



SOVLINK

YOUR FIRST CALL – FOR THE SECOND TIER

July 25, 2007

Voronezh Aircraft Construction Company (VACO)

Company
Note

BUY

Upside: 38.5%
Target price: \$30.5

Streamlining operations

Analyst: Igor Kraevsky

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Stock data

Ticker	vaso	M.Cap, \$ mn	93.8
Shares Ords	3,562,992	Free Float, %	25
Shares Pref	1,187,656	Free Float, \$ mn	23.5
Bid Ords, \$	22.0	Offer Ords, \$	22.5
Bid Prefs, \$	12.5	Offer Prefs, \$	13.5

Performance

	1 month	6 month
Absolute	15.1%	44.4%
Relative to RTS	5.6%	30.9%

Key financials

	2005	2006	2007E
Sales, \$ mn	137.33	136.61	163.1
EBITDA, \$ mn	13.02	11.18	15.49
Net profit, \$ mn	-0.24	-0.03	3.72
EBITDA margin, %	9.48%	8.18%	9.5%
Net margin, %	Neg.	0.02%	2.28%

Comparative multiples, 2007E

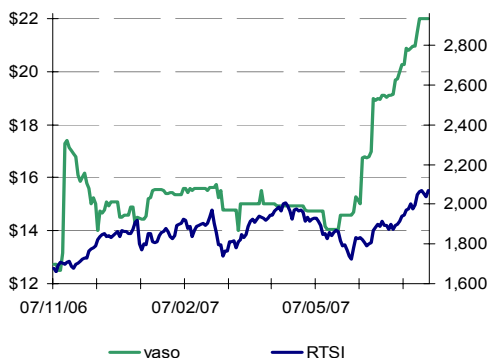
	P/S	EV/EBITDA	P/E
Ilyushin	1.36	9.13	6.18
Irkut	1.20	7.55	6.53
VASO	0.67	21.55	25.22

Peer comparison, 2007E

	Sales, \$ mn	Income, \$ mn
Ilyushin	100.32	22.08
Irkut	835.48	153.53
VASO	139.50	3.72

Source: Company data, Sovlink estimates

VASO – Relative performance



Source: RTS

• VACO's board has finally taken the decision to sell its low-yielding charter carrier to Aeroflot-Don – despite the fact that it had, in the past, helped VACO survive in difficult financial conditions. We see this transaction being beneficial to the company and believe that it will lead to growth in its profit margin.

• In our opinion VACO has immense potential and consider that its plant in Voronezh will become one of the main profit centres for the United Aircraft Building Corporation (UABC). Taking this into consideration, and as part of state support for regional industries, the government will grant various benefits to the company, including exempting it from land taxation and partly from property tax for a period of five years.

• Furthermore, the Ministry of Defence plans to sign a contract with the company for the production of the IL-112V model. We are confident that this contract will materialise, as improving and modernising the national defence system is a top priority for the government.

• At the end of June, the Ilyushin Finance Co (IFC) supported VACO by offering the company a significant portion of the production related to its new production contracts with: Aeroflot for six IL-96-400T cargo aircraft; Atlant-Soyuz airlines for three IL96-400T cargo aircraft; and Polet Airlines for ten An-148 passenger aircraft.

• Due, in part to the lobbying undertaken by Voronezh's governor, VACO is well-placed to become a centre for the production of aircraft kits made from composite materials, which will be used in all of UABC's aircraft production units.

• The management of UABC plans to offer VACO's shareholders the possibility of converting their shares into UABC. Although the conversion ratio has still not been disclosed, we believe that VACO shareholders will be offered a fair deal.

• In our opinion, VACO's 2007E P/S multiple of 0.67 makes the company appear cheap in comparison to both its Russian and foreign peers. As far as its 2007E P/E of 25.22 is concerned, we believe that the company is well placed to improve this indicator in future.

• Based on our DCF model, the support given to VACO by UABC, the company's existing and potential orders, its attractive P/S multiple of 0.67, its enormous growth potential, the potential share swap mentioned above, and the significant discount it offers in comparison to its peers we initiate coverage of VACO by issuing a **BUY** recommendation. According to our DCF model, we have calculated a target price of \$30.5 per ordinary share (with potential upside of 38.5% from the last traded price of \$ 22) and a target price of \$20.7 per preference share (with potential upside of 59.4% from the current mid-market price of \$13).

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Streamlining operations

Recently, VACO has frequently been in the news. We were especially interested by its decision to sell its subsidiary, VACO Airlines. VACO Airlines operates charter flights both internationally and domestically and also flies regular domestic flights from Moscow to Sochi. It operates both passenger and freight flights.

Over the past few years, air-traffic revenues have comprised over a third of VACO's total revenues – 35.56% in 2004, 31.37% in 2005, and 23.19% in 2006. However, the profit margin (from air-traffic revenues) was disappointingly low: 3%-4.18% in 2004, 2.77% in 2005, and 1.55% in 2006. The company's management decided it could not afford to continue supporting such a low-margin business as it dragged down the performance indicators of the company as a whole.

We view management's decision positively, as it will have a beneficial effect on the company's financial indicators. At present, the company's profit margin with respect to aircraft production is 15% and we expect it to grow to 20% by 2015. In 2007, we expect the company's pre-tax profit margin to amount to 3% and expect it to grow to 8.2% by 2015.

Proposed share swap with UABC

UABC's management is planning to propose a share swap of VACO's shares into UABC's shares at the end of this year. They have contracted Ernst & Young to carry out an independent valuation of the proposed share swap transaction. However, the ratio to be applied to the share swap is not known yet and the conversion terms of the share swap transaction remain the main risk for VACO's shareholders.

We cannot comment on the fair value that will be placed on VACO by Ernst & Young. However, we note that last year Deloitte CIS valued the Sukhoi Company at \$2.2 bn, and Irkut Corporation at \$940 mn – despite the fact that market participants (at that time) valued Irkut at approximately \$1.1 bn.

None the less, we believe that the proposed share swap will be determined in a mutually acceptable manner, with the swap ratio satisfying both VACO and UABC shareholders. We base our expectations on the fact that the current shareholder structure at VACO is significantly different from the structure that existed at Irkut Corporation. At that time, Irkut was a private company, whereas the state holds a majority stake in VACO. Furthermore, since the minority shareholders in VACO possess a blocking stake, we hope that they will be offered the opportunity to participate in discussions regarding the terms of the share swap – and, in particular, regarding the proposed share swap ratio.

The Russian aircraft construction sector

During the 90s, the civil aircraft construction sector in Russia was in a severe depression, with sales volume falling more than five times in comparison with 1990. However, conditions have now improved dramatically. The crises of the 90s have been overcome as a result of strong state support. With this in mind, the Ilyushin Finance Company, a leasing company, was established in 1999, in order to finance Russian aircraft constructors from both state and private funds.

At present, the obsolescence of the Russian air fleet is one of the primary difficulties facing the Russian aviation sector. Approximately 60-70% of all aircraft used by Russian companies are close to being scrapped, and in 2010 nearly 50% of the current air fleet in Russia will be discarded. At the moment, domestic aircraft production in Russia cannot meet demand, with the result that Russian aircraft constructors had no alternative to buying foreign companies. However, this has not solved the problem of an ageing fleet, as financial constraints forced them to buy second-hand aircraft.

The government has taken measures to protect the Russian aviation industry from foreign competition by establishing customs duties of 40% of the cost of the aircraft being imported. However, the single most important measure taken by the government concerns the creation of the United Aircraft Building Corporation in February 2006 by presidential decree. The corporation owns the following assets: the–100%; the Aviation-export Company – 15%; the Ilyushin Finance Co – 38%; Aircraft Corporation U.A.



Gagarin (located in Komsomolsk-on-Amur) – 25.5%; the Ilyushin Interstate Aviation Company – 86%; the Sokol Aviation Factory located in Nizhni Novgorod – 38%; the Chkalov Industrial Corporation located in Novosibirsk – 25.5%; Tupolev – 90.8%; and the Financial Leasing Company – 58%. UABC is responsible for developing the Russian aircraft construction industry, concentrating its resources on profitable projects, and on raising its competitive capabilities.

The outdated air fleet, factories, and equipment and the need to modernise them are the main stumbling-blocks faced by Russian aircraft construction industry. By 2015, the government plans to invest at least \$10 bn in the branch through the state defence programme, the federal programme aimed at developing civil aviation, and various specific investments.

UABC has designed a plan for developing the civil aviation industry and has adopted a programme for the production of 431 civilian aircraft between 2008-12: including 15 IL-96 units, 84 TU-204/214 units, 236 SSJ-100 or TU-334 units and 96 AN-148 units.

Most of the orders will be placed at the Voronezh aircraft-construction factory. According to the plan, VACO will produce a total of 262 airplanes and 462 aircraft kits for the SSJ-100 model.

Apart from dominating the domestic market, UABC is also trying to gain market share on foreign markets. According to UABC's chairman, Sergey Ivanov, by 2025 Russia will be the third-largest producer of civil and transport aircraft in the world, and will increase its market share from 1% to 10-12%.

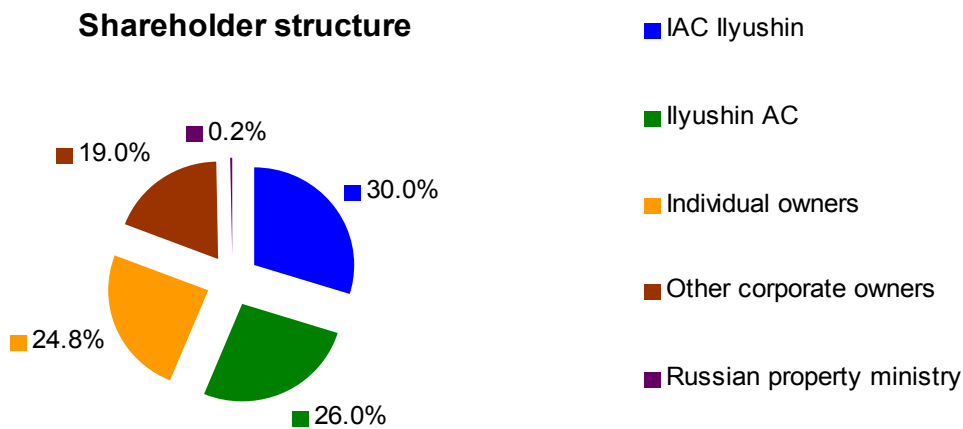
The construction of the Superjet-100 is the first major product (planned by UABC) for foreign markets. By 2023, the market is estimated to be worth 100\$ bn (equivalent to 5,400-5,600 units). Of these, UABC plans to produce at least 700 airplanes in Russia by 2023.

Amongst the Russian aircraft planned for construction, the MS-21 – a mid-range aircraft – is considered the most promising. Airstar, a company located in Ulyanovsk will produce this model, with the first models scheduled for production in 2015.

The company

VACO is located on the base of the Voronezh aircraft factory, which was founded in 1932, and is one of the largest civil aircraft manufacturers in Russia.

VACO is controlled by the government via IAC Ilyushin (which holds a 30% stake in VACO) and AC Ilyushin (which holds a 26% stake). Over 30% of the company belongs to private investors. The general manager of IAC Ilyushin, Victor Livanov, is the chairman of the board of VACO.



Source: Rosstat



During the 90s, the company, together with the rest of the Russian civil aviation industry, was in disarray. Production was grinding to a halt, and the company was barely surviving on income from transportation and maintenance services offered to clients. 2003 turned out to be a critical year for the company. It managed to survive thanks to the Ilyushin Finance Company's order for the production of the IL-96 aircraft for both Russian and foreign clients.

At present, the factory is producing Ilyushin and Antonov models. However, its future plans depend on UABC. Currently, Russian producers are planning to develop new regional jets, with the AN-148 and SSJ (the Sukhoi Superjet) models considered amongst the more promising projects. The first two AN-148 models will be produced this year. VACO is also playing a leading role in the creation of the SSJ. According to the general director, Mihail Shushpanov, from 2008 VACO will produce composite aircraft components – approximately 18% of the SSJ will be produced from such components. Furthermore, there are rumours that the company will expand the production of aircraft components used in the SSJ and that a second SSJ assembly-centre could be built at VACO's factory.

In case VACO is integrated into UABC, it will have the opportunity to produce the IL-112 and the IL-76 could also be modernised on its facilities. The first models would be produced in 2009-10. According to management, in 2009, the company will start producing aircraft kits for the IL-76, a military transport airplane, making up 50% of the entire plane. By 2015, the company plans to produce 76 units.

VACO, jointly with Irkut Corporation, has signed a contract worth \$200 mn to supply components for use in the Airbus. VACO is responsible for one third of the order and will be paid a total of \$67 mn over a period of 10 years starting from 2007. More importantly, the company plans to increase its contract with Airbus from \$6.7 mn to \$100 mn per annum. Furthermore, the forthcoming MAKS-2007 exhibition will provide the company with the opportunity to win contracts from Boeing.

Production

At the end of 2006, UABC's management confirmed VACO's production plan up to 2015. According to the plan, VACO is expected to manufacture a total of 262 airplanes of various types and 462 production kits for the Sukhoi Superjet. The company plans to produce 27 IL-96 planes (three per year between 2007 and 2015); 170 AN-148s (two in 2007, 8 in 2008, 16 in 2009 and 24 airplanes per annum from 2010 onwards); and 65 military cargo airplanes – the IL-112 (two in 2010, 4 in 2011, 8 in 2012, 11 in 2013, 20 in 2014 and 20 in 2015).

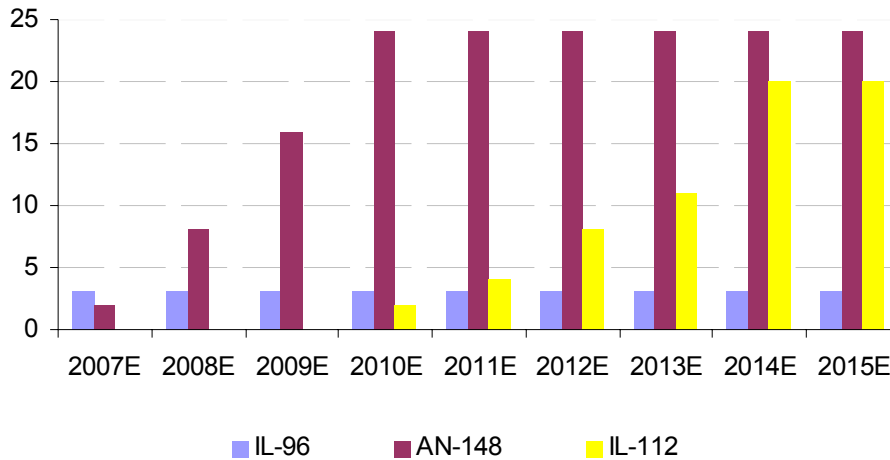
Company production – no. of units

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
IL-96	3	3	3	3	3	3	3	3	3
AN-148	2	8	16	24	24	24	24	24	24
IL-112				2	4	8	11	20	20

Source: Company data



Airplane production - 2007-2015



Source: UABC's data

At the beginning of the year, this production plan appeared unduly optimistic. However, over the past few months, VACO has received large production orders and production volumes at the company are already almost fully-contracted until 2010. As long as UABS continues to support VACO, we are confident that it can achieve its plans outlined above.

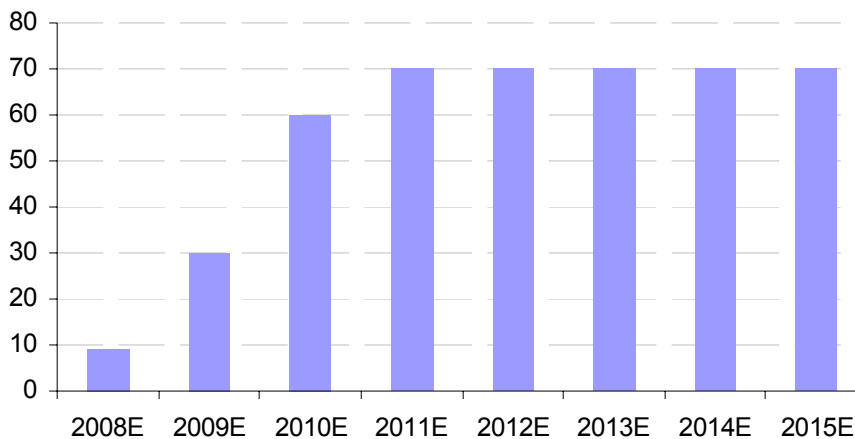
Recently, the company disclosed its plans regarding production of the SSJ model. The company intends to manufacture 9 airplanes in 2008, 30 units in 2009, 60 units in 2010 and from 2011 onwards, 70 units per annum.

SSJ production – no. of units

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
SSJ	9	30	60	70	70	70	70	70

Source: UABC's data

Production of the Superjet-100, no. of units



Source: Company data



Due to their similar performance characteristics, the SSJ has been projected as a potential rival to the AN-148. However, in our view, they cannot be directly compared as they are in different price categories. The catalogue price of the basic SSJ-100B model is \$27.2 mn, whereas the AN-148 costs approximately \$18-20 mn. UABC's strategy is to position the AN-148 for the domestic market, and the SSJ for foreign markets.

Models

Passenger aircraft

Long-haul aircraft

IL-96-300

The IL-96-300 wide-body airplane is designed to carry passengers, luggage and cargo on long-haul routes. (Production contracts for this model saved VACO from bankruptcy in 2003.)

IL-96-400

The IL-96-400 airplane is a modified version of the IL-96-300 and has earned a good reputation amongst the company's clients. The airplane was developed according to the needs and requests of the company's clients, and meets both national and international requirements.

Regional models

AN-148

The AN-148 is designed to carry from 70 to 90 passengers with a maximum flight distance of 5000 km. The company is confident that this model will turn out to be amongst the most profitable aircraft produce by it. The first two aircraft are planned for production this year.

SSJ

The Sukhoi Superjet (previously known as the Russian Regional Jet (RRJ)) is the result of a joint project for the development and construction of a regional SSJ aircraft undertaken jointly by Sukhoi, Yakovlev, Ilyushin and Boeing. There are a total of six models making up the SSJ range of aircraft – including the Superjet 60, Superjet 75 and Superjet 95 – with 60, 75 and 95 seats respectively. Their flight range can be increased as an optional extra. The planes are scheduled to be in commercial use by 2009.

Cargo Aircraft

IL-96-400T

The IL-96-400T is the cargo version of the IL-96-400, and has emerged as a very popular model. At the end of June, the leasing company, Ilyushin Finance Company signed contracts with Aeroflot for the delivery of six IL-96-400T models and with Atlant-Soyuz for three IL-96-400T models.

Military Aircraft

IL-76

The IL-76 is a military cargo plane designed for the transport of military personnel, equipment and cargo. Most of the cargo aircraft used by the military forces in Russia and Ukraine are modified versions of the IL-76. They are also used by the air forces of the CIS, Algeria, India, Jordan, Iran, Iraq, China, Libya, North Korea and Syria.

IL-112V

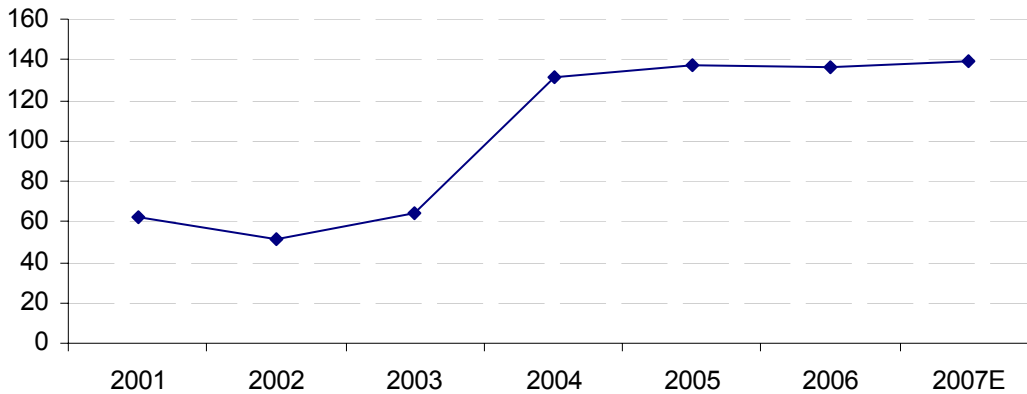
The IL-112V is a light military transport aircraft, which is expected to outperform its competitors in terms of speed and range of flight, as well as its ability to take off from short landing strips (800-1,000 metres in length) including unpaved landing strips. The first models are planned for production in 2010.



Financial position

During the past few years, in spite of revenue growth, VACO remained unprofitable. Only last year, the company managed to earn positive net income of \$34,000. This year we expect net income to grow to \$3.18 mn.

Revenues, \$ mn



Source: Company data, Sovlink estimates

	2004	2005	2006	2007E
Revenues, \$ mn.	131.30	137.33	136.61	139.50
EBITDA, \$ mn.	11.06	13.02	11.18	13.11
Profit before tax, \$ mn.	2.69	3.15	2.39	4.19
Net Income, \$ mn.	-1.10	-0.24	0.03	3.18
EBITDA margin, %	8.42	9.48	8.18	9.40
Profit before tax margin, %	2.05	2.30	1.75	3.00
Net Income margin, %	neg.	neg.	0.02	2.28

Source: Company data, Sovlink estimates

Over the past few years, the company's revenue structure has changed: each year the proportion of its revenues derived from aircraft production has grown. In our opinion, this trend will continue for the foreseeable future with the proportion of the company's revenues from aircraft production (excluding the production of aircraft kits) increasing from 63.1% in 2007 to 69.2% in 2015. If revenues from the manufacturing of aircraft kits are included, the proportion of the company's revenues from aircraft production is expected to increase from 67.9% in 2007 to 95.3% in 2015.

Revenue distribution

	2002	2003	2004	2005	2006	2007E
Aircraft manufacturing			44.2%	45.2%	52.4%	67.9%
Transportation	33.8%	55.1%	36.6%	31.4%	23.2%	10.8%
Maintenance	43.2%	25.1%	0.0%	9.3%	4.4%	3.4%
Other	23.1%	19.8%	19.3%	14.1%	20.1%	17.9%

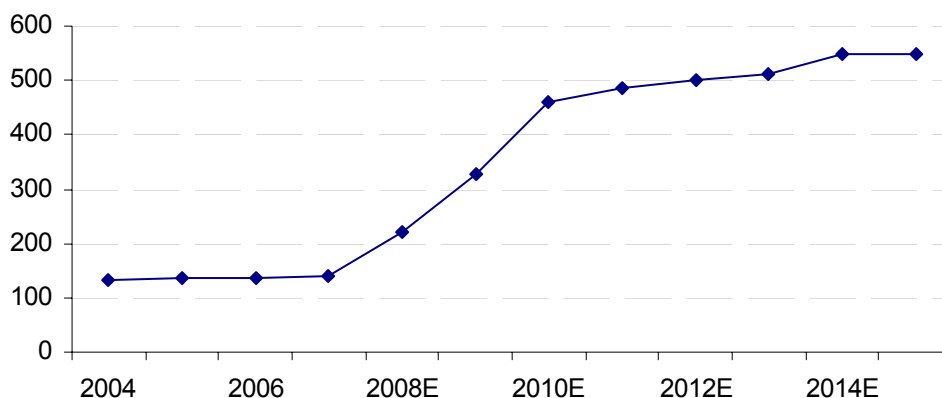
Source: Company data, Sovlink estimates

We expect the company's revenues to rise significantly between 2008-2010, as VACO plans to considerably increase production. Our revenue forecasts for the company are close to the figures projected by



management. VACO plans to quadruple its 2006 revenues by 2015. Our revenue forecast is based on the assumption that UABC will continue to support the company in achieving its targets.

Revenue growth prospects, \$ mn



Source: Company data, Sovlink estimates

In addition to revenue growth, we expect the company's net income margin to grow as well. As we have already mentioned, the sale of VACO's subsidiary airline will play a critical role in improving the company's margins, as it had weighed on the overall net income margin of the company. The company's net income margin will further improve due to an increase in the company's highly profitable aircraft components business.

Taking into consideration government announcements stating their support of the domestic aviation industry, we presume that credit expenses for companies in this sector will be reduced. We expect that the sector will match the profit margin level (of approximately 9%) of international aircraft manufacturers – such as Boeing and EADS – by 2015.

**Peer comparison**

For our peer comparison, we selected both Russian and foreign peers of the company. Weighted average rates were calculated according to capitalisation, and the average sector rate was calculated by assigning a weighting of 70% for Russian peers and 30% for foreign peers. However, the results of our peer comparison need to be adjusted for the significant differences that exist between the Russian and foreign aircraft construction sectors and the lack of accurate information on the debt levels of some of the Russian companies.

Peer comparison, 2007E

Company	Country	Ticker	M.Cap, \$ mn.	P/S	P/E	EV/S	EV/EBITDA
Airbus	France/Germany	EAD	26,723	0.47	124.42	0.44	4.28
BAE Systems	Britain	BA/LN	29,146	1.15	21.96	1.11	7.08
Boeing	USA	BA	80,692	1.27	24.03	1.34	8.04
Bombardier	Canada	BBD.A	11,397	0.73	39.84	0.93	6.55
Embarer	Brazil	ERJ	9,020	1.95	20.24	2.39	9.30
Saab	Sweden	SAAB	3,189	0.94	16.47	3.43	6.36
Weighted average multiples of foreign peers				1.11	41.16	1.22	7.17
Ilyushin AC	Russia	AKIL	136	1.36	6.18	2.35	9.13
Tupolev	Russia	TUPL	296	5.72	119.67	-	-
Sukhoi	Russia	OKBS	115	0.69	10.88	-	-
Irkut	Russia	IRKT	1,002	1.20	6.53	3.10	7.55
Weighted average multiples of Russian peers				2.04	28.44	3.01	7.74
Sector average				1.76	32.26	2.47	7.57
VACO	Russia	VASO	93.83	0.67	25.22	2.39	21.55
Upside				161.7%	27.9%	3.4%	-64.9%
Weighting, %				30%	40%	10%	20%

Source: Company data, Bloomberg, Sovlink estimates

Weighted upside	47%
Fair Market capitalisation, \$ mn.	137.95
Preference share discount	32% ¹
Last traded price of ordinary shares, \$	22
Current mid-market price of preference shares, \$	13
Fair price of ordinary shares, \$	29.0
Fair price of preference shares, \$	19.8
Upside of ordinary shares	32.0%
Upside of preference shares	51.9%

Source: Company data, Bloomberg, Sovlink estimates

¹ We have applied a discount of approximately 32% that had existed between the preference and ordinary shares for most of the year.



DCF valuation

Based on our DCF model we have calculated a target price of \$30.5 per ordinary VACO share and \$20.7 per preference share. Our final target price is based exclusively on our DCF model as we consider it to be more accurate than peer evaluation – due to the significant differences that exist between the Russian and foreign aircraft construction sectors and also due to the difficulty of calculating the debt level of some of VACO's Russian peers.

DCF model

In our DCF model we used the following assumptions:

1. We assume that between 2008-10 the revenues of the company will grow rapidly as the company plans to significantly increase its production during this period. Production will consist of the IL-96 model (which is already being produced) and the new AN-148 and IL-112V models. We have assumed that revenues from the contract with Airbus will remain stable at current levels. Finally, revenues forecast from the production of aircraft kits for the SSJ were based on the company's production plan for the SSJ model.

	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Revenue growth – y-o-y	-0.5%	2.1%	59.2%	48.3%	39.5%	5.9%	3.2%	2.3%	6.9%	0.0%
PBT Margin – y-o-y	-24.1%	74.9%	100.1%	78.6%	63.1%	21.2%	16.3%	13.8%	17.8%	9.1%

Source: Company data, Sovlink estimates

2. Based on statements of government officials and UABC management that – by 2025 – Russia will be the third-largest producer of civil and cargo aircraft in the world and will reach its production capacities, we estimate that its profit before tax margin will be comparable to the largest international aircraft manufacturers.

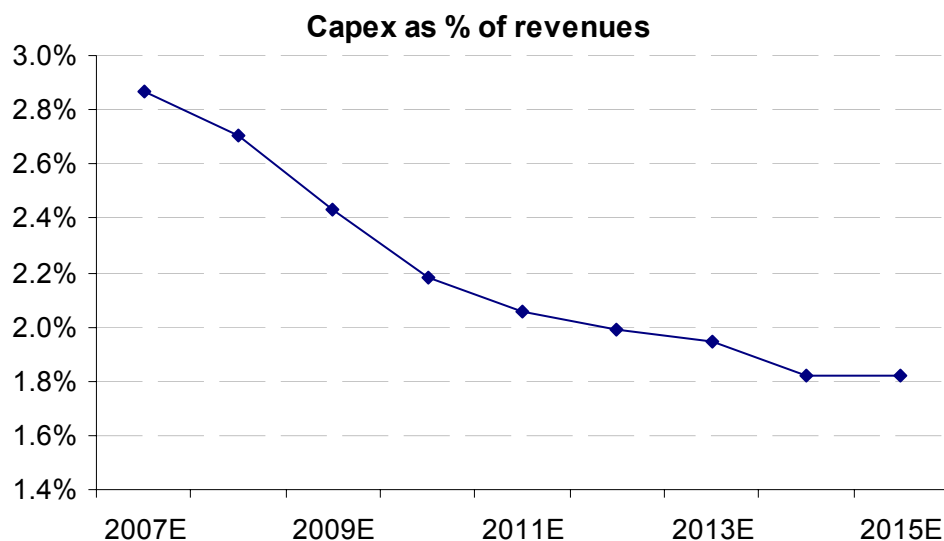
	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
PBT margin y-o-y	1.8%	3.0%	3.7%	4.4%	5.2%	5.9%	6.7%	7.5%	8.3%	9.2%

Source: Company data, Sovlink estimates

3. We presume that capex will grow at a faster rate until 2011, as the company plans to launch all its new production facilities between 2007-2011. Subsequently, we expect capex to be approximately equal to its Amortisation & Depreciation levels. We presume that the company will use debt financing as well as its profits (in equal proportions) to finance its capex and working capital expenses.

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Capex. \$ mn.	4	6	8	10	10	10	10	10	10
Capex as % of revenues	2.9	2.7	2.4	2.2	2.1	2.0	2.0	1.8	1.8

Source: Company data, Sovlink estimates



Source: Company data, Sovlink estimates

4. We apply a discount rate of 12.16% to the company's cash flows

Risk free (Russian 30-year government Eurobond yield)	6.10%
Market risk premium	20%
Adjusted Beta	1.31
Cost of Equity (CAPM)	24.31%
Cost of Debt	12%
Cost of Debt adjusted for tax	9.12%
Proportion of debt in book value	80%
Proportion of equity in book value	20%
WACC	12.16%

Source: Company data, Sovlink estimates

Our cash flow forecast is based on the assumptions outlined above:

Cash flow, \$ mn

	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
NI.	0.03	3.18	6.24	11.06	18.01	21.87	25.55	29.27	34.73	38.22
Amortisation & Depreciation.	0.67	0.96	1.98	3.59	5.92	7.24	8.48	9.70	11.48	11.77
Change in working capital	100.42	0.57	16.51	21.45	25.98	5.40	3.12	2.34	7.15	-0.04
Capex	7.04	4.00	6.00	8.00	10.00	10.00	10.00	10.00	10.00	10.00
Preference share dividends	0.00	0.32	0.62	1.11	1.80	2.19	2.55	2.93	3.47	3.82
Changes in liabilities	108.14	2.28	11.25	14.72	17.99	7.70	6.56	6.17	8.58	4.98
Free cash flow	1.39	1.54	-3.66	-1.18	4.14	19.23	24.91	29.88	34.16	41.18
Discounted cash flow		1.37	-2.91	-0.84	2.62	10.83	12.52	13.38	13.64	14.66

Source: Company data, Sovlink estimates



WACC	12.16%
Terminal growth rate	3%
NPV of forecast years, \$ mn.	65.3
NPV of terminal value, \$ mn.	164.9
Fair EV, \$ mn.	230.2
Net Debt, \$ mn.	85.47
Fair M.Cap, \$ mn.	144.7
Preference share discount	32% ²
Last traded price of ordinary shares, \$	22.0
Current mid-market price of preference shares, \$	13.0
Target price of ordinary shares, \$	30.5
Target price of preference shares, \$	20.7
Upside of ordinary shares	38.5%
Upside of preference shares	59.4%

Source: Company data, Sovlink estimates

Based on our DCF model, we have calculated a target price of \$30.5 per ordinary share (with potential upside of 38.5% from the last traded price of \$22) and \$20.7 per preference share (with potential upside of 59.4% from the current mid-market price of \$13). Accordingly, we initiate coverage of VACO by issuing a **BUY** recommendation.

² See footnote 1 on page 10.



SOVLINK

YOUR FIRST CALL – FOR THE SECOND TIER

July 25, 2007

STOCK RATING POLICY

STRONG BUY:	Target price offers upside of over 100%; confidence level – high
STRONG BUY (SPEC):	Target price offers upside of over 100%; confidence level – low
BUY:	Target price offers upside of between 25% and 100%; confidence level – high
BUY (SPEC):	Target price offers upside of between 25% and 100%; confidence level – low
HOLD:	Target price offers upside of less than 25%
SELL:	Target price at or below current price levels

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