

LUKOIL

Recommendation: BUY

Decent report of 2Q 2008

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Bullet moments

- On August 29th LUKOIL published its 2Q 2008 report under US GAAP. During 2Q 2008 net income of the company rose +64.1% versus similar value of 2007, from 2,517 bn USD to 4,130 bn USD. Versus 1Q 2008 (3.163 bn USD), net income had also demonstrated growth of +30.5%. The quarter value of net income had also appeared below market expectations at average of 10.3%, but met out forecast, based on value of 4.128 bn USD.
- Throughout 2Q 2008 LUKOIL's sales expanded +58.7% above prior year's 2Q, forming 31.935 bn USD, note though, we have expected the value to form 35.507 bn USD, EBITDA added +59.8% to 6.403 bn USD, whereas we have expected about 6.388 bn USD.
- EBITDA margin of LUKOIL has formed 20%, appearing +0.2 p.p. above past year, and +1 p.p. over annual value, net income margin added +0.4 p.p. to 12.9%. Invested capital yield of LUKOIL is still at a high level and within annual timeline; taking into account the results of 2Q 2008 has formed 32.64%.
- Net income growth was supported by several factors, among which – first of all: growth of quarter average price of oil and oil products sold by the group, which expanded at average of about 81.5% in between 2Q 2007 and 2Q 2008. Secondly – improvement of oil products sales in 2Q 2008 +6.3%. The growth of net income was withheld by fall of extraction throughout 1H down -3.1%.
- Now we correct our model of LUKOIL, adding several changes into it. For example, we have reviewed our forecast of oil and oil products sales price upwards at average of +10%, using current trends of global energy-carriers market and our forecast of world's economic and political environment development.
- In LUKOIL's model we have attempted to reflect the influence of political, geopolitical and macro-economical risks in the rate of weighted average cost of capital.
- In addition to this we have also reviewed capital investments volume, expanding it at +3.3% (average) throughout forecasted term, using results of 1H 2008.
- The resulting corrections brought a new fair price for LUKOIL's stock, which now forms 129.63 USD apiece versus previously forecasted 138.44 USD (-6.4%). And therefore, due to a significant growth potential (+74.71%) we confirm "BUY" recommendation on company's stocks.

Principal estimates

Company's shares vs RTS index



Information about LUKOIL

Ticker	RTS	LUKOIL	LKOH
Market price (cs), USD			74.20
Min / max price during last year (cs), USD			64,25 / 113,2
Fair price at year end (cs), USD			129.63
Upside (downside) (cs), %			74.71
Number of common shares, total			850,563,255
MC, mn USD			63,112
EV, mn USD			69,314

Financial values (US GAAP)	2007	2008 (F)	2009 (F)
Sales, mn USD	82,238	130,466	149,364
EBITDA, mn USD	15,604	26,074	34,667
Net income, mn USD	9,525	16,950	23,000
EBITDA margin, %	19.0	20.0	23.2
Net income margin, %	11.6	13.0	15.4

Financial coefficients	2007	2008 (F)	2009 (F)
P/E	6.6	3.7	2.7
P/S	0.77	0.48	0.42
EV/EBITDA	4.4	2.7	2.0

LUKOIL results of 2Q 2008

On August 29th LUKOIL published its 2Q 2008 report under US GAAP. During 2Q 2008 net income of the company rose +64.1% versus similar value of 2007, from 2,517 bn USD to 4,130 bn USD. Versus 1Q 2008 (3.163 bn USD), net income had also demonstrated growth of +30.5%. The quarter value of net income had also appeared below market expectations at average of 10.3%, but met out forecast, based on value of 4.128 bn USD.

Net income growth was supported by several factors, among which – first of all: growth of quarter average price of oil and oil products sold by the group, which expanded at average of about 81.5% in between 2Q 2007 and 2Q 2008. Secondly – improvement of oil products sales in 2Q 2008 +6.3%. We must also note that company continued reducing export of crude oil, a plan started earlier in 1Q. This is a negative factor that slaps company's income. Export of crude oil from Russia in 1H 2008 has been dropped -11.9% versus 1H 2007. Throughout 1H 2008 LUKOIL exported 43.4% of oil extracted in Russia (1H 2007 – 48.1%). The reduction of export is related to increase in oil refining in Russia and decrease in oil extraction over the country. We must point out though – LUKOIL attempted to compensated for the loss of extraction by extracting more of a highly profitable natural gas. During 2Q LUKOIL boosted its gas extraction up +19.3%, which is quite a decent value.

The withholding factor of LUKOIL's net income growth is a high share of company's purchased oil products for its gas pumps in US. The purchase of oil products is made by market prices, while resale margin is at minimum. The oil products purchase costs have rose through 2Q +77% versus similar term of past year. Some negative pressure was also provided by growth of tax payments +63.6%, as well as payment of export duties, adding +52.6%. We must also note that three previously reviewed expenditure items take up a share of 80.1% of total costs, due to which the growth of operating costs has formed 57.6% in 2Q 2008 versus 2Q 2007. We see no other important factors to influence the growth of net income for LUKOIL at the moment.

Now, let us get back to LUKOIL's finances of 2Q 2008, we must note that other values of the oil company have demonstrated a significant growth. During 2Q 2008 LUKOIL's sales increased +58.7% versus similar term of 2007 and formed 31.935 bn USD, although we have expected this value to form 35.507 bn USD, EBITDA added +59.8% to 6,403 bn USD, whereas we anticipated this value to achieve 6,388 bn USD.

Let us take a closer look at company's effectiveness in 2Q 2008. All financial income values of the company have been improved versus 2Q 2007. EBITDA margin has formed 20%, appearing +0.2 p.p. over the past year and +1 p.p. above year's value, net income margin increased +0.4 p.p. to a total of 12.9%. Invested capital yield of LUKOIL is still rather high and formed 32.64% in annual value, including results of 2Q 2008. Considering high ROIC value and reduction of extraction in 2Q down - 3.1%, company misses the chance for a much more significant expansion of additional value for the shareholders.

In general – we see the issued report as quite expected. The sole thing to surprise us was low sales throughout the reported term, caused by degraded sales of crude oil to the west. The current activities of the company, plans on reducing the tax load and strategic plans still allow LUKOIL to be seen through a prism of optimism. Company had officially started extraction and Yuzhno-Khilchuykoye deposit on August 28th.

Another important issue is company's equity. After publishing the report, LUKOIL's quotes have dropped over -2.5% at MICEX. This we related first of all to a technical factor, reflecting player's reaction at real net income results failing to achieve the forecast by -10%. And with another fact that after a positive closing of oil & gas sector, oil prices during the American session have dropped (over -2.5%). In the prospect we see quite decent chances of the company to expand its capitalization, as for now LUKOIL is traded as one of the most underestimated company versus primary foreign and Russian counterparts.

We must note future results of 3Q. Taking into account today's trend of crude oil and oil products market, when starting from early July to given days oil prices have dropped -22.8% and more, under constantly highest export duties of 495.9 USD per ton, we could once more witness the effect of "Kudrin's Scissors". Such as in 2Q – the duty-free price per ton of oil formed 508.7 USD, now the ton worth 14.5% below (434.6 USD). And this very effect stops LUKOIL from demonstrating effectiveness similar to 1H.

Now, to sum up, we must say that company seems rather strong if compared to its counterparts, and we assume that in mid-term and long-term LUKOIL's stocks would increase, subjecting their quotes to technical corrections from time to time.

LUKOIL's 2Q 2008 US GAAP financial report, mn USD

	3 mnths 2007	Chg., %	3 mnths 2008	6 mnths 2007	Chg., %	6 mnths 2008
Operating income	20,129	58.7	31,935	35,781	59.0	56,890
Income from affiliates	67	128.4	153	151	86.8	282
Sales	20,196	58.9	32,088	35,932	59.1	57,172
Operational costs	(1,471)	20.3	(1,770)	(2,914)	26.2	(3,678)
Cost of purchased crude oil and petroleum	(7,070)	77.0	(12,511)	(12,120)	74.2	(21,119)
Transport expenses	(1,148)	18.4	(1,359)	(2,135)	19.6	(2,554)
Commercial expenses	(800)	24.3	(994)	(1,463)	22.4	(1,790)
Amortization	(558)	26.0	(703)	(1,105)	20.1	(1,327)
Tax (except income tax)	(2,214)	63.6	(3,623)	(4,043)	67.0	(6,752)
Excises and export fees	(3,401)	52.6	(5,191)	(6,669)	46.6	(9,776)
Exploration expenses	(50)	2.0	(51)	(125)	-32.0	(85)
Gain (loss) on disposals and impairments of assets	(36)	416.7	(186)	(34)	461.8	(191)
Total operating costs	(16,748)	57.6	(26,388)	(20,301)	132.9	(47,272)
EBITDA	4,006	59.8	6,403	6,429	74.6	11,227
EBITDA margin, %	19.8		20.0	20.4		19.6
Operating income	3,448	65.3	5,700	5,324	86.0	9,900
Operating income margin, %	17.1		17.8	18.4		17.3
Interest expenses	(77)	19.5	(92)	(154)	6.5	(164)
Interest rates and dividends	24	104.2	49	53	39.6	74
Foreign exchange gain (loss)	29	-217.2	(34)	71	7.0	76
Other non-operating income (expenses)	(62)	12.9	(70)	(81)	45.7	(118)
Share of minorities	(56)	12.5	(63)	(70)	47.1	(103)
Income before tax	3,306	66.1	5,490	5,143	87.9	9,665
Income before tax margin, %	16.4		17.1	18.0		16.9
Current income tax	(828)	66.2	(1,376)	(1,458)	67.4	(2,440)
Deferred tax	39	n/m	16	131	-48.1	68
Total expenses for income tax	(789)	72.4	(1,360)	(1,327)	78.7	(2,372)
Net income	2,517	64.1	4,130	3,816	91.1	7,293
Net profit margin, %	12.5		12.9	12.9		12.8

Source: company's data; Estimation: Veles Capital

LUKOIL's sales structure 2Q 2008 (mn USD)

	3 mnths 2007	Chg., %	3 mnths 2008	6 mnths 2007	Chg., %	6 mnths 2008
Oil sales in Russia	112	-26.8	82	194	70.1	330
Oil export	5,020	43.4	7,200	9,029	44.7	13,067
Oil products sales in Russia	2,231	64.5	3,669	4,153	61.3	6,698
Oil products export	11,478	66.5	19,115	19,995	67.0	33,392
Petrochemicals sales in Russia	166	54.2	256	322	49.4	481
Petrochemicals export	383	4.7	401	730	10.1	804
Other sales in Russia	363	68.9	613	719	51.6	1,090
Other export	376	59.3	599	639	60.9	1,028
Total sales	20,129	58.7	31,935	35,781	59.0	56,890

Source: company's data; Estimation: Veles Capital

Forecasts and estimates

Now we correct our model of LUKOIL, adding several changes into it. For example, we have reviewed our forecast of oil and oil products sales price upwards at average of +10%, using current trends of global energy-carriers market and our forecast of world's economic and political environment development. In our opinion, the long-term growth trend dominating world oil market, would continue. Then the drop that we are witnessing right now is a correction towards a sharp growth of latest half of year. Every since the early 2008 towards the end of June oil prices have expanded +50%. And obviously the current drop of -19.5% is a healthy technical correction, which in any case would be brought by a number of speculative factors. If we look from a fundamental technical stand point, which we reflected in our previous reviews of oil companies, our model remains mostly intact and in long-term we think that oil price would float at about 100-115 USD per barrel.

Our model reflects a number of year's final macroeconomic values of Russia (GDP, inflation, electric tariffs and pipeline transport costs) and respective forecasts for upcoming years. The forecasted values remained unchanged, aside from values of 2008 which we expanded using the expectations of Russian government on inflation and GDP growths.

We have reflected decrease of crude oil export to the west, considering the results of 2Q. LUKOIL's sales structure has been left unchanged, as since the year's beginning it suffered no changes. The sole value to be corrected by us was increase of refining next year +7.84 mn tons through purchase of 49% of Italy's petrochemical complex of ISAB. In addition we have corrected oil extraction rate downwards in forecasted term, due to company's already ongoing reduction of -3.1%. And now the company would only be able to stabilize the extraction within next couple of years, afterwards the increase in extraction could be restarted. We connect this growth extraction with further development of Yuzhno-Khilchuysky deposit and development of Northern Caspian. Through a slower increase of extraction the target price of the company suffered a moderate decrease.

In addition to this we have also reviewed capital investments volume, expanding it at +3.3% (average) throughout forecasted term, mostly due to a much more aggressive spending this year, through which we expected costs to grow +19% and in the end the growth could form 22.5%, as seen through results of 1H 2008.

Another important top is increased investment risk for Russian companies, due to the latest events at Northern Caucasus, political risks and general crisis events throughout international financial markets. Our model was built to include all the re-appearing risks, which boosted weighted average cost of capital rate at +0.65 p.p.

The resulting corrections brought a new fair price for LUKOIL's stock, which now forms 129.63 USD apiece versus previously forecasted 138.44 USD (-6.4%). And therefore, due to a significant growth potential (+74.71%) we confirm "BUY" recommendation on company's stocks.

Financial model

LUKOIL's oil extraction and sales of oil and petrochemicals, 2006-2016

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
Oil extraction (mn tons)											
Oil extraction in Russia	89.5	90.8	88.0	89.7	92.4	96.5	100.9	105.4	110.2	115.1	120.3
Oil extraction abroad	5.7	6.2	6.1	6.8	7.0	7.3	7.6	7.9	8.3	8.7	9.1
Gas extraction, (bn cb m)	13.6	14.3	16.4	18.9	21.7	25.0	28.8	33.1	38.0	43.7	50.3
Oil (mn barr)											
Export and sales at international markets	300.9	325.1	283.6	242.8	241.2	243.3	260.8	286.9	291.8	296.8	296.8
CIS market sales	21.7	23.4	20.5	17.5	17.4	17.5	18.8	20.7	21.0	21.4	21.4
Domestic market sales	13.4	13.6	13.1	13.4	13.8	14.4	15.1	15.8	16.5	17.2	18.0
Oil (mn tons)											
Export and sales at international markets	41.0	44.3	38.7	33.1	32.9	33.2	35.6	39.1	39.8	40.5	40.5
including export and CIS market sales	3.0	3.2	2.8	2.4	2.4	2.4	2.6	2.8	2.9	2.9	2.9
Domestic market sales	1.8	1.8	1.8	1.8	1.9	2.0	2.1	2.1	2.2	2.3	2.5
Petrochemicals (mn tons)											
Export and sales at international markets											
Wholesale	57.6	60.5	62.4	68.4	70.8	74.1	75.8	76.7	79.9	83.2	87.2
Retail	7.2	7.5	7.8	8.5	8.8	9.2	9.4	9.6	10.0	10.4	10.9
Domestic market sales:											
Wholesale	15.2	15.9	16.4	18.0	18.6	19.5	20.0	20.2	21.0	21.9	23.0
Retail	4.0	4.2	4.3	4.7	4.9	5.1	5.3	5.3	5.5	5.8	6.1

Source: company's data; Estimation: Veles Capital

LUKOIL's sales prices for oil and oil products, 2006-2016, forecast

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
Foreign market											
Brent oil price, USD/Barr	65.1	72.8	118.9	130.4	118.7	114.5	111.0	105.3	100.3	106.0	111.0
Urals oil price (CIF Mediterranean region), USD/Barr	61.4	69.5	113.5	124.5	113.3	109.3	106.0	100.5	95.7	101.2	106.0
Oil price (IM) USD/ton	430.3	434.5	709.2	777.7	707.8	682.9	662.3	628.1	598.1	632.5	662.2
Oil price (CIS) USD/ton	267.2	302.8	494.2	541.9	493.3	475.9	461.5	437.7	416.8	440.7	461.4
Petrochemicals price, USD/ton											
Wholesale	526.5	631.1	1,014.5	1,112.6	1,012.7	977.0	947.5	898.5	855.6	904.9	947.3
Retail	998.1	1,188.1	1,910.0	2,094.6	1,906.4	1,839.3	1,783.8	1,691.5	1,610.8	1,703.5	1,783.4
Domestic market											
Oil price, USD/ton	206.4	237.9	388.3	425.8	387.5	373.9	362.6	343.9	327.4	346.3	362.5
Petrochemicals price, USD/ton											
Wholesale	358.4	395.7	626.4	687.0	625.3	603.3	585.0	554.8	528.3	558.7	584.9
Retail	680.8	780.0	1,234.8	1,354.2	1,232.5	1,189.1	1,153.2	1,093.6	1,041.4	1,101.3	1,153.0

Source: company's data; Estimation: Veles Capital

LUKOIL's products sales, 2006-2016, mn USD

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
Oil											
Export and sales at international markets	17,650	19,258	27,420	25,747	23,274	22,654	23,552	24,568	23,792	25,590	26,795
including export and CIS market sales	790	968	1,378	1,294	1,170	1,138	1,184	1,235	1,196	1,286	1,347
Domestic market sales	376	440	696	778	729	735	745	738	735	812	888
Oil products											
Export and sales at international markets											
Wholesale	30,304	38,195	63,274	76,049	71,694	72,351	71,797	68,941	68,386	75,312	82,574
Retail	7,157	8,959	14,841	17,837	16,815	16,970	16,840	16,170	16,040	17,664	19,367
Domestic market sales											
Wholesale	5,432	6,306	10,287	12,364	11,656	11,762	11,672	11,208	11,118	12,244	13,424
Retail	2,720	3,277	5,345	6,424	6,057	6,112	6,065	5,824	5,777	6,362	6,976
Total	63,639	76,434	121,863	139,199	130,225	130,583	130,671	127,449	125,848	137,984	150,025
Petrochemical products											
Export and sales at international markets	1,260	1,569	2,365	2,961	2,824	2,891	2,890	2,786	2,808	3,142	3,506
Domestic market sales	569	733	1,105	1,383	1,319	1,351	1,350	1,302	1,312	1,468	1,638
Gas sales in Russia	1,105	1,644	2,348	2,930	3,441	4,634	6,017	7,717	8,940	10,538	12,495
Other types of products	1,115	1,510	2,311	2,408	2,082	1,908	1,758	1,584	1,433	1,440	1,432
Sales, total	67,687	81,890	129,993	148,882	139,891	141,368	142,686	140,837	140,341	154,572	169,095

Source: company's data; Estimation: Veles Capital

Financial model of LUKOIL, 2006-2016, mn USD

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
Operating profit	68,109	82,238	130,466	149,364	140,304	141,752	143,045	141,168	140,653	154,896	169,432
Operating costs	(57,632)	(68,806)	(107,150)	(118,058)	(113,787)	(116,375)	(119,715)	(121,079)	(122,220)	(133,340)	(144,184)
Marketing, managerial and general expenses	(2,885)	(3,207)	(4,147)	(4,448)	(4,313)	(4,335)	(4,355)	(4,326)	(4,318)	(4,537)	(4,750)
Taxes, excluding income tax	(8,075)	(9,367)	(14,691)	(15,833)	(14,806)	(14,923)	(15,119)	(14,952)	(14,847)	(16,477)	(18,079)
Others	(148)	(123)	(382)	(499)	(526)	(591)	(659)	(711)	(768)	(917)	(1,080)
EBITDA	12,328	15,604	26,074	34,667	30,498	29,972	28,522	25,854	24,737	28,360	32,507
EBITDA margin, %	18.1	19.0	20.0	23.2	21.7	21.1	19.9	18.3	17.6	18.3	19.2
PPE amortization	(1,851)	(2,172)	(2,757)	(3,361)	(3,982)	(4,596)	(5,193)	(5,765)	(6,304)	(6,805)	(7,260)
EBIT	10,477	13,432	23,316	31,306	26,516	25,376	23,330	20,089	18,432	21,555	25,248
EBIT margin, %	15.4	16.3	17.9	21.0	18.9	17.9	16.3	14.2	13.1	13.9	14.9
Non-operating income/expense	(220)	(400)	(565)	(639)	(625)	(593)	(559)	(530)	(500)	(463)	(433)
Income before taxes and minority interest	10,257	13,032	22,752	30,667	25,891	24,783	22,771	19,559	17,933	21,093	24,814
Income before margin tax, %	15.1	15.8	17.4	20.5	18.5	17.5	15.9	13.9	12.7	13.6	14.6
Income tax	(2,773)	(3,507)	(5,802)	(7,667)	(6,473)	(6,196)	(5,693)	(4,792)	(4,394)	(5,168)	(6,080)
Net income	7,484	9,525	16,950	23,000	19,418	18,587	17,078	14,767	13,539	15,925	18,735
Net income margin, %	11.0	11.6	13.0	15.4	13.8	13.1	11.9	10.5	9.6	10.3	11.1

Source: company's data; Estimation: Veles Capital

Balance of LUKOIL, 2006-2016, mn USD

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
Assets											
Short-term assets	13,572	17,903	30,403	44,969	55,289	65,172	73,960	80,786	86,965	96,569	109,753
Cash and equivalents	752	841	5,716	17,094	28,869	38,375	46,747	53,704	59,861	66,841	77,386
Short-term financial investments	44	48	48	48	48	48	48	48	48	48	48
Accounts and bills receivable, excluding reserve on risky debts	5,158	7,467	10,970	12,559	11,797	11,919	12,028	11,870	11,827	13,024	14,247
Reserves	3,444	4,609	7,178	7,908	7,622	7,796	8,019	8,111	8,187	8,932	9,658
Future expenses and prepayments on taxes	3,693	4,109	5,314	6,084	5,715	5,774	5,826	5,750	5,729	6,309	6,901
Other current assets	406	625	973	1,072	1,034	1,057	1,087	1,100	1,110	1,211	1,310
Assets for sale	75	204	204	204	204	204	204	204	204	204	204
Long-term assets	34,665	41,729	50,038	58,574	67,024	75,233	83,102	90,529	97,416	103,671	109,209
Financial investments	1,442	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086	1,086
PPE	31,316	37,930	46,239	54,775	63,225	71,434	79,303	86,730	93,617	99,872	105,410
Long term assets on deferred income tax	362	490	490	490	490	490	490	490	490	490	490
Business image and other non material assets	791	934	934	934	934	934	934	934	934	934	934
Other non-current assets	754	1,289	1,289	1,289	1,289	1,289	1,289	1,289	1,289	1,289	1,289
Total assets	48,237	59,632	80,442	103,543	122,313	140,405	157,061	171,315	184,381	200,240	218,962
Liabilities											
Current liabilities	6,931	9,728	12,939	13,421	13,061	12,969	12,892	12,723	12,594	12,872	13,147
Accounts payable	2,759	4,554	6,334	6,564	6,464	6,481	6,496	6,474	6,469	6,632	6,788
Short term credits and loans and current part of long-term debt	1,377	2,214	2,313	2,410	2,216	2,097	1,994	1,862	1,743	1,746	1,759
Tax payment liabilities	1,663	2,042	3,240	3,357	3,306	3,314	3,322	3,311	3,308	3,392	3,471
Other short-term liabilities	1,132	918	1,053	1,091	1,074	1,077	1,079	1,076	1,075	1,102	1,128
Long-term liabilities	8,406	8,691	9,341	8,961	8,673	8,269	7,924	7,579	7,235	6,891	6,604
Loans and credits	4,807	4,829	5,479	5,099	4,811	4,407	4,062	3,717	3,373	3,029	2,742
Long-term liabilities on deferred income tax	2,116	2,079	2,079	2,079	2,079	2,079	2,079	2,079	2,079	2,079	2,079
Liabilities related to end of assets practical use term	608	811	811	811	811	811	811	811	811	811	811
Other accounts payable	352	395	395	395	395	395	395	395	395	395	395
Minority interest in affiliates	523	577	577	577	577	577	577	577	577	577	577
Total liabilities	15,337	18,419	22,280	22,382	21,734	21,238	20,816	20,302	19,829	19,763	19,751
Equity	32,900	41,213	58,163	81,163	100,582	119,169	136,248	151,015	164,554	180,479	199,214
Common shares	15	15	15	15	15	15	15	15	15	15	15
Preferred shares	0	0	0	0	0	0	0	0	0	0	0
Own shares redeem from investors	(1,098)	(1,591)	(1,591)	(1,591)	(1,591)	(1,591)	(1,591)	(1,591)	(1,591)	(1,591)	(1,591)
Added capital	3,943	4,499	4,499	4,499	4,499	4,499	4,499	4,499	4,499	4,499	4,499
Retained earnings	30,061	38,349	55,299	78,299	97,718	116,305	133,384	148,151	161,690	177,615	196,350
Other accumulated total loss	(21)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)	(59)
Total liabilities	48,237	59,632	80,444	103,545	122,315	140,407	157,063	171,317	184,383	200,242	218,964

Source: company's data; Estimation: Veles Capital

Fair price estimation

	Discount rate (WACC), %										
	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
Cost of equity (ks)	10.46	10.80	10.84	10.84	10.84	10.84	10.84	10.84	10.84	10.84	10.84
Risk-free rate, %	5.41	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75
10 year US Treasuries yield, %	4.35	4.15	4.15	4.15	4.15	4.15	4.15	4.15	4.15	4.15	4.15
Russia risk, %	1.06	1.60	1.60	1.60	1.60	1.60	1.60	1.60	1.60	1.60	1.60
Stock market risk, %	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Coefficient b	1.010	1.010	1.017	1.017	1.017	1.017	1.017	1.017	1.017	1.017	1.017
Corporate risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Share of equity, %	84.2	85.4	88.2	91.5	93.5	94.8	95.7	96.4	97.0	97.4	97.8
Cost of debt (kd)	6.00	6.00	6.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Risk free rate, %	5.41	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75
Debt cost, %	0.59	0.25	0.25	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Tax rate, %	-27.04	-26.50	-25.50	-25.00	-25.00	-25.00	-25.00	-24.50	-24.50	-24.50	-24.50
Share of debt, %	15.82	14.60	11.81	8.47	6.53	5.18	4.26	3.56	3.02	2.58	2.21
WACC	10.01	10.33	10.44	10.61	10.66	10.69	10.72	10.74	10.75	10.76	10.77

Source: company's data; Estimation: Veles Capital

Free Cash Flow of LUKOIL, forecast, 2006-2016, mn USD											
	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
EBITDA	12,328	15,604	26,074	34,667	30,498	29,972	28,522	25,854	24,737	28,360	32,507
Amortization and depreciation	(1,851)	(2,172)	(2,757)	(3,361)	(3,982)	(4,596)	(5,193)	(5,765)	(6,304)	(6,805)	(7,260)
EBIT	10,477	13,432	23,316	31,306	26,516	25,376	23,330	20,089	18,432	21,555	25,248
Income tax	(2,832)	(3,560)	(5,946)	(7,827)	(6,629)	(6,344)	(5,832)	(4,922)	(4,516)	(5,281)	(6,186)
after-tax EBITDA	7,645	9,873	17,371	23,480	19,887	19,032	17,497	15,167	13,916	16,274	19,062
CapEx	7,515	9,071	11,067	11,897	12,432	12,805	13,061	13,192	13,192	13,060	12,799
Change of operating capital	1,060	1,312	4,413	2,707	(1,095)	469	493	38	152	2,346	2,365
FCF	921	1,662	4,648	12,237	12,532	10,354	9,136	7,703	6,878	7,674	11,159

Source: company's data; Estimation: Veles Capital

LUKOIL stocks valuation

TGR, %	3.00
Discount rate, %	10.70
Sum of cash flows, mn USD	56,724
Terminal value, mn USD	149,187
Discounted terminal value, mn USD	59,739
Enterprise value, mn USD	116,463
Net debt, mn USD	6,202
Shareholder's equity (incl. minority interest), mn USD	110,261
Number of shares, mn units	850,563,255
Fair value of common stock at the year end, USD	129.63
Upside (downside) of common stock, %	74.71

Source: company's data; Estimation: Veles Capital

Financial analysis

Value forming estimates

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
Invested capital at years start, mn USD	24.7	23.5	32.7	28.1	25.6	17.7	12.8	10.7	9.2	11.1	9.8
Growth of invested capital (IC), %	38,855	47,992	63,674	81,557	102,412	120,494	135,869	150,458	164,261	182,489	200,423
Share capital at years start, mn USD	32,900	41,213	58,163	81,163	100,582	119,169	136,248	151,015	164,554	180,479	199,214

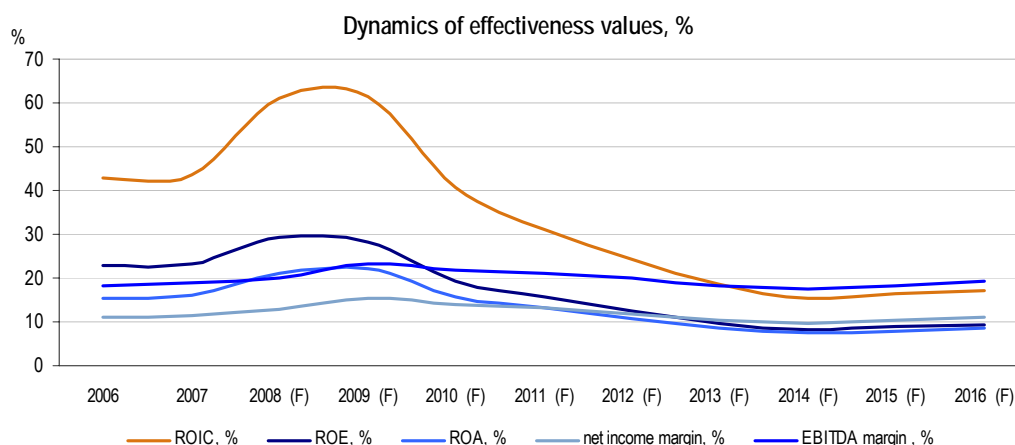
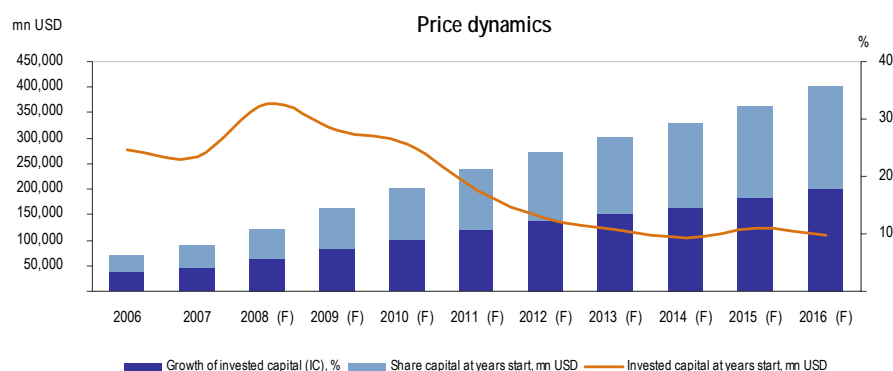
Business effectiveness analysis

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
ROIC, %	42.7	43.7	61.0	61.5	40.6	31.0	24.2	18.4	15.3	16.3	17.2
ROE, %	22.7	23.1	29.1	28.3	19.3	15.6	12.5	9.8	8.2	8.8	9.4
ROA, %	15.5	16.0	21.1	22.2	15.9	13.2	10.9	8.6	7.3	8.0	8.6
EBITDA margin, %	18.1	19.0	20.0	23.2	21.7	21.1	19.9	18.3	17.6	18.3	19.2
EBIT margin, %	15.4	16.3	17.9	21.0	18.9	17.9	16.3	14.2	13.1	13.9	14.9
net income margin, %	11.0	11.6	13.0	15.4	13.8	13.1	11.9	10.5	9.6	10.3	11.1

Financial state analysis

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
Financial leverage	0.19	0.17	0.13	0.09	0.07	0.05	0.04	0.04	0.03	0.03	0.02
liquidity estimates											
coverage ratio	0.86	0.86	1.29	2.21	3.12	3.88	4.56	5.16	5.70	6.21	6.97
current ratio	1.96	1.84	2.35	3.35	4.23	5.03	5.74	6.35	6.91	7.50	8.35
quick ratio	0.11	0.09	0.45	1.28	2.21	2.96	3.63	4.22	4.76	5.20	5.89
business activity estimates											
accounts receivable coverage period, days	27	33	30	30	30	30	30	30	30	30	30
turnover of supplies, days	18	20	20	19	20	20	20	21	21	21	21
use of own turnover capital	10.26	10.06	7.47	4.73	3.32	2.72	2.34	2.07	1.89	1.85	1.75

Source: company's data, Estimation: Veles Capital

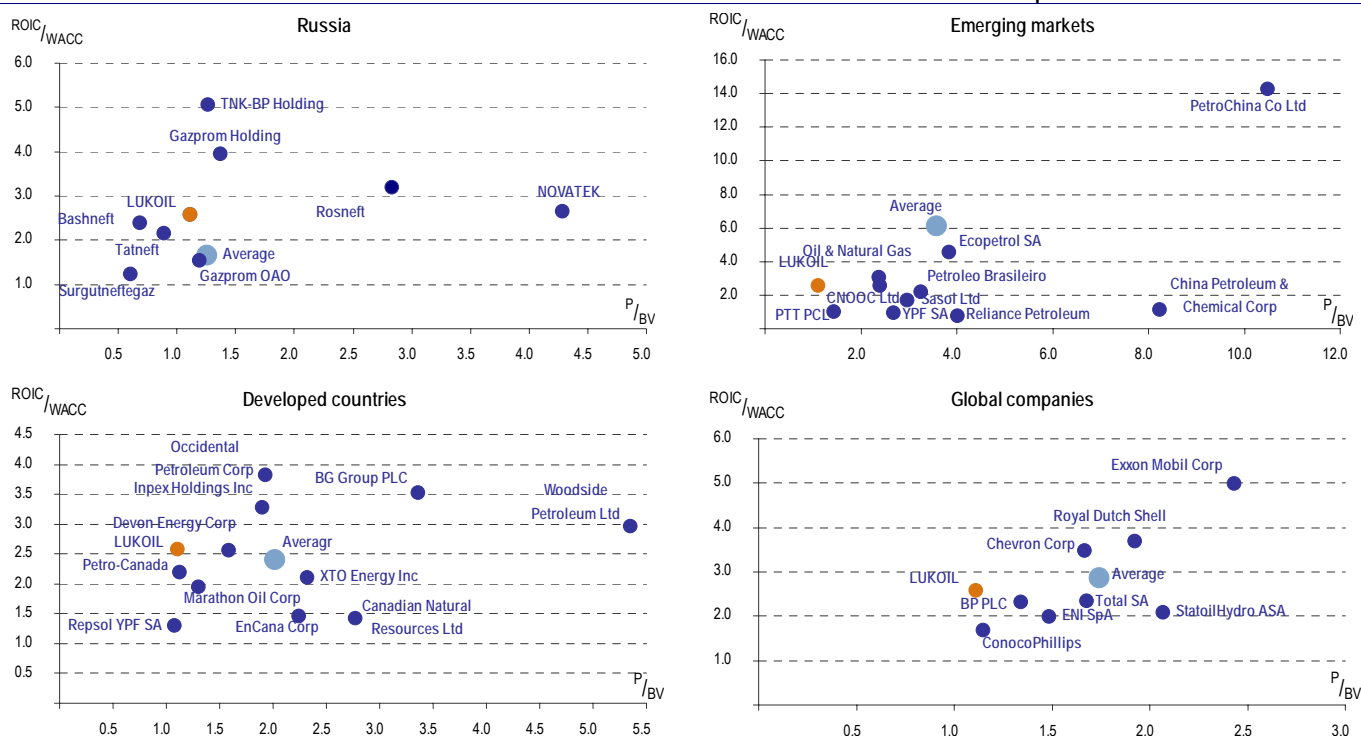


Comparable analysis

Sector companies' multipliers and coefficients

	Country	Current capitalization, mln USD	Enterprise value, mln USD	Market multipliers					Financial coefficients				
				EV/S	EV/EBITDA	P/E	P/BV	EV/IC	ROE, %	ROA, %	ROIC, %	EBITDA margin, %	ROIC/WACC
Global companies													
Exxon Mobil Corp	UNITED STATES	421,649	414,794	0.73	4.12	8.67	2.43	2.49	36.29	31.64	50.49	17.81	4.99
Chevron Corp	UNITED STATES	179,109	176,739	0.58	3.15	7.14	1.67	1.68	29.16	15.96	34.10	18.29	3.47
ConocoPhillips	UNITED STATES	126,615	142,873	0.53	3.05	6.19	1.15	1.13	20.94	16.50	16.86	17.46	1.68
BP PLC	BRITAIN	179,525	203,337	0.52	3.52	6.24	1.34	1.29	26.69	11.78	23.52	14.89	2.31
Royal Dutch Shell PLC	NETHERLANDS	217,762	226,647	0.47	3.35	6.65	1.92	1.86	23.23	16.12	39.56	13.89	3.68
Total SA	FRANCE	171,688	188,728	0.74	3.43	7.95	1.68	1.58	29.25	13.17	23.14	21.54	2.35
ENI SpA	ITALY	130,631	155,281	1.03	3.53	8.01	1.49	1.38	25.69	13.03	19.70	29.18	1.98
StatoilHydro ASA	NORWAY	99,368	103,400	0.82	2.11	7.87	2.07	1.99	34.04	16.79	31.26	38.87	2.07
Global companies weighted average		190,793	201,475	0.63	3.38	7.40	1.74	1.68	28.38	16.97	29.65	18.29	2.85
Developed markets													
Occidental Petroleum Corp	UNITED STATES	65,832	64,341	2.54	3.54	7.40	1.93	1.98	33.12	28.11	37.22	71.76	3.82
Devon Energy Corp	UNITED STATES	45,576	46,527	2.87	3.96	8.49	1.59	1.57	22.39	17.83	21.30	72.65	2.56
Transocean Inc	UNITED STATES	41,318	53,945	4.26	7.59	8.80	2.10	1.67	30.04	15.09	17.18	56.14	2.15
Apache Corp	UNITED STATES	38,248	39,760	2.60	3.40	6.95	1.75	1.70	29.14	27.35	27.55	76.45	3.40
Marathon Oil Corp	UNITED STATES	32,088	38,440	0.40	3.55	7.03	1.30	1.24	19.84	15.12	19.53	11.30	1.94
Hess Corp	UNITED STATES	34,333	37,124	0.80	4.23	10.02	2.36	2.14	27.01	11.71	20.92	19.01	2.06
Anadarko Petroleum Corp	UNITED STATES	29,069	39,576	2.73	4.10	10.78	1.50	1.33	15.65	8.12	11.64	66.75	1.46
Chesapeake Energy Corp	UNITED STATES	28,518	41,234	5.03	9.89	13.82	2.33	1.65	17.17	3.55	6.97	50.84	0.99
XTO Energy Inc	UNITED STATES	27,867	37,555	4.56	6.25	11.85	2.32	1.73	20.39	15.39	17.03	72.97	2.09
EOG Resources Inc	UNITED STATES	26,209	26,819	3.95	5.07	11.51	2.70	2.60	27.78	21.15	29.57	78.04	3.79
Valero Energy Corp	UNITED STATES	18,321	23,739	0.18	5.12	9.96	0.90	0.92	13.36	5.27	8.46	3.49	0.71
BG Group PLC	BRITAIN	72,832	71,940	3.04	6.09	12.88	3.36	3.46	31.25	20.77	37.86	49.91	3.52
Tullow Oil PLC	BRITAIN	10,799	11,095	7.61	10.65	30.97	7.27	6.23	19.48	14.99	14.65	71.43	1.46
Repsol YPF SA	SPAIN	37,779	48,634	0.57	3.61	7.93	1.08	1.06	16.21	8.11	13.80	15.68	1.29
Cia Espanola de Petroleos SA	SPAIN	27,797	28,774	1.22	13.48	29.08	3.25	3.02	13.39	8.24	11.97	9.03	1.52
OMV AG	AUSTRIA	19,037	23,270	0.60	3.71	6.36	1.16	1.13	22.04	10.08	20.47	16.22	1.92
EnCana Corp	CANADA	56,515	64,427	2.30	5.51	12.94	2.25	1.95	22.62	9.93	15.56	41.77	1.46
Suncor Energy Inc	CANADA	53,326	58,813	2.70	9.49	15.13	3.16	2.63	26.66	13.16	24.91	28.41	2.09
Imperial Oil Ltd	CANADA	46,203	44,773	1.63	8.07	13.39	3.97	4.38	42.37	23.50	54.01	20.17	4.42
Canadian Natural Resources Ltd	CANADA	46,339	56,987	4.36	7.23	13.79	2.77	2.08	20.02	5.92	17.66	60.26	1.42
Husky Energy Inc	CANADA	38,540	38,713	1.89	4.67	8.39	2.18	2.17	31.24	23.90	30.36	40.52	2.61
Petro-Canada	CANADA	21,620	23,910	0.93	2.36	4.93	1.13	1.11	30.99	18.38	24.91	39.13	2.19
Neste Oil OYJ	FINLAND	6,156	7,531	0.35	5.51	8.44	1.32	1.25	19.43	11.32	15.91	6.36	1.42
Hellenic Petroleum SA	GREECE	3,915	5,196	0.38	7.19	11.92	0.95	0.96	10.17	6.20	6.80	5.22	0.85
Saras SpA	ITALY	4,961	5,194	0.39	5.23	10.53	1.70	1.64	20.39	9.69	20.01	7.53	1.74
Impex Holdings Inc	JAPAN	25,613	23,630	1.83	2.38	13.70	1.90	2.06	17.96	12.22	24.18	77.17	3.28
Nippon Oil Corp	JAPAN	9,202	21,368	0.26	6.81	10.46	0.66	0.82	7.43	2.86	4.86	3.78	1.03
Galp Energia SGPS SA	PORTUGAL	16,764	18,795	0.88	12.93	23.95	3.99	3.01	18.44	7.90	16.76	6.84	1.25
Woodside Petroleum Ltd	AUSTRALIA	37,685	39,830	7.46	10.21	18.80	5.35	4.34	38.26	24.50	37.24	73.04	2.95
Santos Ltd	AUSTRALIA	10,208	10,281	4.15	6.40	19.44	3.21	3.16	18.32	16.82	17.64	64.87	1.37
Developed markets weighted average		31,089	35,074	1.22	5.12	10.41	2.02	1.81	25.39	15.75	24.25	46.14	2.39
Developing markets													
YPF SA	ARGENTINA	19,107	19,152	2.05	5.53	14.57	2.69	2.68	16.21	11.12	-	37.09	0.93
Petroleo Brasileiro SA	BRAZIL	214,818	239,302	2.00	6.25	11.32	3.26	2.65	25.47	13.38	35.56	31.97	2.15
PetroChina Co Ltd	CHINA	336,739	337,389	2.24	8.43	16.40	10.49	10.30	17.78	13.13	217.68	26.63	14.28
China Petroleum & Chemical Corp	CHINA	120,939	149,878	0.67	11.26	20.49	8.24	3.44	11.63	4.26	13.53	5.97	1.10
Ecopetrol SA	COLOMBIA	53,963	54,268	2.98	6.29	10.66	3.85	5.87	31.58	16.77	62.11	47.32	4.56
CNOOC Ltd	HONG KONG	69,341	65,076	3.40	6.17	10.04	2.40	2.64	31.05	24.01	36.14	55.00	2.58
MOL Hungarian Oil and Gas NyRT	HUNGARY	11,325	13,976	0.66	4.95	8.85	1.38	1.28	24.55	9.30	13.37	13.30	1.17
Oil & Natural Gas Corp Ltd	INDIA	49,767	42,888	1.63	3.97	8.85	2.37	3.04	28.52	19.68	41.99	40.92	3.08
Reliance Petroleum Ltd	INDIA	16,158	19,327	1.88	19.42	24.47	4.03	2.69	22.01	9.15	10.60	9.70	0.74
Indian Oil Corp Ltd	INDIA	10,821	18,326	0.28	6.46	7.85	1.09	1.05	13.59	5.32	9.73	4.38	0.80
Cairn India Ltd	INDIA	10,732	10,633	32.03	47.60	-	1.33	1.34	1.23	1.46	-	67.30	-
KazMunaiGas Exploration Production	KAZAKHSTAN	10,212	6,288	1.08	1.71	5.05	1.39	1.82	26.20	20.50	28.82	63.42	2.65
Polskie Gornictwo Naftowe I Gazownictwo SA	POLAND	8,896	7,720	0.94	4.94	11.43	0.84	0.82	7.56	6.04	9.02	18.96	0.63
SNP Petrom SA	ROMANIA	10,099	9,107	1.68	6.55	11.48	1.40	1.46	14.44	9.30	11.25	25.72	1.19
Sasol Ltd	SOUTH AFRICA	36,403	38,892	2.57	7.46	12.35	2.97	2.64	35.15	19.27	28.27	34.48	1.70
SK Energy Co Ltd	SOUTH KOREA	7,312	12,931	0.31	6.00	7.26	0.95	0.97	16.03	6.78	10.75	5.16	0.80
PTT PCL	THAILAND	21,625	26,382	0.51	5.13	7.31	1.44	1.33	24.35	11.23	17.04	9.95	1.02
PTT Exploration & Production PCL	THAILAND	14,232	14,153	3.50	4.76	10.92	2.85	2.88	35.63	20.37	37.17	73.44	2.01
Tupras Turkiye Petrol Rafine	TURKEY	5,908	6,336	0.25	5.04	6.46	1.34	1.31	26.13	11.16	27.40	5.00	1.67
Developing markets weighted average		51,991	57,475	1.33	7.03	12.65	3.60	3.19	21.70	13.23	93.74	29.57	6.10
Russia													
Gazprom OAO	RUSSIA	233,539	268,887	2.17	4.87	6.67	1.20	1.17	18.14	11.05	17.66	44.57	1.53
Rosneft Oil Co	RUSSIA	88,919	111,454	1.54	5.73	8.30	1.98	1.65	27.84	12.79	11.30	26.83	1.16
LUKOIL	RUSSIA	64,983	70,445	0.61	3.26	4.59	1.11	1.10	26.07	18.03	28.19	18.60	2.58
Surgutneftegaz	RUSSIA	25,568	13,237	0.51	1.38	5.44	0.61	0.45	13.37	19.87	18.21	36.80	1.22
TNK-BP Holding	RUSSIA	26,543	27,477	0.61	2.25	3.20	1.27	1.25	37.42	17.99	41.59	27.06	5.06
Газпром нефть	RUSSIA	22,521	21,292	0.69	2.50	3.72	1.38	1.41	40.90	28.47	40.74	27.73	3.95
НОВАТЭК	RUSSIA	21,861	22,428	6.59	13.33	18.17	4.29	3.96	28.52	22.47	28.93	49.44	2.64
Татнефть	RUSSIA	10,893	10,229	0.52	2.73	4.42	0.89	0.89	18.73	12.84	23.22	18.97	2.16
Башнефть	RUSSIA	2,667	2,141	0.46	1.72	3.44	0.69	0.64	20.07	20.26	28.38	26.67	2.39
Славнефть	RUSSIA	6,181	6,272	0.99	3.32	8.77	2.05	2.02	24.23	12.58	-	29.75	-
Russia weighted average		50,368	55,386	1.23	4.10	5.99	1.25	1.22	21.46	13.36	18.22	31.76	1.65

Source: company's data, Bloomberg; Estimation: Veles Capital

Effectiveness and assessment ratio of LUKOIL's assets versus other companies


Source: Bloomberg; Estimation: Veles Capital

Fair price of business estimation (Comparable approach)

	Capitalization, mn USD			EV _S	EV _{EBITDA}	P/E	P/BV	EV/IC
	Current	Growth potential, %	Fair					
Gazprom OAO	233,539	6.34	248,340	61,423	137,618	255,462	384,628	402,572
LUKOIL	64,983	38.57	90,046	70,230	75,070	94,442	106,540	103,951
Rosneft Oil Co	88,919	-11.50	78,697	30,291	48,103	127,716	82,188	105,187
Surgutneftegaz	25,568	128.56	58,439	38,948	63,008	34,407	89,319	66,516
Gazprom Neft	22,521	25.27	28,213	21,417	28,116	41,137	24,755	25,639
TNK-BP Holding	26,543	40.21	37,215	26,799	42,196	52,320	30,409	34,352
NOVATEK	21,861	-69.05	6,766	2,677	5,919	7,274	9,349	8,610
Tatneft	10,893	70.19	18,540	16,541	15,581	16,802	23,337	20,439
Bashneft	2,667	115.44	5,745	4,798	4,848	5,105	7,467	6,509
Slavneft	6,181	22.87	7,594	7,161	9,893	6,998	7,239	6,678
Sector growth potential		15.07						

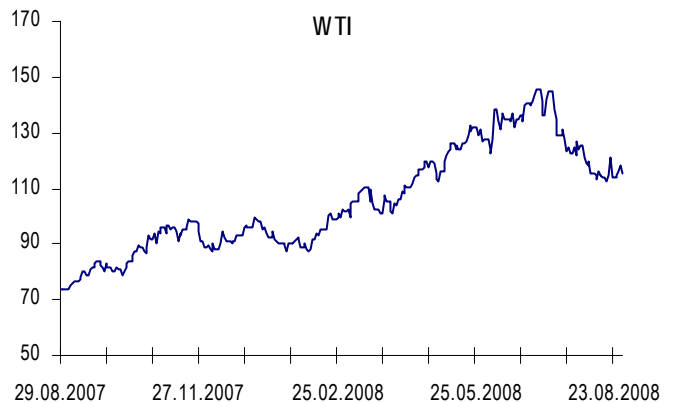
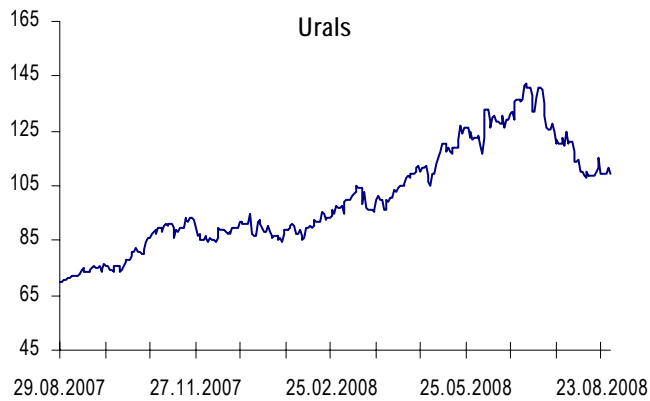
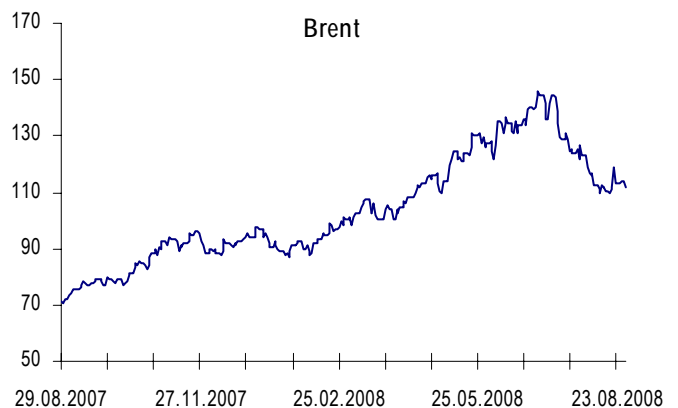
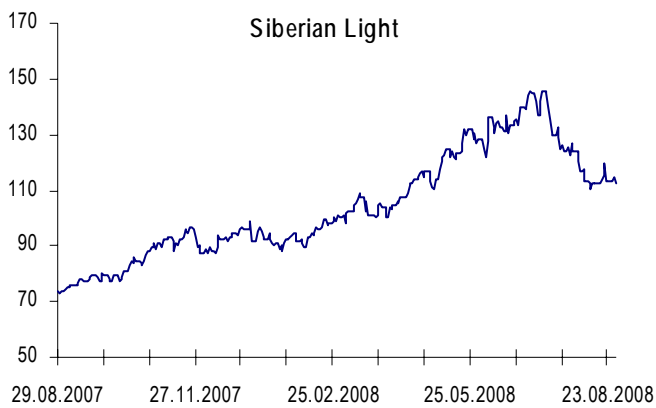
Source: companies data, Bloomberg; Estimation: Veles Capital

Commodity markets

Current oil prices

		Close, USD	Change, USD	Change, %					Current year, USD	
				day	week	month	from Jan 1	year	min	max
Light, USD / bbl	▼	112.6	-2.02	-1.76	-5.81	-8.35	17.41	52.8	-0.74	147.59
Brent, USD / bbl	▼	112.06	-1.96	-1.72	-6.01	-8.11	19.35	57.34	85.05	147.21
Urals, USD / bbl	▼	109.39	-2.02	-1.81	-5.16	-8.8	19.84	56	-3.32	142.94
WTI, USD / bbl	▼	115.59	-2.56	-2.17	-4.42	-5.4	20.41	57.24	86.47	146.3
Brent-Urals	▲	2.67	0.06	2.3	-31.19	32.84	2.3	142.73	0.67	9.94

Oil price charts



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

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

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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