

**Research**

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## KAMAZ, NefAZ

### 2007 financial report

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### Bullet moments

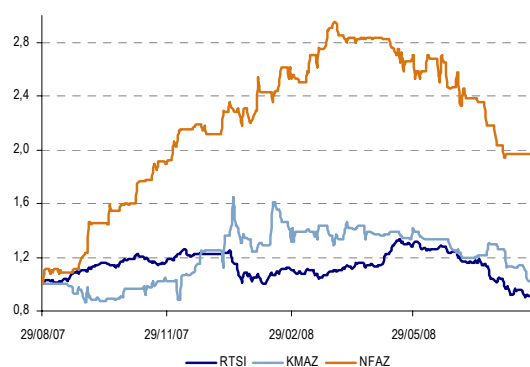
- Late this August KAMAZ group published its financial results under IAS 2007 report. Group's revenue increased by 45% vs 2006 results, EBITDA added 83.5% and formed 499 mn USD, company's net income increased twice to 291 mn USD. KAMAZ's efficiency also increased, coupled with high growth rates of main indicators. Thus, EBITDA margin formed 13.1% (10.4% over year 2006), a growth of net income margin formed 7.6% against 5.4% over year 2006.
- We see KAMAZ's financial report as positive. Some results of the company have met our expectations: group's revenue has met our forecasts, whereas operating income exceeded our expectations by 3%, but net income of the company happened to be higher than our estimations. Growth rate of income formed 93% vs 30% (expected). The main reason of such dynamical growth is favorable economical situation, especially, active development of the construction sector. Demand on trucks increased by 20% over year 2007. Moreover, favorable market conditions and leading positions at Russian automobile market, allowed KAMAZ to increase prices. Thus, according to last year results, an average price of KAMAZ's products increased by 23%.

- In the middle of August KAMAZ announced its plans to sell 42% of its stake to Daimler. KAMAZ hopes to achieve radical renewal of its production and technical base, by means of cooperating with Daimler. The deal will be made on October 2008. Taking into account an average company's capitalization of 6 months, the price of portfolio can form about 1.5-2 bn USD and Daimler's premium of Russian market entry. We think that following deal can act as extra catalyser of a growth for KAMAZ's securities.

- We have reviewed financial model of KAMAZ, taking into account published data, a growth of metal prices, which could have a negative effect on company's efficiency over year 2008. Moreover, taking into account 6 months of company activity, we have reviewed fundamental price of NefAZ (KAMAZ's subsidiary). As a result, we decreased a forecasted price of common shares (KAMAZ) by 7%, to 5.98 USD and by 7.4%, to 45.75 USD for common shares of NefAZ. However, taking into account a fall at fund markets, companies' stocks have a growth potential. We confirm "BUY" recommendation on KAMAZ's and NefAZ's securities.

### Principal estimates

Company's shares vs. the RTS index



#### Market multipliers

	P/S	EV/EBITDA	P/E	P/BV
Neftekamsky Avtozavod OAO	0.52	5.78	9.92	2.88
Kamaz	0.57	5.62	9.53	1.64
Average at developed markets	0.49	5.54	9.01	1.94
Average at emerging markets	0.45	5.57	8.49	1.97

#### Our recommendations

Ticker	Last price, USD	Fundamental price of share, USD	Potential, %	Recommendation
Neftekan/NFAZ	33.00	45.75	38.65	BUY
Kamaz/KMAZ	4.00	5.98	49.44	BUY

# KAMAZ

## Forecasted results

### Balance sheet, mn USD

	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
<b>Non-current assets</b>	<b>1,971</b>	<b>1,372</b>	<b>1,558</b>	<b>1,572</b>	<b>1,573</b>	<b>1,584</b>	<b>1,595</b>	<b>1,595</b>	<b>1,595</b>	<b>1,595</b>	<b>1,595</b>
PPE	1,281	1,060	1,155	1,168	1,170	1,181	1,192	1,192	1,192	1,192	1,192
Other non-current assets	502	299	383	383	383	383	383	383	383	383	383
<b>Current assets</b>	<b>741</b>	<b>965</b>	<b>1,227</b>	<b>1,750</b>	<b>2,258</b>	<b>2,907</b>	<b>3,632</b>	<b>4,223</b>	<b>4,831</b>	<b>5,558</b>	<b>6,358</b>
Inventories	342	406	542	625	659	727	791	818	846	874	904
Accounts receivable	268	375	404	466	492	542	590	610	631	652	674
Short-term financial investments				0	0	178	654	2,244	2,777	3,426	4,145
Cash and near cash	8	19	14								
Other current assets	36	94	176	568	1,016	1,368	1,505	459	485	513	543
	87	71	91	91	91	91	91	91	91	91	91
<b>Total assets</b>	<b>2,712</b>	<b>2,336</b>	<b>2,785</b>	<b>3,322</b>	<b>3,831</b>	<b>4,491</b>	<b>5,227</b>	<b>5,817</b>	<b>6,425</b>	<b>7,153</b>	<b>7,953</b>
<b>Equity</b>	<b>1,732</b>	<b>1,234</b>	<b>1,405</b>	<b>1,721</b>	<b>2,090</b>	<b>2,496</b>	<b>2,913</b>	<b>3,368</b>	<b>3,868</b>	<b>4,422</b>	<b>5,037</b>
Share capital	1,805	1,492	1,441	1,441	1,441	1,441	1,441	1,441	1,441	1,441	1,441
Reserves	12	19	54	54	54	54	54	54	54	54	54
Retained earnings	-110	-334	-163	132	475	854	1,243	1,667	2,133	2,649	3,222
Minority interest	25	58	73	94	119	147	175	206	240	278	320
<b>Long-term liabilities</b>	<b>339</b>	<b>311</b>	<b>371</b>	<b>413</b>	<b>370</b>	<b>410</b>	<b>452</b>	<b>425</b>	<b>453</b>	<b>484</b>	<b>516</b>
Long-term debt	299	169	181	164	94	78	61	7	7	7	7
Other long-term liabilities											
	40	142	190	248	276	332	391	418	446	476	509
<b>Short-term liabilities</b>	<b>641</b>	<b>790</b>	<b>1,008</b>	<b>1,188</b>	<b>1,371</b>	<b>1,585</b>	<b>1,861</b>	<b>2,024</b>	<b>2,104</b>	<b>2,247</b>	<b>2,400</b>
Short-term debt	247	280	339	313	400	413	483	553	532	569	607
Other short-term liabilities	394	511	670								
				875	972	1,171	1,378	1,472	1,572	1,679	1,793
<b>Total equity and liabilities</b>	<b>2,712</b>	<b>2,336</b>	<b>2,785</b>	<b>3,322</b>	<b>3,831</b>	<b>4,491</b>	<b>5,227</b>	<b>5,817</b>	<b>6,425</b>	<b>7,153</b>	<b>7,953</b>

Source: company's data; Estimation: Veles Capital

### Income and loss statement, mn USD

	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
<b>Sales</b>	<b>1,912</b>	<b>2,617</b>	<b>3,805</b>	<b>4,972</b>	<b>5,521</b>	<b>6,656</b>	<b>7,829</b>	<b>8,362</b>	<b>8,930</b>	<b>9,537</b>	<b>10,186</b>
Cost of services	(1,595)	(2,104)	(2,959)	(4,009)	(4,436)	(5,397)	(6,438)	(6,858)	(7,305)	(7,783)	(8,294)
<b>Gross income</b>	<b>318</b>	<b>514</b>	<b>846</b>	<b>963</b>	<b>1,085</b>	<b>1,259</b>	<b>1,391</b>	<b>1,504</b>	<b>1,625</b>	<b>1,754</b>	<b>1,892</b>
<i>Gross income margin, %</i>	<i>16.6</i>	<i>19.6</i>	<i>22.2</i>	<i>19.4</i>	<i>19.7</i>	<i>18.9</i>	<i>17.8</i>	<i>18.0</i>	<i>18.2</i>	<i>18.4</i>	<i>18.6</i>
General and administrative expenses	(173)	(287)	(394)	(514)	(571)	(689)	(810)	(865)	(924)	(987)	(1,054)
Other income (expenses), net		(27)	(25)	(32)	(36)	(43)	(51)	(54)	(58)	(62)	(66)
<b>EBITDA</b>	<b>189</b>	<b>272</b>	<b>499</b>	<b>487</b>	<b>550</b>	<b>599</b>	<b>603</b>	<b>658</b>	<b>716</b>	<b>779</b>	<b>846</b>
<i>EBITDA margin, %</i>	<i>9.9</i>	<i>10.4</i>	<i>13.1</i>	<i>9.8</i>	<i>10.0</i>	<i>9.0</i>	<i>7.7</i>	<i>7.9</i>	<i>8.0</i>	<i>8.2</i>	<i>8.3</i>
<b>EBIT</b>	<b>144</b>	<b>200</b>	<b>428</b>	<b>416</b>	<b>479</b>	<b>527</b>	<b>531</b>	<b>585</b>	<b>643</b>	<b>706</b>	<b>772</b>
<i>EBIT margin, %</i>	<i>7.5</i>	<i>7.6</i>	<i>11.3</i>	<i>8.4</i>	<i>8.7</i>	<i>7.9</i>	<i>6.8</i>	<i>7.0</i>	<i>7.2</i>	<i>7.4</i>	<i>7.6</i>
Finance income	3	19	9	0	0	0	5	0	0	5	20
Finance expenses	(71)	(57)	(35)	(25)	(17)	(16)	(10)	(9)	(8)	(4)	(4)
Other non-operating income (expenses), net	(45)	45	27	27	27	27	27	27	27	27	27
<b>EBT</b>	<b>31</b>	<b>207</b>	<b>429</b>	<b>419</b>	<b>488</b>	<b>539</b>	<b>553</b>	<b>603</b>	<b>662</b>	<b>734</b>	<b>815</b>
<i>EBT margin, %</i>	<i>1.6</i>	<i>7.9</i>	<i>11.3</i>	<i>8.4</i>	<i>8.8</i>	<i>8.1</i>	<i>7.1</i>	<i>7.2</i>	<i>7.4</i>	<i>7.7</i>	<i>8.0</i>
Income tax	(8)	(34)	(33)	(101)	(117)	(129)	(133)	(145)	(159)	(176)	(196)
Deffered income tax	(12)	(21)	(88)	0	0	0	0	0	0	0	0
Loss/gain from discontinued operations	0	0	0	0	0	0	0	0	0	0	0
Minority interest	0	(11)	(17)	(22)	(25)	(28)	(28)	(31)	(34)	(38)	(42)
<b>Net income</b>	<b>11</b>	<b>142</b>	<b>291</b>	<b>297</b>	<b>346</b>	<b>382</b>	<b>392</b>	<b>427</b>	<b>469</b>	<b>520</b>	<b>577</b>
<i>Net income margin, %</i>	<i>0.6</i>	<i>5.4</i>	<i>7.6</i>	<i>6.0</i>	<i>6.3</i>	<i>5.7</i>	<i>5.0</i>	<i>5.1</i>	<i>5.3</i>	<i>5.5</i>	<i>5.7</i>

Source: company's data; Estimation: Veles Capital

## Financial model

### Weighted average cost of capital calculation (WACC)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Risk-free yield:</b>												
$k_{rf}$ \$ (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
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
$k_{rf}^{RUR}$ , %	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>
<b>Required yield of shareholders:</b>												
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
$\beta$ coefficient average	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83
$\beta$ coefficient	0.83	1.02	1.08	1.11	1.00	0.98	0.95	0.95	0.93	0.92	0.91	0.91
corporate governance level S&P scale	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Premium for quality of corporate management, %	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40
$k_s$ , %	<b>13.74</b>	<b>14.71</b>	<b>15.00</b>	<b>15.16</b>	<b>14.61</b>	<b>14.49</b>	<b>14.36</b>	<b>14.33</b>	<b>14.26</b>	<b>14.18</b>	<b>14.15</b>	<b>14.12</b>
<b>Required yield of creditors:</b>												
Credit rating, S&P scale	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+
Premium for credit risk, %	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
$k_d$ , %	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>
<b>Capital structure:</b>												
Source fraction: own capital, %	100%	76%	73%	73%	78%	81%	84%	84%	86%	88%	88%	89%
Source fraction: borrowed capital, %	0%	24%	27%	27%	22%	19%	16%	16%	14%	12%	12%	11%
<b>WACC, %</b>	<b>13.74</b>	<b>13.69</b>	<b>14.12</b>	<b>14.55</b>	<b>13.75</b>	<b>13.75</b>	<b>13.75</b>	<b>13.75</b>	<b>13.75</b>	<b>13.75</b>	<b>13.75</b>	<b>13.75</b>

Source: company's data; Estimation: Veles Capital

### Calculation of free cash flows, mn USD

	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
NOPAT	107	167	395	316	364	401	403	444	489	536	587
Depreciation and amortisation	0	72	71	71	72	72	73	73	73	73	73
<b>Gross operating cash flow</b>	<b>107</b>	<b>240</b>	<b>466</b>	<b>387</b>	<b>436</b>	<b>473</b>	<b>476</b>	<b>518</b>	<b>562</b>	<b>610</b>	<b>660</b>
CapEx	0	(69)	(121)	(85)	(73)	(83)	(83)	(73)	(73)	(73)	(73)
Change in working capital	0	(13)	(75)	60	36	81	95	47	52	57	62
<b>FCFF</b>	<b>107</b>	<b>157</b>	<b>270</b>	<b>363</b>	<b>399</b>	<b>471</b>	<b>487</b>	<b>491</b>	<b>540</b>	<b>593</b>	<b>649</b>
Discount rate, %				13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75
Discount coefficient				1.00	0.88	0.77	0.68	0.60	0.53	0.46	0.41
<b>Discounted FCFF</b>				<b>363</b>	<b>351</b>	<b>364</b>	<b>331</b>	<b>293</b>	<b>284</b>	<b>274</b>	<b>264</b>

Source: company's data; Estimation: Veles Capital

### Estimation of shares fundamental price

Target growth rate, %	3
Cash flow amount, mn USD	2,160
Terminal value, mn USD	6,223
Discounted terminal value, mn USD	2,221
Company's cost, mn USD	4,381
Debt cost, mn USD	-91
Share capital cost with minority interest, mn USD	4,472
Minority interest, mn USD	245
Share capital cost, mn USD	4,228
Number of common shares, units	707,229,559
Preferred to common shares discount, %	25
<b>Common share's fundamental cost, USD</b>	<b>5.98</b>
Underestimation (overestimation) of common shares, %	49.44

Source: company's data; Estimation: Veles Capital

## Efficiency and financial state analysis

### Balance sheet structure analysis

	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
<b>Non-current assets</b>	<b>73</b>	<b>59</b>	<b>56</b>	<b>47</b>	<b>41</b>	<b>35</b>	<b>31</b>	<b>27</b>	<b>25</b>	<b>22</b>	<b>20</b>
PPE	47	45	41	35	31	26	23	20	19	17	15
Intangible assets	7	1	1	1	1	0	0	0	0	0	0
Other non-current assets	18	13	14	12	10	9	7	7	6	5	5
<b>Current assets</b>	<b>27</b>	<b>41</b>	<b>44</b>	<b>53</b>	<b>59</b>	<b>65</b>	<b>69</b>	<b>73</b>	<b>75</b>	<b>78</b>	<b>80</b>
Inventories	13	17	19	19	17	16	15	14	13	12	11
Accounts receivable	10	16	15	14	13	12	11	10	10	9	8
Short-term financial investments	0	1	1	0	0	4	13	39	43	48	52
Cash and near cash	1	4	6	17	27	30	29	8	8	7	7
Other current assets	3	3	3	3	2	2	2	2	1	1	1
<b>Total assets</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Long-term debt	11	7	6	5	2	2	1	0	0	0	0
Short-term debt	9	12	12	9	10	9	9	9	8	8	8
Equity	64	53	50	52	55	56	56	58	60	62	63
Minority interest	1	2	3	3	3	3	3	4	4	4	4
<b>Total equity and liabilities</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: company's data; Estimation: Veles Capital

### Financial state analysis

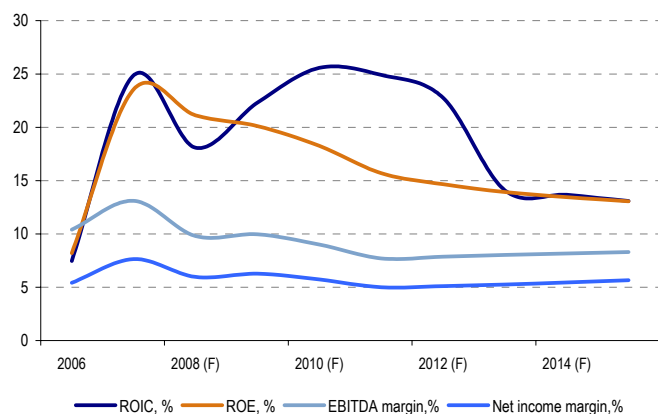
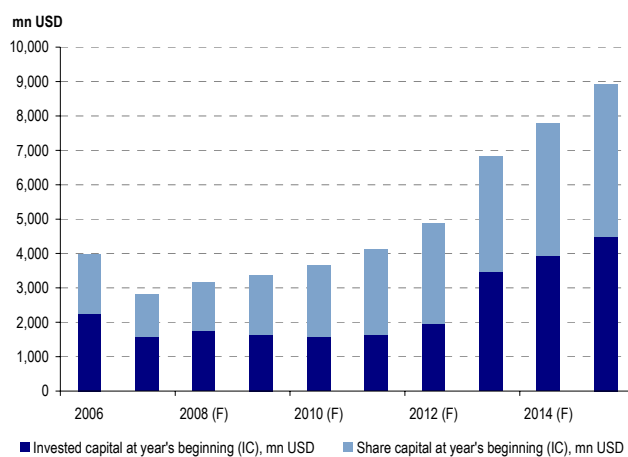
	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
<b>Leverage:</b>											
Financial leverage	0.31	0.36	0.37	0.28	0.24	0.20	0.19	0.17	0.14	0.13	0.12
<b>Financial leverage characteristics:</b>											
Interest-bearing debt / EBITDA	2.88	1.65	1.04	0.98	0.90	0.82	0.90	0.85	0.75	0.74	0.73
Interest-bearing SR debt / EAT	21.79	1.97	1.17	1.05	1.15	1.08	1.23	1.29	1.13	1.09	1.05
Interest-bearing debt / sales	0.29	0.17	0.14	0.10	0.09	0.07	0.07	0.07	0.06	0.06	0.06
Interest-bearing debt / assets	0.20	0.19	0.19	0.14	0.13	0.11	0.10	0.10	0.08	0.08	0.08
EBITDA / Interest payments	2.66	6.77	20.01	19.45	31.95	37.28	58.23	71.43	88.85	182.04	197.61
<b>Company's liquidity:</b>											
current ratio (>2)	1.16	1.22	1.22	1.47	1.65	1.83	1.95	2.09	2.30	2.47	2.65
quick ratio (>1)	0.47	0.59	0.57	0.87	1.10	1.21	1.13	0.53	0.53	0.52	0.51
absolute liquidity ratio (>0,2)	0.06	0.12	0.17	0.48	0.74	0.86	0.81	0.23	0.23	0.23	0.23
<b>Turnover estimates of (days):</b>											
accounts receivable	50	52	38	34	32	29	27	26	25	25	24
inventories	64	56	51	45	43	39	36	35	34	33	32
non-operating assets	140	133	116	127	147	157	167	182	195	210	225
net current assets	93	94	84	104	121	135	145	158	173	188	203

Source: company's data; Estimation: Veles Capital

**Business efficiency analysis**

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Invested capital at year's beginning (IC), mn USD	2,242	1,589	1,749	1,630	1,568	1,619	1,952	3,469	3,922	4,484
Share capital at year's beginning (IC), mn USD	1,732	1,234	1,405	1,721	2,090	2,496	2,913	3,368	3,868	4,422
ROIC, %	7.5	24.9	18.1	22.3	25.6	24.9	22.8	14.1	13.7	13.1
ROIC/WACC	0.5	1.7	1.3	1.6	1.9	1.8	1.7	1.0	1.0	1.0
ROE, %	8.2	23.5	21.1	20.1	18.3	15.7	14.7	13.9	13.4	13.1
ROA, %	6.1	10.4	8.9	9.0	8.5	7.5	7.3	7.3	7.3	7.3
EBITDA margin, %	10.4	13.1	9.6	10.0	9.0	7.7	7.9	8.0	8.2	8.3
EBIT margin, %	7.6	11.3	8.4	8.7	7.9	6.8	7.0	7.2	7.4	7.6
Net income margin, %	5.4	7.6	6.0	6.3	5.7	5.0	5.1	5.3	5.5	5.7

Source: company's data; Estimation: Veles Capital

**Profitability dynamics, %**

**Business value dynamics, mn USD**


Source: company's data; Estimation: Veles Capital

## NefAZ

### Forecasted results

#### Balance sheet, mn USD

	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
<b>Non-current assets</b>	<b>50</b>	<b>57</b>	<b>71</b>	<b>84</b>	<b>97</b>	<b>97</b>	<b>97</b>	<b>97</b>	<b>97</b>	<b>97</b>	<b>97</b>
PPE	33	39	49	63	75	75	75	75	75	75	75
Intangible assets	0	0	0	0	0	0	0	0	0	0	0
Other non-current assets	17	18	22	22	22	22	22	22	22	22	22
<b>Current assets</b>	<b>36</b>	<b>61</b>	<b>53</b>	<b>74</b>	<b>105</b>	<b>156</b>	<b>202</b>	<b>255</b>	<b>313</b>	<b>376</b>	<b>443</b>
Inventories	22	27	29	33	35	37	39	40	40	41	41
Accounts receivable	10	30	14	15	16	18	18	19	19	19	20
Short-term financial investments	0	0	0	15	42	88	131	182	239	301	367
Cash and near cash	0	3	6	8	9	10	11	11	11	12	12
Other current assets	3	2	3	3	3	3	3	3	3	3	3
<b>Total assets</b>	<b>86</b>	<b>118</b>	<b>124</b>	<b>158</b>	<b>202</b>	<b>252</b>	<b>298</b>	<b>351</b>	<b>410</b>	<b>473</b>	<b>540</b>
<b>Equity</b>	<b>35</b>	<b>49</b>	<b>65</b>	<b>92</b>	<b>127</b>	<b>167</b>	<b>214</b>	<b>267</b>	<b>325</b>	<b>388</b>	<b>455</b>
Share capital	19	21	22	22	22	22	22	22	22	22	22
Reserves	0	0	0	0	0	0	0	0	0	0	0
Retained earnings	16	28	44	70	105	145	193	245	304	367	433
Minority interest	0	0	0	0	0	0	0	0	0	0	0
<b>Long-term liabilities</b>	<b>16</b>	<b>23</b>	<b>21</b>	<b>14</b>	<b>18</b>	<b>21</b>	<b>19</b>	<b>17</b>	<b>15</b>	<b>13</b>	<b>13</b>
Long-term debt	16	23	20	14	17	20	18	16	14	12	12
Other long-term liabilities	0	1	1	1	1	1	1	1	1	1	1
<b>Short-term liabilities</b>	<b>36</b>	<b>45</b>	<b>37</b>	<b>52</b>	<b>58</b>	<b>64</b>	<b>65</b>	<b>68</b>	<b>70</b>	<b>72</b>	<b>72</b>
Short-term debt	14	6	20	32	35	39	37	38	39	40	40
Other short-term liabilities	22	39	17	20	23	26	28	29	30	31	32
<b>Total equity and liabilities</b>	<b>86</b>	<b>118</b>	<b>124</b>	<b>158</b>	<b>202</b>	<b>252</b>	<b>298</b>	<b>351</b>	<b>410</b>	<b>473</b>	<b>540</b>

Source: company's data; Estimation: Veles Capital

#### Income and loss statement, mn USD

	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
<b>Sales</b>	<b>213</b>	<b>296</b>	<b>423</b>	<b>512</b>	<b>578</b>	<b>657</b>	<b>723</b>	<b>749</b>	<b>772</b>	<b>795</b>	<b>819</b>
Cost of services	(183)	(251)	(363)	(437)	(491)	(558)	(613)	(634)	(651)	(669)	(688)
<b>Gross Income</b>	<b>30</b>	<b>46</b>	<b>60</b>	<b>74</b>	<b>88</b>	<b>99</b>	<b>110</b>	<b>115</b>	<b>121</b>	<b>126</b>	<b>130</b>
<i>Gross Income margin, %</i>	<i>14.0</i>	<i>15.4</i>	<i>14.2</i>	<i>14.5</i>	<i>15.2</i>	<i>15.1</i>	<i>15.2</i>	<i>15.4</i>	<i>15.6</i>	<i>15.9</i>	<i>15.9</i>
General and administrative expenses	(15)	(20)	(24)	(29)	(33)	(37)	(41)	(43)	(44)	(45)	(47)
<b>EBITDA</b>	<b>17</b>	<b>29</b>	<b>40</b>	<b>50</b>	<b>61</b>	<b>69</b>	<b>76</b>	<b>80</b>	<b>84</b>	<b>88</b>	<b>91</b>
<i>EBITDA margin, %</i>	<i>7.9</i>	<i>9.7</i>	<i>9.4</i>	<i>9.7</i>	<i>10.5</i>	<i>10.5</i>	<i>10.5</i>	<i>10.7</i>	<i>10.9</i>	<i>11.1</i>	<i>11.1</i>
<b>EBIT</b>	<b>15</b>	<b>26</b>	<b>36</b>	<b>45</b>	<b>55</b>	<b>62</b>	<b>69</b>	<b>73</b>	<b>77</b>	<b>81</b>	<b>83</b>
<i>EBIT margin, %</i>	<i>6.8</i>	<i>8.7</i>	<i>8.5</i>	<i>8.8</i>	<i>9.5</i>	<i>9.4</i>	<i>9.5</i>	<i>9.7</i>	<i>9.9</i>	<i>10.2</i>	<i>10.2</i>
Finance income	0	0	0	0	0	1	3	4	5	7	9
Finance expenses	(4)	(3)	(3)	(4)	(5)	(5)	(6)	(5)	(5)	(5)	(5)
Other non-operating income (expenses), net	(3)	(3)	(7)	0	0	0	0	0	0	0	0
<b>EBT</b>	<b>8</b>	<b>19</b>	<b>26</b>	<b>41</b>	<b>51</b>	<b>58</b>	<b>65</b>	<b>71</b>	<b>77</b>	<b>83</b>	<b>88</b>
<i>EBT margin, %</i>	<i>3.7</i>	<i>6.5</i>	<i>6.1</i>	<i>8.0</i>	<i>8.7</i>	<i>8.8</i>	<i>9.1</i>	<i>9.5</i>	<i>10.0</i>	<i>10.4</i>	<i>10.7</i>
Income tax	(3)	(6)	(9)	(14)	(16)	(17)	(18)	(18)	(18)	(20)	(21)
Deffered income tax	(0)	(0)	(0)	0	0	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0	0	0	0	0	0
<b>Net Income</b>	<b>5</b>	<b>13</b>	<b>17</b>	<b>27</b>	<b>34</b>	<b>41</b>	<b>47</b>	<b>53</b>	<b>58</b>	<b>63</b>	<b>67</b>
<i>Net Income margin, %</i>	<i>2.3</i>	<i>4.5</i>	<i>4.0</i>	<i>5.2</i>	<i>5.9</i>	<i>6.2</i>	<i>6.5</i>	<i>7.0</i>	<i>7.6</i>	<i>7.9</i>	<i>8.1</i>

Source: company's data; Estimation: Veles Capital

## Financial model

### Weighted average cost of capital calculation (WACC)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Risk-free yield:</b>											
$k_{rf}$ \$ (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
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
$k_{rf}^{RUR}$ , %	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>	<b>6.19</b>
<b>Required yield of shareholders:</b>											
Share premium, %	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
$\beta$ coefficient average	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83
$\beta$ coefficient	1.28	1.17	1.17	1.10	1.06	1.03	0.98	0.95	0.93	0.92	0.90
corporate governance level S&P scale	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Premium for quality of corporate management, %	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60
$k_s$ , %	<b>17.20</b>	<b>16.62</b>	<b>16.64</b>	<b>16.27</b>	<b>16.09</b>	<b>15.96</b>	<b>15.71</b>	<b>15.56</b>	<b>15.46</b>	<b>15.37</b>	<b>15.30</b>
<b>Required yield of creditors:</b>											
Credit rating, S&P scale	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+	CCC+
Premium for credit risk, %	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
$k_d$ , %	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>	<b>13.99</b>
<b>Capital structure:</b>											
Source fraction: own capital, %	54%	63%	62%	67%	71%	74%	80%	83%	86%	88%	90%
Source fraction: borrowed capital, %	46%	37%	38%	33%	29%	26%	20%	17%	14%	12%	10%
<b>WACC, %</b>	<b>13.49</b>	<b>14.00</b>	<b>13.77</b>	<b>13.94</b>	<b>14.19</b>	<b>14.36</b>	<b>14.56</b>	<b>14.68</b>	<b>14.78</b>	<b>14.80</b>	<b>14.82</b>

Source: company's data; Estimation: Veles Capital

### Calculation of free cash flows, mn USD

	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
NOPAT	9	18	23	30	37	43	50	54	58	61	63
Depreciation and amortisation	2	3	4	5	6	7	7	7	7	7	7
<b>Gross operating cash flow</b>	<b>12</b>	<b>21</b>	<b>27</b>	<b>34</b>	<b>43</b>	<b>51</b>	<b>57</b>	<b>61</b>	<b>65</b>	<b>69</b>	<b>71</b>
CapEx	(1)	(1)	(5)	(18)	(18)	(7)	(7)	(7)	(7)	(7)	(7)
Change in working capital	(14)	(6)	(10)	(1)	(1)	(0)	(0)	(0)	0	0	0
<b>FCFF</b>	<b>(3)</b>	<b>14</b>	<b>12</b>	<b>15</b>	<b>25</b>	<b>43</b>	<b>49</b>	<b>54</b>	<b>58</b>	<b>61</b>	<b>63</b>
Discount rate, %				13.94	14.19	14.36	14.56	14.68	14.78	14.80	14.82
Discount coefficient				1.00	0.88	0.76	0.67	0.58	0.50	0.44	0.38
<b>Discounted FCFF</b>				<b>15</b>	<b>22</b>	<b>33</b>	<b>33</b>	<b>31</b>	<b>29</b>	<b>27</b>	<b>24</b>

Source: company's data; Estimation: Veles Capital

### Estimation of shares fundamental price

Target growth rate, %	3
Cash flow amount, mn USD	198
Terminal value, mn USD	579
Discounted terminal value, mn USD	192
Company's cost, mn USD	390
Debt cost, mn USD	22
Share capital cost, mn USD	368
Number of common shares, units	8,038,896
<b>Common share's fundamental cost, USD</b>	<b>45.75</b>
<b>Underestimation (overestimation) of common shares, %</b>	<b>38.65</b>

Source: company's data; Estimation: Veles Capital

## Efficiency and financial state analysis

### Balance sheet structure analysis

	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
<b>Non-current assets</b>	<b>58</b>	<b>48</b>	<b>57</b>	<b>53</b>	<b>48</b>	<b>38</b>	<b>32</b>	<b>27</b>	<b>24</b>	<b>20</b>	<b>18</b>
PPE	39	33	40	40	37	30	25	21	18	16	14
Intangible assets	0	0	0	0	0	0	0	0	0	0	0
Other non-current assets	20	15	18	14	11	9	7	6	5	5	4
<b>Current assets</b>	<b>42</b>	<b>52</b>	<b>43</b>	<b>47</b>	<b>52</b>	<b>62</b>	<b>68</b>	<b>73</b>	<b>76</b>	<b>80</b>	<b>82</b>
Inventories	26	23	24	21	17	15	13	11	10	9	8
Accounts receivable	12	25	11	10	8	7	6	5	5	4	4
Short-term financial investments	0	0	0	10	21	35	44	52	58	64	68
Cash and near cash	0	2	5	5	4	4	4	3	3	2	2
Other current assets	4	2	2	2	2	1	1	1	1	1	1
<b>Total assets</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Long-term debt	18	19	17	9	8	8	6	5	3	3	2
Short-term debt	16	5	17	20	17	15	12	11	10	9	7
Equity	40	42	53	58	63	66	72	76	79	82	84
Minority interest	0	0	0	0	0	0	0	0	0	0	0
<b>Total equity and liabilities</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: company's data; Estimation: Veles Capital

### Financial state analysis

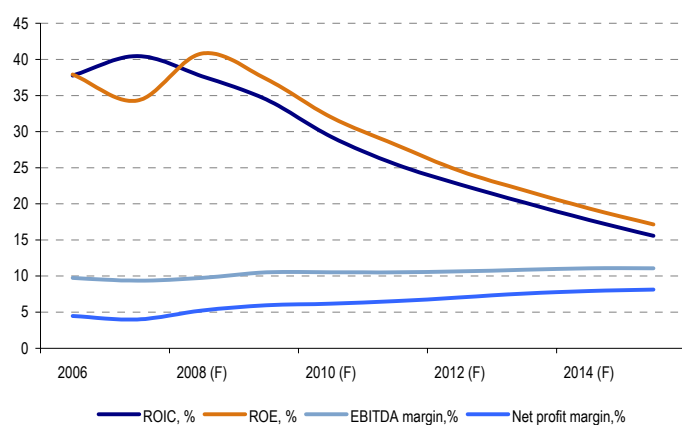
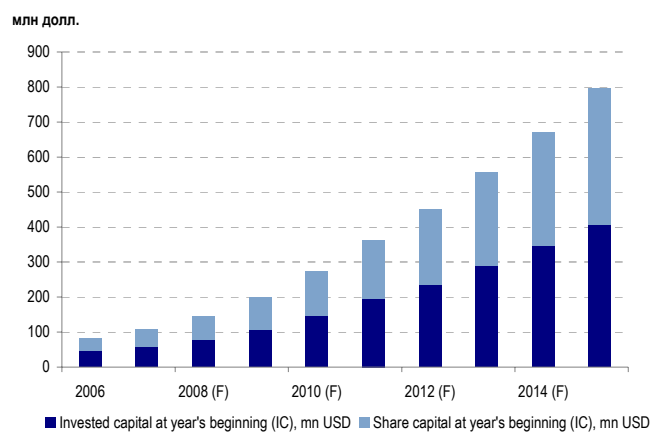
	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
<b>Leverage:</b>											
Financial leverage	0.84	0.59	0.62	0.49	0.41	0.35	0.26	0.20	0.16	0.13	0.11
<b>Financial leverage characteristics:</b>											
Interest-bearing debt / EBITDA	1.74	1.01	1.03	0.91	0.85	0.85	0.72	0.68	0.64	0.60	0.57
Interest-bearing SR debt / EAT	2.76	0.48	1.21	1.18	1.01	0.95	0.78	0.73	0.67	0.64	0.59
Interest-bearing debt / sales	0.14	0.10	0.10	0.09	0.09	0.09	0.08	0.07	0.07	0.07	0.06
Interest-bearing debt / assets	0.34	0.25	0.33	0.29	0.26	0.23	0.18	0.15	0.13	0.11	0.10
EBITDA / Interest payments	4.15	8.56	13.50	11.69	13.20	13.11	12.70	14.87	16.09	17.46	18.60
<b>Company's liquidity:</b>											
current ratio (>2)	1.02	1.35	1.42	1.43	1.83	2.42	3.09	3.76	4.50	5.25	6.17
quick ratio (>1)	0.29	0.71	0.55	0.45	0.44	0.42	0.45	0.44	0.44	0.44	0.44
absolute liquidity ratio (>0,2)	0.01	0.06	0.17	0.15	0.15	0.15	0.16	0.16	0.16	0.16	0.17
<b>Turnover estimates of (days):</b>											
accounts receivable	17	36	12	11	10	10	9	9	9	9	9
inventories	38	33	25	23	22	20	19	19	19	18	18
non-operating assets	61	75	45	52	65	85	101	122	146	170	195
net current assets	38	67	28	30	44	64	82	104	128	152	177

Source: company's data; Estimation: Veles Capital

**Business efficiency analysis**

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Invested capital at year's beginning (IC), mn USD	47	58	78	108	148	194	237	288	345	407
Share capital at year's beginning (IC), mn USD	35	49	65	92	127	167	214	267	325	388
ROIC, %	37.8	40.5	37.7	34.4	29.3	25.5	22.7	20.2	17.8	15.6
ROIC/WACC	2.7	2.9	2.7	2.4	2.0	1.8	1.5	1.4	1.2	1.1
ROE, %	37.9	34.3	40.8	37.3	32.0	28.2	24.6	21.9	19.4	17.1
ROA, %	11.2	13.6	16.9	17.1	16.1	15.8	15.0	14.3	13.3	12.3
EBITDA margin, %	9.7	9.4	9.7	10.5	10.5	10.5	10.7	10.9	11.1	11.1
EBIT margin, %	8.7	8.5	8.8	9.5	9.4	9.5	9.7	9.9	10.2	10.2
Net Income margin, %	4.5	4.0	5.2	5.9	6.2	6.5	7.0	7.6	7.9	8.1

Source: company's data; Estimation: Veles Capital

**Profitability dynamics, %**

**Business value dynamics, mn USD**


Source: company's data; Estimation: Veles Capital

## Public comparables

### Sector companies' multipliers and coefficients

		Current capitalization, mln USD	Enterprise value, mln USD							Financial coefficients				
				$P/S$	$EV/S$	$EV/EBITDA$	$P/E$	$P/BV$	$EV/IC$	ROE, %	ROA, %	ROIC, %	EBITDA margin, %	ROIC / WACC
<b>Developed markets</b>														
MAN AG	GERMANY	14,215	13,970	0.57	0.56	3.93	6.75	2.07	2.11	25.30	14.10	29.82	14.26	2.25
Isuzu Motors Ltd	JAPAN	6,180	7,324	0.36	0.43	5.14	7.76	1.71	1.54	21.22	7.10	17.48	8.35	1.61
Hino Motors Ltd	JAPAN	2,792	4,457	0.22	0.35	5.23	13.06	0.96	0.97	7.24	2.47	5.74	6.70	0.83
Fuji Heavy Industries Ltd	JAPAN	4,363	6,191	0.29	0.42	7.01	29.16	0.81	0.86	3.43	1.32	2.44	5.97	0.44
Hino Motors Ltd	JAPAN	2,792	4,457	0.22	0.35	5.23	13.06	0.96	0.97	7.24	2.47	5.74	6.70	0.83
PACCAR Inc	UNITED STATES	15,435	17,353	0.97	1.10	8.53	12.43	2.85	2.37	24.31	18.40	15.54	12.85	1.41
Oshkosh Corp	UNITED STATES	1,140	3,951	0.16	0.56	5.54	4.71	0.76	0.92	16.43	3.70	8.87	10.07	1.21
Scania AB	SWEDEN	11,866	15,114	0.81	1.04	5.36	7.57	7.05	3.06	39.89	12.52	33.22	19.36	3.02
Rosenbauer International AG	AUSTRIA	316	371	0.43	0.50	5.75	10.93	3.52	2.56	27.65	11.90	30.09	8.77	3.25
<b>Developed markets weighted average</b>		<b>6,567</b>	<b>8,132</b>	<b>0.49</b>	<b>0.61</b>	<b>5.54</b>	<b>9.01</b>	<b>1.94</b>	<b>1.65</b>	<b>24.07</b>	<b>11.92</b>	<b>20.78</b>	<b>12.86</b>	<b>1.84</b>
<b>Developing markets</b>														
Ashok Leyland Ltd	INDIA	948	1,208	0.43	0.54	4.29	8.25	1.77	1.52	22.05	11.70	14.47	12.62	1.09
Tata Motors Ltd	INDIA	3,659	4,417	0.46	0.56	5.24	8.25	1.69	1.51	19.23	7.76	17.08	10.64	1.42
Mahindra & Mahindra Ltd	INDIA	3,192	5,313	0.55	0.91	6.12	8.30	2.02	1.44	23.65	9.95	13.00	14.91	1.07
CNHTC Jinan Truck Co Ltd	CHINA	1,000	1,205	0.32	0.38	5.87	7.96	3.62	2.50	30.78	8.26	30.85	6.56	1.91
Zhengzhou Yutong Bus Co Ltd	CHINA	982	879	0.74	0.66	10.02	11.68	2.70	3.37	16.00	7.80	20.94	6.64	1.30
Xiamen King Long Motor Co Ltd	CHINA	431	120	0.21	0.06	1.37	9.40	2.55	-	18.60	8.50	-	4.31	-
Liaoning SG Automotive Group Co Ltd	CHINA	172	246	0.25	0.36	8.97	6.98	1.01	1.01	9.09	2.82	5.72	4.03	0.44
<b>Developing markets weighted average</b>		<b>1,483</b>	<b>1,913</b>	<b>0.45</b>	<b>0.58</b>	<b>5.57</b>	<b>8.49</b>	<b>1.97</b>	<b>1.58</b>	<b>21.46</b>	<b>8.79</b>	<b>17.09</b>	<b>10.99</b>	<b>1.30</b>
<b>Russia</b>														
Neftekamsky Avtozavod OAO		265	288	0.52	0.56	5.78	9.92	2.88	2.51	40.82	16.89	37.68	9.73	2.70
Kamaz		2,829	2,738	0.57	0.55	5.62	9.53	1.64	1.68	21.12	8.93	18.09	9.80	1.32
<b>Russia weighted average</b>		<b>1,547</b>	<b>1,513</b>	<b>0.56</b>	<b>0.55</b>	<b>5.63</b>	<b>9.56</b>	<b>1.71</b>	<b>1.73</b>	<b>22.81</b>	<b>9.62</b>	<b>19.76</b>	<b>9.79</b>	<b>1.43</b>

Source: company's data, Bloomberg. 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)	$EV = \sum_{i=1}^n \frac{FCFF_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_1)^n} + NA$	$SV = EV - D$
DCF method (FCFE)		$SV = \sum_{i=1}^n \frac{FCFE_i}{(1+k_{si})^i} + \frac{TV}{(1+k_{si})^n} + \text{Cash} + NA$
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		$SV = BV_1 + \sum_{i=1}^n \frac{SVA_i}{(1+k_{si})^i} + \frac{TV}{(1+k_{si})^n} + \text{Cash} + NA$

### 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 $FCFE = \text{gross shareholders' cash flow} - \text{gross investments}$ $\text{Gross shareholders' cash flow} = EAT \text{ of operational profit (including interest payoffs) } - \text{annual debt coverage} + \text{attracted borrowed assets} + \text{amortization}$
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

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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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