

Research

February 18, 2010

**Oil and gas
Russia**

Rosneft

Focus on internal growth

Recommendation: BUY

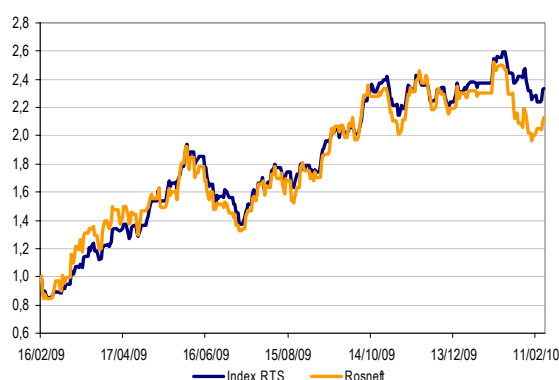
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Bullet moments

- ◆ We update our financial model of Rosneft basing on the output results of the company by US GAAP for 2009, plans of the close prospect and macroeconomic corrections.
- ◆ We should outline that 2009 results seem to be indefinite. On one hand, we expected more remarkable estimates of the net profit (about 2 bn USD in 4Q 2009), but the company showed profit at the level of 1.67 bn USD. On the other hand, the operating results of 2009 indicate the gradual development of the company. In particular, oil extraction grew by 2.6% and formed 79.4 mn barrels, gas extraction – by 2.4% to 12.68 bn cubic meters, output of oil products – by 1.3% to 47.06 mn tons. As a result if the current conjuncture remains the same at the foreign markets we might be expecting better financial estimates from the company by the results of 2010.
- ◆ In 2009 Rosneft made serious process stock for organic growth on both: extraction and processing. In particular, late summer the company launched the largest Vankorskoe deposit with target extraction level at the plate (starting from 2014) of 25.5 mn tons. In 2010 extraction at Vankor is expected to be at the level of 11.5-13.5mn tons. As for processing, the company intends to modernize its objects as much as possible. Growth of capital investments to processing by 50-60% is planned in 2010 to 1.-1.75 bn USD, which will allow increasing the level of assets being ready to fit the new technical regulations for oil-products. The sum total volume of capital investments is planned by Rosneft to form 9-10 bn USD.
- ◆ We would also like to note stability concerning sources of capital. By the end of 2009 Rosneft gained 10 bn USD of long-term credits from Chinese banks, 5 bn USD will become available in 2010.
- ◆ Currently the quotes of Rosneft's shares are under pressure due to uncertainty on keeping zero rate for oil extraction at East Siberian deposits. Despite the positive view of the company on the given matter, the final decision has not been made yet. The government is to decide the matter in late February – early March. However we suppose the duties will remain zero, being supported by both – intention of the state to stimulate the extraction in East Siberia, and lobbying opportunities of the oil companies.
- ◆ We accounted all the results of 2009, updated our view over the macroeconomics and corrected WACC towards reduction under the impact of external factors. The last-mentioned has affected the growth of target price quite significantly.
- ◆ After having revised the model of Rosneft, we assign a new fair estimation of the company's share, which forms 10.37 USD, instead of 8.680 USD we forecasted earlier (growth by 19.5%). Due to the new estimation provides significant growth potential, we are upping our recommendation for the shares of Rosneft from HOLD to BUY.

Principal estimates

Company's shares dynamics vs RTS



Company profile

| | |
|--|----------------|
| RTS ticker | ROSN |
| Last price, USD | 7,65 |
| Min / max price for 52 weeks, USD | 3,02 / 9,25 |
| Target price (end of the year), USD | 10,375 |
| Upside (downside), % | 35,62 |
| Shares outstanding | 10 598 177 817 |
| Market capitalization, mn USD | 81 076 |
| EV, mn USD | 100 078 |

Financial highlights (GAAP)

| | 2008 | 2009 | 2010(F) |
|----------------------|--------|--------|---------|
| Sales, mn USD | 68 991 | 46 826 | 59 385 |
| EBITDA, mn USD | 16 988 | 13 478 | 17 055 |
| Net profit, mn USD | 11 120 | 6 514 | 8 921 |
| EBITDA margin, % | 24,6 | 28,8 | 28,7 |
| Net profit margin, % | 16,1 | 13,9 | 15,0 |
| ROIC, % | 20,3 | 11,5 | 15,4 |

Multipliers

| | 2008 | 2009 | 2010(F) |
|-----------|------|------|---------|
| P/E | 7,3 | 12,4 | 9,1 |
| P/S | 1,18 | 1,73 | 1,37 |
| P/BV | 2,08 | 1,81 | 1,52 |
| EV/S | 1,45 | 2,14 | 1,69 |
| EV/EBITDA | 5,9 | 7,4 | 5,9 |
| EV/IC | 1,6 | 1,6 | 1,4 |
| ROIC/WACC | 1,7 | 0,9 | 1,3 |

Financial model

Rosneft's oil extraction and sales of oil and petrochemicals, 2007-2018, mn tons

| | 2007 | 2008 | 2009 | 2010(F) | 2011(F) | 2012(F) | 2013(F) | 2014(F) | 2015(F) | 2016(F) | 2017(F) | 2018(F) |
|---|-------|-------|-------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Oil extraction | 101,0 | 105,9 | 108,9 | 113,8 | 118,3 | 121,2 | 124,3 | 130,5 | 137,0 | 143,8 | 150,3 | 154,1 |
| Gas extraction, bn cb m | 15,3 | 12,4 | 12,7 | 12,7 | 14,6 | 16,8 | 19,7 | 23,6 | 28,4 | 33,3 | 38,3 | 38,9 |
| Total crude oil refining | 40,2 | 49,6 | 49,8 | 50,3 | 52,3 | 64,0 | 65,6 | 68,9 | 72,4 | 78,0 | 83,2 | 83,2 |
| Total production of petroleum products | 38,3 | 46,4 | 47,1 | 48,4 | 50,3 | 61,6 | 63,1 | 66,3 | 69,6 | 75,0 | 80,0 | 80,0 |
| Crude oil purchases | 4,0 | 7,7 | 7,9 | 7,8 | 8,0 | 8,2 | 8,3 | 8,6 | 9,0 | 9,3 | 9,6 | 9,8 |
| Petroleum products purchase | 0,9 | 0,8 | 0,7 | 0,7 | 0,8 | 0,9 | 1,0 | 1,0 | 1,0 | 1,1 | 1,2 | 1,2 |
| Gas purchase, bn cb m | 1,1 | 0,7 | 0,6 | 0,5 | 0,5 | 0,6 | 0,6 | 0,6 | 0,7 | 0,7 | 0,9 | 0,9 |
| Oil sales | | | | | | | | | | | | |
| Export and sales at international markets | 52,8 | 49,1 | 52,1 | 55,9 | 58,5 | 54,0 | 55,9 | 59,1 | 64,4 | 67,6 | 69,0 | 72,5 |
| CIS market exports and sales | 6,3 | 5,0 | 4,2 | 4,5 | 4,7 | 4,3 | 4,5 | 4,7 | 5,2 | 5,4 | 5,5 | 5,8 |
| Domestic market sales | 2,0 | 0,5 | 0,7 | 0,7 | 0,8 | 0,7 | 0,7 | 0,8 | 0,8 | 0,9 | 0,9 | 0,9 |
| Petroleum products sales | | | | | | | | | | | | |
| Export and sales at international markets | 18,5 | 24,9 | 27,2 | 27,2 | 27,3 | 32,9 | 33,6 | 35,3 | 37,1 | 39,9 | 42,6 | 42,6 |
| CIS market sales | 0,7 | 1,1 | 0,4 | 0,8 | 0,8 | 0,8 | 1,0 | 1,0 | 1,0 | 1,1 | 1,2 | 1,2 |
| Domestic market sales | 18,3 | 19,8 | 17,6 | 19,4 | 21,2 | 26,6 | 27,2 | 28,6 | 30,0 | 32,4 | 34,5 | 34,5 |
| Sales of bunker fuel to end-users | - | - | 1,2 | 1,3 | 1,3 | 1,6 | 1,6 | 1,7 | 1,8 | 2,0 | 2,1 | 2,1 |

Source: company's data; Estimation: Veles Capital

Sales price of oil and oil products forecast for Rosneft, 2007-2018, USD per ton

| | 2007 | 2008 | 2009 | 2010(F) | 2011(F) | 2012(F) | 2013(F) | 2014(F) | 2015(F) | 2016(F) | 2017(F) | 2018(F) |
|--|-------|-------|-------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| External market | | | | | | | | | | | | |
| Brent oil price, USD/bbl. | 72,8 | 97,7 | 62,0 | 73,2 | 75,7 | 78,5 | 82,6 | 85,0 | 89,3 | 91,5 | 91,0 | 91,0 |
| Urals oil price (CIF Mediterranean region), USD/bbl. | 69,5 | 94,8 | 61,3 | 72,4 | 74,9 | 77,6 | 81,7 | 84,1 | 88,3 | 90,5 | 90,0 | 90,0 |
| Oil sales price (IM) | 508,4 | 681,0 | 441,6 | 521,7 | 539,4 | 559,1 | 588,9 | 606,0 | 636,2 | 652,1 | 648,5 | 648,5 |
| Oil sales price (CIS) | 351,8 | 415,1 | 314,1 | 371,1 | 383,7 | 397,7 | 418,9 | 431,0 | 452,6 | 463,8 | 461,3 | 461,3 |
| Petroleum products sales price, (IM) | 507,0 | 649,4 | 428,1 | 515,8 | 544,0 | 592,1 | 623,6 | 641,7 | 673,8 | 690,6 | 686,7 | 686,7 |
| Petroleum products sales price, (CIS) | 482,9 | 707,6 | 400,0 | 482,0 | 508,3 | 553,3 | 582,7 | 599,6 | 629,6 | 645,3 | 641,7 | 641,7 |
| Internal market | | | | | | | | | | | | |
| Oil sales price | 267,3 | 290,6 | 197,1 | 232,8 | 240,7 | 249,5 | 262,8 | 270,4 | 283,9 | 291,0 | 289,4 | 289,4 |
| Petroleum products sales price | 474,4 | 714,4 | 471,8 | 568,5 | 599,6 | 652,6 | 704,6 | 743,1 | 819,2 | 839,6 | 835,0 | 835,0 |
| Sales price of bunker fuel to end-users | - | - | 355,0 | 419,4 | 433,6 | 449,5 | 473,4 | 487,2 | 511,5 | 524,2 | 521,3 | 521,3 |
| Gas sales price, USD/th cb m | 29,6 | 38,8 | 33,4 | 47,3 | 63,7 | 78,2 | 100,5 | 127,4 | 156,8 | 162,9 | 162,4 | 161,1 |

Source: company's data; Estimation: Veles Capital

Sales of products by Rosneft, 2007-2018, mn USD

| | 2007 | 2008 | 2009 | 2010(F) | 2011(F) | 2012(F) | 2013(F) | 2014(F) | 2015(F) | 2016(F) | 2017(F) | 2018(F) |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|
| Oil | | | | | | | | | | | | |
| Export, including CIS | 29 042 | 35 547 | 24 332 | 30 841 | 33 339 | 31 911 | 34 772 | 37 886 | 43 287 | 46 566 | 47 292 | 49 695 |
| Domestic market sales | 521 | 154 | 134 | 169 | 183 | 175 | 191 | 208 | 238 | 256 | 260 | 273 |
| Petroleum products | | | | | | | | | | | | |
| Export, including CIS | 9 702 | 16 906 | 11 766 | 14 400 | 15 240 | 19 921 | 21 501 | 23 232 | 25 612 | 28 295 | 30 015 | 30 015 |
| Domestic market sales | 8 672 | 14 160 | 8 304 | 11 035 | 12 703 | 17 343 | 19 191 | 21 253 | 24 601 | 27 179 | 28 831 | 28 831 |
| Sum | 47 937 | 66 767 | 44 536 | 56 445 | 61 464 | 69 350 | 75 654 | 82 579 | 93 738 | 102 297 | 106 398 | 108 814 |
| Gas | 339 | 401 | 354 | 509 | 800 | 1 146 | 1 734 | 2 646 | 3 919 | 4 801 | 5 502 | 5 541 |
| Sales of bunker fuel to end-users | - | - | 426 | 529 | 568 | 721 | 778 | 841 | 927 | 1 024 | 1 086 | 1 086 |
| Other types of products and services | 940 | 1 823 | 1 510 | 1 902 | 2 074 | 2 394 | 2 620 | 2 876 | 3 274 | 3 595 | 3 766 | 3 834 |
| Sales, Total | 49 216 | 68 991 | 46 826 | 59 385 | 64 906 | 73 610 | 80 786 | 88 941 | 101 858 | 111 716 | 116 751 | 119 275 |

Source: company's data; Estimation: Veles Capital

Rosneft's balance sheets, 2007-2018, mn USD

| | 2007 | 2008 | 2009 | 2010(F) | 2011(F) | 2012(F) | 2013(F) | 2014(F) | 2015(F) | 2016(F) | 2017(F) | 2018(F) |
|--|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Assets | | | | | | | | | | | | |
| Current assets | 14 968 | 12 807 | 15 169 | 17 867 | 21 227 | 26 969 | 34 086 | 42 185 | 54 303 | 68 023 | 81 012 | 92 818 |
| Inventories | 1 926 | 1 427 | 1 886 | 2 345 | 2 593 | 2 836 | 3 156 | 3 479 | 3 924 | 4 301 | 4 574 | 4 786 |
| Cash and cash equivalents | 998 | 1 369 | 1 997 | 1 178 | 1 288 | 1 461 | 1 603 | 1 765 | 2 021 | 2 217 | 2 317 | 2 367 |
| Restricted cash | 34 | 4 | 20 | 25 | 28 | 31 | 35 | 38 | 44 | 48 | 50 | 51 |
| Short-term investments | 338 | 1 710 | 2 508 | 3 179 | 5 133 | 8 816 | 14 119 | 20 076 | 29 029 | 40 766 | 52 281 | 63 283 |
| Accounts receivable, net of allowance | 9 785 | 6 299 | 6 458 | 8 223 | 8 998 | 10 209 | 11 206 | 12 458 | 14 282 | 15 204 | 16 056 | 16 473 |
| Deferred tax assets | 156 | 152 | 174 | 221 | 241 | 274 | 300 | 330 | 378 | 415 | 434 | 443 |
| Prepayments and other current assets | 1 731 | 1 846 | 2 126 | 2 696 | 2 947 | 3 342 | 3 668 | 4 038 | 4 625 | 5 072 | 5 301 | 5 415 |
| Non-current assets | 59 837 | 64 706 | 68 063 | 73 198 | 77 986 | 81 670 | 86 002 | 91 178 | 96 122 | 100 835 | 105 312 | 109 501 |
| Long-term investments | 2 646 | 2 695 | 3 744 | 3 866 | 3 999 | 4 142 | 4 295 | 4 459 | 4 632 | 4 814 | 5 006 | 5 206 |
| Long-term bank loans granted | 260 | 326 | 326 | 413 | 452 | 512 | 562 | 619 | 709 | 778 | 813 | 830 |
| Goodwill | 3 789 | 4 507 | 4 507 | 4 222 | 3 957 | 3 701 | 3 463 | 3 240 | 3 022 | 2 820 | 2 640 | 2 484 |
| Property, plant and equipment, net | 51 703 | 55 204 | 57 704 | 62 816 | 67 613 | 71 287 | 75 593 | 80 702 | 85 513 | 90 101 | 94 472 | 98 545 |
| Intangible assets, net | 285 | 679 | 811 | 876 | 946 | 985 | 1 027 | 1 075 | 1 127 | 1 178 | 1 224 | 1 272 |
| Deferred tax assets | 57 | 118 | 125 | 159 | 173 | 196 | 216 | 237 | 272 | 298 | 312 | 318 |
| Other non-current assets | 1 097 | 1 177 | 846 | 846 | 846 | 846 | 846 | 846 | 846 | 846 | 846 | 846 |
| Total assets | 74 805 | 77 513 | 83 232 | 91 065 | 99 213 | 108 638 | 120 088 | 133 363 | 150 425 | 168 858 | 186 324 | 202 319 |
| Liabilities | | | | | | | | | | | | |
| Current liabilities | 22 124 | 18 697 | 13 443 | 11 811 | 10 904 | 10 901 | 11 063 | 11 575 | 12 811 | 13 785 | 14 250 | 14 461 |
| Accounts payable and accrued liabilities | 4 035 | 3 096 | 3 697 | 4 689 | 5 124 | 5 812 | 6 378 | 7 022 | 8 042 | 8 820 | 9 218 | 9 417 |
| Short-term loans and current portion of long-term debt | 15 550 | 14 084 | 7 838 | 4 703 | 3 135 | 2 090 | 1 393 | 929 | 619 | 413 | 275 | 183 |
| Income and other tax liabilities | 2 346 | 1 094 | 1 627 | 2 063 | 2 255 | 2 558 | 2 807 | 3 090 | 3 539 | 3 882 | 4 057 | 4 144 |
| Deferred tax liabilities | 118 | 115 | 77 | 98 | 107 | 121 | 133 | 146 | 167 | 184 | 192 | 196 |
| Other current liabilities | 75 | 308 | 204 | 259 | 283 | 321 | 352 | 387 | 444 | 487 | 509 | 520 |
| Non-current liabilities | 23 964 | 19 218 | 24 252 | 25 275 | 25 790 | 23 761 | 23 114 | 22 508 | 21 838 | 21 173 | 20 513 | 19 856 |
| Asset retirement obligations | 2 130 | 1 896 | 1 772 | 1 772 | 1 772 | 1 772 | 1 772 | 1 772 | 1 772 | 1 772 | 1 772 | 1 772 |
| Long-term debt | 11 723 | 10 081 | 15 669 | 16 782 | 17 362 | 15 382 | 14 772 | 14 192 | 13 542 | 12 892 | 12 242 | 11 592 |
| Deferred tax liabilities | 7 626 | 5 371 | 5 197 | 5 107 | 5 042 | 4 993 | 4 957 | 4 930 | 4 910 | 4 895 | 4 885 | 4 878 |
| Other non-current liabilities | 2 485 | 1 870 | 1 614 | 1 614 | 1 614 | 1 614 | 1 614 | 1 614 | 1 614 | 1 614 | 1 614 | 1 614 |
| Noncontrolling interests | 277 | 695 | 706 | 712 | 719 | 727 | 736 | 745 | 756 | 768 | 781 | 793 |
| Total shareholders' equity | 28 440 | 38 903 | 44 831 | 53 267 | 61 800 | 73 250 | 85 174 | 98 535 | 115 020 | 133 132 | 150 781 | 167 210 |
| Common stock | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 |
| Treasury shares | (7 521) | (7 521) | (7 525) | (7 525) | (7 525) | (7 525) | (7 525) | (7 525) | (7 525) | (7 525) | (7 525) | (7 525) |
| Additional paid-in capital | 13 075 | 13 108 | 13 108 | 13 108 | 13 108 | 13 108 | 13 108 | 13 108 | 13 108 | 13 108 | 13 108 | 13 108 |
| Other comprehensive loss | 0 | (40) | (22) | (22) | (22) | (22) | (22) | (22) | (22) | (22) | (22) | (22) |
| Retained earnings | 22 866 | 33 336 | 39 250 | 47 686 | 56 219 | 67 669 | 79 593 | 92 954 | 109 439 | 127 551 | 145 200 | 161 629 |
| Total liabilities | 74 805 | 77 513 | 83 232 | 91 065 | 99 213 | 108 638 | 120 088 | 133 363 | 150 425 | 168 858 | 186 324 | 202 319 |

Source: company's data; Estimation: Veles Capital

Financial model of Rosneft, 2007-2018, mn USD

| | 2007 | 2008 | 2009 | 2010(F) | 2011(F) | 2012(F) | 2013(F) | 2014(F) | 2015(F) | 2016(F) | 2017(F) | 2018(F) |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|
| Revenues | 49 216 | 68 991 | 46 826 | 59 385 | 64 906 | 73 610 | 80 786 | 88 941 | 101 858 | 111 716 | 116 751 | 119 275 |
| Production and operating expenses | 3 870 | 4 572 | 4 024 | 4 383 | 4 939 | 5 972 | 6 740 | 7 749 | 8 861 | 10 225 | 11 663 | 12 642 |
| Taxes other than income tax | 10 890 | 14 810 | 8 061 | 10 487 | 11 612 | 12 481 | 14 244 | 15 442 | 17 159 | 18 512 | 19 647 | 20 107 |
| Export customs duty | 13 032 | 22 006 | 12 131 | 16 129 | 17 514 | 18 595 | 20 675 | 22 666 | 26 181 | 28 626 | 29 336 | 30 467 |
| Cost of purchased oil, gas and petroleum products | 1 610 | 2 942 | 1 890 | 2 243 | 2 413 | 2 681 | 2 909 | 3 164 | 3 534 | 3 805 | 3 967 | 4 009 |
| Pipeline tariffs and transportation costs | 4 226 | 5 673 | 5 414 | 6 828 | 7 913 | 8 841 | 9 833 | 11 099 | 12 411 | 13 748 | 15 157 | 16 313 |
| General and administrative expenses | 1 341 | 1 632 | 1 416 | 1 796 | 1 963 | 2 226 | 2 443 | 2 690 | 3 080 | 3 378 | 3 531 | 3 607 |
| Other | 240 | 368 | 412 | 465 | 519 | 570 | 623 | 691 | 760 | 835 | 909 | 970 |
| EBITDA | 14 007 | 16 988 | 13 478 | 17 055 | 18 033 | 22 243 | 23 320 | 25 441 | 29 872 | 32 586 | 32 542 | 31 161 |
| <i>EBITDA margin, %</i> | <i>28,5</i> | <i>24,6</i> | <i>28,8</i> | <i>28,7</i> | <i>27,8</i> | <i>30,2</i> | <i>28,9</i> | <i>28,6</i> | <i>29,3</i> | <i>29,2</i> | <i>27,9</i> | <i>26,1</i> |
| Depreciation, depletion and amortization | 3 286 | 3 983 | 4 350 | 4 547 | 4 950 | 5 328 | 5 617 | 6 047 | 6 456 | 6 841 | 7 208 | 7 558 |
| EBIT | 10 721 | 13 005 | 9 128 | 12 508 | 13 083 | 16 915 | 17 702 | 19 393 | 23 416 | 25 745 | 25 334 | 23 603 |
| <i>EBIT margin, %</i> | <i>21,8</i> | <i>18,9</i> | <i>19,5</i> | <i>21,1</i> | <i>20,2</i> | <i>23,0</i> | <i>21,9</i> | <i>21,8</i> | <i>23,0</i> | <i>23,0</i> | <i>21,7</i> | <i>19,8</i> |
| Non-operating income/expense | 7 068 | 114 | (609) | (1 278) | (1 435) | (1 445) | (1 135) | (907) | (806) | (673) | (597) | (433) |
| Income before provision for income taxes | 17 789 | 13 119 | 8 519 | 11 230 | 11 648 | 15 470 | 16 567 | 18 486 | 22 610 | 25 072 | 24 737 | 23 170 |
| <i>Income before taxes margin, %</i> | <i>36,1</i> | <i>19,0</i> | <i>18,2</i> | <i>18,9</i> | <i>17,9</i> | <i>21,0</i> | <i>20,5</i> | <i>20,8</i> | <i>22,2</i> | <i>22,4</i> | <i>21,2</i> | <i>19,4</i> |
| Income tax | 4 906 | 1 904 | 2 000 | 2 302 | 2 388 | 3 171 | 3 396 | 3 790 | 4 635 | 5 140 | 5 071 | 4 750 |
| Non-controlling interest | 21 | 95 | 5 | 6 | 7 | 8 | 9 | 9 | 11 | 12 | 12 | 13 |
| Net income | 12 862 | 11 120 | 6 514 | 8 921 | 9 254 | 12 291 | 13 162 | 14 687 | 17 964 | 19 920 | 19 653 | 18 407 |
| <i>Net income margin, %</i> | <i>26,1</i> | <i>16,1</i> | <i>13,9</i> | <i>15,0</i> | <i>14,3</i> | <i>16,7</i> | <i>16,3</i> | <i>16,5</i> | <i>17,6</i> | <i>17,8</i> | <i>16,8</i> | <i>15,4</i> |

Source: company's data; Estimation: Veles Capital

Rosneft's consolidated statements of cash flows, 2007-2018, mn USD

| | 2007 | 2008 | 2009 | 2010(F) | 2011(F) | 2012(F) | 2013(F) | 2014(F) | 2015(F) | 2016(F) | 2017(F) | 2018(F) |
|--|-----------------|-----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Operating activities | | | | | | | | | | | | |
| Net income | 12 862 | 11 120 | 6 519 | 8 921 | 9 254 | 12 291 | 13 162 | 14 687 | 17 964 | 19 920 | 19 653 | 18 407 |
| Depreciation, depletion and amortization | 3 286 | 3 983 | 4 350 | 4 547 | 4 950 | 5 328 | 5 617 | 6 047 | 6 456 | 6 841 | 7 208 | 7 558 |
| Other corrections, net | 3 867 | (2 327) | (761) | (212) | (198) | (192) | (190) | (190) | (193) | (197) | (202) | (207) |
| Operating activities cash flows before changes in working capital | 20 015 | 12 776 | 10 108 | 13 257 | 14 006 | 17 426 | 18 590 | 20 544 | 24 228 | 26 564 | 26 660 | 25 758 |
| Changes of turnover assets | (5 563) | 2 826 | (925) | (2 967) | (1 349) | (1 969) | (1 741) | (2 058) | (3 033) | (1 882) | (1 423) | (779) |
| Changes of turnover liabilities | 2 658 | (1 209) | 1 136 | 1 503 | 661 | 1 042 | 859 | 976 | 1 546 | 1 180 | 603 | 302 |
| Net cash provided by operating activities | 17 110 | 14 393 | 10 319 | 11 793 | 13 317 | 16 499 | 17 708 | 19 462 | 22 740 | 25 863 | 25 840 | 25 281 |
| Investing activities | | | | | | | | | | | | |
| Capital expenditures | (6 240) | (8 732) | (7 252) | (9 465) | (9 536) | (8 886) | (9 798) | (11 013) | (11 109) | (11 278) | (11 440) | (11 487) |
| Acquisition of licences | (90) | (47) | (96) | (259) | (282) | (155) | (168) | (192) | (211) | (201) | (185) | (191) |
| (Purchase)/sale of short-term and long-term financial investments | 55 | (580) | (2 195) | (671) | (1 954) | (3 683) | (5 303) | (5 958) | (8 953) | (11 737) | (11 515) | (11 002) |
| Other, (purchase)/sale of investments | (13 820) | (1 463) | 755 | 285 | 265 | 256 | 238 | 223 | 217 | 202 | 180 | 156 |
| Net cash used in investing activities | (20 095) | (10 822) | (8 788) | (10 110) | (11 506) | (12 468) | (15 029) | (16 939) | (20 056) | (23 014) | (22 960) | (22 524) |
| Financing activities | | | | | | | | | | | | |
| Proceeds from short-term debt | 14 391 | 7 090 | 1 029 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Repayment of short-term debt | (3 731) | (13 393) | (7 180) | (3 135) | (1 568) | (1 045) | (697) | (464) | (310) | (206) | (138) | (92) |
| Proceeds from long-term debt | 3 435 | 6 885 | 11 844 | 5 643 | 3 250 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Repayment of long-term debt | (2 598) | (3 118) | (5 939) | (4 530) | (2 670) | (1 980) | (610) | (580) | (650) | (650) | (650) | (650) |
| Cash paid for acquisition of treasury shares | (7 521) | 0 | (5) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividends paid to shareholders | (521) | (516) | (622) | (479) | (714) | (833) | (1 229) | (1 316) | (1 469) | (1 796) | (1 992) | (1 965) |
| Dividends paid to minority shareholders in subsidiaries | (15) | (22) | (4) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net cash provided by (used in) financing activities | 3 440 | (3 074) | (877) | (2 502) | (1 701) | (3 858) | (2 536) | (2 361) | (2 428) | (2 653) | (2 780) | (2 707) |
| Net change in cash and cash equivalents | 455 | 497 | 654 | (819) | 110 | 173 | 142 | 162 | 256 | 196 | 100 | 50 |
| Cash and cash equivalents as of the beginning of the year | 505 | 998 | 1 369 | 1 997 | 1 178 | 1 288 | 1 461 | 1 603 | 1 765 | 2 021 | 2 217 | 2 317 |
| Effect of foreign exchange on cash and cash equivalents | 38 | (126) | (26) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash and cash equivalents as of the end of the year | 998 | 1 369 | 1 997 | 1 178 | 1 288 | 1 461 | 1 603 | 1 765 | 2 021 | 2 217 | 2 317 | 2 367 |

Source: company's data; Estimation: Veles Capital

Fair price estimation

Weighted average cost of capital estimation (WACC), %

| | 2007 | 2008 | 2009 | 2010(F) | 2011(F) | 2012(F) | 2013(F) | 2014(F) | 2015(F) | 2016(F) | 2017(F) | 2018(F) |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Cost of equity (ks) | 13,33 | 15,22 | 16,27 | 13,83 | 13,57 | 13,24 | 12,98 | 12,95 | 12,75 | 12,71 | 12,68 | 12,71 |
| Risk-free rate, % | 5,50 | 7,00 | 8,03 | 5,75 | 5,62 | 5,45 | 5,28 | 5,31 | 5,17 | 5,18 | 5,18 | 5,23 |
| 10 year US Treasures yield, % | 4,15 | 4,10 | 3,92 | 4,15 | 4,28 | 4,33 | 4,37 | 4,35 | 4,31 | 4,27 | 4,22 | 4,11 |
| RF default spread, % | 1,35 | 2,90 | 4,11 | 1,60 | 1,34 | 1,12 | 0,91 | 0,96 | 0,85 | 0,91 | 0,96 | 1,12 |
| Expected market return, % | 5,00 | 5,00 | 5,00 | 5,00 | 5,00 | 5,00 | 5,00 | 5,00 | 5,00 | 5,00 | 5,00 | 5,00 |
| βL coefficient (according to financial leverage) | 1,10 | 1,17 | 1,18 | 1,14 | 1,12 | 1,09 | 1,07 | 1,06 | 1,05 | 1,04 | 1,03 | 1,03 |
| Premium for the quality of corporate governance, % | 2,35 | 2,35 | 2,35 | 2,35 | 2,35 | 2,35 | 2,35 | 2,35 | 2,35 | 2,35 | 2,35 | 2,35 |
| Source fraction: own capital, % | 51,3 | 62,1 | 66,0 | 71,5 | 75,3 | 80,9 | 84,2 | 86,8 | 89,1 | 91,0 | 92,4 | 93,5 |
| Cost of debt (kd) | 7,71 | 8,61 | 9,51 | 7,17 | 6,98 | 6,76 | 6,55 | 6,56 | 6,39 | 6,38 | 6,36 | 6,40 |
| Risk-free rate, % | 5,50 | 7,00 | 8,03 | 5,75 | 5,62 | 5,45 | 5,28 | 5,31 | 5,17 | 5,18 | 5,18 | 5,23 |
| Premium for credit risk, % | 2,20 | 1,61 | 1,48 | 1,41 | 1,36 | 1,31 | 1,27 | 1,25 | 1,22 | 1,20 | 1,19 | 1,17 |
| Tax rate, % | 27,58 | 14,51 | 23,46 | 20,50 | 20,50 | 20,50 | 20,50 | 20,50 | 20,50 | 20,50 | 20,50 | 20,50 |
| Source fraction: borrowed capital, % | 48,71 | 37,90 | 34,05 | 28,47 | 24,69 | 19,11 | 15,84 | 13,22 | 10,90 | 9,04 | 7,63 | 6,55 |
| WACC | 9,55 | 12,24 | 13,21 | 11,51 | 11,59 | 11,74 | 11,75 | 11,93 | 11,91 | 12,02 | 12,10 | 12,21 |

Source: company's data; Estimation: Veles Capital

Free Cash Flow of Rosneft, forecast, 2007-2018, mn USD

| | 2007 | 2008 | 2009 | 2010(F) | 2011(F) | 2012(F) | 2013(F) | 2014(F) | 2015(F) | 2016(F) | 2017(F) | 2018(F) |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| EBITDA | 14 007 | 16 988 | 13 478 | 17 055 | 18 033 | 22 243 | 23 320 | 25 441 | 29 872 | 32 586 | 32 542 | 31 161 |
| Amortization and depreciation | 3 286 | 3 983 | 4 350 | 4 547 | 4 950 | 5 328 | 5 617 | 6 047 | 6 456 | 6 841 | 7 208 | 7 558 |
| EBIT | 10 721 | 13 005 | 9 128 | 12 508 | 13 083 | 16 915 | 17 702 | 19 393 | 23 416 | 25 745 | 25 334 | 23 603 |
| Income tax | 2 957 | 1 887 | 2 143 | 2 564 | 2 682 | 3 468 | 3 629 | 3 976 | 4 800 | 5 278 | 5 193 | 4 839 |
| NOPAT | 7 764 | 11 118 | 6 985 | 9 944 | 10 401 | 13 448 | 14 073 | 15 418 | 18 616 | 20 467 | 20 140 | 18 764 |
| CapEx | 6 330 | 8 779 | 7 348 | 9 724 | 9 817 | 9 040 | 9 965 | 11 204 | 11 320 | 11 479 | 11 625 | 11 678 |
| Change in working capital | (2 905) | 1 617 | 211 | (1 464) | (688) | (928) | (882) | (1 082) | (1 487) | (702) | (820) | (477) |
| FCF | 1 816 | 7 939 | 4 198 | 3 303 | 4 845 | 8 808 | 8 843 | 9 178 | 12 264 | 15 127 | 14 903 | 14 167 |

Source: company's data; Estimation: Veles Capital

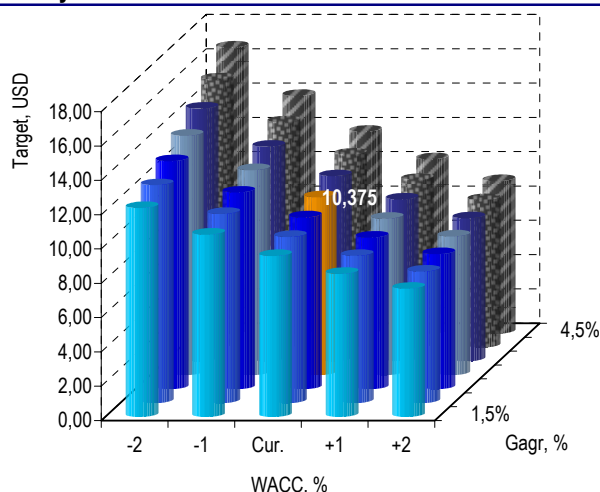
Rosneft's stocks valuation

| | |
|---|----------------|
| TGR, % | 3,00 |
| Discount rate, % | 12,21 |
| Discounted cash flow amount, mn USD | 50 556 |
| Terminal value, mn USD | 158 361 |
| Discounted terminal value, mn USD | 62 989 |
| Enterprise value, mn USD | 113 544 |
| Net debt, mn USD | 17 128 |
| Minority interest, mn USD | 712 |
| Non-operation assets, mn USD | 3 866 |
| Shareholder's equity, mn USD | 99 571 |
| Number of shares, mn units | 10 598 177 817 |
| Fair value of common stock at the year end, USD | 10,375 |
| Upside (downside) of common stock, % | 35,62 |

Source: company's data; Estimation: Veles Capital

Average fair price analysis of shares

| Growth rate in postforecasted period, % | WACC, % | | | | |
|---|---------|-------|-------|-------|------|
| | -2 | -1 | Cur. | +1 | +2 |
| 1,5% | 12,17 | 10,63 | 9,37 | 8,34 | 7,47 |
| 2,0% | 12,69 | 11,02 | 9,67 | 8,57 | 7,66 |
| 2,5% | 13,28 | 11,45 | 10,01 | 8,83 | 7,86 |
| 3,0% | 13,95 | 11,94 | 10,37 | 9,12 | 8,08 |
| 3,5% | 14,72 | 12,50 | 10,79 | 9,43 | 8,33 |
| 4,0% | 15,62 | 13,13 | 11,25 | 9,77 | 8,59 |
| 4,5% | 16,67 | 13,85 | 11,77 | 10,16 | 8,89 |



Estimation: Veles Capital

Financial analysis

Value forming estimates

| | 2007 | 2008 | 2009 | 2010(F) | 2011(F) | 2012(F) | 2013(F) | 2014(F) | 2015(F) | 2016(F) | 2017(F) | 2018(F) |
|---------------------------------|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Invested capital growth (IC), % | 56,3 | 11,0 | 6,4 | 10,2 | 7,7 | 6,0 | 6,4 | 7,2 | 6,8 | 5,4 | 5,0 | 4,2 |
| Invested capital (IC), mn USD | 54 654 | 60 684 | 64 539 | 71 107 | 76 595 | 81 172 | 86 354 | 92 560 | 98 887 | 104 222 | 109 481 | 114 129 |
| Equity, mn USD | 28 440 | 38 903 | 44 831 | 53 267 | 61 800 | 73 250 | 85 174 | 98 535 | 115 020 | 133 132 | 150 781 | 167 210 |
| EVA spread (ROIC-WACC), % | 12,7 | 8,1 | -1,7 | 3,9 | 3,0 | 5,8 | 5,6 | 5,9 | 8,2 | 8,7 | 7,2 | 4,9 |
| EVA, mn USD | 6 915 | 4 914 | (1 097) | 2 769 | 2 325 | 4 722 | 4 827 | 5 486 | 8 106 | 9 040 | 7 908 | 5 621 |

Business efficiency analysis

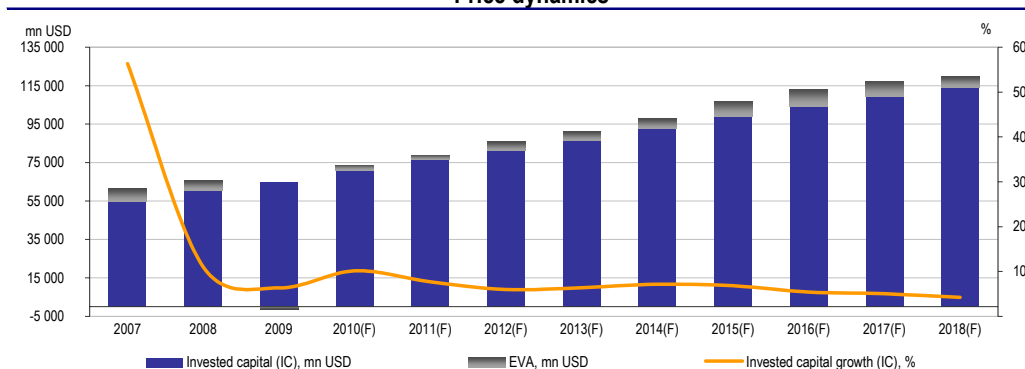
| | 2007 | 2008 | 2009 | 2010(F) | 2011(F) | 2012(F) | 2013(F) | 2014(F) | 2015(F) | 2016(F) | 2017(F) | 2018(F) |
|----------------------|------|------|------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| ROIC, % | 22,2 | 20,3 | 11,5 | 15,4 | 14,6 | 17,6 | 17,3 | 17,9 | 20,1 | 20,7 | 19,3 | 17,1 |
| ROE, % | 58,8 | 39,1 | 16,7 | 19,9 | 17,4 | 19,9 | 18,0 | 17,2 | 18,2 | 17,3 | 14,8 | 12,2 |
| ROA, % | 27,5 | 14,9 | 8,4 | 10,7 | 10,2 | 12,4 | 12,1 | 12,2 | 13,5 | 13,2 | 11,6 | 9,9 |
| EBITDA margin, % | 28,5 | 24,6 | 28,8 | 28,7 | 27,8 | 30,2 | 28,9 | 28,6 | 29,3 | 29,2 | 27,9 | 26,1 |
| EBIT margin, % | 21,8 | 18,9 | 19,5 | 21,1 | 20,2 | 23,0 | 21,9 | 21,8 | 23,0 | 23,0 | 21,7 | 19,8 |
| Net profit margin, % | 26,1 | 16,1 | 13,9 | 15,0 | 14,3 | 16,7 | 16,3 | 16,5 | 17,6 | 17,8 | 16,8 | 15,4 |

Financial state analysis

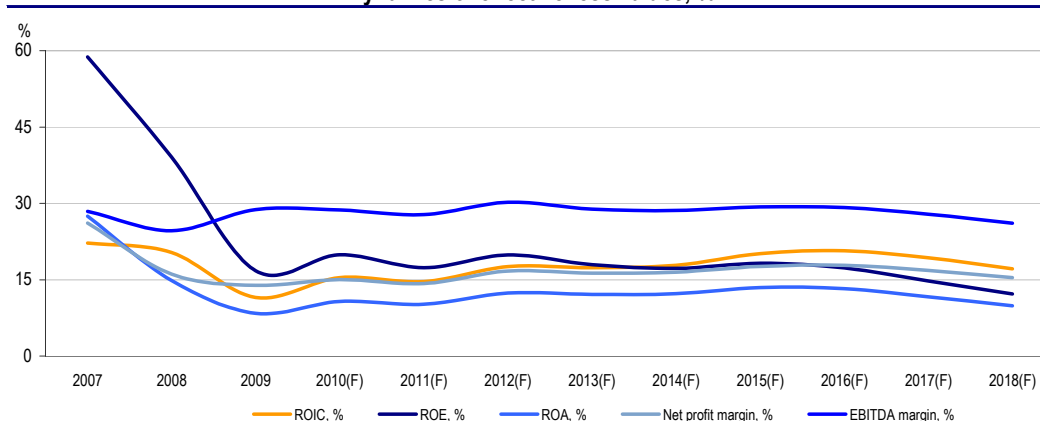
| | 2007 | 2008 | 2009 | 2010(F) | 2011(F) | 2012(F) | 2013(F) | 2014(F) | 2015(F) | 2016(F) | 2017(F) | 2018(F) |
|---|--------|--------|--------|---------|---------|---------|---------|---------|----------|----------|----------|----------|
| Financial leverage | 0,96 | 0,62 | 0,52 | 0,40 | 0,33 | 0,24 | 0,19 | 0,15 | 0,12 | 0,10 | 0,08 | 0,07 |
| Financial leverage effect | 1,16 | 1,09 | 1,07 | 1,10 | 1,11 | 1,09 | 1,07 | 1,06 | 1,05 | 1,04 | 1,04 | 1,04 |
| financial leverage characteristics | | | | | | | | | | | | |
| Interest-bearing debt / EBITDA | 1,95 | 1,42 | 1,74 | 1,26 | 1,14 | 0,79 | 0,69 | 0,59 | 0,47 | 0,41 | 0,38 | 0,38 |
| Net interest-bearing debt / EBITDA | 1,88 | 1,24 | 1,41 | 1,00 | 0,78 | 0,32 | 0,02 | (0,26) | (0,57) | (0,91) | (1,29) | (1,73) |
| Interest-bearing ST debt / EAT | 1,21 | 1,27 | 1,20 | 0,53 | 0,34 | 0,17 | 0,11 | 0,06 | 0,03 | 0,02 | 0,01 | 0,01 |
| Interest-bearing debt / sales | 0,55 | 0,35 | 0,50 | 0,36 | 0,32 | 0,24 | 0,20 | 0,17 | 0,14 | 0,12 | 0,11 | 0,10 |
| Interest-bearing debt / assets | 0,36 | 0,31 | 0,28 | 0,24 | 0,21 | 0,16 | 0,13 | 0,11 | 0,09 | 0,08 | 0,07 | 0,06 |
| Interest-bearing ST debt / Interest-bearing LT debt | 1,33 | 1,40 | 0,50 | 0,28 | 0,18 | 0,14 | 0,09 | 0,07 | 0,05 | 0,03 | 0,02 | 0,02 |
| EBITDA / Interest payments | 10 | 15 | 22 | 15 | 14 | 17 | 19 | 22 | 28 | 33 | 35 | 36 |
| Net debt, mn USD | 26 275 | 21 086 | 19 002 | 17 128 | 14 076 | 7 195 | 444 | (6 721) | (16 889) | (29 678) | (42 081) | (53 874) |
| company's liquidity | | | | | | | | | | | | |
| current ratio (>2) | 0,59 | 0,61 | 0,99 | 1,31 | 1,71 | 2,21 | 2,80 | 3,34 | 3,93 | 4,62 | 5,36 | 6,09 |
| quick ratio (>1) | 0,68 | 0,68 | 1,13 | 1,51 | 1,95 | 2,47 | 3,08 | 3,64 | 4,24 | 4,93 | 5,68 | 6,42 |
| absolute liquidity ratio (>0,2) | 0,06 | 0,16 | 0,34 | 0,37 | 0,59 | 0,94 | 1,42 | 1,89 | 2,42 | 3,12 | 3,83 | 4,54 |
| turnover estimates of (days) | | | | | | | | | | | | |
| accounts receivable | 72 | 33 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 49 | 50 | 50 |
| inventories | 14 | 7 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 |
| usage of turnover capital | - | - | 6,39 | 4,51 | 3,59 | 2,96 | 2,47 | 2,16 | 1,90 | 1,65 | 1,45 | 1,29 |

Source: company's data; Estimation: Veles Capital

Price dynamics



Dynamics of effectiveness values, %



Public comparables

Sector companies' multipliers and coefficients

| | Country | Current capitalization, min USD | Enterprise value, min 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 | 324 050 | 320 191 | 1,13 | 6,59 | 16,98 | 2,56 | 2,61 | 17,16 | 12,57 | 21,21 | 17,16 | 2,52 |
| Chevron Corp | UNITED STATES | 154 563 | 158 999 | 0,94 | 5,00 | 14,95 | 1,53 | 1,51 | 11,14 | 9,17 | 11,64 | 18,76 | 1,24 |
| ConocoPhillips | UNITED STATES | 74 897 | 104 445 | 0,68 | 5,10 | 13,46 | 1,12 | 1,08 | 10,10 | 6,03 | 54,85 | 13,39 | 6,97 |
| BP PLC | BRITAIN | 181 636 | 208 971 | 0,86 | 5,72 | 12,39 | 1,58 | 1,47 | 14,98 | 7,82 | 12,19 | 15,11 | 1,41 |
| Royal Dutch Shell PLC | NETHERLANDS | 186 075 | 208 103 | 0,70 | 5,78 | 13,10 | 1,21 | 1,18 | 10,28 | 5,57 | 7,43 | 12,06 | 0,88 |
| Total SA | FRANCE | 151 483 | 169 654 | 0,97 | 5,60 | 13,35 | 1,73 | 1,60 | 16,09 | 8,84 | 9,93 | 17,34 | 1,21 |
| ENI SpA | ITALY | 101 949 | 128 655 | 1,15 | 4,22 | 13,50 | 1,26 | 1,20 | 11,55 | 8,58 | 9,81 | 27,37 | 1,24 |
| Statoil ASA | NORWAY | 80 244 | 92 728 | 1,14 | 3,01 | 15,67 | 2,10 | 1,83 | 13,37 | 4,28 | 13,13 | 37,67 | 1,20 |
| Global companies weighted average | | 156 862 | 173 968 | 0,92 | 5,25 | 14,28 | 1,63 | 1,53 | 13,26 | 7,87 | 12,35 | 16,79 | 1,43 |
| Developed markets | | | | | | | | | | | | | |
| Occidental Petroleum Corp | UNITED STATES | 66 930 | 67 388 | 4,54 | 8,16 | 22,18 | 2,13 | 2,11 | 10,02 | 9,48 | 10,76 | 55,64 | 1,00 |
| Devon Energy Corp | UNITED STATES | 32 042 | 39 390 | 4,89 | 8,20 | 63,05 | 2,11 | 1,75 | 10,79 | - | 0,51 | 59,70 | 0,05 |
| Transocean Ltd | SWITZERLAND | 27 053 | 37 629 | 3,22 | 5,97 | 7,17 | 1,15 | 1,10 | 18,43 | 11,89 | 12,85 | 53,91 | 1,40 |
| Apache Corp | UNITED STATES | 35 130 | 39 808 | 4,66 | 6,85 | 32,15 | 2,15 | 1,89 | 12,18 | 9,04 | 9,64 | 68,01 | 0,96 |
| Marathon Oil Corp | UNITED STATES | 22 304 | 28 834 | 0,55 | 4,83 | 16,26 | 0,95 | 0,96 | 6,44 | 5,79 | 5,92 | 11,43 | 0,66 |
| Anadarko Petroleum Corp | UNITED STATES | 31 570 | 42 263 | 5,20 | 9,43 | - | 1,63 | 1,41 | - | - | 0,18 | 55,15 | 0,02 |
| XTO Energy Inc | UNITED STATES | 27 258 | 37 253 | 4,13 | 5,75 | 13,43 | 1,40 | 1,27 | 11,46 | 7,69 | 7,93 | 71,86 | 0,92 |
| BG Group PLC | BRITAIN | 60 144 | 64 889 | 3,78 | 7,40 | 15,80 | 2,33 | 2,12 | 16,83 | 11,35 | 16,66 | 51,07 | 1,63 |
| Tullow Oil PLC | BRITAIN | 16 285 | 17 230 | 18,66 | 30,44 | - | 6,54 | 5,02 | 3,11 | 2,78 | 5,36 | 61,29 | 0,50 |
| Cairn Energy Plc | BRITAIN | 7 113 | 6 719 | 26,57 | 72,04 | - | 4,07 | 4,96 | 0,63 | - | - | 36,88 | - |
| Dana Petroleum Plc | BRITAIN | 1 724 | 1 901 | 2,78 | 5,03 | 26,15 | 1,60 | 1,51 | 5,41 | 3,61 | 9,51 | 55,29 | 0,87 |
| Repsol YPF SA | SPAIN | 32 600 | 51 843 | 0,82 | 5,51 | 14,64 | 1,03 | 1,02 | 7,90 | 5,63 | 7,69 | 14,80 | 1,17 |
| Cia Espanola de Petroleos SA | SPAIN | 8 578 | 11 090 | 0,48 | 8,56 | 17,15 | 1,08 | 1,06 | 5,31 | 2,88 | 4,68 | 5,61 | 0,92 |
| OMV AG | AUSTRIA | 12 907 | 16 710 | 0,66 | 4,29 | 11,56 | 1,00 | 1,00 | 10,17 | 5,48 | 8,85 | 15,46 | 1,28 |
| EnCana Corp | CANADA | 24 222 | 30 611 | 2,41 | 4,52 | 11,22 | 0,89 | 0,91 | 7,72 | 4,21 | 4,15 | 53,31 | 0,33 |
| Suncor Energy Inc | CANADA | 55 221 | 66 766 | 2,64 | 14,58 | 46,82 | 1,68 | 1,50 | 4,99 | 2,75 | 2,93 | 18,14 | 0,19 |
| Imperial Oil Ltd | CANADA | 32 458 | 32 535 | 1,62 | 10,63 | 23,41 | 3,19 | 3,17 | 16,32 | 12,12 | 21,45 | 15,22 | 1,58 |
| Canadian Natural Resources Ltd | CANADA | 38 369 | 46 379 | 4,55 | 7,85 | 16,04 | 1,90 | 1,64 | 13,58 | 6,82 | 9,54 | 57,97 | 0,66 |
| Neste Oil OYJ | FINLAND | 4 454 | 6 842 | 0,48 | 10,26 | 23,06 | 1,29 | 1,17 | 5,83 | 3,56 | 5,75 | 4,69 | 0,71 |
| Esso SA Francaise | FRANCE | 1 587 | 1 458 | 0,13 | 4,01 | 9,56 | 0,66 | 0,64 | 7,51 | - | - | 3,13 | - |
| Hellenic Petroleum SA | GREECE | 3 615 | 5 569 | 0,59 | 8,67 | 11,36 | 0,95 | 0,97 | 9,10 | 4,40 | 7,62 | 6,81 | 1,31 |
| Paz Oil Co Ltd | ISRAEL | 1 500 | 2 969 | 4,25 | 8,62 | 9,91 | 1,51 | 1,28 | 22,59 | 5,38 | 7,87 | 6,90 | 1,19 |
| Saras SpA | ITALY | 2 942 | 3 690 | 0,44 | 12,16 | - | 1,60 | 1,43 | 0,77 | 1,85 | 1,04 | 3,61 | 0,13 |
| ERG SpA | ITALY | 2 064 | 3 113 | 0,38 | 21,31 | - | 0,84 | 0,88 | - | 11,82 | - | 1,78 | - |
| Inpex Corp | JAPAN | 18 137 | 18 880 | 2,05 | 3,08 | 17,83 | 1,15 | 1,14 | 7,18 | 5,34 | 8,68 | 66,60 | 0,58 |
| Nippon Oil Corp | JAPAN | 6 642 | 21 807 | 0,34 | 7,50 | 8,21 | 0,57 | 0,82 | 7,62 | 2,07 | 5,08 | 4,47 | 0,86 |
| Nippon Mining Holdings Inc | JAPAN | 3 896 | 10 667 | 0,30 | 7,45 | 8,07 | 0,54 | 0,77 | 6,66 | 1,87 | 3,30 | 4,00 | 0,43 |
| Galp Energia SGPS SA | PORTUGAL | 14 458 | 17 911 | 1,11 | 18,55 | 35,23 | 3,88 | 2,49 | 12,97 | 4,93 | 7,65 | 5,97 | 0,80 |
| Petroplus Holdings AG | SWITZERLAND | 1 553 | 3 020 | 0,21 | 10,53 | - | 0,78 | 0,87 | - | - | - | 1,98 | - |
| Woodside Petroleum Ltd | AUSTRALIA | 31 354 | 35 690 | 9,31 | 13,15 | 26,06 | 4,12 | 2,99 | 16,13 | 9,93 | 14,62 | 70,80 | 1,24 |
| Developed markets weighted average | | 20 804 | 25 695 | 1,52 | 7,43 | 17,93 | 1,62 | 1,45 | 10,92 | 7,46 | 8,91 | 43,65 | 0,86 |
| Developing markets | | | | | | | | | | | | | |
| YPF SA | ARGENTINA | 16 187 | 17 132 | 1,55 | 4,73 | 14,05 | 3,13 | 2,80 | 15,68 | 9,43 | - | 32,80 | 2,71 |
| Petroleo Brasileiro SA | BRAZIL | 195 576 | 234 614 | 2,30 | 7,22 | 13,12 | 1,90 | 1,65 | 18,06 | 10,97 | 15,97 | 31,84 | 1,31 |
| PetroChina Co Ltd | CHINA | 340 902 | 359 071 | 2,77 | 9,59 | 20,23 | 2,51 | 2,33 | 14,02 | 9,75 | 13,83 | 28,85 | 0,94 |
| China Petroleum & Chemical Corp | CHINA | 151 418 | 183 638 | 1,01 | 8,87 | 16,80 | 2,49 | 1,98 | 16,71 | 7,62 | 11,74 | 11,44 | 1,02 |
| CNOOC Ltd | HONG KONG | 69 457 | 67 694 | 5,01 | 9,09 | 16,37 | 2,45 | 2,54 | 16,77 | 13,21 | 22,86 | 55,16 | 1,42 |
| MOL Hungarian Oil and Gas NyRt | HUNGARY | 9 031 | 13 169 | 0,90 | 7,15 | 19,43 | 1,15 | 1,10 | 7,81 | 3,77 | 7,59 | 12,66 | 0,98 |
| Oil & Natural Gas Corp Ltd | INDIA | 54 763 | 51 052 | 2,23 | 5,26 | 12,05 | 2,41 | 2,69 | 22,39 | 14,76 | 25,64 | 42,27 | 2,39 |
| Indian Oil Corp Ltd | INDIA | 16 161 | 22 201 | 0,40 | 7,55 | 9,91 | 1,50 | 1,32 | 15,34 | 6,35 | 10,24 | 5,24 | 1,20 |
| Cairn India Ltd | INDIA | 11 340 | 11 595 | 18,37 | 27,47 | 40,47 | 1,38 | 1,36 | 3,89 | 4,04 | - | 66,86 | - |
| KazMunaiGas Exploration Production | KAZAKHSTAN | 10 773 | 8 584 | 2,46 | 5,94 | 11,96 | 1,30 | 1,64 | 32,04 | 25,54 | - | 41,40 | 3,37 |
| Petronas Dagangan BHD | MALAYSIA | 2 508 | 2 308 | 0,37 | 6,89 | 11,53 | 1,71 | 1,83 | 15,44 | 8,74 | 18,44 | 5,33 | 2,29 |
| Oil & Gas Development Co Ltd | PAKISTAN | 5 601 | 5 417 | 3,45 | 4,95 | 8,81 | 2,56 | 2,71 | 38,98 | 27,90 | 48,25 | 69,74 | 2,65 |
| Polskie Gornictwo Naftowe I Gazownictwo SA | POLAND | 7 904 | 8 202 | 1,32 | 9,55 | 25,16 | 1,08 | 1,08 | 4,76 | 3,28 | 5,04 | 13,84 | 0,69 |
| SNP Petrom SA | ROMANIA | 4 815 | 5 591 | 1,20 | 5,40 | 9,49 | 0,82 | 0,84 | 10,29 | 4,38 | 5,57 | 22,26 | 0,75 |
| Sasol Ltd | SOUTH AFRICA | 24 996 | 26 502 | 1,60 | 6,36 | 11,54 | - | - | 17,47 | 13,44 | - | 25,23 | - |
| PTT PCL | THAILAND | 20 311 | 26 606 | 0,61 | 6,74 | 11,25 | 1,43 | 1,30 | 14,15 | 6,83 | 9,55 | 8,99 | 0,87 |
| Tupras Turkiye Petrol Rafine | TURKEY | 4 831 | 4 570 | 0,36 | 6,59 | 10,20 | 1,68 | 1,75 | 19,96 | 7,71 | 17,38 | 5,44 | 1,28 |
| Ukrnafta Oil Co | UKRAINE | 1 139 | 1 198 | 1,34 | 11,41 | - | 0,94 | 0,94 | 5,39 | 12,26 | 4,92 | 11,76 | 0,50 |
| Developing markets weighted average | | 52 651 | 58 286 | 1,67 | 8,05 | 15,75 | 2,17 | 1,95 | 16,21 | 10,25 | 15,28 | 28,86 | 1,23 |
| Russia | | | | | | | | | | | | | |
| Gazprom OAO | RUSSIA | 136 359 | 177 260 | 1,43 | 3,84 | 4,57 | 0,66 | 0,73 | 14,13 | 10,08 | 13,75 | 37,32 | 1,09 |
| Rosneft Oil Co | RUSSIA | 76 731 | 95 733 | 1,61 | 5,61 | 8,60 | 1,44 | 1,35 | 19,90 | 10,72 | 15,41 | 28,72 | 1,34 |
| Lukoil OAO | RUSSIA | 44 697 | 53 212 | 0,59 | 3,14 | 4,37 | 0,69 | 0,83 | 15,76 | 11,80 | 16,31 | 18,92 | 1,07 |
| Surgutneftegaz | RUSSIA | 32 627 | 20 299 | 1,18 | 3,17 | 8,29 | 0,75 | 1,05 | 9,03 | 8,56 | 17,40 | 37,16 | 0,98 |
| TNK-BP Holding | RUSSIA | 28 633 | 29 324 | 0,78 | 3,34 | 5,52 | 1,13 | 1,04 | 20,42 | 14,26 | 21,66 | 23,44 | 1,50 |
| Gazprom Neft JSC | RUSSIA | 22 189 | 25 379 | 0,97 | 3,91 | 7,25 | 1,18 | 1,40 | 16,27 | 9,48 | 18,31 | 24,89 | 1,19 |
| NovaTek OAO | RUSSIA | 16 578 | 17 541 | 4,24 | 9,46 | 13,86 | 3,38 | 2,76 | 24,43 | 16,11 | 23,34 | 44,87 | 1,40 |
| Tatneft | RUSSIA | 10 205 | 11 448 | 0,88 | 4,30 | 6,25 | 0,85 | 0,88 | 14,16 | 9,64 | 15,32 | 20,42 | 0,94 |
| Bashneft OAO | RUSSIA | 4 424 | 3 471 | 1,25 | 5,53 | 13,72 | 1,43 | 1,62 | 13,34 | 9,37 | 14,91 | 22,54 | 1,20 |
| Russia weighted average | | 41 383 | 48 185 | 1,16 | 4,05 | 5,79 | 0,86 | 0,93 | 15,23 | 10,58 | 15,70 | 29,22 | 1,16 |

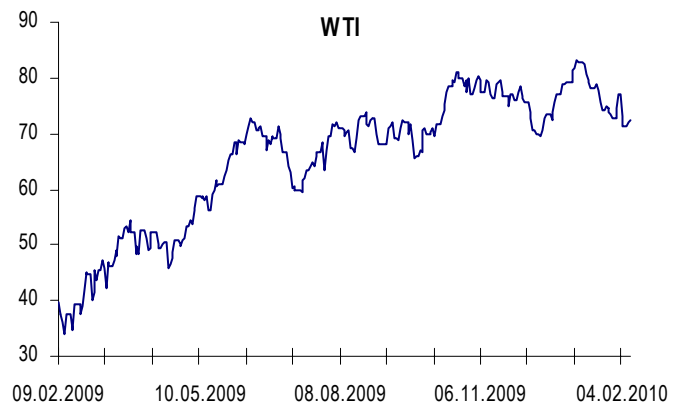
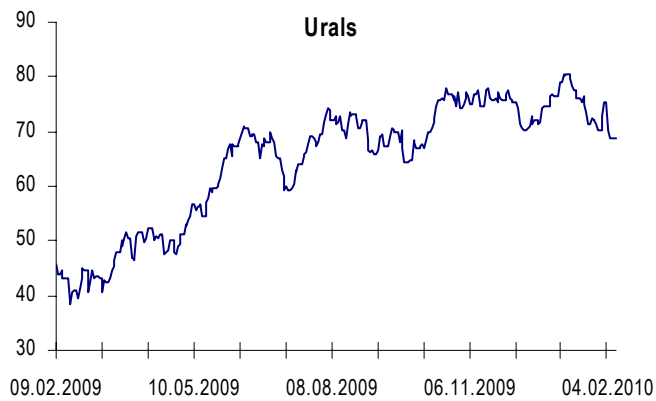
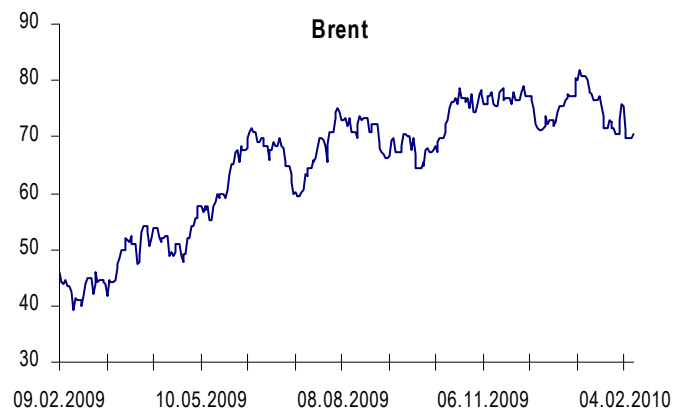
Source: company's data, Bloomberg; Estimation: Veles Capital

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 | ▲ | 72,6 | 0,05 | 0,06892 | 1,12829 | -5,9098 | -6,455354 | 63,5503 | 69,76 | 81,57 |
| Brent, USD / bbl | ▲ | 75,2 | 3,32 | 4,61881 | 4,69163 | -1,725 | -2,590674 | 77,8619 | 69,6 | 81,97 |
| Urals, USD / bbl | ▲ | 71,35 | 0,05 | 0,07013 | 0,93365 | -6,2171 | -6,80512 | 64,7426 | 68,66 | 80,52 |
| WTI, USD / bbl | ▲ | 77,01 | 2,88 | 3,88507 | 4,42034 | -1,2692 | -2,96119 | 105,305 | 71,19 | 83,18 |
| Brent-Urals | ▲ | 3,85 | 3,27 | 563,793 | 237,719 | 775 | 501,5625 | -473,79 | -0,16 | 3,85 |

Oil price graphs



Brief investor's guide

| Methods, used for company's share evaluation | | | | | |
|---|--|------------------|---|-----------------------|-------------------|
| Income approach | | | Comparables approach | Expenses approach | |
| | | DCF method | EVA method | Multiplicative method | Net assets method |
| Concept of evaluating the unified object (EV) * | | FCFF discounting | EVA discounting | | |
| Shareholders' value direct calculation (SV) ** | | FCFE discounting | EVA for shareholders discounting (Edwards-Bell-Ohlson method) | | |

*

Debt cost is calculated separately and then subtracted from the sum total cost of business (target EV), formed considering the cash flows/ economic profits of firm.

**

Debt is accounted integrated -via annual coverage. So the fair cost of shareholders' value (target SV) is formed directly - considering the cash flow / economic profits for holders.

Note:

DCF methods differ from the methods of economic profit by the way of investments calculation. The methods of unified object evaluation concept differ from these methods of direct calculation of shareholders' value costs - by the way of accounting cost and maintenance of debt liabilities.

Cost calculation within the frames of income approach:

| | Business cost calculation (EV) within the frames of unified object cost evaluation | Shareholders' capital value calculation (SV) |
|-------------------|--|---|
| DCF method (FCFF) | $EV = \sum_{i=1}^n \frac{FCFF_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_1)^n} + NA$ | $SV = EV - D$ |
| DCF method (FCFE) | | $SV = \sum_{i=1}^n \frac{FCFE_i}{(1+k_{si})^i} + \frac{TV}{(1+k_{si})^n} + Cash + NA$ |
| 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 - income tax effective rate) |
| FCFF | - Free Cash Flow to Firm FCFF = gross cash flow - gross investments Gross cash flow = NOPAT + amortization |
| FCFE | - Free Cash Flow to Equity FCFE = gross shareholders' cash flow - gross investments Gross shareholders' cash flow = EAT of operational profit (including interest payoffs) - annual debt coverage + attracted borrowed assets + amortization |
| EVA | - Economic Value Added EVA = economic profit spread * IC = (ROIC - WACC) * IC |
| SVA | - Shareholders Value Added SVA = 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 = 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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