

Rosneft

Strong results of 1H

Recommendation: BUY

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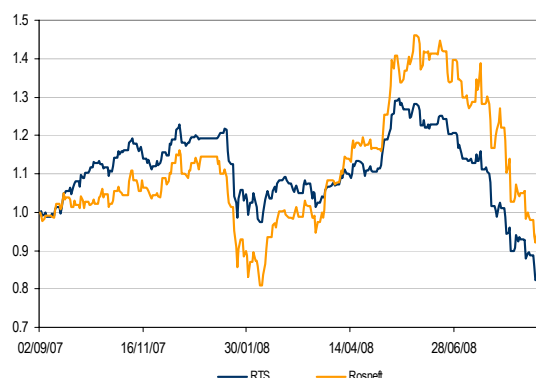
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Bullet moments

- ◆ Rosneft reported for 2Q 2008. Throughout the reported term company's income has been reduced -43.7% and formed 4.312 bn USD. However, if we exclude the single-time income of Rosneft in 2Q 2007 off YUKOS case in 7,920 bn USD, then the natural net income of the reported term would soar +153%. Do note though – net income has appeared above the general forecast +4% and +10%, exceeding our expectations.
- ◆ During 2Q 2008 Rosneft sales expanded +96% above past year, totaling 21.134 bn USD, whereas the market expected 20.72 bn USD, EBITDA has doubled, up to 7.021 bn USD, do remember though – the general forecast anticipated increase in 1.9 times to 6.762 bn USD.
- ◆ When evaluating the nature of company's sales growth, we must point out the increase in total costs of extracted and refined raw material and oil products at average of +80.4%, during 2Q 2008, as well, as growth of oil extraction volume, which formed 15.5%, from 1.955 mn barrels per day to 2.116 mn barrels per day.
- ◆ At the end of 1H 2008 the free cash flow expanded to 5.1 bn USD, from 983 mn USD, last year this value upped more than 5 times.
- ◆ Now we correct our model of Rosneft, adding several changes into it. In particular – we have corrected our forecast of oil and oil products sales price upwards at average of +10%. In addition we have reviewed the volume of capital investments, expanded it at about +9% throughout the forecasted term.
- ◆ In our model of Rosneft, we have reflected the growth of general risks for Russian issuers, due to growth of political and geo-political risks, as well as worsening of world economy's general environment.
- ◆ We have reflected the influence of Rosneft's management's actions regarding the counter-growth of operating costs, conducted during 1H 2008, which though expanded final fundamental estimation of the company.
- ◆ The resulting re-estimation of Rosneft model gave us a new fair price of company's equity, which formed 15.11 USD per stock, instead of previously forecasted 14.31 USD, currently offering +75.09% of growth potential. Therefore we confirm "BUY" recommendation on stocks of Rosneft.

Principal estimates

Company's shares vs RTS index



Information about Rosneft

Ticker RTS	ROSN
Market price (cs), USD	8.63
Min/max price during last year (cs), USD	6,67 / 12,2
Fair price at year end, USD	15.11
Upside (downside) (cs), USD	75.09
Number of common shares, total	10,598,177,810
MC, mn USD	91,462
EV, mn USD	117,737

Financial values (GAAP)	2007	2008 (F)	2009 (F)
Sales, mn USD	49,216	84,292	101,743
EBITDA, mn USD	14,007	25,293	32,586
Net income, mn USD	12,862	14,697	20,069
EBITDA margin, %	28.5	30.0	32.0
Net income margin %	26.1	17.4	19.7
ROIC%	22.1	28.9	32.7

Coefficients	2007	2008 (F)	2009 (F)
P/E	7.1	6.2	4.6
P/S	1.86	1.09	0.90
EV/S	2.39	1.40	1.16
EV/EBITDA	8.4	4.7	3.6
ROIC/WACC	2.8	3.3	3.4

Rosneft's results of 1H 2008.

Rosneft reported for 2Q 2008. Throughout the reported term company's income has been reduced - 43.7% and formed 4.312 bn USD. However, if we exclude the single-time income of Rosneft in 2Q 2007 off YUKOS case in 7,920 bn USD, then the natural net income of the reported term would soar +153%. Do note though – net income has appeared above the general forecast +4% and +10%, exceeding our expectations.

Other financials of Rosneft have also proved to be quite good. During 2Q 2008 Rosneft's sales upped +96% versus similar term of past year and formed 21.134 bn USD, whereas the market expected 20.72 bn USD, EBITDA doubled almost, to 7.021 bn USD, do remember that general forecast assumed this value to grow 1.9 times to 6.762 bn USD.

When evaluating the nature of company's sales growth, we must point out the increase in total costs of extracted and refined raw material and oil products at average of +80.4%, during 2Q 2008, as well, as growth of oil extraction volume, which formed 15.5%, from 1.955 mn barrels per day to 2.116 mn barrels per day. The sales also expanded through increased production of oil product over reported term +40.6%. There was some withholding factor upon the sales – reduction of gas extraction down - 23.8%, which is related to a season drop in demand, and further reduction of extraction at Purneftegas' deposits -1.952 bn cb m, in order to reduce gas popping via the torch.

Now take a closer look upon Rosneft's effectiveness in 2Q 2008. All of company's financials have demonstrated decent effectiveness results, which are now above ones of company's primary competitor – LUKOIL. Company's EBITDA margin has formed 33.2%, beating last year's result by -0.5 p.p. The natural net income margin has increased +4.6 p.p. to a 20.4%. A relatively high effectiveness grade of the company is supported by an optimal sales structure of Rosneft. Company sells a large share of its products at domestic market, which keeps expenses such as export duties at relatively low levels. Company also holds none surplus of retail goods, which helps in keeping costs for purchase of oil products low, unlike LUKOIL that has this value at 47.4% of total costs. The positive aspect, just like in the previous reports is the reduction of operating costs within sales of the oil company. Back in 2Q 2008 the share of costs within the sales formed 71.9%, whereas at the end of 2007 this value formed 78.22%. We must point out though that Rosneft entered the first place on the effectiveness of the operations. Rosneft has lowest costs within the extraction sector, which form below 3.31 USD per barrel and that is including Sakhalin's costly projects.

Financial report of 2Q had once more proved that company continues reducing its corporate debt, which is obviously a good factor. Net debt of Rosneft as of late 2Q 2008 has been reduced by -2.14 bn USD, from 23.58 bn USD to 21.44 bn USD. Do remember, that to year 2010 company wants to have its debt to EBITDA ratio at zero. In our estimates Rosneft may achieve this value earlier this year or at early 2009. We would also like to underline the ongoing growth of free cash flow of the company. As of 1h 2008 the free cash flow has expanded to 5.1 bn SUD from 983 mn SUD, that is an increase in five times.

In general, we see the published dynamics as positive and as a proof to company's effectiveness. We think that company looks rather strong at the back of its competitors, and now Rosneft could be comparable to foreign major companies.

Rosneft's US GAAP 2Q 2008 report, mn USD

	2Q 2007	Change for 1Q, %	2Q 2008	6 mnths 2007	Change for Q to Q, %	6 mnths 2008
Sales	10,785	96.0	21,134	19,005	97.3	37,502
inc. sales of oil and gas	7,208	63.2	11,767	12,847	59.2	20,458
sales of petrochemicals and refining services	3,377	166.3	8,994	5,872	178.6	16,359
other sales	200	86.5	373	286	139.5	685
inc. amortization	(850)	26.6	(1,076)	(1,523)	33.3	(2,030)
Operating income	2,674	122.3	5,945	3,434	181.0	9,649
Operating income margin, %	24.8		28.1	18.1		25.7
EBITDA	3,524	99.2	7,021	4,957	135.6	11,679
EBITDA margin, %	32.7		33.2	26.1		31.1
Interest receivable	41	131.7	95	78	116.7	169
Interest payable	(443)	-63.2	(163)	(644)	-22.0	(502)
Loss on disposal of PPE	(22)	36.4	(30)	(34)	-23.5	(26)
Income/loss on disposal of investments	24	n/m	(3)	28	n/m	(4)
Equity share in affiliates losses/profits	9	55.6	14	(2)	n/m	126
Dividends and income	5	n/m	(4)	6	-66.7	2
Other expenses	(67)	-61.2	(26)	(118)	-76.3	(28)
Foreign exchange income/losses	16	n/m	(14)	(31)	435.5	(166)
Income before tax	10,157	-42.8	5,814	10,637	-13.3	9,220
Income before tax margin, %	94.2		27.5	56.0		24.6
Current income tax	(2,500)	-41.2	(1,470)	(2,621)	-12.0	(2,306)
Other shareholder's share of income off subsidiaries	(2)	1500.0	(32)	(3)	1166.7	(38)
Net income	7,655	-43.7	4,312	8,013	-14.2	6,876
Net income margin, %	71.0		20.4	42.2		18.3
Net income per share	0.78	-42.3	0.45	0.79	-8.9	0.72

Source: company's data; Estimation: Veles Capital

Rosneft's sales structure, mn USD

	For 3 mnths, ended June 30th		
	2 Q 2007	2 Q 2008	Change of Q, %
Oil & Gas sales	7,208	11,767	63.2
Crude oil export sales - Europe	4,819	8,424	74.8
Crude oil export sales - Asia	1,455	2,489	71.1
Crude oil export sales - CIS	468	707	51.1
Crude oil export sales - Russia	391	51	-87.0
Gas sales - Russia	75	96	28.0
Oil products sales	3,377	8,994	166.3
Oil products export sales - Europe	1,042	2,841	172.6
Oil products export sales - Asia	624	2,012	222.4
Oil products export sales - CIS	62	186	200.0
Oil products export sales - Russia	1,615	3,813	136.1
Petrochemicals sales	34	142	317.6
Other sales	200	373	86.5
Total sales	10,785	21,134	96.0

Source: company's data; Estimation: Veles Capital

Cash flows of Rosneft for 6 mnths 2008, mn USD

	For 3 mnths, ended June 30th		
	6 mnths 2007	6 mnths 2008	Change of Q, %
Net cash of operating activities	12,592	9,378	-25.5
Net cash of investment activities	(16,254)	(5,728)	-64.8
Net cash of financial activities	4,079	(743)	n/m
Net cash flows at the end of the period	2,443	3,949	61.6

Source: company's data; Estimation: Veles Capital

New forecasts and estimates

Now we correct our model of Rosneft, adding several changes into it. In particular – we have corrected our forecast of oil and oil products sales price upwards at average of +10%. In our opinion – the long-term growth trend of oil will continue through the world market. And the fall we are seeing these days is a correcting to a rather sharp growth of last half of year. Ever since the start of 2008 towards the late June oil prices have added about +50%. And obviously that the current correction is a healthy technical correction, which would hit the market in any case and remove a range of speculative factors. Judging from the fundamental point of view, which we had reviewed in our previous reports of oil companies, we think that oil price would hit about 100-115 USD per barrel. In the short-term prospect we assume the prices to bounce off 104 USD per barrel of WTI and market should commence an upwards correction after a serious fall of last 2.5 months. The review of the oil price forecast had significantly boosted the fundamental price.

Our model also includes the final results of macroeconomic values of Russia (GDP, inflation, energy tariffs and pipeline delivery costs) and their respective forecast for future years. The forecasted values have remained unchanged, unlike the results of 2008, which we have increased for the upcoming years in our forecasts. The forecasted values have remained intact, except for the results of 2008, which were upgraded using the expectations of Russian government on inflation and GDP growth rate.

We have reviewed the extraction of gas downward -15%. Which is related to the fact that Purneftegaz plans on equipping its deposits with equipment capable of collecting the accompanying gas, in order to reduce the volume of torch burnt gas.

In addition to that, we review the volume of capital investments, expanding it average of +9% through the fact that company is currently engaged in a large-scale modernization of YUKOS assets purchased during YUKOS bankruptcy, using plans on development of shelf deposits and review of oil service inflation upwards.

Another important topic to take notion in is the growing risk of investing into Russian stocks. Due to the latter events at Northern Caucasus (geo-political risks), political risks and general crisis values at financial markets of the world. The increase of given risks does not allow seeing Russian market as optimistic as before, which puts pressure on fundamental values. In our model we have tried and included all the newly re-appearing risks, which brought an increase of WACC rate going up +0.31 p.p.

Within the operating activities, we have also corrected the costs growth rate, using the results off published report for 1H 2008, which demonstrated their moderate growth and company's effectiveness. Given correction had positively supported the fundamental estimates of Rosneft.

The resulting re-estimation of Rosneft model gave us a new fair price of company's equity, which formed 15.11 USD per stock, instead of previously forecasted 14.31 USD, currently offering +75.09% of growth potential. Therefore we confirm "BUY" recommendation on stocks of Rosneft.

Financial model

Rosneft's oil extraction rate and sales

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
Oil extraction (mn t)	80	101	108	116	125	134	143	152	157	160	161
Gas extraction (bn cb m)	13.7	15.3	12.5	15.0	18.0	20.7	23.8	27.4	31.5	34.6	38.1
Oil purchased abroad (mn tons)	0.0	5.6	6.0	6.4	6.9	7.4	7.9	8.4	8.7	8.9	8.9
Oil (mn tons)											
International markets sales	51.1	56.4	54.9	58.1	62.3	66.8	62.5	66.2	68.6	69.9	70.3
CIS market sales	6.1	6.8	6.6	7.0	7.5	8.1	7.5	8.0	8.3	8.4	8.5
Domestic market sales	1.7	2.3	2.3	2.4	2.6	2.8	2.6	2.7	2.8	2.9	2.9
Oil products (mn tons)											
International markets sales	12.6	18.3	22.5	24.6	26.4	28.3	35.1	37.2	38.5	39.3	39.5
CIS market sales	0.7	0.7	0.9	0.9	1.0	1.1	1.3	1.4	1.5	1.5	1.5
Domestic market sales	10.4	19.3	23.7	26.0	27.9	29.9	37.0	39.2	40.6	41.4	41.6

Source: company's data, Estimation: Veles Capital

Forecast of Rosneft's sales prices of oil and oil products

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
External market											
Brent oil price, USD/bbl	65.1	72.8	117.3	128.6	117.1	112.9	109.5	103.9	98.9	104.6	109.5
Urals oil (CIF mediterranean region), USD/bbl	61.4	69.5	113.5	124.5	113.3	109.3	106.0	100.5	95.7	101.2	106.0
Sale price of oil (international market), USD/t	419.8	475.6	760.6	834.1	759.2	732.5	710.4	673.6	641.5	678.4	710.2
Sale price of oil (CIS), USD/t	267.8	326.5	532.9	584.4	531.9	513.1	497.7	471.9	449.4	475.3	497.5
Sale price of oil products (international market) USD/t	405.2	511.7	851.0	1,022.8	977.5	990.2	984.3	956.8	911.1	968.4	1,018.8
Sale price of oil products (CIS) USD/t	297.1	482.9	803.1	965.3	922.5	934.5	928.9	902.9	859.8	913.9	961.5
Domestic market											
Sale price of oil, USD/t	125.9	223.8	354.3	388.5	353.6	341.2	330.9	313.8	298.8	316.0	330.8
Sale price of oil products, USD/t	381.4	449.3	696.7	764.0	695.4	670.9	650.6	617.0	587.5	621.3	650.5

Source: company's data, Estimation: Veles Capital

Rosneft's sales, 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 over international and CIS markets	23,089	29,042	45,294	52,572	51,319	53,101	48,143	48,393	47,695	51,450	54,131
Domestic market sales	214	521	803	932	910	941	854	858	846	912	960
Oil products											
Export and sales over international and CIS markets	5,295	9,702	19,800	26,095	26,747	29,060	35,782	36,867	36,335	39,392	41,652
Domestic market sales	3,955	8,672	16,500	19,841	19,368	20,040	24,074	24,200	23,851	25,728	27,069
Value	32,553	47,937	82,398	99,440	98,343	103,142	108,853	110,318	108,727	117,481	123,811
Sales of gas in Russia	197	339	510	815	1,282	2,075	3,028	4,247	5,066	5,793	6,655
Other products	350	940	1,385	1,489	1,597	1,712	1,832	1,942	2,010	2,050	2,061
Sales, total	33,100	49,216	84,292	101,743	101,222	106,930	113,713	116,507	115,803	125,325	132,527

Source: company's data, Estimation: Veles Capital

Rosneft's balance sheets, mn USD

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
Assets											
Current assets	9,462	14,968	22,896	30,339	35,691	44,654	57,161	71,194	84,222	100,393	118,138
Reserves	905	1,926	3,157	3,684	3,710	3,944	4,091	4,237	4,305	4,668	4,947
Cash and equivalents	505	998	1,709	2,063	2,053	2,168	2,306	2,363	2,348	2,541	2,687
Cash limited for use	29	34	58	70	70	74	79	80	80	87	92
Short-term financial investments	460	338	3,503	6,989	12,326	20,135	31,165	44,499	57,593	71,621	87,712
Accounts receivable, netto	4,839	9,785	11,842	14,294	14,221	15,023	15,975	16,368	16,269	17,607	18,619
Deferred tax assets	1,135	156	278	404	493	333	377	402	401	378	390
Advance payments and other current funds	1,589	1,731	2,348	2,834	2,819	2,978	3,167	3,245	3,226	3,491	3,691
Non-current assets	37,328	59,837	65,507	71,751	78,392	85,258	91,960	98,605	105,120	111,518	117,307
Financial investments	568	2,646	2,772	2,912	3,064	3,229	3,406	3,594	3,793	4,003	4,223
Credits issues, excluding reserve	110	260	260	260	260	260	260	260	260	260	260
Business image	161	3,789	3,789	3,789	3,789	3,789	3,789	3,789	3,789	3,789	3,789
PPE	35,557	51,200	56,037	61,575	67,604	73,928	80,170	86,394	92,520	98,545	104,019
Construction in process	388	771	1,478	2,044	2,504	2,880	3,164	3,396	3,587	3,750	3,845
Deferred tax assets	110	57	57	57	57	57	57	57	57	57	57
Other non-current assets, excluding reserve	434	1,114	1,114	1,114	1,114	1,114	1,114	1,114	1,114	1,114	1,114
Total assets	46,790	74,805	88,403	102,090	114,083	129,912	149,121	169,799	189,342	211,911	235,445
Liabilities											
Short-term liabilities	10,934	22,124	14,236	15,962	15,549	16,256	16,861	16,899	16,747	17,886	18,381
Accounts payable	1,998	4,035	6,911	8,341	8,299	8,767	9,323	9,552	9,494	10,275	10,865
Credits and current share of long-term debt	6,427	15,550	4,786	5,082	4,711	4,951	4,999	4,808	4,714	5,073	4,976
Income tax debt and other taxes debts	2,472	2,346	2,346	2,346	2,346	2,346	2,346	2,346	2,346	2,346	2,346
Deferred tax liabilities	17	118	118	118	118	118	118	118	118	118	118
Other short-term liabilities	20	75	75	75	75	75	75	75	75	75	75
Long-term liabilities	13,756	23,964	32,517	27,077	22,594	19,984	18,060	17,866	17,672	17,478	17,284
Liabilities on assets written off	748	2,130	2,130	2,130	2,130	2,130	2,130	2,130	2,130	2,130	2,130
Long-term credits and liabilities debt	7,402	11,723	20,276	14,836	10,353	7,743	5,819	5,625	5,431	5,237	5,043
Deferred tax liabilities	5,446	7,626	7,626	7,626	7,626	7,626	7,626	7,626	7,626	7,626	7,626
Other long-term liabilities	160	2,485	2,485	2,485	2,485	2,485	2,485	2,485	2,485	2,485	2,485
Minority interest	225	277	642	642	642	642	642	642	642	642	642
Shareholders' equity	21,875	28,440	41,008	58,409	75,299	93,029	113,558	134,392	154,281	175,905	199,139
Authorized capital	20	20	20	20	20	20	20	20	20	20	20
Treasury stock	0	(7,521)	(7,521)	(7,521)	(7,521)	(7,521)	(7,521)	(7,521)	(7,521)	(7,521)	(7,521)
Paid-in capital	11,352	13,075	13,075	13,075	13,075	13,075	13,075	13,075	13,075	13,075	13,075
Other accumulated general income	0	0	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)
Retained earnings	10,503	22,866	35,450	52,851	69,741	87,471	108,000	128,834	148,723	170,347	193,581
Total liabilities	46,790	74,805	88,403	102,090	114,083	129,912	149,121	169,799	189,342	211,911	235,445

Source: company's data, Estimation: Veles Capital

Income and loss statements, mn USD

	2006.00	2007.00	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
Sales	33,100	49,216	84,292	101,743	101,222	106,930	113,713	116,507	115,803	125,325	132,527
Production and operating costs	2,197	3,870	4,431	5,287	6,181	7,361	8,467	9,559	10,437	11,232	11,852
Taxes, excluding income tax	6,990	10,890	18,418	20,761	20,058	20,656	21,348	21,309	20,858	22,653	23,970
Oil and oil products export duties	11,140	13,032	25,535	30,468	29,130	29,884	28,717	28,475	27,690	30,330	32,287
Cost of purchased oil and oil products	1,320	1,610	2,812	3,315	3,236	3,348	3,474	3,492	3,442	3,713	3,906
Use of pipelines and delivery costs	3,226	4,226	5,680	6,777	7,996	9,347	10,802	12,251	13,441	14,464	15,263
Marketing, managerial and general expenses	757	1,341	1,689	2,038	2,028	2,142	2,278	2,334	2,320	2,511	2,655
Other	227	240	436	511	590	675	768	860	936	1,006	1,061
EBITDA	7,242	14,007	25,293	32,586	32,005	33,517	37,860	38,227	36,679	39,419	41,533
<i>EBITDA margin, %</i>	<i>21.9</i>	<i>28.5</i>	<i>30.0</i>	<i>32.0</i>	<i>31.6</i>	<i>31.3</i>	<i>33.3</i>	<i>32.8</i>	<i>31.7</i>	<i>31.5</i>	<i>31.3</i>
PPE amortization	1,638	3,286	4,096	4,483	4,926	5,408	5,914	6,414	6,912	7,402	7,884
EBIT	5,604	10,721	21,197	28,103	27,079	28,109	31,945	31,813	29,768	32,017	33,649
<i>EBIT margin, %</i>	<i>16.9</i>	<i>21.8</i>	<i>25.1</i>	<i>27.6</i>	<i>26.8</i>	<i>26.3</i>	<i>28.1</i>	<i>27.3</i>	<i>25.7</i>	<i>25.5</i>	<i>25.4</i>
Non-operating income/expense	(1,439)	7,068	(1,470)	(1,344)	(893)	(295)	257	868	1,431	1,902	2,317
Income before taxes	4,165	17,789	19,727	26,759	26,186	27,813	32,202	32,681	31,198	33,919	35,966
<i>Income before taxes margin, %</i>	<i>12.6</i>	<i>36.1</i>	<i>23.4</i>	<i>26.3</i>	<i>25.9</i>	<i>26.0</i>	<i>28.3</i>	<i>28.1</i>	<i>26.9</i>	<i>27.1</i>	<i>27.1</i>
Income tax	2,385	3,848	5,031	6,690	6,547	6,953	8,050	8,170	7,800	8,480	8,632
Net income	3,533	12,862	14,697	20,069	19,640	20,860	24,151	24,511	23,399	25,439	27,334
<i>Net income margin, %</i>	<i>10.7</i>	<i>26.1</i>	<i>17.4</i>	<i>19.7</i>	<i>19.4</i>	<i>19.5</i>	<i>21.2</i>	<i>21.0</i>	<i>20.2</i>	<i>20.3</i>	<i>20.6</i>

Source: company's data, Estimation: Veles Capital

Rosneft's cash flows, mn USD

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
Operating activities											
Net income	3,533	12,862	14,697	20,069	19,640	20,860	24,151	24,511	23,399	25,439	27,334
Depreciation and amortization	1,638	3,286	4,096	4,483	4,926	5,408	5,914	6,414	6,912	7,402	7,884
Other corrections	(1,411)	3,867	(126)	(140)	(152)	(165)	(177)	(188)	(199)	(210)	(220)
Cash flows provided by operating activities, before change of turnover capital	3,760	20,015	18,667	24,413	24,413	26,104	29,889	30,736	30,111	32,631	34,997
Change of turnover assets	(1,633)	(5,563)	(4,051)	(3,604)	(26)	(1,039)	(1,338)	(643)	52	(1,950)	(1,507)
Change of turnover liabilities	466	2,658	2,876	1,431	(43)	468	556	229	(58)	781	590
Net cash provided by operating activities	2,593	17,110	17,492	22,240	24,344	25,533	29,107	30,322	30,106	31,462	34,080
Cash flows from investing activities											
CapEx	(3,462)	(6,240)	(9,410)	(10,310)	(11,083)	(11,740)	(12,180)	(12,576)	(12,922)	(13,277)	(13,145)
Licenses	(916)	(90)	(230)	(276)	(332)	(369)	(260)	(293)	(306)	(312)	(308)
Purchase of short-term financial investments	(277)	(244)	(3,165)	(3,486)	(5,336)	(7,809)	(11,031)	(13,333)	(13,095)	(14,028)	(16,091)
Other	(1,861)	(13,521)	0	0	0	0	0	0	0	0	0
Net cash provided by investing activities	(6,516)	(20,095)	(12,806)	(14,073)	(16,751)	(19,918)	(23,471)	(26,203)	(26,323)	(27,617)	(29,544)
Cash flows from financing activities											
Earnings from short-term credits	2,768	14,391	101	397	26	266	314	123	29	388	291
Payment of short-term credits	(796)	(3,731)	(10,865)	(101)	(397)	(26)	(266)	(314)	(123)	(29)	(388)
Earnings from long-term credits	2,887	3,435	10,865	0	0	0	0	0	0	0	0
Payment of long-term credits	(3,250)	(2,598)	(2,312)	(5,440)	(4,483)	(2,610)	(1,924)	(194)	(194)	(194)	(194)
Purchase of own shares	0	(7,521)	0	0	0	0	0	0	0	0	0
Cash from sale of shares, excluding commission fees	2,115	0	0	0	0	0	0	0	0	0	0
Dividends paid	(424)	(521)	(1,764)	(2,669)	(2,750)	(3,129)	(3,623)	(3,677)	(3,510)	(3,816)	(4,100)
Dividends paid to minors of subsidiaries	(75)	(15)	0	0	0	0	0	0	0	0	0
Net cash provided by financial activities	3,225	3,440	(3,975)	(7,813)	(7,603)	(5,499)	(5,498)	(4,062)	(3,798)	(3,651)	(4,390)
(Decrease) increase of cash and equivalents	(698)	455	711	354	(11)	116	138	57	(14)	193	146
Cash at the beginning of period	1,173	505	998	1,709	2,063	2,053	2,168	2,306	2,363	2,348	2,541
Currency exchange rate affecting cash and equivalents	30	38	0	0	0	0	0	0	0	0	0
Cash at the end of period	505	998	1,709	2,063	2,053	2,168	2,306	2,363	2,348	2,541	2,687

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)	10.51	10.51	10.79	11.18	11.18	11.18	11.18	11.18	11.18	11.18	11.18
Risk-free rate, %	5.91	5.41	5.41	5.80	5.80	5.80	5.80	5.80	5.80	5.80	5.80
10 year US Treasuries yield, %	4.75	4.35	4.38	4.15	4.15	4.15	4.15	4.15	4.15	4.15	4.15
Russia risk, %	1.16	1.06	1.03	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65
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
B Coefficient	0.92	1.02	1.08	1.08	1.08	1.08	1.08	1.08	1.08	1.08	1.08
Share of equity, %	61.3	51.0	62.1	74.6	83.3	88.0	91.3	92.8	93.8	94.5	95.2
Cost of debt (kd)	6.75	6.75	7.00	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
Risk-free rate, %	5.91	5.41	5.41	5.80	5.80	5.80	5.80	5.80	5.80	5.80	5.80
Cost of debt, %	0.84	1.34	1.59	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Tax rate, %	12.97	27.58	25.50	25.00	25.00	25.00	25.00	25.00	25.00	25.00	24.00
Share of debt, %	38.73	48.95	37.93	25.43	16.67	12.01	8.70	7.20	6.17	5.54	4.79
WACC	8.72	7.76	8.67	9.76	10.25	10.51	10.69	10.78	10.83	10.87	10.91

Source: company's data, Estimation: Veles Capital

	Forecasted free cash flow, mn USD										
	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
EBITDA	7,242	14,007	25,293	32,586	32,005	33,517	37,860	38,227	36,679	39,419	41,533
Amortization and depreciation	1,638	3,286	4,096	4,483	4,926	5,408	5,914	6,414	6,912	7,402	7,884
EBIT	5,604	10,721	21,197	28,103	27,079	28,109	31,945	31,813	29,768	32,017	33,649
Income tax	2,385	3,848	5,031	6,690	6,547	6,953	8,050	8,170	7,800	8,480	8,632
after-tax EBITDA	4,857	10,159	20,263	25,897	25,458	26,564	29,809	30,057	28,880	30,939	32,901
CapEx	4,378	6,330	9,640	10,587	11,415	12,109	12,440	12,870	13,228	13,589	13,453
Change of operating capital	(1,167)	(2,905)	(1,175)	(2,173)	(69)	(571)	(782)	(414)	(5)	(1,170)	(917)
FCF	970	1,816	9,072	12,801	13,751	13,810	16,651	16,990	16,004	16,655	19,087

Source: company's data, Estimation: Veles Capital

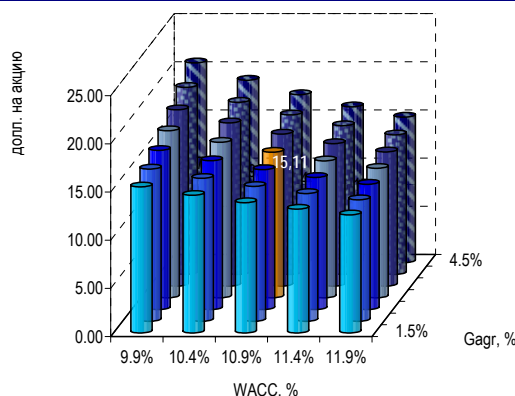
Rosneft's stocks valuation

TGR, %	3.00
Terminal value, mn USD	248,460
Discounted terminal value, mn USD	97,819
Enterprise value, mn USD	186,418
Net debt, mn USD	26,275
Shareholder's equity (incl. minority interest), mn USD	160,143
Number of shares, mn units	10,598,177,810
Fair value of common stock at the year end, USD	15.11
Upside (downside) of common stock, %	75.09

Source: company's data, Estimation: Veles Capital

Average fair price analysis of shares

Growth rate in postforecasted period, %	WACC, %				
	9.9%	10.4%	10.9%	11.4%	11.9%
1.5%	15.16	14.29	13.53	12.85	12.26
2.0%	15.80	14.83	14.00	13.26	12.61
2.5%	16.52	15.45	14.52	13.71	13.00
3.0%	17.34	16.14	15.11	14.22	13.44
3.5%	18.30	16.94	15.78	14.79	13.93
4.0%	19.41	17.86	16.55	15.43	14.48
4.5%	20.73	18.93	17.44	16.17	15.10



Source: 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 growth (IC), %		55.4	17.6	18.5	15.8	17.3	17.9	16.7	13.8	13.3	12.4
Invested capital (IC), mn USD	35,199	54,715	64,361	76,263	88,310	103,555	122,070	142,463	162,078	183,673	206,471
Equity, mn USD	21,875	28,440	41,008	58,409	75,299	93,029	113,558	134,392	154,281	175,905	199,139

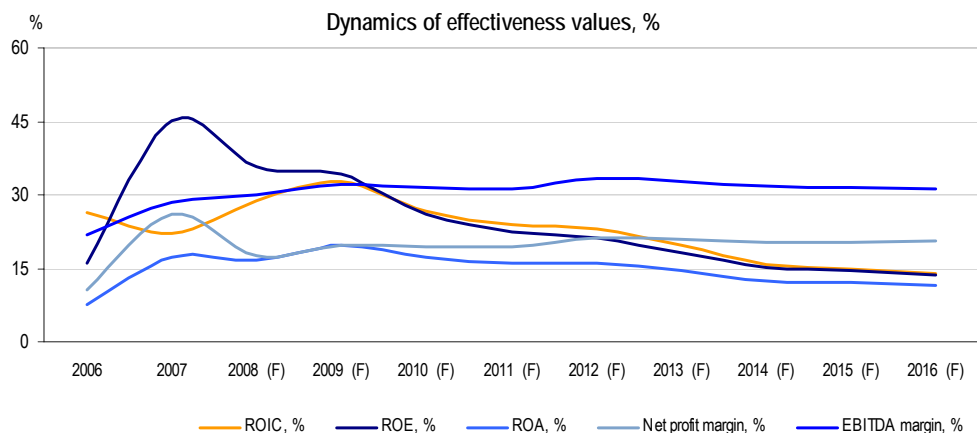
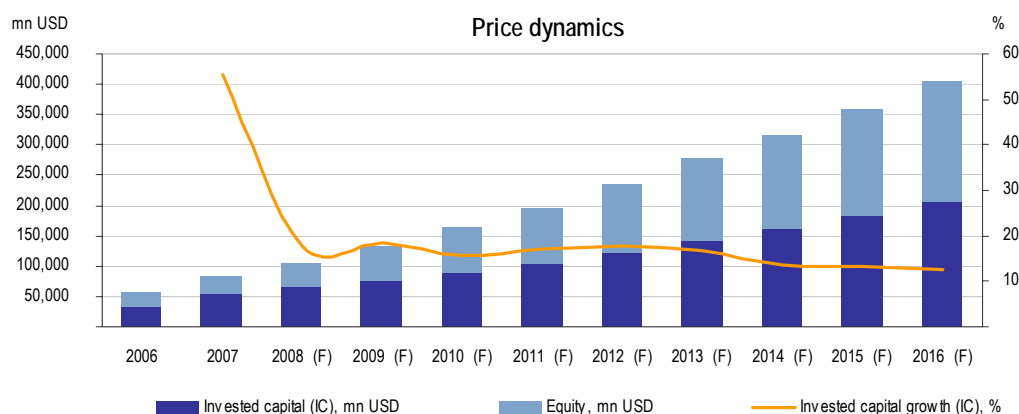
Business efficiency analysis

	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)	2016 (F)
ROIC, %	26.4	22.1	28.9	32.7	26.6	23.9	23.1	19.5	15.7	14.8	13.9
ROE, %	16.2	45.2	35.8	34.4	26.1	22.4	21.3	18.2	15.2	14.5	13.7
ROA, %	7.6	17.2	16.6	19.7	17.2	16.1	16.2	14.4	12.4	12.0	11.6
EBITDA margin, %	21.9	28.5	30.0	32.0	31.6	31.3	33.3	32.8	31.7	31.5	31.3
EBIT margin, %	16.9	21.8	25.1	27.6	26.8	26.3	28.1	27.3	25.7	25.5	25.4
Net profit margin, %	10.7	26.1	17.4	19.7	19.4	19.5	21.2	21.0	20.2	20.3	20.6

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	0.63	0.96	0.61	0.34	0.20	0.14	0.10	0.08	0.07	0.06	0.05
liquidity estimates											
coverage coeff.	0.78	0.59	1.39	1.67	2.06	2.50	3.15	3.96	4.77	5.35	6.16
fast liquidity coeff.	0.87	0.68	1.61	1.90	2.30	2.75	3.39	4.21	5.03	5.61	6.43
absolute liquidity coeff.	0.09	0.06	0.37	0.57	0.92	1.37	1.99	2.77	3.58	4.15	4.92
business activity indicators											
ratio of debt arrearage, days	53	72	51	51	51	51	51	51	51	51	51
ratio of supplies, days	10	14	13	13	13	13	13	13	13	13	13
usage of turnover capital	(22.49)	(6.88)	9.73	7.08	5.03	3.77	2.82	2.15	1.72	1.52	1.33

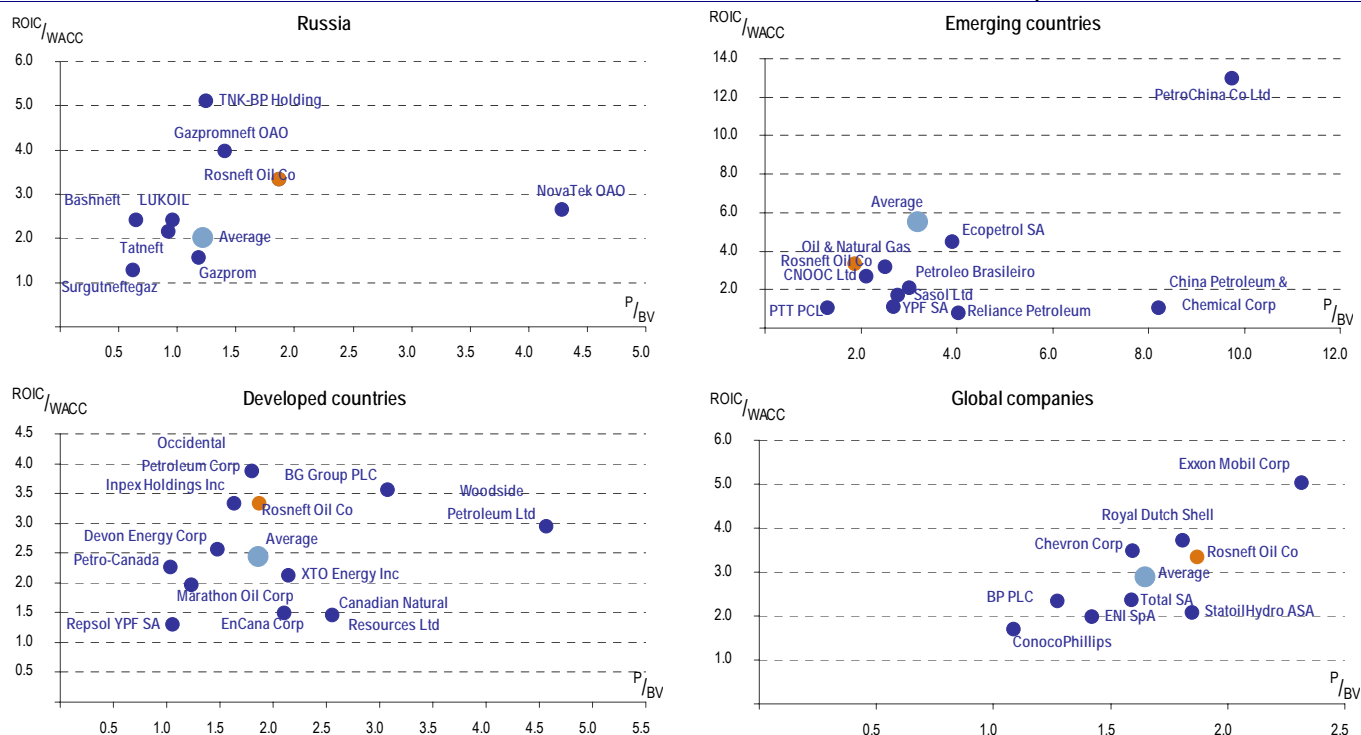
Source: company's data; Estimation: Veles Capital



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 ₁ /WACC
Global companies													
Exxon Mobil Corp	UNITED STATES	401,600	394,745	0.70	3.92	8.26	2.32	2.37	36.29	31.64	50.49	17.81	5.02
Chevron Corp	UNITED STATES	171,117	168,747	0.55	3.01	6.82	1.59	1.61	29.16	15.96	34.10	18.29	3.48
ConocoPhillips	UNITED STATES	120,065	136,323	0.51	2.91	5.87	1.09	1.08	20.94	16.50	16.86	17.46	1.69
BP PLC	BRITAIN	170,202	194,073	0.50	3.36	5.93	1.27	1.23	27.00	11.78	23.52	14.87	2.34
Royal Dutch Shell PLC	NETHERLANDS	204,943	213,826	0.44	3.16	6.26	1.81	1.75	23.43	16.12	39.56	13.88	3.70
Total SA	FRANCE	162,264	179,113	0.70	3.28	7.58	1.59	1.51	29.20	13.17	23.01	21.46	2.36
ENI SpA	ITALY	124,934	149,270	0.99	3.41	7.70	1.42	1.33	25.66	13.03	19.58	29.18	1.98
StatoilHydro ASA	NORWAY	88,381	92,445	0.74	1.91	7.12	1.85	1.78	33.82	16.79	30.87	38.80	2.07
Global companies weighted average		180,438	191,068	0.60	3.21	7.02	1.65	1.59	28.44	16.98	29.58	18.24	2.87
Developed markets													
Occidental Petroleum Corp	UNITED STATES	61,550	60,060	2.37	3.31	6.92	1.81	1.85	33.12	28.11	37.22	71.76	3.86
Devon Energy Corp	UNITED STATES	42,417	43,855	2.71	3.73	7.90	1.48	1.46	22.39	17.83	21.30	72.65	2.56
Transocean Inc	UNITED STATES	39,611	52,238	4.13	7.35	8.44	2.01	1.62	30.04	15.09	17.18	56.14	2.17
Apache Corp	UNITED STATES	35,566	37,078	2.42	3.17	6.47	1.62	1.58	29.14	27.35	27.55	76.45	3.44
Marathon Oil Corp	UNITED STATES	30,367	36,718	0.38	3.39	6.65	1.23	1.18	19.84	15.12	19.53	11.30	1.96
Hess Corp	UNITED STATES	33,044	35,836	0.78	4.09	9.64	2.27	2.07	27.01	11.71	20.92	19.01	2.07
Anadarko Petroleum Corp	UNITED STATES	27,958	38,517	2.66	3.98	10.37	1.44	1.29	15.65	8.12	11.64	66.76	1.48
Chesapeake Energy Corp	UNITED STATES	26,201	39,748	4.84	9.12	12.70	2.14	1.54	17.17	3.55	6.97	53.13	1.01
XTO Energy Inc	UNITED STATES	25,708	35,397	4.30	5.89	10.93	2.14	1.63	20.39	15.39	17.03	72.97	2.13
EOG Resources Inc	UNITED STATES	23,863	24,589	3.63	4.65	10.48	2.46	2.36	27.78	21.15	29.57	78.04	3.85
Valero Energy Corp	UNITED STATES	17,285	22,703	0.17	4.90	9.39	0.85	0.88	13.36	5.27	8.46	3.49	0.72
Diamond Offshore Drilling Inc	UNITED STATES	14,640	14,355	4.05	6.49	10.56	3.18	3.33	41.51	31.81	42.26	62.33	4.60
Murphy Oil Corp	UNITED STATES	14,307	14,208	0.49	3.37	7.10	1.77	1.78	34.47	18.72	31.08	14.41	3.56
BG Group PLC	BRITAIN	66,468	65,581	2.95	5.65	11.97	3.08	3.17	30.60	20.77	37.66	52.18	3.55
Tullow Oil PLC	BRITAIN	9,654	9,900	6.92	9.63	28.74	6.55	5.76	18.55	18.14	14.65	71.88	1.43
Repsol YPF SA	SPAIN	37,019	47,738	0.56	3.57	7.79	1.06	1.05	16.15	8.11	13.72	15.58	1.29
Cia Espanola de Petroleos SA	SPAIN	27,206	28,160	1.20	13.27	28.14	2.92	2.74	13.39	8.24	10.88	9.03	1.43
OMV AG	AUSTRIA	18,222	22,455	0.58	3.59	6.13	1.11	1.09	22.01	9.94	20.31	16.26	1.92
EnCana Corp	CANADA	52,963	61,252	2.19	5.24	12.13	2.10	1.83	22.62	9.93	15.56	41.77	1.48
Suncor Energy Inc	CANADA	47,895	53,382	2.45	8.61	13.59	2.84	2.39	26.66	13.16	24.91	28.41	2.16
Imperial Oil Ltd	CANADA	41,266	39,836	1.45	7.18	11.96	3.54	3.90	42.37	23.50	54.01	20.17	4.58
Canadian Natural Resources Ltd	CANADA	42,786	53,434	4.08	6.78	12.73	2.56	1.95	20.02	5.92	17.66	60.26	1.46
Husky Energy Inc	CANADA	35,745	35,918	1.75	4.33	7.78	2.02	2.01	31.24	23.90	30.36	40.52	2.72
Petro-Canada	CANADA	19,866	22,155	0.86	2.19	4.53	1.04	1.03	30.99	18.38	24.91	39.13	2.26
Talisman Energy Inc	CANADA	16,657	20,241	1.67	2.55	6.20	1.45	1.34	28.17	9.68	24.27	65.57	1.87
Nexen Inc	CANADA	15,192	17,998	2.06	2.92	5.92	1.67	1.51	35.29	6.17	28.81	70.66	2.52
Neste Oil OYJ	FINLAND	5,929	7,302	0.34	5.35	8.16	1.27	1.21	19.43	11.32	15.68	6.37	1.42
Hellenic Petroleum SA	GREECE	3,799	5,080	0.36	7.01	11.43	0.92	0.94	10.05	6.20	6.86	5.16	0.86
Dragon Oil Plc	IRELAND	2,688	1,983	2.16	2.46	5.30	1.71	2.30	25.58	8.40	91.46	87.79	10.59
Saras SpA	ITALY	4,878	5,111	0.39	5.15	10.36	1.67	1.62	20.39	9.69	20.01	7.53	1.74
Inpex Holdings Inc	JAPAN	22,196	20,213	1.53	2.03	11.47	1.64	1.75	17.96	12.22	24.18	75.19	3.32
Nippon Oil Corp	JAPAN	8,324	20,490	0.24	6.53	8.92	0.59	0.78	7.43	2.86	4.86	3.71	1.03
Galp Energia SGPS SA	PORTUGAL	15,444	17,375	0.81	11.98	22.15	3.67	2.83	18.44	7.90	16.95	6.74	1.28
Addax Petroleum Corp	SWITZERLAND	5,492	6,180	1.14	1.54	4.90	1.66	1.55	50.37	14.31	-	74.10	1.37
Woodside Petroleum Ltd	AUSTRALIA	32,242	34,178	6.36	8.72	15.96	4.57	3.80	38.88	23.74	37.58	72.90	2.94
Santos Ltd	AUSTRALIA	8,978	9,051	3.66	5.64	17.09	2.82	2.78	18.32	16.82	17.64	64.87	1.38
Developed markets weighted average		17,946	20,482	1.03	4.80	9.53	1.86	1.68	25.81	15.77	24.16	47.32	2.44
Developing markets													
YPF SA	ARGENTINA	19,045	19,091	2.04	5.51	14.52	2.68	2.67	16.21	11.12	-	37.09	1.09
Petroleo Brasileiro SA	BRAZIL	199,044	223,528	1.86	5.83	10.49	3.02	2.47	25.47	13.38	33.91	31.97	2.06
PetroChina Co Ltd	CHINA	321,725	322,612	2.06	8.17	15.87	9.75	9.52	17.70	13.02	188.92	25.22	12.94
China Petroleum & Chemical Corp	CHINA	118,862	147,632	0.64	11.42	20.89	8.22	3.41	11.09	3.95	12.31	5.59	1.05
Ecopetrol SA	COLOMBIA	54,684	54,989	3.02	6.37	10.80	3.90	5.95	31.58	16.77	62.11	47.32	4.47
CNOOC Ltd	HONG KONG	61,545	57,237	2.98	5.39	8.81	2.12	2.32	31.42	24.53	36.03	55.29	2.65
MOL Hungarian Oil and Gas NyRt	HUNGARY	11,233	13,591	0.65	4.81	8.81	1.37	1.28	24.55	9.30	13.37	13.56	1.18
Oil & Natural Gas Corp Ltd	INDIA	53,079	45,667	1.71	4.20	9.29	2.52	3.35	29.04	20.07	42.91	40.82	3.16
Reliance Petroleum Ltd	INDIA	16,192	19,361	1.89	19.45	24.52	4.04	2.70	22.01	9.15	10.60	9.70	0.74
Indian Oil Corp Ltd	INDIA	11,531	19,035	0.29	6.71	8.39	1.16	1.09	13.71	5.32	9.73	4.38	0.80
KazMunaiGas Exploration Production	KAZAKHSTAN	10,197	6,273	1.08	1.70	5.04	1.38	1.82	26.20	20.50	28.82	63.42	2.66
Polskie Gornictwo Naftowe I Gazownictwo SA	POLAND	8,901	7,725	0.96	5.07	11.73	0.84	0.82	7.79	6.04	8.79	19.01	0.63
SNP Petrom SA	ROMANIA	9,641	8,649	1.60	6.22	10.96	1.33	1.39	14.44	9.30	11.25	25.72	1.19
Slovaft AS	SLOVAKIA	3,637	3,571	0.77	7.30	11.84	1.46	1.48	14.93	10.84	-	10.54	1.10
Sasol Ltd	SOUTH AFRICA	33,924	36,486	2.39	6.95	11.44	2.77	2.46	35.15	19.27	28.44	34.40	1.69
S-Oil Corp	SOUTH KOREA	6,401	6,156	0.29	3.98	7.81	1.27	1.28	22.93	9.53	35.33	7.33	3.25
PTT PCL	THAILAND	19,826	24,583	0.48	4.78	6.70	1.32	1.24	24.35	11.23	17.04	9.95	1.03
PTT Exploration & Production PCL	THAILAND	13,069	12,991	3.21	4.37	10.03	2.62	2.64	35.63	20.37	37.17	73.44	2.03
Tupras Turkiye Petrol Rafine	TURKEY	5,617	6,069	0.24	4.72	6.10	1.27	1.24	26.13	11.16	28.81	5.03	1.71
Developing markets weighted average		34,708	38,076	1.15	6.65	11.97	3.19	2.84	21.54	13.22	81.57	28.85	5.49
Russia													
Gazprom OAO	RUSSIA	231,525	266,872	2.16	4.84	6.61	1.19	1.16	18.14	11.05	17.66	44.57	1.57
Rosneft Oil Co	RUSSIA	91,462	113,997	1.57	5.92	8.65	1.87	1.60	35.84	16.62	28.86	30.01	3.33
LUKOIL	RUSSIA	60,475	66,390	0.57	3.06	4.27	0.96	0.97	25.99	18.08	25.96	18.59	2.41
Surgutneftegaz	RUSSIA	26,244	13,930	0.53	1.44	5.65	0.63	0.47	13.21	19.61	18.60	36.93	1.28
TNK-BP Holding	RUSSIA	26,068	27,002	0.60	2.21	3.14	1.24	1.23	37.42	17.99	41.59	27.06	5.10
Gazpromneft OAO	RUSSIA	22,995	21,766	0.71	2.56	3.80	1.41	1.44	40.90	28.47	40.74	27.73	3.97
NovaTek OAO	RUSSIA	21,861	22,428	6.59	13.33	18.17	4.29	3.96	28.52	22.47	28.93	49.44	2.65
Tatneft	RUSSIA	11,329	10,665	0.54	2.85	4.59	0.93	0.93	18.73	12.84	23.22	18.97	2.15
Bashneft	RUSSIA	2,513	1,987	0.42	1.59	3.24	0.65	0.59	20.07	20.26	28.38	26.67	2.40
Slavneft Oil & Gas Co	RUSSIA	6,181	6,272	0.99	3.32	8.77	2.05	2.02	24.23	12.58	-	29.75	-
Russia weighted average		50,065											

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


Source: Bloomberg, Estimation: Veles Capital

Business' fair price estimation (comparative approach)

Capitalization, mnh USD

	Current	Growth potential, %	Fair price	EV/S	$EV/EBITDA$	P/E	P/BV	EV/IC
Gazprom OAO	231,525	16.44	269,582	49,719	128,463	240,417	350,664	365,021
LUKOIL	60,475	52.50	92,224	61,857	71,006	88,880	106,489	103,254
Rosneft Oil Co	91,462	-1.22	90,343	24,128	44,399	120,195	83,772	102,258
Surgutneftegaz	26,244	106.90	54,301	36,013	61,017	32,380	81,432	61,990
Gazpromneft OAO	22,995	20.21	27,643	18,775	26,575	38,715	22,569	23,265
TNK-BP Holding	26,068	37.78	35,917	23,234	39,799	49,239	27,724	30,992
NovaTek OAO	21,861	-68.34	6,921	2,372	5,618	6,845	8,523	7,879
Tatneft	11,329	55.31	17,595	14,797	14,832	15,812	21,276	18,779
Bashneft	2,513	118.38	5,489	4,297	4,617	4,804	6,808	5,982
Slavneft Oil & Gas Co	6,181	8.48	6,705	6,366	9,394	6,586	6,600	6,110
Growth potential of sector		21.19						

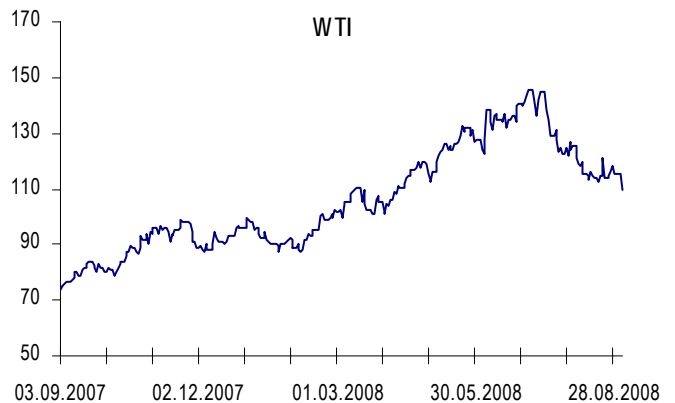
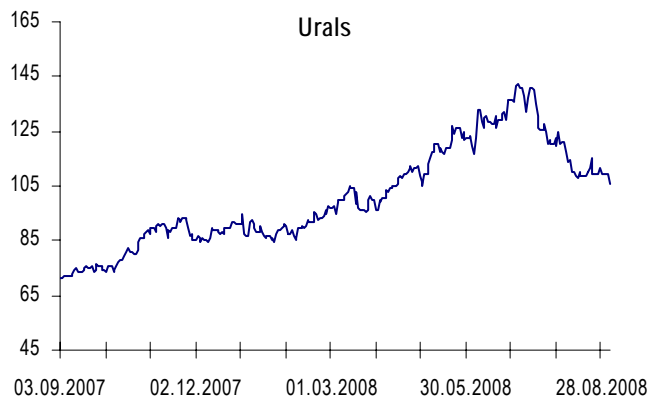
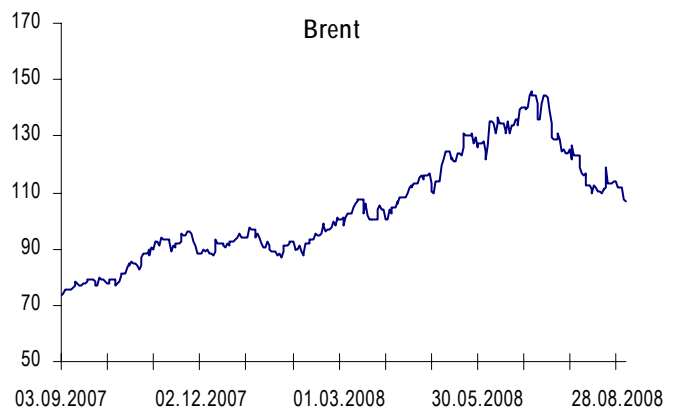
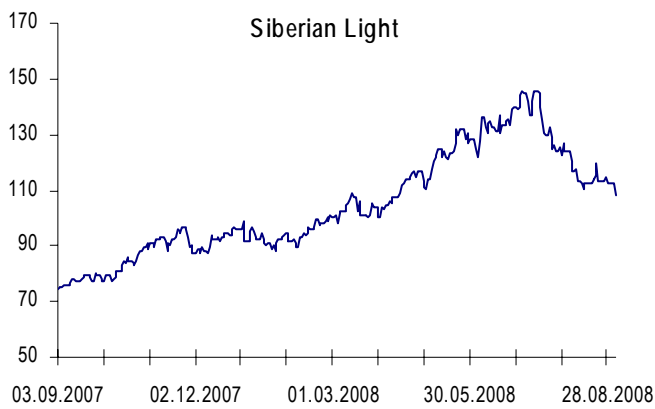
Source: company's data, Bloomberg, Estimation: Veles Capital

Commodity markets

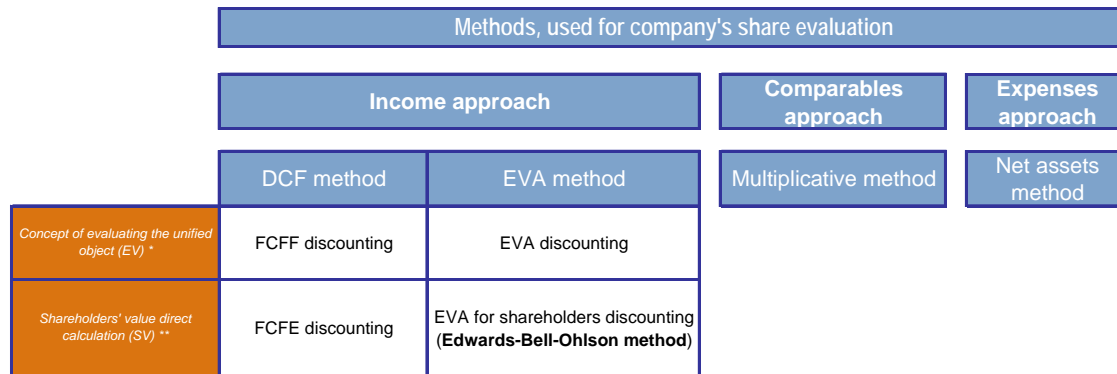
Current oil prices

		Close, USD	Change, USD	Change, %					Current year, USD	
				day	week	month	from Jan 1	year	min	max
Light, USD / bbl	▼	108,05	-4,27	-3,80	-4,46	-12,72	12,67	44,74	-0,74	147,59
Brent, USD / bbl	▼	106,63	-0,83	-0,77	-6,22	-13,54	13,57	45,35	85,05	147,21
Urals, USD / bbl	▼	105,52	-3,95	-3,61	-3,81	-12,75	15,60	48,37	-3,32	142,94
WTI, USD / bbl	▼	109,71	-5,75	-4,98	-5,64	-12,30	14,28	48,18	86,47	146,30
Brent-Urals	▲	1,11	3,12	-155,22	-72,25	-53,56	-57,47	-50,45	-2,01	9,94

Oil price charts



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 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)		$SV = \sum_{i=1}^n \frac{FCFE_i}{(1+k_{si})^i} + \frac{TV}{(1+k_{si})^n} + Cash + NA$
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

$$FCFE = \text{gross shareholders' cash flow} - \text{gross investments}$$

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