0.49	0.74	6.83	16.45	-	-	22.66	5.65	-	10.81	-
Russia weighted average		1,084	1,415	0.72	0.98	8.28	19.57	4.02	2.49	19.87	4.96	14.35	12.49	1.22

Source: Bloomberg, company data, Estimation: Veles Capital

Brief investor's guide



*

Debt cost is calculated separately and then subtracted from the sum total cost of business (target EV), formed considering the cash flows/ economic profits of firm.

**

Debt is accounted integrated -via annual coverage. So the fair cost of shareholders' value (target SV) is formed directly - considering the cash flow / economic profits for holders.

Note:

DCF methods differ from the methods of economic profit by the way of investments calculation. The methods of unified object evaluation concept differ from these methods of direct calculation of shareholders' value costs - by the way of accounting cost and maintenance of debt liabilities.

Cost calculation within the frames of income approach:

	Business cost calculation (EV) within the frames of united object cost evaluation	Shareholders' capital value calculation (SV)
DCF method (FCFF)	$EV = \sum_{i=1}^n \frac{FCFF_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_1)^n} + NA$	$SV = EV - D$
DCF method (FCFE)		$SV = \sum_{i=1}^n \frac{FCFE_i}{(1+k_{S_i})^i} + \frac{TV}{(1+k_{S_i})^n} + \text{Cash} + NA$
EVA method	$EV = IC_1 + \sum_{i=1}^n \frac{EVA_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_1)^n} + NA$	$SV = EV - D$
EBO method		$SV = BV_1 + \sum_{i=1}^n \frac{SVA_i}{(1+k_{S_i})^i} + \frac{TV}{(1+k_{S_i})^n} + \text{Cash} + NA$

Signs:

EV	- Enterprise Value
SV	- Shareholders Value
TV	- Terminal Value
Cagr	- development rates within the target period
BV, E	- Balance Value, Equity
EBIT	- operational profit from selling, profit before payments of credit interest and income tax
EBITDA	- operational profit before payment of credit interest, income tax and amortization
EBT	- Earnings Before Tax
EAT	- Earnings After Tax
EPS	- Earnings Per Share
NOPAT	- net operational profit, free from effects of debt financing $NOPAT = EBIT * (1 - \text{income tax effective rate})$
FCFF	- Free Cash Flow to Firm $FCFF = \text{gross cash flow} - \text{gross investments}$ $\text{Gross cash flow} = NOPAT + \text{amortization}$
FCFE	- Free Cash Flow to Equity $FCFE = \text{gross shareholders' cash flow} - \text{gross investments}$ $\text{Gross shareholders' cash flow} = \text{EAT of operational profit (including interest payoffs)} - \text{annual debt coverage} + \text{attracted borrowed assets} + \text{amortization}$
EVA	- Economic Value Added $EVA = \text{economic profit spread} * IC = (ROIC - WACC) * IC$
SVA	- Shareholders Value Added $SVA = \text{spread} * E = (ROE - k_s) * E$
WACC	- Weighted Average Cost of Capital
k_s	- required shareholders' yield
D	- fair (market) cost of net debt
Cash	- cash assets, along with market securities on thee balance
NA	- non-operational assets
IC	- Invested Capital
ROIC	- Return on Invested Capital $ROIC = \frac{NOPAT}{IC}$
ROE	- Return on Equity
ROA	- Return on Assets

Information disclosure

The statement of an analyst and confirmation of the responsibility withdrawal

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The principle of recommendation assignment

The investment recommendations are given based on the evaluation of the company's share yield. The basis for the calculation of the expected company's cost is the evaluation by the discounted cash flows method (DCF). In some estimations the method of comparable coefficients, and also the mixed estimation (by DCF method and by comparable coefficients method) are applied. All recommendations are assigned based on the determined by us the fair cost of the shares within the nearest 12 months.

At the present moment the investment scale of the Investment Company Veles Capital is the following:

BUY – corresponds to the growth potential of the shares within the nearest 12 months by 15% or more.

ACCUMULATE – corresponds to the growth potential of the shares within the nearest 12 months for 5-15%.

HOLD – corresponds to the growth (reduction) potential of the shares within the nearest 12 months from -5% to 5%.

REDUCE – corresponds to the reduction potential of the shares within the nearest 12 months from 15% to 5%.

SELL – corresponds to the reduction potential of the shares within the nearest 12 months by 15% or more.

In some cases the deviations from the evaluation scale given above, based on which the recommendations are assigned, are possible. That fact relates to the high volatility of some securities in particular, and market in the whole, and also to the individual characteristics of one or another issuer.

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