

TGC-1

IAS 2007 report.

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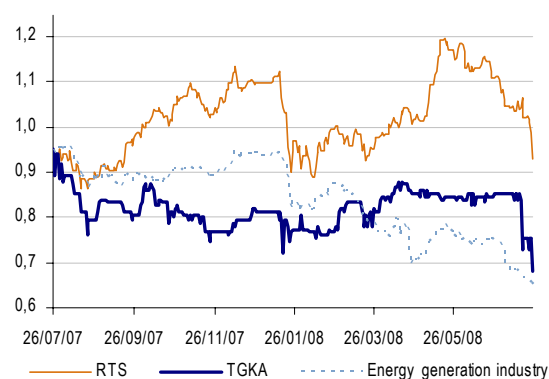
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Bullet moments

- We have corrected TGC-1's model, in accordance to company's 2007 IAS report.
- The established report is the first one, which shows the results of TGC-1's reorganization in full volume. It reflects the merger of TGC-1 and Murmansk HPP and the results of additional emission placements, in order to attract investments.
- TGC-1's sales increased by +29.3%, to 1,105 mn USD vs 2006 results. Company's CapEx increased by +29.8% and formed 1,103.9 mn USD. As a result, EBITDA margin of TGC-1, excluding paper income such as restore and allowance of reserves reversing under devaluation of basic assets, formed 7.4% against 6.7% in 2006.
- A significant influence on company's operating activity has: a growth of gas prices, regulated and free tariffs on electricity, market liberalization value and buy/sell activity at the wholesale market.
- We have reviewed target price of TGC-1's stocks, taking into account new financial results of the company, corrections of forecasted fuel and electricity prices, which have been changed since our previous TGC report. Our estimated target price of TGC-1's securities formed 0.0020 USD per share vs previous 0.0017 USD per share. We confirm our "BUY" recommendation on TGC-1's stocks. The shares of TGC-1 can be supported by offering of TGC-1's subsidiaries, which will be provided by Gazprom, when it consolidates purchased shares of TGC-1 in full volume. In this case, Gazprom's share in Wholesale Generating Company will overgrow 30% and it will have to provide public offering under the price, which is not lower than the purchased price of government share and additional emission, i.e. 0.0015 USD per share.

Principal estimates

Company's shares dynamics vs RTS



Company profile	
RTS Code	TGKA
Common share price, USD	0.0011
Min./max. share price for 52 weeks, USD	0,0011 / 0,0016
Share's fair price (com.) by the end of the year, USD	0.0020
Growth potential (com.), %	78.62
Number of common shares, items	3,850,960
Market capitalization, mn USD	4,236
EV, mn USD	3,923

Financial estimates	2006	2007 (F)	2008 (F)
Sales, mn USD	855.1	1,105.5	1,258.9
EBITDA, mn USD	132.1	231.3	122.5
Net profit, mn USD	42.2	93.8	144.1
EBITDA margin, %	15.4	20.9	9.7
Net profit margin, %	4.9	8.5	11.4
NOPAT, mn USD	56.3	107.0	(8.1)
ROIC, %	-	9.6	-
ROE, %	-	19.4	-

Multipliers	2006	2007 (F)	2008 (F)
P/E	100.3	45.2	29.4
P/S	5.0	3.8	3.4
EV/EBITDA	29.7	17.0	32.0
P/BV	4.5	1.8	1.7
ROIC ₁ /WACC	-	-	-

We have corrected TGC-1's model, according to company's 2007 IAS report.

The key feature of the report is that it reflects the results of merger of TGC-1 and Murmansk TPP. TGC-1 has purchased 84.06% of Murmansk HPP's stake, which was belonged to UES, on May 2007. Comparative 2006 data in the consolidated financial report reflect the results, as if Murmansk HPP is a subsidiary of TGC-1 since January 2006. We also added the production results of Murmansk HPP in our model.

In autumn 2007, TGC-1 has provided a placement of additional emission, which formed 32,400 mn RUR in order to finance investment program and it was also reflected in the report.

Moreover, we put corrections in our forecasts of electricity and fuel prices, which have been changed since our previous TGC report.

We have based our forecasts of the free tariffs on electricity before full energy and capacity market liberalization, on prices formation at free electricity market of marginal method, i.e. a price will be settled under a proposal of the most expensive demanded plant in this or that free flow zone. In our model we do not forecast tariffs for each zone, but we use more simplified market division by price zones. There are 2 large zones: the first one includes western part of Russia, Urals and Tyumen Region and the second zone covers Siberian Region. According to our estimation, price formation plants in first price formation zone, will be HPPs as the most expensive plants, working on gas. Thus, the growth of prices in the first price zone will be determined by a growth of gas prices. The second price zone includes coal plants, which are situated in this region. Electricity prices in Siberian Region will be formed under the influence of coal prices. We forecasted average free tariffs of TGCs, on the basis of the mentioned factors.

We reflected in our model that full market liberalization and workload rate of capacity market will be achieved in 2012. We do not divide these 2 markets and think that electricity and capacity will be sold at the free market under flat-rate tariff. We based our forecasts of the given tariff after the year 2012 on the fact that it will have to cover not only companies' fuel and other expenses, but also invested cash assets in new capacities construction, i.e. the tariffs should be settled on the base of the level, which will allow to construct new capacities and bring an investor required income. According to our forecasts the price formation in Central part of Russia and in Urals Region will be provided by new gas plants, the average construction price of which could form 1,100 th USD per MW and 1.500 th USD per MW in Siberian Region.

We used average gas prices, presented by companies, and then we forecasted them in accordance with government decisions. Thus, on May 6, 2008 the government took a decision to increase threshold tariff level on gas, for population in 2008, by 25%, in 2009 by 25%, in 2010 by 30% and in 2011 by 40% in comparison with previous years. A growth price dynamics was also reviewed for 2011. It was expected earlier that domestic gas prices will be equaled to export ones in 2011, excluding export tax and transportation. However, according to Russian Ministry of Economic and Trade, in order to implement the method of equal earning capacity, including a decrease of forecasted oil prices, which totaled 72 USD per bbl (Urals), the government, will have to increase the domestic gas tariffs by 95-100%. However, the government has taken a compromise decision. It kept the equal earning capacity orientation, because it was included in many agreements, but the terms will be shifted for several years. The country will use the method in 2014-2015. Therefore, in our model we use the tariffs growth by 25% in 2012, 20% in 2013 and 3% in 2014. It allows Gazprom to transfer to equal earning capacity in domestic and external markets, taking into account the market conditions, which we have forecasted.

TGC-1's revenue increased by +29.3% and formed 1105 mn USD, in comparison with 2006 results. The revenue growth was caused by the growth of fuel and electricity sales and also by the growth of tariffs and spread of free market.

The operating costs of TGC-1 increased by +29.8% and totaled 1103.9 mn USD. The highest influence was provided by the growth of fuel costs, which formed 21.6%, salaries costs (+20.8%) and electricity and heat power costs, which increased more than 2 times. The growth of fuel costs can be connected to increased wholesale prices of gas (+15%) and fuel consumption (+7%). The increased costs of purchased electricity can be explained by the change of relation scheme at the wholesale market in 2007 (implementation of regulated contracts).

It should be mentioned that the company showed low rate of efficiency yet. Thus, TGC-1's efficiency, excluding nonrecurring issues, formed 7.4% vs 6.7% in 2006. The given fact can be explained by a low rate of average regulated tariffs of electricity, which were confirmed by FTS and also due to the fact than almost 100% of the company's balance is formed by gas, the price of which will increasing with faster, than tariffs. However, according to our estimation, future market liberalization can have positive effect on company's financial results and we confirm "BUY" recommendation on TGC-1's securities.

The other supporting factor can be future offering, which will be presented to Gazprom, TGC-1's minority shareholder. Gazprom's share in TGC-1 formed 28.7% and now the company transfer 17.7% of TGC-1's shares in its balance from its subsidiaries. In this case Gazprom's share in the company will overgrow 30% and it will have to provide a public offering under the price, which will be not lower than purchased one, i.e. 0.0015 USD per share.

Financial model

	Sales structure									
	2006	2007 (F)	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Installed capacity, Mw	6,248	6,248	6,258	6,238	6,814	7,455	7,933	8,296	8,189	8,209
old capacities	6,248	6,248	6,185	6,153	5,873	5,361	5,290	5,281	4,989	4,989
new capacities	-	-	73	85	941	2,093	2,643	3,015	3,200	3,220
Plant ratio, %	43.2	47.7	47.5	47.4	49.9	51.9	50.7	50.1	51.4	51.4
Electricity output, Hwatt/h	23,633	26,097	26,051	25,907	29,799	33,879	35,202	36,381	36,869	36,965
Productive supply of electricity, Hwatt/h	21,865	24,156	24,103	23,962	27,664	31,637	32,873	33,985	34,503	34,654
old capacities	21,865	24,156	23,787	23,589	22,321	20,283	19,840	19,798	19,292	19,292
new capacities	-	-	316	373	5,343	11,355	13,033	14,186	15,211	15,363
Share of electric power sold from old capacities:										
under regulated tariffs, %		15	20	40	70	100	100	100	100	100
under free tariffs, %		85	80	60	30	0	0	0	0	0
Average regulated tariffs:										
tariffs on elec, USD/Hwatt/h	8.1	9.1	11.6	14.0	16.5	-	-	-	-	-
tariffs on capacity, USD/Hwatt/h per mth	2,627	2,761	3,205	3,368	3,635	4,169	-	-	-	-
Free tariffs:										
flat rate on elec., USD/Hwatt/h	15	21	27	33	42	57	89	98	100	102
Sales, regulated sector:										
elec. sales, mn USD	155	187	220	197	109	-	-	-	-	-
capacity sales, mn USD	197	207	238	249	256	268	-	-	-	-
Sales, free sector:										
elec. sales, mn USD	39	78	138	327	875	1,808	2,924	3,323	3,450	3,548
Installed heat capacity	14,735	14,735	14,880	14,880	15,059	14,880	15,230	15,565	15,350	15,350
Productive heat supply, th Gcal	24,915	25,344	25,744	25,744	26,859	27,927	29,562	30,454	30,299	30,299
Average tariff on heat	16	20	26	30	36	48	58	68	69	70
Heat sales, mn USD	411	512	663	773	970	1,334	1,713	2,067	2,076	2,126
Purchased electricity power, Hwatt/h	1,662	4,072	-	-	-	-	-	-	-	-
Purchased electricity power sales, mn USD	24	87	-	-	-	-	-	-	-	-
Other income, mn USD	29	36	41	43	44	46	48	50	52	54
Total sales	856	1,106	1,300	1,589	2,255	3,456	4,685	5,440	5,578	5,728
<i>growth, %</i>		29.3	17.5	22.3	41.9	53.3	35.6	16.1	2.5	2.7

Source: company's data, Estimation: Veles Capital

	Cost structure									
	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Fuel consumption, th t of natural fuel	6,953	7,200	7,234	7,235	8,113	9,022	9,541	9,861	9,853	9,866
Fuel balance, %:										
<i>gas</i>	85.4	88.3	88.9	89.0	90.3	91.4	91.9	92.2	92.2	92.2
<i>coal</i>	4.7	4.1	3.9	3.9	3.5	3.2	3.0	2.9	2.9	2.9
<i>black oil</i>	9.9	7.7	7.1	7.1	6.2	5.4	5.1	5.0	4.9	4.9
Average fuel prices:										
of gas, USD/th cb m	54.0	67.6	88.9	109.1	137.8	191.2	236.7	280.8	286.4	293.1
of gas, USD/t of fuel equivalent	47.3	59.2	77.9	95.6	120.7	167.4	207.3	245.9	250.8	256.7
<i>growth, %</i>		25.0	31.6	22.7	26.3	38.7	23.8	18.7	2.0	2.3
of coal, USD/t of natural fuel	38.0	44.0	52.0	57.0	61.6	65.6	68.7	71.6	74.3	76.9
of coal, USD/t of fuel equivalent	54.7	63.2	74.7	82.0	88.5	94.3	98.7	102.9	106.9	110.6
<i>growth, %</i>		15.7	18.1	9.8	8.0	6.6	4.7	4.3	3.9	3.5
of black oil, USD/t of natural fuel	185.1	204.6	307.0	281.8	256.1	272.7	283.3	291.7	302.3	311.7
of black oil, USD/t of fuel equivalent	133.9	148.0	222.1	203.9	185.3	197.3	205.0	211.1	218.7	225.5
<i>growth, %</i>		10.5	50.1	(8.2)	(9.1)	6.5	3.9	3.0	3.6	3.1
Fuel cost, mn USD	391	476	637	743	1,003	1,504	1,945	2,368	2,415	2,476
Conditionally-constant expenses, mn USD	357	442	500	523	575	649	693	732	769	796
Amortization, mn USD	52	80	131	187	276	332	363	371	371	371
Costs of purchased energy, mn USD	50	106	-	-	-	-	-	-	-	-
Total cost	850	1,104	1,267	1,453	1,853	2,485	3,001	3,470	3,554	3,643
<i>growth, %</i>		29.9	14.7	14.7	27.6	34.1	20.7	15.6	2.4	2.5

Source: company's data, Estimation: Veles Capital

Income and loss statements, mn USD

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Sales	855	1,106	1,259	1,546	2,211	3,410	4,637	5,390	5,526	5,674
Cost	(850)	(1,104)	(1,267)	(1,453)	(1,853)	(2,485)	(3,001)	(3,470)	(3,554)	(3,643)
Other operating income (expenses)	75	150	-	-	-	-	-	-	-	-
EBITDA	132	231	123	280	633	1,256	1,999	2,291	2,342	2,402
<i>EBITDA margin, %</i>	<i>15.4</i>	<i>20.9</i>	<i>9.7</i>	<i>18.1</i>	<i>28.6</i>	<i>36.8</i>	<i>43.1</i>	<i>42.5</i>	<i>42.4</i>	<i>42.3</i>
Amortization	(52)	(80)	(131)	(187)	(276)	(332)	(363)	(371)	(371)	(371)
Operating income (EBIT)	80	151	(8)	93	358	925	1,636	1,920	1,971	2,031
<i>EBIT margin, %</i>	<i>9.3</i>	<i>13.7</i>	<i>neg.</i>	<i>6.0</i>	<i>16.2</i>	<i>27.1</i>	<i>35.3</i>	<i>35.6</i>	<i>35.7</i>	<i>35.8</i>
Financial income (expenses)	(15)	(10)	211	65	(56)	(122)	(132)	(80)	7	113
Income before tax (EBT)	65	141	203	159	301	803	1,504	1,840	1,979	2,144
<i>EBT margin, %</i>	<i>7.6</i>	<i>12.8</i>	<i>16.1</i>	<i>10.3</i>	<i>13.6</i>	<i>23.5</i>	<i>32.4</i>	<i>34.1</i>	<i>35.6</i>	<i>37.8</i>
Income tax	(22)	(48)	(58)	(42)	(76)	(198)	(365)	(444)	(476)	(515)
Minority share	5	0	1	1	1	3	6	7	8	8
Net income (EAT)	48	94	145	117	226	608	1,144	1,402	1,510	1,637
<i>EAT margin, %</i>	<i>5.6</i>	<i>8.5</i>	<i>11.5</i>	<i>7.6</i>	<i>10.2</i>	<i>17.8</i>	<i>24.7</i>	<i>26.0</i>	<i>27.3</i>	<i>28.8</i>

Source: company's data, Estimation: Veles Capital

Balance sheet, mn USD

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Current assets	274	1,147	1,151	1,407	1,997	3,061	4,149	4,818	4,940	5,575
Monetary assets and equivalents	25	818	765	935	1,327	2,034	2,757	3,201	3,283	3,872
Accounts receivable	165	232	273	333	473	725	983	1,141	1,170	1,201
Trade-material reserves	84	97	114	139	197	302	410	476	488	501
VAT receivable	0	0	0	0	0	0	0	0	0	0
Non current assets	1,185	1,910	2,710	3,978	4,813	5,332	5,535	5,588	5,597	5,608
PPE	1,123	1,833	2,618	3,866	4,655	5,089	5,206	5,206	5,206	5,206
Long-term financial investments	62	78	91	112	158	243	329	382	392	402
Total assets	1,459	3,057	3,861	5,385	6,810	8,393	9,684	10,406	10,538	11,183
Short-term liabilities	368	304	939	2,316	3,444	4,283	4,296	3,536	2,299	1,347
Short-term interest-bearing liabilities	198	44	633	1,942	2,913	3,470	3,194	2,257	987	0
Non-interest liability	170	260	306	374	530	813	1,102	1,279	1,312	1,347
Long-term liabilities	145	342	367	398	470	610	753	841	708	677
Long-term interest-bearing liabilities	66	212	214	210	204	202	200	198	49	0
Non-interest-bearing liability	79	131	154	188	266	408	554	643	659	677
Minority share	4	1	1	1	1	(1)	(4)	(5)	(6)	(6)
Share capital	942	2,409	2,553	2,670	2,895	3,501	4,639	6,034	7,537	9,165
Authorized capital	1,102	1,569	1,569	1,569	1,569	1,569	1,569	1,569	1,569	1,569
Added capital	0	948	948	948	948	948	948	948	948	948
Reserve capital	(218)	(252)	(252)	(252)	(252)	(252)	(252)	(252)	(252)	(252)
Retained earnings	57	144	288	405	630	1,235	2,373	3,769	5,271	6,900
Total liabilities and capital	1,459	3,057	3,861	5,385	6,810	8,393	9,684	10,406	10,538	11,183

Source: company's data, Estimation: Veles Capital

Financial analysis

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Efficiency values:										
<i>ROIC, %</i>	-	9.6	-0.5	2.7	7.1	15.4	25.3	29.4	30.5	31.5
<i>ROE, %</i>	-	19.4	-1.8	2.2	15.1	60.9	138.0	133.0	90.5	62.7
<i>ROA, %</i>	-	6.4	4.7	3.0	4.2	8.9	13.6	14.4	14.4	15.5
<i>EBITDA margin, %</i>	<i>15.45</i>	<i>20.9</i>	<i>9.7</i>	<i>18.1</i>	<i>28.6</i>	<i>36.8</i>	<i>43.1</i>	<i>42.5</i>	<i>42.4</i>	<i>42.3</i>
<i>EBIT margin, %</i>	<i>9.31</i>	<i>13.7</i>	<i>-0.6</i>	<i>6.0</i>	<i>16.2</i>	<i>27.1</i>	<i>35.3</i>	<i>35.6</i>	<i>35.7</i>	<i>35.8</i>
<i>EAT margin, %</i>	<i>4.94</i>	<i>8.5</i>	<i>11.4</i>	<i>7.6</i>	<i>10.2</i>	<i>17.7</i>	<i>24.5</i>	<i>25.9</i>	<i>27.2</i>	<i>28.7</i>
Price creation estimation:										
<i>Economic income spread (ROIC-WACC), %</i>	-	-2.9	-12.6	-8.5	-3.8	4.4	13.9	17.5	17.9	18.3
Invested capital (IC)	1,119	1,769	2,544	3,776	4,527	4,896	4,947	4,906	4,898	4,891
Economic income (EVA)	-	(33)	(222)	(217)	(145)	201	683	866	876	897
<i>SVA spread (ROE-ks), %</i>	-	6.5	-15.0	-11.0	1.9	47.7	124.8	119.9	77.3	49.5
Equity invested capital (E)	855	1,513	1,697	1,624	1,410	1,224	1,553	2,451	3,862	4,891
Shareholders' economic income (SVA)	-	55	(227)	(186)	30	673	1,528	1,861	1,894	1,914

Source: company's data, Estimation: Veles Capital

Price estimation

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)
EBIT	80	151	(8)	93	358	925	1,636	1,920	1,971	2,031
Income tax	(23)	(44)	0	(25)	(90)	(228)	(398)	(464)	(475)	(488)
NOPAT	56	107	(8)	69	267	697	1,238	1,456	1,497	1,543
Amortization	(52)	(80)	(131)	(187)	(276)	(332)	(363)	(371)	(371)	(371)
Gross cash flow	109	187	123	255	543	1,029	1,601	1,827	1,868	1,914
Capex	(134)	(592)	(916)	(1,435)	(1,064)	(766)	(479)	(371)	(371)	(371)
Change of net operating capital		62	11	16	37	67	69	42	8	8
Gross investments	(134)	(531)	(905)	(1,418)	(1,026)	(699)	(411)	(329)	(363)	(363)
Free cash flow of firm (FCFF)	(25)	(344)	(783)	(1,163)	(484)	330	1,190	1,498	1,504	1,551
Discounted cash flow of firm				(1,046)	(393)	242	774	853	736	652

Source: company's data, Estimation: Veles Capital

Weighted average cost of capital estimation (WACC)

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Risk-free yield (for RF) krf, %	5.41	5.38	5.63	5.63	5.63	5.63	5.63	5.63	5.63	5.63
Average yield UST10 in 5 years, %	4.35	4.35	4.15	4.15	4.15	4.15	4.15	4.15	4.15	4.15
Current spread of RF' default, %	1.06	1.03	1.48	1.48	1.48	1.48	1.48	1.48	1.48	1.48
Required yield of shareholders kS, %	12.96	12.93	13.18	13.18	13.18	13.18	13.18	13.18	13.18	13.18
Share premium, %	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
β coefficient (considering the financial leverage)	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
Premium for the quality of corporate governance, %	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Creditors' required yield kd, %	6.91	6.88	7.13	7.13	7.13	7.13	7.13	7.13	7.13	7.13
Premium for credit risk, %	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Capital's structure:										
Share of source "ones own capital", %	78.11	90.40	75.09	55.37	48.16	48.81	57.75	71.08	87.91	100.00
Share of source "borrowed capital", %	21.89	9.60	24.91	44.63	51.84	51.19	42.25	28.92	12.09	0.00
WACC, %	12.00	12.51	12.10	11.24	10.93	10.96	11.35	11.93	12.66	13.18

Source: company's data, Estimation: Veles Capital

Fair price estimation of TGC-1's share, DCF method

TGR, %	3.0
Sum of cash flows, mn USD	1,819
Terminal value, mn USD	15,697
Discounted terminal value, mn USD	5,830
Enterprise value, mn USD	7,649
Net debt, mn USD	82
Shareholder's equity, mn USD	7,567
Number of common shares at end 2008, mn units	3,850,960
Fair value of common stock, USD	0.0020
Upside (downside), %	78.62

Source: company's data, Estimation: Veles Capital

Public comparables

Energy generating companies

Share	Ticker BLOOMBERG	Current price, USD	In a year, USD		Change, %				Market capitalization, mn USD	EV, mn USD	Installed capacity, MW	market coefficients	
			min	max	day	week	3 mth.	since 01.01.08				EV/ Inst. cap.	P/ Inst. cap.
Wholesale generating companies													
WGC-1	OGKA RU Equity	0,0950	0,0750	0,1293	26,67	16,56	12,43	-21,81	4 241	4 440	9 531	465,9	445,0
WGC-2	OGKB RU Equity	0,0690	0,0675	0,1670	-3,63	-2,82	-17,37	-55,05	2 259	1 663	8 695	191,2	259,8
WGC-3	OGKC RU Equity	0,0880	0,0840	0,1750	-1,90	-0,56	-16,19	-41,53	4 179	1 044	8 497	122,9	491,8
WGC-4	OGKD RU Equity	0,0608	0,0608	0,1343	-5,74	-5,00	-36,99	-54,32	3 831	2 214	8 630	256,6	444,0
WGC-5	OGKE RU Equity	0,1180	0,0955	0,1795	-1,67	0,43	19,80	-32,95	4 174	4 056	8 672	467,7	481,3
WGC-6	OGKF RU Equity	0,0640	0,0640	0,1560	-1,84	-6,57	-24,71	-49,53	2 065	1 634	9 052	180,5	228,1
Weighted average among WGC												283,6	390,9
Hydro-WGC	HYDR RU Equity	0,0610	0,0603	0,0920	1,16	-5,43	-19,74	-	11 947	12 457	23 713	525,3	503,8
Territory generating companies													
TGC-1	TGKA RU Equity	0,0011	0,0011	0,0015	-9,09	-9,09	-19,12	-15,38	4 236	3 923	6 236	629,1	679,2
TGC-2 (com.)	TGKB RU Equity	0,0010	0,0008	0,0012	-2,02	-1,02	2,11	-3,00	1 424	1 448	2 453	590,4	580,7
TGC-2 (pref.)	TGKB RU Equity	0,0007	0,0006	0,0010	0,00	0,00	0,00	-2,67	-	-	-	-	-
TGC-3	MSGN RU Equity	0,1325	0,1325	0,2638	-3,99	-9,86	-38,37	-43,74	5 267	4 784	10 677	448,0	493,3
TGC-4 (com.)	TGKD RU Equity	0,0011	0,0010	0,0013	-0,92	-1,82	3,85	-13,60	2 086	1 853	3 348	553,4	623,1
TGC-4 (pref.)	TGKD RU Equity	0,0004	0,0004	0,0008	0,00	-41,67	-41,67	-51,39	-	-	-	-	-
TGC-5	TGKE RU Equity	0,0007	0,0007	0,0014	-1,52	-9,72	-15,58	-27,78	800	389	2 467	157,5	324,1
TGC-6	TGKF RU Equity	0,0007	0,0007	0,0013	-1,39	-2,74	-21,98	-38,26	1 320	628	3 140	200,0	420,5
TGC-7	TGKG RU Equity	0,0725	0,0663	0,1275	-2,68	-4,98	-19,44	-33,18	2 173	1 887	6 880	274,3	315,9
TGC-8	TGKH RU Equity	0,0016	0,0010	0,0017	-1,22	-1,22	4,52	15,71	3 340	2 868	3 312	866,1	1008,4
TGC-9	TGKI RU Equity	0,0002	0,0002	0,0004	-9,09	-9,09	-37,50	-33,33	1 565	1 184	3 301	358,7	474,0
TGC-10	TGKJ RU Equity	4,3300	3,5000	4,7250	0,00	-5,87	-3,78	7,05	3 805	2 310	2 785	829,5	1366,3
TGC-11	TGKK RU Equity	0,0008	0,0008	0,0017	0,00	-11,11	-38,46	-50,00	410	463	2 026	228,4	202,5
TGC-12	KZBE RU Equity	0,0155	0,0155	0,0360	-6,06	-13,89	-38,49	-43,64	1 095	871	4 375	199,1	250,2
TGC-13	TGKM RU Equity	0,0064	0,0064	0,0115	0,00	-3,03	-23,81	-39,62	1 019	847	2 458	344,7	414,4
TGC-14	TGKN RU Equity	0,0003	0,0003	0,0005	0,00	0,00	0,00	-25,00	233	54	643	84,3	362,7
Weighted average among TGC												434,5	531,8

Source: RTS, Bloomberg, companies' data; Estimation: Veles Capital

Brief investor's guide

Methods, used for company's share evaluation				
Income approach		Comparables approach	Expenses approach	
	DCF method	EVA method	Multiplicative method	Net assets method
Concept of evaluating the unified object (EV) *	FCFF discounting	EVA discounting		
Shareholders' value direct calculation (SV) **	FCFE discounting	EVA for shareholders discounting (Edwards-Bell-Ohlson method)		

*

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 unified object cost evaluation	Shareholders' capital value calculation (SV)
DCF method (FCFF)	$EV = \sum_{i=1}^n \frac{FCFF_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_i)^n} + NA$	$SV = EV - D$
DCF method (FCFE)		$SV = \sum_{i=1}^n \frac{FCFE_i}{(1+k_{si})^i} + \frac{TV}{(1+k_{si})^n} + Cash + NA$
EVA method	$EV = IC_1 + \sum_{i=1}^n \frac{EVA_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_i)^n} + NA$	$SV = EV - D$
EBO method		$SV = BV_1 + \sum_{i=1}^n \frac{SVA_i}{(1+k_{si})^i} + \frac{TV}{(1+k_{si})^n} + Cash + NA$

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 $NOPAT = EBIT * (1 - \text{income tax effective rate})$
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 $FCFE = \text{gross shareholders' cash flow} - \text{gross investments}$ $\text{Gross shareholders' cash flow} = EAT \text{ of operational profit (including interest payoffs) - annual debt coverage} + \text{attracted borrowed assets} + \text{amortization}$
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 the 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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