

Research

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Vimpelcom

VIP+GT a promising couple

Recommendation: BUY

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Bullet moments

In the beginning of June, Vimpelcom has published 1H consolidated US GAAP report. The report is noticeable, because it includes Golden Telecom's figures, which was purchased in the end of February. The report includes the March figures of GT. Thus, since 2Q, GT will be fully consolidated in Vimpelcom's report.

In the beginning the players had some anxieties concerning Vimpelcom's "blurry" efficiency due to addition GT into report. However, the Vimpelcom's OIBDA margin in 1Q formed 53.4%, which is a four-year-record. Such high results were achieved by increasing Vimpelcom's cell communications business efficiency to 57.2%.

However, due to the total GT's consolidation the decrease of company's efficiency may occur. In case of Vimpelcom does not make active actions to integrate the companies and to optimize expenses, OIBDA margin may fall and form 49.5% (-4 p.p.). Thus, company's income could increase by 12%. The opinion was shared with Alexander Izosimov, the head of the company, who forecasted the effectiveness decrease to 45-50%.

The main reason why Vimpelcom managed to keep the effectiveness at such a high level is a retirement of marketing actions, which may be provided for the attraction of new subscribers, who «blurring» ARPU and decreasing efficiency. We will discuss these moments later.

We have reviewed Vimpelcom's financial model using new data and increased our fair estimation of company's ADR up to 39.99 USD (the previous estimation formed 30.8 USD). The given price intends the growth potential of quotes 19.9%. Therefore, we upgraded our recommendation concerning company's shares from "HOLD" to "BUY" level.

Principal estimates

Company's shares vs. the RTS index



Information about Vimpelcom

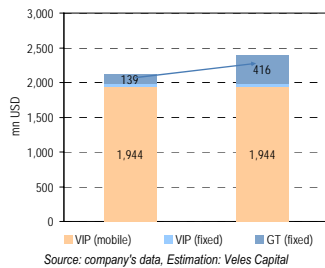
Ticker NYSE	VIP
Market price, USD	33.34
Min / max price during last year, USD	19.05 / 44.98
Fair price at year end, USD	39.99
Upside (downside), %	19.9
Total shares, units	1,015,536,780
MC, mn USD	33,858
EV, mn USD	36,478

Financial values (US GAAP)	2007	2008 (F)	2009 (F)
Sales, mn USD	7,175	9,489	10,539
OIBDA, mn USD	3,597	4,390	4,770
Net income, mn USD	1,463	1,642	1,558
OIBDA margin, %	50.1	46.3	45.3
Net income margin, %	20.4	17.3	14.8

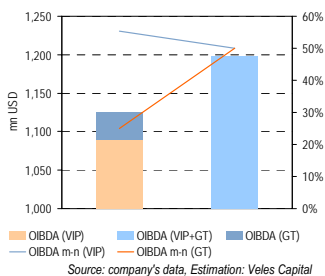
Financial coefficients	2007	2008 (F)	2009 (F)
EV / S	5.08	3.84	3.46
EV / OIBDA	10.14	8.31	7.65
P / E	23.15	20.62	21.73
ROIC, %	25.0	23.2	14.1
ROE, %	27.0	24.2	19.6

Merger with GT: the influence on the report

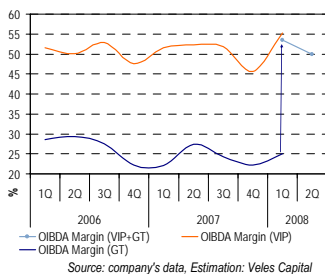
Vimpelcom's income structure



OIBDA and OIBDA margin of Vimpelcom and GT



OIBDA margin dynamics of Vimpelcom and GT



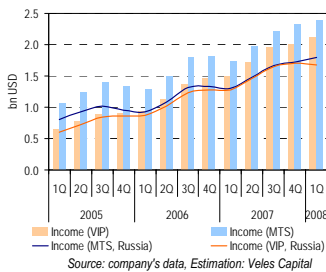
As it was mentioned before, Vimpelcom's 1Q report includes March results of Golden Telecom. We would like to show you how Vimpelcom's report would have like, if GT had been fully consolidated.

The 1Q total income of Vimpelcom formed 2,108 mn USD, 1,944 mn USD from the income was made through the cellular communications segment, 175 mn USD were landline communications segment. The cellular communications segment includes GT's income from Ukraine cellular assets. Thus, this income is usually not as high and even in the last quarter (according to GT's report) was less than 8 mn USD. However, the income of landline communications segment includes Vimpelcom's assets income in Armenia, which formed 36.2 mn USD and they do not apply to GT's activity. Hence, according to gross estimations, GT's income in March may form approximately 139 mn USD, and for quarter – 416 mn USD, i.e. the income of merger company in case of full consolidation could have formed about 2.4 bn USD, which is by 13% higher than current index.

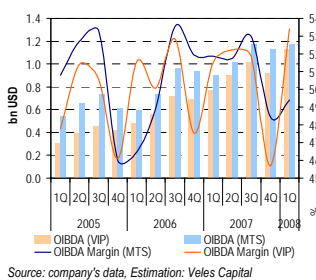
The OIBDA indices should be mentioned separately. Vimpelcom's effectiveness excluding GT in 1Q of 2008 formed 55.3% (including the foreign assets and landline communications); GT's effectiveness formed 25.1%. Meanwhile, the combined effectiveness formed 53.4%. It should be noted that if GT had been fully consolidated, absorbed company's effectiveness would form 49.9%. We do not exclude that in 2Q OIBDA margin will decrease to that level.

Vimpelcom vs MTS

Income dynamics of Vimpelcom and MTS



OIBDA of Vimpelcom and MTS



Let us remind you that MTS, the largest rival of Vimpelcom, has published its report not long ago. Now, we analyze the progress of both companies.

Thus, 1Q consolidated income of MTS increased by 2.3% (in accordance with 4Q of 2007), Vimpelcom's income increased by 4.9%. Hence, income growth of MTS has a natural aspect, while Vimpelcom has achieved it due to merger GT. According to our estimations only due to natural factors Vimpelcom's income may decrease by 1.9%. From our point of view MTS' income dynamics has left its rival behind. It should be added that in case of GT merger, company's income had been higher than MTS has by 20 mn USD.

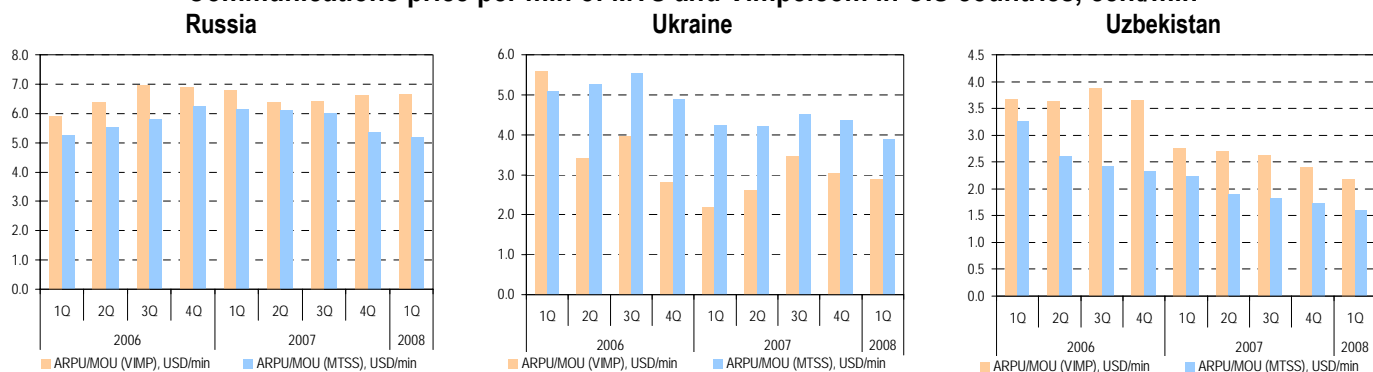
It should be mentioned that Vimpelcom has a fall in income dynamics in Russia. The index decreased by 1.5%. MTS has demonstrated the growth of 4.4%. Thus, the gap between Vimpelcom and MTS, which had become smaller and smaller, in 1Q 2008 expanded.

Besides, from effectiveness point of view, MTS is behind its rival. MTS' OIBDA margin over 1Q formed 49.4% (+1p.p.), while Vimpelcom's index increased by +7.7 p.p. (partially it is connected with high expenses rate due to the managers' bonus payoffs in 4Q) up to 53.4%, in spite of the OIBDA is "blurred" by the less effective of GT. Moreover, according to absolute value of the index Vimpelcom is close to MTS.

The reasons of such dynamics of Vimpelcom and MTS should be analyze more precisely. Among of them are operating results of both companies. The main reason is dynamics of subscribers' base. Let us remind you that companies are using the different policy of subscribers accounting and the given indices are different too. The same can be said about ARPU and MOU indices.

MTS increased subscribers' base by 3.6% and in Russia the growth formed 4.2%. The same figures of Vimpelcom formed the total growth in amount of +1.1% and in Russia it has 0.3% decrease occurred. It should be mentioned that in the last year, as in the last quarter, the companies applied different marketing policies. We have used balance between ARPU and MOU, which shows the average call price per month, which partially eliminate the differences in subscribers accounting. In Russia MTS' results decreased by 3.1%, Vimpelcom's values increased by 0.4% over the last quarter. During the last year the differences became greater: MTS' index decreased by 15.3% and Vimpelcom's one has lost just 1.9%. The given figures show that Vimpelcom has stopped enlarging subscribers' base and it tries to gain maximum income from the current subscribers, without using marketing policy, which decreases ARPU. Vimpelcom gain more profit from this strategy after the purchase of GT and as the result of which the company has to control expenses to keep the efficiency at a high level. MTS continue to keep a more aggressive price policy due to which growth results has higher rates.

In other countries, where the companies have assets, the situation is different. In Ukraine, for instance, where the penetration of cellular communications has already overgrown 100%, the price dynamics change is equal and characterized by walking down vector. Thus, both companies are stimulating the activity of their subscribers. That is why MTS' ARPU was not increased much since the last year. Vimpelcom gave up on using dumping policy and started to flatten the tariffs at the levels of rivals, but they appeared to be low yet. In Uzbekistan, where the penetration of cellular communications has hardly reached 25% level, the war for subscribers is continuing. Both companies actively decrease their service prices, attracting more and more subscribers. Moreover, the prices of cellular communications are the lowest in comparison with other CIS countries, where MTS and Vimpelcom have their branches.

Communications price per min of MTS and Vimpelcom in CIS countries, cent/min


Source: company's data, Estimation: Veles Capital

Vimpelcom's financial and operating indices
Vimpelcom US GAAP operating results

	1Q 2007	Chg., %	1Q 2008	1Q 2007	Chg., %	2Q 2007	Chg., %	3Q 2007	Chg., %	4Q 2007 r.	Chg., %	1Q 2008
Number of active subscribers, th	45,784	14.2	52,293	45,784	4.2	47,701	6.3	50,686	2.1	51,740	1.1	52,293
Russia	38,631	8.9	42,079	38,631	3.9	40,140	4.1	41,802	1.0	42,221	-0.3	42,079
Kazakhstan	3,501	36.4	4,777	3,501	10.2	3,858	12.6	4,343	6.0	4,603	3.8	4,777
Ukraine	1,953	0.9	1,971	1,953	-6.7	1,822	21.4	2,212	-12.2	1,941	1.5	1,971
Uzbekistan	1,106	118.9	2,422	1,106	7.8	1,192	33.1	1,587	33.6	2,120	14.3	2,422
Tajikistan	145	160.2	378	145	41.0	205	31.0	268	26.4	339	11.4	378
Armenia	440	18.2	520	440	7.1	471	-5.1	447	-1.0	442	17.5	520
Georgia	7	1900.0	146	7	91.8	14	90.2	27	172.9	73	100.9	146
ARPU th USD												
Russia	10.9	21.1	13.2	10.9	12.8	12.3	8.9	13.4	0.7	13.5	-2.2	13.2
Kazakhstan	12.2	-4.9	11.6	12.2	11.5	13.6	0.0	13.6	-4.4	13	-10.8	11.6
Ukraine	3	103.3	6.1	3	40.0	4.2	38.1	5.8	-3.4	5.6	8.9	6.1
Uzbekistan	6.7	-13.4	5.8	6.7	7.5	7.2	5.6	7.6	-10.5	6.8	-14.7	5.8
Tajikistan	8.7	-8.0	8	8.7	16.1	10.1	6.9	10.8	-16.7	9	-11.1	8
Armenia	14.5	11.0	16.1	14.5	19.3	17.3	1.7	17.6	-1.1	17.4	-7.5	16.1
Georgia	3.2	131.3	7.4	3.2	n/m	n/d	n/m	n/d	n/m	9.0	-17.8	7.4
MOU th USD												
Russia	160.9	23.5	198.7	160.9	22.7	192.6	8.5	208.9	-2.3	204.1	-2.6	198.7
Kazakhstan	72.3	37.1	99.1	72.3	22.8	88.8	26.9	112.7	-12.2	98.9	0.2	99.1
Ukraine	138	52.3	210.2	138	15.9	159.9	5.2	168.2	8.9	183.2	14.7	210.2
Uzbekistan	242.2	9.5	265.3	242.2	9.7	265.6	9.1	289.8	-2.2	283.4	-6.4	265.3
Tajikistan	205.8	0.0	205.8	205.8	8.9	224.2	2.7	230.3	-6.1	216.3	-4.9	205.8
Armenia	141.3	12.5	158.9	141.3	31.0	185.1	-2.2	181	-5.1	171.8	-7.5	158.9
Georgia	47.9	81.8	87.1	47.9	n/m	n/d	n/m	n/d	n/m	121.5	-28.3	87.1
Number of active subscribers (broadband), th	n/d	n/m	534	n/d	n/m	n/d	n/m	n/d	n/m	n/d	n/m	534
Russia	n/d	n/m	530	n/d	n/m	n/d	n/m	n/d	n/m	n/d	n/m	530
Ukraine	n/d	n/m	4	n/d	n/m	n/d	n/m	n/d	n/m	n/d	n/m	4
ARPU (broadband), USD												
Russia	n/d	n/m	n/d	n/d	n/m	n/d	n/m	n/d	n/m	n/d	n/m	n/d
Ukraine	n/d	n/m	39.4	n/d	n/m	n/d	n/m	n/d	n/m	n/d	n/m	39.4

Source: company's data; Estimation: Veles Capital

Vimpelcom's US GAAP financial results, mn USD

	1Q 2007	Chg., %	1Q 2008	1Q 2007	Chg., %	2Q 2007	Chg., %	3Q 2007	Chg., %	4Q 2007	Chg., %	1Q 2008
Income	1,488	41.7	2,108	1,488	15.4	1,717	13.9	1,956	2.8	2,010	4.9	2,108
cellular communications	1,488	30.6	1,944	1,488	15.4	1,717	13.9	1,956	2.8	2,010	-3.3	1,944
landline communications	n/d	n/m	175	n/d	n/m	n/d	n/m	n/d	n/m	n/d	n/m	175
Expenses	(1,044)	34.7	(1,406)	(1,044)	11.1	(1,160)	10.6	(1,282)	15.4	(1,479)	-4.9	(1,406)
inc. Amortisation	(322)	31.6	(424)	(322)	5.2	(339)	0.6	(341)	13.7	(388)	9.4	(424)
Operating income	444	58.0	702	444	25.6	558	20.9	674	-21.3	531	32.2	702
Operating income margin, %	29.8	3.4	33.3	29.8	2.6	32.5	2.0	34.5	-8.1	26.4	6.9	33.3
OIBDA	766	46.9	1,126	766	17.0	897	13.2	1,015	-9.5	918	22.6	1,126
OIBDA margin, %	51.5	1.9	53.4	51.5	0.7	52.2	-0.3	51.9	-6.2	45.7	7.7	53.4
Interest payable	(46)	72.8	(79)	(46)	4.0	(48)	7.3	(51)	-1.6	(50)	57.4	(79)
Other nonoperating income/loss	11	1712.9	192	11	-22.8	8	215.6	26	150.8	65	196.8	192
Profit before tax	409	99.1	814	409	26.8	518	25.2	649	-16.0	545	49.4	814
Profit before tax margin, %	27.5	11.1	38.6	27.5	2.7	30.2	3.0	33.2	-6.1	27.1	11.5	38.6
Income tax	(120)	63.1	(196)	(120)	19.8	(144)	19.1	(171)	-6.9	(159)	22.9	(196)
Minority interest	(11)	48.3	(17)	(11)	32.0	(15)	28.3	(19)	-9.7	(18)	-3.1	(17)
Net income	277	116.9	601	277	29.6	359	27.5	458	-19.6	368	63.3	601
Net income margin	18.6	9.9	28.5	18.6	2.3	20.9	2.5	23.4	-5.1	18.3	10.2	28.5

Note: the change of percent estimates is given in percent points

Source: company's data; Estimation: Veles Capital

Vimpelcom's financial model

Income statements of Vimpelcom, mn USD

	2003	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Sales	1,330	2,113	3,211	4,870	7,175	9,489	10,539	11,677	12,731	13,778	14,811
Costs	(919)	(1,439)	(2,233)	(3,473)	(4,969)	(6,954)	(7,856)	(8,399)	(8,961)	(9,532)	(10,112)
OIBDA	607	1,019	1,571	2,452	3,597	4,390	4,770	5,270	5,730	6,201	6,664
<i>OIBDA margin, %</i>	45.7	48.2	48.9	50.3	50.1	46.3	45.3	45.1	45.0	45.0	45.0
EBIT	410	674	978	1,397	2,206	2,534	2,682	3,278	3,769	4,246	4,699
<i>EBIT margin, %</i>	30.9	31.9	30.5	28.7	30.7	26.7	25.5	28.1	29.6	30.8	31.7
Interest expenses	(68)	(86)	(147)	(186)	(195)	(192)	(489)	(442)	(415)	(86)	(75)
Non-operating income (losses)	10	(3)	10	1	109	4	4	11	50	13	31
EBT	352	586	840	1,212	2,120	2,346	2,197	2,847	3,405	4,173	4,655
<i>EBT margin, %</i>	26.5	27.7	26.2	24.9	29.6	24.7	20.8	24.4	26.7	30.3	31.4
Income tax	(106)	(155)	(222)	(391)	(594)	(632)	(570)	(712)	(820)	(1,006)	(1,123)
Minority interest	(23)	(80)	(3)	(6)	(64)	(72)	(69)	(90)	(109)	(134)	(150)
Net income	224	350	615	815	1,463	1,642	1,558	2,045	2,475	3,033	3,382
<i>Net income margin, %</i>	16.8	16.6	19.2	16.7	20.4	17.3	14.8	17.5	19.4	22.0	22.8

Source: company's data, Estimation: Veles Capital

Balance sheets of Vimpelcom, mn USD

	2003	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
ASSETS											
Non-current assets											
PPE and intangible assets	1,754	3,983	5,251	7,122	8,338	10,574	10,129	9,956	9,866	9,810	9,885
Other non-current assets	1	0	95	190	504	5,463	5,464	5,465	5,466	5,467	5,468
Total non-current assets	1,755	3,983	5,346	7,312	8,842	16,037	15,593	15,421	15,331	15,277	15,352
Current assets											
Current assets	369	492	598	780	723	1,241	1,348	1,493	1,626	1,763	1,904
Short-term investments	0	0	0	0	0	2	233	1,546	304	906	3,212
Cash and equivalents	158	306	364	344	1,004	692	1,319	1,462	183	1,724	1,849
Total current assets	526	797	961	1,125	1,727	1,934	2,900	4,501	2,113	4,393	6,964
Total assets	2,281	4,780	6,307	8,437	10,569	17,971	18,493	19,922	17,444	19,670	22,317
LIABILITIES											
Total shareholder's equity	988	2,157	2,741	3,943	5,412	7,696	8,632	10,108	11,835	13,960	16,238
Minority interest	175	2	189	258	288	456	525	615	724	858	1,008
Non-current liabilities											
Long-term borrowings	607	1,581	1,998	2,489	2,767	7,002	6,357	5,979	1,445	1,190	1,190
Other non-current liabilities	33	304	382	558	629	763	763	763	763	763	763
Total non-current liabilities	640	1,885	2,380	3,048	3,395	7,765	7,120	6,742	2,207	1,952	1,952
Current liabilities											
Accounts payable	167	352	546	672	701	1,125	1,220	1,351	1,472	1,595	1,721
Other current liabilities	312	383	452	516	773	929	997	1,105	1,206	1,303	1,397
Total current liabilities	479	736	998	1,188	1,473	2,054	2,217	2,456	2,678	2,899	3,118
Total liabilities	2,281	4,780	6,307	8,437	10,569	17,971	18,493	19,922	17,444	19,670	22,317

Source: company's data, Estimation: Veles Capital

Statements of cash flow of Vimpelcom, mn USD

	2003	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Cash flows from operating activities											
Net income	224	350	615	811	1,463	1,663	1,558	2,045	2,475	3,033	3,382
Minority interest	23	80	3	8	64	73	69	90	109	134	150
Depreciation and amortization	197	345	593	1,054	1,391	1,898	2,087	1,992	1,961	1,956	1,965
Other	(4)	15	15	126	241	(1)	(1)	(1)	(1)	(1)	(1)
Changes in working capital	66	17	74	(5)	(63)	87	56	94	88	84	78
Net cash provided by operating activities	506	808	1,301	1,994	3,095	3,720	3,769	4,221	4,632	5,206	5,574
Cash flows from investing activities											
CapEx	(525)	(943)	(1,195)	(1,297)	(1,312)	(2,593)	(1,642)	(1,820)	(1,870)	(1,900)	(2,040)
Other	(69)	(574)	(396)	(990)	(922)	(4,883)	(232)	(1,312)	1,242	(602)	(2,306)
Net cash provided by investing activities	(594)	(1,517)	(1,591)	(2,287)	(2,235)	(7,476)	(1,874)	(3,132)	(628)	(2,502)	(4,346)
Cash flows from financing activities											
Proceeds from borrowings	253	1,143	864	925	666	4,500	0	0	300	0	0
Repayments of borrowings	(348)	(288)	(486)	(607)	(487)	(519)	(645)	(378)	(4,835)	(255)	0
Other	59	0	0	0	(332)	(593)	(623)	(568)	(748)	(908)	(1,104)
Net cash provided by financial activities	(36)	855	378	319	(152)	3,388	(1,268)	(946)	(5,283)	(1,163)	(1,104)
Net change of cash	(125)	146	88	26	708	(368)	628	143	(1,279)	1,541	125
Cash at the beginning of period	264	158	306	364	344	1,004	703	1,331	1,472	195	1,738
Cash at the end of period	158	306	364	344	1,004	703	1,331	1,472	195	1,738	1,863

Source: company's data, Estimation: Veles Capital

Estimation of Vimpelcom's share price

Discount rate (WACC) of Vimpelcom, %

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Cost of equity (k_e)	11.29	10.59	11.11	10.87	10.76	10.53	11.43	11.06	10.75	9.67	9.59
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 Treasuries 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	1.0	0.9	1.0	0.9	0.9	0.9	1.0	1.0	0.9	0.7	0.7
Corporate risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share of equity, %	53.9	65.7	57.7	59.4	62.8	67.3	53.8	59.0	64.2	89.7	92.6
Cost of debt (k_d)	7.49	7.49	7.49	7.49	7.49	7.49	7.49	7.49	7.49	7.49	7.49
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	30.0	26.5	26.4	32.2	27.6	26.7	25.8	24.9	24.0	24.0	24.0
Share of debt, %	46.1	34.3	42.3	40.6	37.2	32.7	46.2	41.0	35.8	10.3	7.4
WACC	8.50	8.84	8.74	8.52	8.78	8.88	8.72	8.83	8.94	9.28	9.32

Estimation: Veles Capital

Cash flows of Vimpelcom, mn USD

	2003	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Net income (corr.)	315	516	766	1,008	1,721	1,914	2,118	2,601	3,025	3,274	3,590
Depreciation and amortization	197	345	593	1,054	1,391	1,856	2,087	1,992	1,961	1,956	1,965
CapEx	(568)	(1,374)	(1,323)	(1,977)	(1,613)	(2,593)	(1,642)	(1,820)	(1,870)	(1,900)	(2,040)
Changes in working capital	66	17	74	(5)	(63)	87	56	94	88	84	78
Free cash flow	10	(495)	110	80	1,435	1,263	2,619	2,867	3,204	3,414	3,594
Discount rate, %					0.0	8.9	8.7	8.8	8.9	9.3	9.3
Discount coefficient					0.00	1.00	0.92	0.85	0.78	0.71	0.65
Discounted cash flow					0	1,263	2,409	2,423	2,486	2,424	2,335

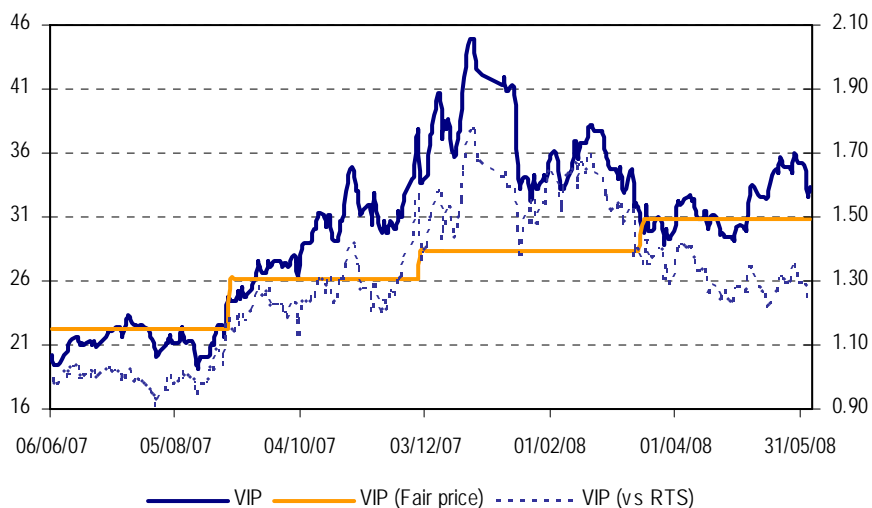
Source: company's data, Estimation: Veles Capital

Vimpelcom's ADRs valuation

TGR, %	3.0
Sum of cash flows, mn USD	17,898
Terminal value, mn USD	67,459
Discounted terminal value, mn USD	33,032
Enterprise value, mn USD	50,930
Net debt, mn USD	7,916
Shareholder's equity (incl. minority interest), mn USD	43,014
Minority interest, mn USD	2,405
Shareholder's equity, mn USD	40,609
Number of shares, mn units	1,016
Fair value of stock at the year end, USD	39.99
<i>Upside (downside), %</i>	<i>19.9</i>

Source: company's data, Estimation: Veles Capital

History of Vimpelcom's valid estimations



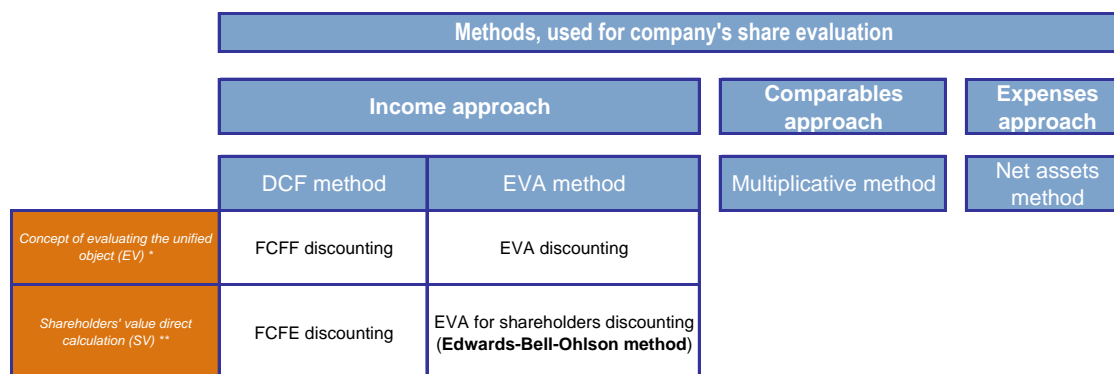
Sector share estimation

Our recommendations

Share	Tiker	Current price, USD	Target for year end, USD	Current growth potential, %	Recommendation	Date of recommendation revision	Investment idea
Traditional telephony							
Volgatelecom, cs	NNSI	4.7400	6.0110	26.8	BUY	3/14/2008	High effectiveness and low debt make company into an attractive subject for investing
Volgatelecom, ps	NNSIP	2.8000	4.5083	61.0	BUY	8/28/2007	
Dalsvyaz, cs	ESPK	4.9000	7.4457	52.0	BUY	8/28/2007	Prospects of improving the effectiveness of activity due to the new services
Dalsvyaz, ps	ESPKP	3.4000	5.5842	64.2	BUY	8/28/2007	
NWT, cs	SPTL	1.3600	1.5002	10.3	HOLD	8/28/2007	The company's management takes the maximum from regulated services, however the prospects are limited
NWT, ps	SPTLP	0.8550	1.1251	31.6	HOLD	10/16/2007	
Sibirtelecom, cs	ENCO	0.0970	0.1140	17.5	BUY	2/5/2008	High share of non-regulated services allows company to improve its financial results
Sibirtelecom, ps	ENCOP	0.0595	0.0855	43.7	BUY	8/28/2007	High debt load limits growth potential
Uralsvyazinform, cs	URSI	0.0590	0.0573	-2.8	BUY	3/13/2008	
Uralsvyazinform, ps	URSIP	0.0330	0.0430	30.3	ACCUMULATE	8/28/2007	
Centrtelecom, cs	ESMO	0.6500	1.0357	59.3	ACCUMULATE	11/15/2007	Aggressive investment program halts growth of quotes
Centrtelecom, ps	ESMOP	0.4500	0.7768	72.6	BUY	11/15/2007	
STC, cs	KUBN	0.1515	0.2465	62.7	BUY	11/28/2007	New rules of industry define company's prospects
STC, ps	KUBNP	0.1050	0.1848	76.0	BUY	11/28/2007	
Alternative telephony							
Comstar-UTS	CMST	10.8500	13.4790	24.2	BUY	4/24/2008	Growth potential due to development of regional markets
Long-distance communication							
Rostelecom, cs	RTKM	11.5000	4.8300	-58.0	SELL	2/14/2008	An extremely high market price, resulted from buyup of shares, yet unsupported by fundamental factors
Rostelecom, ps	RTKMP	2.3000	3.6200	57.4	BUY	2/14/2008	
Cellular communication							
Vimpelcom	VIMP	31.07	39.99	28.7	BUY	6/6/2008	Change of marketing policy intending growth of profitability, possible transformation into a universal operator (carrier)
MTS	MTSS	12.45	16.29	30.9	BUY	5/21/2008	Sound financial results, prospects of 3G technology use, fundamental underestimation of shares
Media							
CTC Media	CTCM	25.40	32.90	29.5	BUY	4/30/2008	Growth of ad market and prices
RBC	RBCI	9.00	9.86	9.6	BUY	10/2/2007	Separation of IT business and improvement of primary business' effectiveness
Other							
Sitronics	SITR	0.13	0.09	-33.8	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.

**

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
$$NOPAT = EBIT * (1 - \text{income tax effective rate})$$
- 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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