

# Rostelecom

*Waiting for diversification*

**Recommendation: CS – SELL**

**PS – BUY**

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## Bullet moments

In the beginning of July, Rostelecom has published its IAS 2007 report. As we have mentioned before, company's report was not surprising and according to main financial results appeared under our expectations. Company's revenue increased by +11.4%, OIBDA margin rose by +0.7 p.p. and reached 16.5%. Among the operating results, we should point out a weak growth of international traffic (+4.7%, due to decreased tariffs, the company became more attractive for subscribers) and decrease of international output traffic (-5.8%). Apparently, the competition in this segment is too strong, that is why Rostelecom's positions are still weak. It should be mentioned that new services have a sound influence on company's revenue, especially Internet access services.

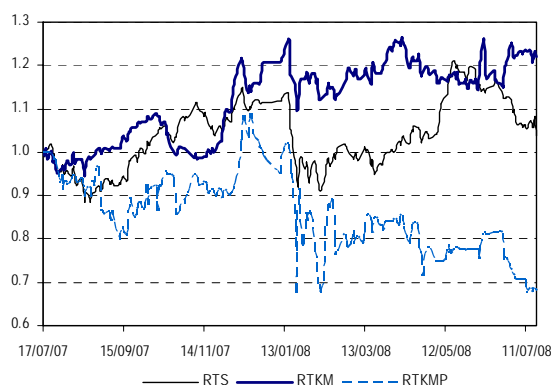
Konstantin Solodukhin, the head of Rostelecom announced the main trends of company's development strategy, concerning business diversification. The strategy intends Rostelecom's entry to new markets – regional broadband, corporate clients and foreign markets. However, the given strategy can be characterized as preliminary and it does not reflect any final figures.

We did not reflect company's development at the new foreign markets, because Rostelecom has yet to define its development strategy fully. We forecast the decrease of long-distance communications tariffs by -9.4%, due to FTS' decision concerning the tariffs and we also think that they will not change them during 2009-2010. We also took into account the compensation payment cancelation (costs will decrease by -140 mn USD), which will lead to growth efficiency. Moreover, we have reflected the influence of Golden Telecom's sale. We did not reflect company's development at the new foreign markets, because Rostelecom did not define its development strategy in full value yet.

Our new estimation of Rostelecom's shares is: 4.48 USD per common share and 3.36 USD per preferred share (7.2% fall). The main reason of decrease is difference of our 2007 forecasts vs the current data. Taking into account the increase/decrease potential of Rostelecom's securities, we keep our "SELL" recommendation on common shares and "BUY" recommendation on preferred shares intact.

## Principal estimates

Company's shares vs. the RTS index



### Information about Rostelecom

Ticker	RTS	RTKM / RTKMP
Market price (cs), USD		12.00
Market price (ps), USD		2.01
Min / max price during last year (cs), USD		9.30 / 12.44
Min / max price during last year (ps), USD		2.00 / 3.21
Fair price at year end (cs), USD		4.48
Fair price at year end (ps), USD		3.36
Upside (downside) (cs), %		-62.6
Upside (downside) (ps), %		67.7
Number of common shares, units		728,696,320
Number of preferred shares, units		242,831,469
MC, mn USD		9,231
EV, mn USD		8,948

Financial values (IAS)	2007	2008 (F)	2009 (F)
Sales, mn USD	2,528	2,553	2,597
OIBDA, mn USD	417	438	360
Net income, mn USD	110	115	64
OIBDA margin, %	16.5	17.2	13.9
Net income margin, %	4.3	4.5	2.5

Financial coefficients	2007	2008 (F)	2009 (F)
EV / S	3.54	3.51	3.45
EV / OIBDA	21.48	20.41	24.84
P / E	79.65	75.82	136.40
ROIC, %	4.2	4.0	2.1
ROE, %	4.8	5.0	2.8

## Financial model of Rostelecom

### Income statements of Rostelecom, mn USD

	2003	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Sales	1,019	1,296	1,448	2,269	2,528	2,553	2,597	2,641	2,786	3,052	3,347
Costs	(679)	(862)	(1,006)	(1,911)	(2,101)	(2,094)	(2,218)	(2,262)	(2,452)	(2,599)	(2,761)
<b>OIBDA</b>	<b>340</b>	<b>434</b>	<b>442</b>	<b>358</b>	<b>417</b>	<b>438</b>	<b>360</b>	<b>360</b>	<b>317</b>	<b>435</b>	<b>570</b>
<i>OIBDA margin, %</i>	<i>33.4</i>	<i>33.5</i>	<i>30.5</i>	<i>15.8</i>	<i>16.5</i>	<i>17.2</i>	<i>13.9</i>	<i>13.6</i>	<i>11.4</i>	<i>14.3</i>	<i>17.0</i>
Amortization	(269)	(260)	(252)	(310)	(298)	(309)	(297)	(286)	(276)	(267)	(260)
<b>EBIT</b>	<b>71</b>	<b>174</b>	<b>14</b>	<b>48</b>	<b>119</b>	<b>129</b>	<b>63</b>	<b>74</b>	<b>40</b>	<b>168</b>	<b>310</b>
<i>EBIT margin, %</i>	<i>7.0</i>	<i>13.4</i>	<i>1.0</i>	<i>2.1</i>	<i>4.7</i>	<i>5.1</i>	<i>2.4</i>	<i>2.8</i>	<i>1.5</i>	<i>5.5</i>	<i>9.3</i>
Interest expenses	(7)	(0)	(3)	(5)	(9)	(7)	(0)	(0)	(0)	(0)	(0)
Non-operating income (losses)	58	22	48	47	47	39	25	30	32	34	36
<b>EBT</b>	<b>122</b>	<b>195</b>	<b>59</b>	<b>90</b>	<b>157</b>	<b>161</b>	<b>88</b>	<b>104</b>	<b>73</b>	<b>202</b>	<b>346</b>
<i>EBT margin, %</i>	<i>12.0</i>	<i>15.1</i>	<i>4.1</i>	<i>4.0</i>	<i>6.2</i>	<i>6.3</i>	<i>3.4</i>	<i>3.9</i>	<i>2.6</i>	<i>6.6</i>	<i>10.3</i>
Income tax	(7)	(47)	(25)	(36)	(47)	(46)	(24)	(26)	(17)	(48)	(83)
Minority interest	(2)	0	0	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Loss from discontinued operations	(57)	0	0	0	0	0	0	0	0	0	0
<b>Net income</b>	<b>56</b>	<b>148</b>	<b>35</b>	<b>54</b>	<b>110</b>	<b>115</b>	<b>64</b>	<b>77</b>	<b>55</b>	<b>153</b>	<b>263</b>
<i>Net income margin, %</i>	<i>5.5</i>	<i>11.4</i>	<i>2.4</i>	<i>2.4</i>	<i>4.3</i>	<i>4.5</i>	<i>2.5</i>	<i>2.9</i>	<i>2.0</i>	<i>5.0</i>	<i>7.8</i>

Source: company's data, Estimation: Veles Capital

### Golden Telecom's stake sale

### Balance sheets of Rostelecom, mn USD

	2003	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
<b>ASSETS</b>											
<b>Non-current assets</b>											
PPE and intangible assets	1,692	1,653	1,412	1,488	1,568	1,468	1,386	1,321	1,270	1,236	1,216
Other non-current assets	87	101	128	339	616	175	177	180	181	181	181
<b>Total non-current assets</b>	<b>1,779</b>	<b>1,753</b>	<b>1,540</b>	<b>1,827</b>	<b>2,184</b>	<b>1,643</b>	<b>1,563</b>	<b>1,500</b>	<b>1,451</b>	<b>1,417</b>	<b>1,398</b>
<b>Current assets</b>											
Inventories	19	22	26	21	18	18	19	19	20	22	24
Accounts receivable	242	202	195	341	375	350	331	314	315	335	362
Short-term investments	94	293	425	323	282	759	864	955	1,021	1,076	1,121
Cash and equivalents	86	45	83	89	134	135	137	140	147	162	177
<b>Total current assets</b>	<b>441</b>	<b>562</b>	<b>730</b>	<b>774</b>	<b>809</b>	<b>1,262</b>	<b>1,351</b>	<b>1,428</b>	<b>1,503</b>	<b>1,595</b>	<b>1,685</b>
<b>Total assets</b>	<b>2,219</b>	<b>2,315</b>	<b>2,270</b>	<b>2,602</b>	<b>2,993</b>	<b>2,905</b>	<b>2,914</b>	<b>2,929</b>	<b>2,955</b>	<b>3,012</b>	<b>3,082</b>
<b>LIABILITIES</b>											
<b>Shareholder's equity</b>											
Authorised capital	3	4	3	4	4	4	4	4	4	4	4
Retained earnings	1,633	1,824	1,723	1,930	2,283	2,302	2,312	2,324	2,333	2,358	2,400
<b>Total shareholder's equity</b>	<b>1,636</b>	<b>1,827</b>	<b>1,727</b>	<b>1,934</b>	<b>2,287</b>	<b>2,306</b>	<b>2,316</b>	<b>2,328</b>	<b>2,337</b>	<b>2,362</b>	<b>2,404</b>
Minority interest	7	0	0	1	1	1	1	1	1	1	1
<b>Non-current liabilities</b>											
Long-term borrowings	122	68	156	145	133	23	16	13	11	10	0
Other non-current liabilities	272	239	158	157	179	179	179	179	179	179	179
<b>Total non-current liabilities</b>	<b>394</b>	<b>307</b>	<b>315</b>	<b>302</b>	<b>312</b>	<b>202</b>	<b>195</b>	<b>192</b>	<b>190</b>	<b>189</b>	<b>179</b>
<b>Current liabilities</b>											
Accounts payable	122	115	141	280	303	306	312	317	334	366	402
Short-term borrowings	0	0	0	7	1	1	1	1	1	1	1
Other current liabilities	61	67	87	78	88	89	89	89	91	93	95
<b>Total current liabilities</b>	<b>182</b>	<b>182</b>	<b>228</b>	<b>365</b>	<b>393</b>	<b>396</b>	<b>402</b>	<b>407</b>	<b>426</b>	<b>460</b>	<b>498</b>
<b>Total liabilities</b>	<b>2,219</b>	<b>2,315</b>	<b>2,270</b>	<b>2,602</b>	<b>2,993</b>	<b>2,905</b>	<b>2,914</b>	<b>2,929</b>	<b>2,955</b>	<b>3,012</b>	<b>3,082</b>

Source: company's data, Estimation: Veles Capital

**Statements of cash flow of Rostelecom, mn USD**

	2003	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
<b>Cash flows from operating activities</b>											
Income before tax	122	195	59	90	157	161	88	104	73	202	346
Loss from discontinued operations	(43)	0	0	0	0	0	0	0	0	0	0
Amortization	270	260	252	310	298	309	297	286	276	267	260
Interest and other income/loss (net)	(14)	(19)	(31)	(31)	(25)	(10)	(22)	(26)	(29)	(31)	(32)
Other	63	18	204	26	37	27	43	37	35	32	30
Changes in working capital	(248)	(91)	(12)	(59)	(19)	(1)	(1)	(1)	(4)	(7)	(8)
Interest expenses	(12)	4	20	13	31	10	22	26	29	31	32
Income tax	(71)	(98)	(107)	(76)	(96)	(46)	(24)	(26)	(17)	(48)	(83)
<b>Net cash provided by operating activities</b>	<b>68</b>	<b>269</b>	<b>387</b>	<b>274</b>	<b>383</b>	<b>451</b>	<b>403</b>	<b>400</b>	<b>362</b>	<b>446</b>	<b>544</b>
<b>Cash flows from investing activities</b>											
CapEx	(109)	(156)	(275)	(265)	(280)	(230)	(234)	(238)	(241)	(247)	(253)
Gains from sales associates	(21)	0	5	(55)	(1)	464	0	0	0	0	0
Other	(87)	(36)	(86)	155	37	(477)	(105)	(91)	(66)	(55)	(45)
<b>Net cash provided by investing activities</b>	<b>(216)</b>	<b>(192)</b>	<b>(356)</b>	<b>(164)</b>	<b>(244)</b>	<b>(243)</b>	<b>(339)</b>	<b>(329)</b>	<b>(307)</b>	<b>(302)</b>	<b>(298)</b>
<b>Cash flows from financing activities</b>											
Proceeds from borrowings	72	0	0	0	0	1	1	1	1	1	1
Repayments of borrowings	(258)	(86)	(41)	(76)	(55)	(111)	(8)	(4)	(3)	(3)	(11)
Other	300	(35)	51	(35)	(48)	(97)	(54)	(65)	(46)	(129)	(221)
<b>Net cash provided by financial activities</b>	<b>114</b>	<b>(121)</b>	<b>10</b>	<b>(111)</b>	<b>(102)</b>	<b>(207)</b>	<b>(61)</b>	<b>(68)</b>	<b>(48)</b>	<b>(130)</b>	<b>(230)</b>
<b>Net change of cash</b>	<b>(36)</b>	<b>(44)</b>	<b>40</b>	<b>(2)</b>	<b>36</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>8</b>	<b>14</b>	<b>16</b>
Cash at the beginning of period	115	86	45	83	89	134	135	137	140	147	162
Cash at the end of period	86	45	83	89	134	135	137	140	147	162	177

Source: company's data, Estimation: Veles Capital

Golden Telecom's  
stake sale

## Price estimation of Rostelecom

Discount rate (WACC) of Rostelecom, %											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Cost of equity (k<sub>e</sub>)</b>	<b>10.60</b>	<b>10.31</b>	<b>10.21</b>	<b>10.30</b>	<b>10.31</b>	<b>10.27</b>	<b>10.16</b>	<b>10.16</b>	<b>10.15</b>	<b>10.15</b>	<b>10.15</b>
Risk-free rate	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
10 year US Treasures yield	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Russia risk	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Stock market risk	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Coefficient β	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Corporate risk	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Share of equity, %	86.1	93.1	96.4	91.7	92.7	94.5	99.0	99.3	99.4	99.5	99.5
<b>Cost of debt (k<sub>d</sub>)</b>	<b>7.49</b>	<b>7.49</b>	<b>7.49</b>	<b>7.49</b>	<b>7.49</b>	<b>7.49</b>	<b>7.49</b>	<b>7.49</b>	<b>7.49</b>	<b>7.49</b>	<b>7.49</b>
Risk-free rate	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
Debt premium	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Tax rate	5.9	24.1	41.5	40.4	29.9	28.4	26.9	25.5	24.0	24.0	24.0
Share of debt, %	13.9	6.9	3.6	8.3	7.3	5.5	1.0	0.7	0.6	0.5	0.5
<b>WACC</b>	<b>10.11</b>	<b>9.99</b>	<b>10.00</b>	<b>9.82</b>	<b>9.94</b>	<b>10.00</b>	<b>10.11</b>	<b>10.12</b>	<b>10.13</b>	<b>10.13</b>	<b>10.13</b>

Estimation: Veles Capital

Cash flows of Rostelecom, mn USD											
	2003	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
<b>Net income (corr.)</b>	<b>36</b>	<b>123</b>	<b>108</b>	<b>32</b>	<b>73</b>	<b>66</b>	<b>43</b>	<b>51</b>	<b>37</b>	<b>102</b>	<b>174</b>
Depreciation and amortization	269	260	252	310	298	309	297	286	276	267	260
CapEx	(129)	(156)	(270)	(319)	(265)	(230)	(234)	(238)	(241)	(247)	(253)
Changes in working capital	(248)	(91)	(12)	(59)	(19)	(1)	(1)	(1)	(4)	(7)	(8)
<b>Free cash flow</b>	<b>(73)</b>	<b>135</b>	<b>78</b>	<b>(35)</b>	<b>87</b>	<b>144</b>	<b>105</b>	<b>98</b>	<b>68</b>	<b>115</b>	<b>173</b>
Discount rate, %						10.0	10.1	10.1	10.1	10.1	10.1
Discount coefficient						1.00	0.91	0.82	0.75	0.68	0.62
<b>Discounted cash flow</b>						<b>144</b>	<b>95</b>	<b>81</b>	<b>51</b>	<b>78</b>	<b>107</b>

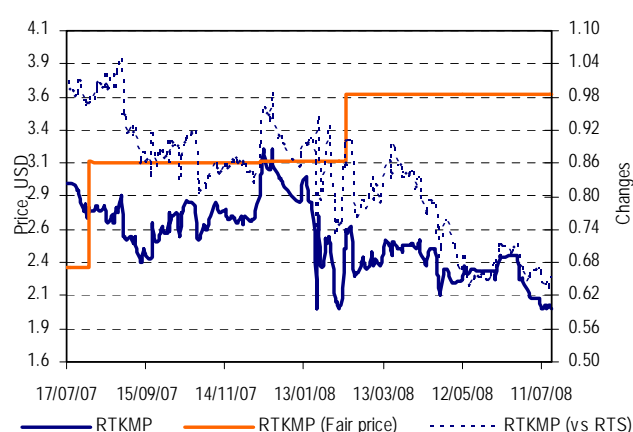
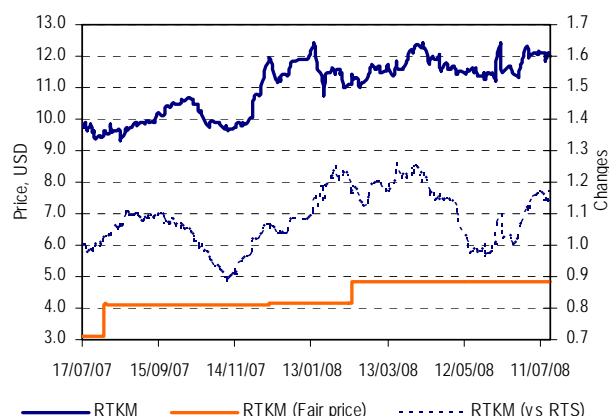
Source: company's data, Estimation: Veles Capital

### Rostelecom's stocks valuation

TGR, %	3.0
Sum of cash flows, mn USD	1,005
Terminal value, mn USD	5,270
Discounted terminal value, mn USD	2,210
Enterprise value, mn USD	3,215
Net debt, mn USD	-869
Shareholder's equity (incl. minority interest), mn USD	4,084
Minority interest, mn USD	0
Shareholder's equity, mn USD	4,084
Number of common shares, mn units	729
Number of preferred shares, mn units	243
<b>Fair value of common stock at the year end, USD</b>	<b>4.48</b>
Discount preferred stocks to common stock, %	25.0
<b>Fair value of preferred stock at the year end, USD</b>	<b>3.36</b>
Upside (downside) of common stock, %	(62.6)
Upside (downside) of preferred stock, %	67.7

Source: company's data, Estimation: Veles Capital

## Rostelecom's fair price history



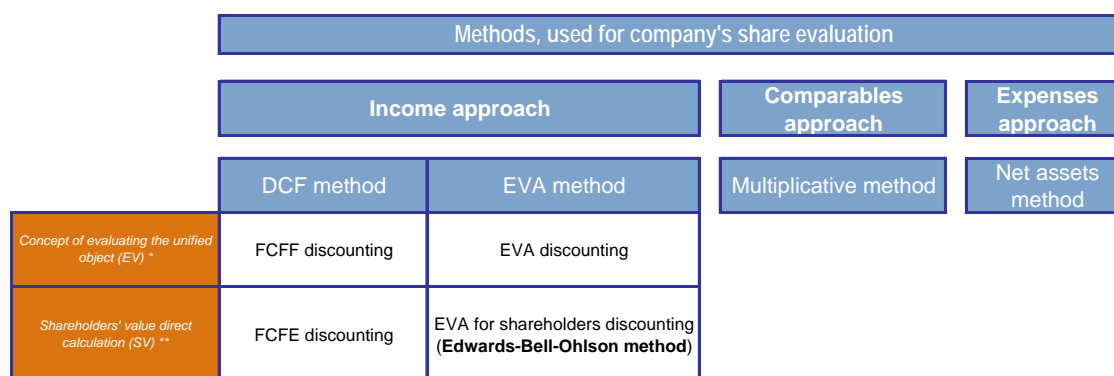
## Public comparables

### Our recommendations

Share	Ticker	Current price, USD	Target for year end, USD	Current growth potential, %	Recommendation	Date of recommendation revision	Investment idea
<b>Traditional telephony</b>							
Volgatelecom, cs	NNSI	4.1700	6.0110	44.1	BUY	3/14/2008	High effectiveness and low debt make company into an attractive subject for investing
Volgatelecom, ps	NNSIP	2.5000	4.5083	80.3	BUY	8/28/2007	
Dalsvyaz, cs	ESPK	4.4000	7.4457	69.2	BUY	8/28/2007	Prospects of improving the effectiveness of activity due to the new services
Dalsvyaz, ps	ESPKP	3.2750	5.5842	70.5	BUY	8/28/2007	
NWT, cs	SPTL	1.1300	1.3290	17.6	HOLD	6/18/2008	Company's management gets maximum out of regulated services, however CapEx limits the growth prospects
NWT, ps	SPTLP	0.7800	0.9967	27.8	ACCUMULATE	6/18/2008	
Sibirtelecom, cs	ENCO	0.0850	0.1140	34.1	BUY	2/5/2008	High share of non-regulated services allows company to improve its financial results
Sibirtelecom, ps	ENCOP	0.0545	0.0855	56.9	BUY	8/28/2007	
Uralsvyazinform, cs	URSI	0.0507	0.0573	13.1	BUY	3/13/2008	High debt load limits growth potential
Uralsvyazinform, ps	URSIP	0.0304	0.0430	41.5	ACCUMULATE	8/28/2007	
Centrtelecom, cs	ESMO	0.6000	0.9018	50.3	BUY	7/7/2008	The fall of quotes, in spite of aggressive investment program, makes company's shares attractive.
Centrtelecom, ps	ESMOP	0.3550	0.6763	90.5	BUY	7/7/2008	
STC, cs	KUBN	0.1350	0.2526	87.1	BUY	7/15/2008	Significant fall of quotes after year's start intends a growth potential up to fair price
STC, ps	KUBNP	0.0920	0.1895	106.0	BUY	7/15/2008	
<b>Alternative telephony</b>							
Comstar-UTS	CMST	9.0000	13.4790	49.8	BUY	4/24/2008	Growth potential due to development of regional markets
<b>Long-distance communication</b>							
Rostelecom, cs	RTKM	12.0000	4.4800	-62.7	SELL	7/21/2008	An extremely high market price, resulted from buyup of shares, yet unsupported by fundamental factors
Rostelecom, ps	RTKMP	2.0000	3.3600	68.0	BUY	7/21/2008	
<b>Cellular communication</b>							
Vimpelcom	VIMP	27.20	39.99	47.0	BUY	6/6/2008	Change of marketing policy intending growth of profitability, possible transformation into a universal operator (carrier)
MTS	MTSS	11.40	16.29	42.9	BUY	5/21/2008	Sound financial results, prospects of 3G technology use, fundamental underestimation of shares
<b>Media</b>							
CTC Media	CTCM	21.86	32.90	50.5	BUY	4/30/2008	Growth of ad market and prices
RBC	RBCI	7.90	9.86	24.8	BUY	10/2/2007	Separation of IT business and improvement of primary business' effectiveness
<b>Other</b>							
Sitronics	SITR	0.1200	0.0854	-28.8	SELL	5/6/2008	Company demonstrates record losses and low effectiveness, determining its low fundamental value

Data: Bloomberg; 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.

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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)	$EV = \sum_{i=1}^n \frac{FCFF_i}{(1+WACC_c)^i} + \frac{TV}{(1+WACC_c)^n} + NA$	$SV = EV - D$
DCF method (FCFE)		$SV = \sum_{i=1}^n \frac{FCFE_i}{(1+k_{S_i})^i} + \frac{TV}{(1+k_{S_i})^n} + Cash + NA$
EVA method	$EV = IC_1 + \sum_{i=1}^n \frac{EVA_i}{(1+WACC_c)^i} + \frac{TV}{(1+WACC_c)^n} + NA$	$SV = EV - D$
EBO method		$SV = BV_1 + \sum_{i=1}^n \frac{SVA_i}{(1+k_{S_i})^i} + \frac{TV}{(1+k_{S_i})^n} + Cash + NA$

### 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 - income tax effective rate)**
- FCFF - Free Cash Flow to Firm  
**FCFF = gross cash flow - gross investments**  
**Gross cash flow = NOPAT + amortization**
- FCFE - Free Cash Flow to Equity  
**FCFE = gross shareholders' cash flow - gross investments**  
**Gross shareholders' cash flow = EAT of operational profit (including interest payoffs) - annual debt coverage + attracted borrowed assets + amortization**
- EVA - Economic Value Added  
**EVA = economic profit spread \* IC = (ROIC - WACC) \* IC**
- SVA - Shareholders Value Added  
**SVA = spread \* E = (ROE - k<sub>s</sub>) \* E**
- WACC - Weighted Average Cost of Capital
- k<sub>s</sub> - 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 = NOPAT / IC**
- ROE - Return on Equity
- ROA - Return on Assets

## Information disclosure

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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.

In order to get additional information and specifications please contact the Research Department of the Investment Company Veles Capital.

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