

Rosneft

Target: to enter world's top three capitalizations

Recommendation: BUY

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Bullet moments

- ◆ This Monday Rosneft issued its financial report of 1Q 2008. According to the report – oil company's net income upped over 7 times versus similar term of 2007 from 0.358 bn USD to 2.564 bn USD. However the net income of 1Q 2008 has been dropped -13.1% versus 4Q 2007 (2.952 bn USD).
- ◆ Other financial values of Rosneft also did well. During 1Q 2008 Rosneft's sales expanded by 99.1% versus similar term of past year and formed 16.368 bn USD, whilst market expected 16.536 bn USD, EBITDA rose 3.25 times to 4.658 bn USD, do remember that general forecast intended the growth of value up 3.2 times to 4.658 bn USD.
- ◆ When evaluating the nature of company's sales growth we must note the expanded total cost of sales for extracted and refined goods and oil products at average of 70%, on par with increased oil extraction by consolidated enterprises of the company, in addition to the share of Rosneft in the affiliated organizations, which formed 23.9% or +1.715 mn barrels per day to 2.125 mn barrels per day.
- ◆ First quarter's 2008 free cash flow expanded over 29 times, from 113.4 mn USD in 1Q 2007 to 3.352 bn USD in the reported period.
- ◆ We have corrected our model of Rosneft, adding several changes to it. In particular – our forecast of sales prices on oil & oil products upwards at average of +24%. We have also reviewed the volume of capital investments, increasing it over the post-forecast term at average of +25%.
- ◆ In Rosneft's model we have reflected the influence of applying special taxation under mining tax at depleted deposits since 2008, as well as "tax holidays" on new regions, in which company operates, which would be applied starting with 2009. We have also considered future change of mining tax calculation scale itself, set this March by A. Kudrin and supported by premier minister V. Putin to be accepted starting with January 1st 2009 and accepted during the first hearing by State Duma on June 11th.
- ◆ During the revaluation of Rosneft's model we have acquired a new fair price of company's stock, which formed 14.31 USD, instead of previously forecasted 11.33 USD, which now intends 22.73% growth potential. Therefore we confirm "BUY" recommendation on stock of Rosneft.

Principal estimates

Company's shares vs RTS index



Information about Rosneft

| | |
|--|----------------|
| Ticker RTS | ROSN |
| Market price (cs), USD | 11.66 |
| Min/max price during last year (cs), USD | 6,67 / 12,2 |
| Fair price at year end, USD | 14.31 |
| Upside (downside) (cs), USD | 22.73 |
| Number of common shares, total | 10,598,177,810 |
| MC, mn USD | 123,575 |
| EV, mn USD | 149,850 |

| Financial values (GAAP) | 2007 | 2008 (F) | 2009 (F) |
|-------------------------|--------|----------|----------|
| Sales, mn USD | 49,216 | 76,677 | 77,623 |
| EBITDA, mn USD | 14,007 | 22,833 | 24,017 |
| Net income, mn USD | 12,862 | 12,364 | 13,277 |
| EBITDA margin, % | 28.5 | 29.8 | 30.9 |
| Net income margin % | 26.1 | 16.1 | 17.1 |

| Coefficients | 2007 | 2008 (F) | 2009 (F) |
|--------------|------|----------|----------|
| P/E | 9.6 | 10.0 | 9.3 |
| P/S | 2.51 | 1.61 | 1.59 |
| EV/EBITDA | 10.7 | 6.6 | 6.2 |

Rosneft results of 1Q 2008

This Monday Rosneft issued its financial report of 1Q 2008. According to the report – oil company's net income upped over 7 times versus similar term of 2007 from 0.358 bn USD to 2.564 bn USD. However the net income of 1Q 2008 has been dropped -13.1% versus 4Q 2007 (2.952 bn USD). Do note that net income appeared +5.2% above the general forecast.

Other financial values of Rosneft also did well. During 1Q 2008 Rosneft's sales expanded by 99.1% versus similar term of past year and formed 16.368 bn USD, whilst market expected 16.536 bn USD, EBITDA rose 3.25 times to 4.658 bn USD, do remember that general forecast intended the growth of value up 3.2 times to 4.658 bn USD. Now let us take a closer look at comparison of financials versus past quarter. Throughout 1Q 2008 company's sales has been dropped -0.6% versus 4Q 2007 (16.469 bn USD). We relate this drop to the fact that late last December Rosneft sold 50% of Tomskneft's stocks to Gazprom Neft, thus losing 5.8 mn tons of oil extraction per annum. During 4Q 2007 extraction and finances of Tomskneft were fully consolidated. We estimate financial gain of Rosneft off sale of stake in Tomskneft in 957 mn USD of sales during 1Q 2008 and think that considering the consolidation of full Tomskneft company would have experienced an addition to all of its financials (including sales and net income) over the reported period at quarter versus quarter comparison. Due to this we think that insignificant drop of company's quotes this Monday (-0.25%) is related to the income fix after the publication of the report.

When evaluating the nature of company's sales growth we must note the expanded total cost of sales for extracted and refined goods and oil products at average of 70%, on par with increased oil extraction by consolidated enterprises of the company, in addition to the share of Rosneft in the affiliated organizations, which formed 23.9% or +1.715 mn barrels per day to 2.125 mn barrels per day. The sales also rose due to introduction of new products (petro chemistry) and other side services following the purchase of YUKOS in May 2007.

We must also look upon Rosneft's effectiveness in 1Q 2008. All of company's profitability values have proved a strong reinforcement of effectiveness, which now appear above the values of company's primary competitor – LUKOIL. EBITDA margin has formed 28.5%, appearing above past year up +11.1 p.p. corresponding to effectiveness of all 2007. Net income margin expanded by 11.3 p.p. to 15.7% also above the net margin of net income of all 2007 up +2.6 p.p. A relatively high effectiveness of the company is sustained by the optimal sales structure of Rosneft. Company currently implements a significant batch of its products at domestic market, which allows cutting the costs on export duties. The positive aspect to be announced, just as in the past report is saving of share of operating costs in sales of the oil company. Just like in 1Q 2008 the costs in sales have formed 77.4% at the end of 2007 this value formed 78.22%.

Company continues to cut its corporate debt, which cannot be taken negatively. Net debt of Rosneft as of late 1Q 2008 has dropped -2.7% bn USD from 26.28 bn USD to 23.58 bn USD. Do remember that company plans to enter EBITDA to debt ratio of one to year 2010. According to our calculations Rosneft would achieve this value late this year – early next year.

We would also like to point out the ongoing growth of free cash flow of the company. Under which first quarter's 2008 free cash flow expanded over 29 times, from 113.4 mn USD in 1Q 2007 to 3.352 bn USD in the reported period.

We see the published report as positive and expected. We consider that the company looks better than its rivals. In our point of view, strengthening of company's representative positions in the government, will allow realize Rosneft's ambitious plans concerning the increase of operating and financial figures, and as the result the capitalization growth, which were announced by the head of the company.

Rosneft US GAAP 1Q 2008 report, mn USD

| | 1Q 2007 | Chg. 1Q, % | 1Q 2008 | 4 Q 2007 | Chg. Q to Q, % | 1Q 2008 |
|--|---------|------------|----------|----------|----------------|----------|
| Sales | 8,220 | 99.1 | 16,368 | 16,469 | -0.6 | 16,368 |
| <i>inc. sales of oil and gas</i> | 5,638 | 54.2 | 8,691 | 9,493 | -8.4 | 8,691 |
| <i>sales of petrochemicals and refining services</i> | 2,496 | 195.1 | 7,365 | 6,794 | 8.4 | 7,365 |
| <i>other sales</i> | 86 | 262.8 | 312 | 182 | 71.4 | 312 |
| Operating expenses | (7,460) | 69.8 | (12,664) | (12,308) | 2.9 | (12,664) |
| <i>inc. amortization</i> | (673) | 41.8 | (954) | (862) | 10.7 | (954) |
| Operating income | 760 | 387.4 | 3,704 | 4,161 | -11.0 | 3,704 |
| Operating income margin, % | 9.2 | | 22.6 | 25.3 | | 22.6 |
| EBITDA | 1,433 | 225.1 | 4,658 | 5,023 | -7.3 | 4,658 |
| EBITDA margin, % | 17.4 | | 28.5 | 30.5 | | 28.5 |
| Interest receivable | 37 | 100.0 | 74 | 59 | 25.4 | 74 |
| Interest payable | (201) | 68.7 | (339) | (403) | -15.9 | (339) |
| Loss on disposal of PPE | (12) | n/m | 4 | (36) | n/m | 4 |
| Profit/loss on disposal of investments | 4 | n/m | (1) | 37 | n/m | (1) |
| Equity share in affiliates losses/profits | (11) | n/m | 112 | 18 | 522.2 | 112 |
| Dividends and income | 1 | 500.0 | 6 | 9 | -33.3 | 6 |
| Other expense | (51) | -96.1 | (2) | 20 | n/m | (2) |
| Foreign exchange profit/losses | (47) | 223.4 | (152) | (246) | -38.2 | (152) |
| Income before tax | 480 | 609.6 | 3,406 | 4,669 | -27.1 | 3,406 |
| Income before tax margin, % | 5.8 | | 20.8 | 28.4 | | 20.8 |
| Current income tax | (121) | 590.9 | (836) | (1,711) | -51.1 | (836) |
| Other shareholder's share of income off subsidiaries | (1) | 500.0 | (6) | (6) | | (6) |
| Net income | 358 | 616.2 | 2,564 | 2,952 | -13.1 | 2,564 |
| Net income margin, % | 4.4 | | 15.7 | 17.9 | | 15.7 |
| Net earnings per share | 0.03 | 800.0 | 0.27 | 0.20 | 35.0 | 0.27 |

Source: company's data; Estimation: Veles Capital

Rosneft sales breakdown, mn USD

| | During 3 months ended March 31st | | |
|---|----------------------------------|---------|--------------|
| | 1Q 2007 | 1Q 2008 | Chg. of Q, % |
| Oil & Gas sales | 5,638 | 8,691 | 54.2 |
| Crude oil export sales - Europe | 3,802 | 5,677 | 49.3 |
| Crude oil export sales - Asia | 1,229 | 1,857 | 51.1 |
| Crude oil export sales - CIS | 362 | 631 | 74.3 |
| Crude oil export sales - other directions | 128 | 333 | 160.2 |
| Crude oil export sales - Russia | 38 | 76 | 100.0 |
| Gas sales - Russia | 79 | 117 | 48.1 |
| Oil products sales | 2,496 | 7,365 | 195.1 |
| Oil products export sales - Europe | 800 | 2,388 | 198.5 |
| Oil products export sales - Asia | 515 | 1,586 | 208.0 |
| Oil products export sales - CIS | 24 | 190 | 691.7 |
| Oil products export sales - Russia | 1,157 | 3,069 | 165.3 |
| Petrochemicals sales | 0 | 132 | n/s |
| Other sales | 86 | 312 | 262.8 |
| Total sales | 8,220 | 16,368 | 99.1 |

Source: company's data; Estimation: Veles Capital

Cash flows of Rosneft 1Q 2008, mn USD

| | During 3 months ended March 31st | | |
|--|----------------------------------|---------|--------------|
| | 1Q 2007 | 1Q 2008 | Chg. of Q, % |
| Net cash of operating activities | 894 | 4,505 | 403.9 |
| Net cash flows used for operating activities | (1,046) | (1,773) | 69.5 |
| Net cash of financial activities | 1,271 | -2,578 | -302.8 |
| Net cash flows at the end of the period | 1,626 | 1,190 | -26.8 |

Source: company's data; Estimation: Veles Capital

New forecasts and estimates

We reviewed Rosneft's model and put some corrections, which concern the forecasted oil and oil products prices of the company, increasing them by 24%, due to the current trends at the energy market, forecasts of future economy development and political situation in the world. From our point of view, the oil prices are formed by several factors. Among of them are: international growth of oil production costs, the reduction of easy-to-reach deposits against increasing consumption rate of developing countries (especially China) and also a huge speculative aspect, which formed 20 USD in current oil prices. However, there are some restraining factors, for instance, crises in the USA, provided by the oil consumption decrease and a high rate of oil contracts overbought during several months. We think that the corrections may take place at the oil market in the nearest future, which could form 110 USD per bbl of WTI brand oil, but long-term growth dynamics will be kept intact. It should be mentioned that there are some large investment banks at the futures oil market, which attract an interest of market players, by making optimistic forecasts and this leads to a high rate of volatility at the market, which from our point of view, has a negative influence. Several weeks ago, oil prices increased more than 11 times. Oil prices will be partially compensated by the growth of capital investments and operating costs in Rosneft's financial results during forecasted period, but the compensation will have insignificant influence and the company will increase cash flow more intensively than its rivals.

In our model we reflected the contribution of Russian macroeconomical results (GDP, inflection, energy and pipeline tariffs) and their forecasts for next years. The forecasted results were the same, except forecasts for 2008, which we increased due to the expectation of Russian government concerning rates of GDP and inflation growth.

We also added the decrease of oil extraction rates in the beginning of the year and we think that in the end of the year, the company will achieve oil extraction rate of 107.5 mn t against previously forecasted 109 mn t. We also increased the refining quality by 66% in the end of 2008, due to Rosneft's measures concerning modernization and reconstruction of its refineries. We also added some corrections in gas extraction forecast in the end of 2008, in terms of its decrease, reflecting the 1Q 2008 trends.

We reviewed and increased by 25% the value of capital investments, due to the statements of the Rosneft's head, who announced that company will spend 10 bn USD per year to support natural growth by means of exterior assets purchase and activities in new regions. The company has ambitious plans towards the increase of oil extraction rate by 160 mn t to 2015 and 170 mn t to 2020. The company also has ambitious plans in refinery sector. According to them, Rosneft will have to refine 90 mn t of extracted oil to 2015. In our model we added 85 mn t, as we think that such short-term will not allow double the extraction rate, without purchase and construction of new assets.

In Rosneft's model we have also reflected the influence of concessional taxation concerning extraction on old deposits, which will be applied in new regions starting with 2009. We also took into account the changes in Mineral Extraction Tax (MET) scale, approved by Kudrin and supported by Putin in March of the current year. The tax rate decrease will allow Rosneft to save 1.21 bn USD, including the forecast of oil market situation which was presented in the model. Only due to the tax decrease, the fundamental price of the company increased by 7.1%. It should be mentioned that among the possible tax remission, which we chose not to use in our model, we should point out the possibility of export tax reviewing policy and further steps of its decrease to 2010, which is one of the main subjects, discussed by the government, but there were no concrete proposals yet. One of the last statements was made by Arkadiy Dvorkovich, the president aide at 12th International Economic Forum in St. Petersburg. He said about further decrease of oil taxation. He said that according to experts' calculations the confirmed measures: are only enough for oil sector stabilization, but the further steps are needed for increase of oil extraction rate, including the implementation of a more rational MET system and export taxation.

As the result, the analysis and corrections of Rosneft's model, taking into account 1Q 2008 financial report, we have received a new fair price, which formed 14.31 USD per share and which is 26.3% higher, than in earlier forecasts. The growth potential of Rosneft's shares formed 22.73%. We confirm our "BUY" recommendation of company's shares.

Financial model

Rosneft's oil extraction and sales, 2006-2016

| | 2006 | 2007 | 2008 (F) | 2009 (F) | 2010 (F) | 2011 (F) | 2012 (F) | 2013 (F) | 2014 (F) | 2015 (F) | 2016 (F) |
|-----------------------------|------|------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Oil extraction (mn t) | 80 | 101 | 107 | 115 | 123 | 132 | 142 | 150 | 158 | 162 | 162 |
| Gas extraction (bn cb m) | 13.7 | 15.3 | 16.0 | 18.4 | 21.2 | 23.3 | 25.6 | 28.2 | 31.0 | 34.1 | 37.5 |
| Oil purchased abroad (mn t) | 0.0 | 5.6 | 5.9 | 6.4 | 6.8 | 7.3 | 7.9 | 8.3 | 8.7 | 9.0 | 9.0 |
| Oil (mn t) | | | | | | | | | | | |
| International markets sales | 51.1 | 56.4 | 53.1 | 57.1 | 61.2 | 65.7 | 61.2 | 64.9 | 68.1 | 69.8 | 70.2 |
| CIS market sales | 6.1 | 6.8 | 6.4 | 6.9 | 7.4 | 7.9 | 7.4 | 7.8 | 8.2 | 8.4 | 8.5 |
| Domestic market sales | 1.7 | 2.3 | 2.2 | 2.4 | 2.5 | 2.7 | 2.5 | 2.7 | 2.8 | 2.9 | 2.9 |
| Oil products (mn t) | | | | | | | | | | | |
| International markets sales | 12.6 | 18.3 | 22.9 | 24.7 | 26.4 | 28.4 | 35.1 | 37.2 | 39.1 | 40.1 | 40.3 |
| 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 | 24.2 | 26.0 | 27.9 | 29.9 | 37.0 | 39.3 | 41.2 | 42.3 | 42.5 |

Source: company's data, Estimation: Veles Capital

Forecast of Rosneft's sales prices of oil and oil products, 2006-2016

| | 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 | 108.9 | 99.8 | 90.2 | 95.5 | 99.3 | 102.3 | 105.8 | 109.2 | 113.0 |
| Urals oil (CIF mediterranean region), USD/bbl | 61.4 | 69.5 | 104.0 | 95.3 | 86.1 | 91.2 | 94.8 | 97.7 | 101.1 | 104.3 | 107.9 |
| Sale price of oil (international market), USD/t | 419.8 | 475.6 | 697.0 | 638.7 | 577.0 | 611.2 | 635.3 | 654.7 | 677.2 | 698.6 | 723.1 |
| Sale price of oil (CIS), USD/t | 267.8 | 326.5 | 488.3 | 447.4 | 404.2 | 428.2 | 445.1 | 458.7 | 474.4 | 489.4 | 506.6 |
| Sale price of oil products (international market) USD/t | 405.2 | 511.7 | 779.8 | 783.1 | 742.9 | 826.2 | 880.3 | 929.9 | 961.8 | 997.3 | 1,037.3 |
| Sale price of oil products (CIS) USD/t | 297.1 | 482.9 | 735.9 | 739.1 | 701.1 | 779.8 | 830.8 | 877.6 | 907.7 | 941.1 | 979.0 |
| Domestic market | | | | | | | | | | | |
| Sale price of oil, USD/t | 125.9 | 223.8 | 328.0 | 300.6 | 271.5 | 287.6 | 299.0 | 308.1 | 318.7 | 328.8 | 340.3 |
| Sale price of oil products, USD/t | 381.4 | 449.3 | 638.4 | 585.0 | 528.5 | 559.8 | 581.9 | 599.7 | 620.2 | 639.9 | 662.3 |

Source: company's data, Estimation: Veles Capital

Rosneft's sales, 2006-2016, mn USD

| | 2006 | 2007 | 2008 (F) | 2009 (F) | 2010 (F) | 2011 (F) | 2012 (F) | 2013 (F) | 2014 (F) | 2015 (F) | 2016 (F) |
|---|--------|--------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Oil | | | | | | | | | | | |
| Export and sales over international and CIS markets | 23,089 | 29,042 | 40,133 | 39,533 | 38,306 | 43,517 | 42,177 | 46,075 | 50,038 | 52,913 | 55,040 |
| Domestic market sales | 214 | 521 | 719 | 708 | 686 | 779 | 755 | 825 | 896 | 948 | 986 |
| Oil products | | | | | | | | | | | |
| Export and sales over international and CIS markets | 5,295 | 9,702 | 18,529 | 20,005 | 20,353 | 24,278 | 32,036 | 35,872 | 38,957 | 41,401 | 43,280 |
| Domestic market sales | 3,955 | 8,672 | 15,440 | 15,210 | 14,738 | 16,743 | 21,554 | 23,546 | 25,571 | 27,040 | 28,127 |
| Value | 32,553 | 47,937 | 74,821 | 75,456 | 74,084 | 85,317 | 96,522 | 106,319 | 115,462 | 122,303 | 127,433 |
| Sales of gas in Russia | 197 | 339 | 480 | 687 | 977 | 1,144 | 1,401 | 1,640 | 1,869 | 2,088 | 2,415 |
| Other products | 350 | 783 | 830 | 892 | 957 | 1,026 | 1,098 | 1,164 | 1,222 | 1,253 | 1,259 |
| Sales, total | 33,100 | 49,059 | 76,130 | 77,035 | 76,017 | 87,488 | 99,022 | 109,123 | 118,554 | 125,644 | 131,107 |

Source: company's data, Estimation: Veles Capital

Rosneft's balance sheets 2006-2016, mn USD

| | 2006 | 2007 | 2008 (F) | 2009 (F) | 2010 (F) | 2011 (F) | 2012 (F) | 2013 (F) | 2014 (F) | 2015 (F) | 2016 (F) |
|---|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Assets | | | | | | | | | | | |
| Current assets | 9,462 | 14,968 | 19,353 | 19,987 | 20,495 | 26,667 | 36,240 | 48,754 | 62,843 | 78,645 | 96,095 |
| Reserves | 905 | 1,926 | 2,886 | 2,893 | 2,931 | 3,375 | 3,712 | 4,122 | 4,511 | 4,815 | 5,049 |
| Cash and equivalents | 505 | 998 | 1,555 | 1,574 | 1,554 | 1,788 | 2,023 | 2,228 | 2,420 | 2,565 | 2,675 |
| Cash limited for use | 29 | 34 | 53 | 54 | 53 | 61 | 69 | 76 | 82 | 87 | 91 |
| Short-term financial investments | 460 | 338 | 1,490 | 1,810 | 2,378 | 6,058 | 13,031 | 23,165 | 35,050 | 49,208 | 65,364 |
| Accounts receivable, netto | 4,839 | 9,785 | 10,877 | 11,011 | 10,873 | 12,506 | 14,149 | 15,588 | 16,931 | 17,940 | 18,716 |
| 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 | 2,214 | 2,241 | 2,213 | 2,546 | 2,880 | 3,173 | 3,446 | 3,652 | 3,809 |
| Non-current assets | 37,328 | 59,837 | 65,759 | 71,985 | 78,069 | 84,182 | 90,159 | 95,590 | 100,826 | 105,071 | 108,419 |
| Financial investments | 568 | 2,646 | 2,768 | 2,902 | 3,048 | 3,206 | 3,376 | 3,557 | 3,748 | 3,949 | 4,161 |
| 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 | 56,293 | 61,846 | 67,368 | 73,000 | 78,560 | 83,618 | 88,513 | 92,515 | 95,680 |
| Construction in process | 388 | 771 | 1,478 | 2,017 | 2,433 | 2,756 | 3,002 | 3,194 | 3,345 | 3,387 | 3,358 |
| 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 | 85,112 | 91,973 | 98,564 | 110,849 | 126,399 | 144,344 | 163,670 | 183,715 | 204,513 |
| Liabilities | | | | | | | | | | | |
| Short-term liabilities | 10,934 | 22,124 | 13,611 | 13,985 | 13,572 | 15,166 | 16,111 | 16,782 | 17,461 | 17,899 | 18,257 |
| Accounts payable | 1,998 | 4,035 | 6,286 | 6,364 | 6,284 | 7,228 | 8,178 | 9,009 | 9,786 | 10,369 | 10,817 |
| Advance payments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credits and current share of long-term debt | 6,427 | 15,550 | 4,786 | 5,082 | 4,749 | 5,399 | 5,394 | 5,234 | 5,136 | 4,991 | 4,901 |
| 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 | 31,904 | 26,880 | 23,226 | 21,436 | 20,207 | 20,031 | 19,855 | 19,679 | 19,503 |
| 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 | 19,663 | 14,639 | 10,985 | 9,195 | 7,966 | 7,790 | 7,614 | 7,438 | 7,262 |
| 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 | 277 | 277 | 277 | 277 | 277 | 277 | 277 | 277 | 277 |
| Shareholders' equity | 21,875 | 28,440 | 39,320 | 50,831 | 61,489 | 73,970 | 89,804 | 107,254 | 126,077 | 145,861 | 166,477 |
| 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 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Retained earnings | 10,503 | 22,866 | 33,746 | 45,257 | 55,915 | 68,396 | 84,230 | 101,680 | 120,503 | 140,287 | 160,903 |
| Total liabilities | 46,790 | 74,805 | 85,112 | 91,973 | 98,564 | 110,849 | 126,399 | 144,344 | 163,670 | 183,715 | 204,513 |

Source: company's data, Estimation: Veles Capital

Rosneft's income and loss statements, 2006-2016, mn USD

| | 2006 | 2007 | 2008 (F) | 2009 (F) | 2010 (F) | 2011 (F) | 2012 (F) | 2013 (F) | 2014 (F) | 2015 (F) | 2016 (F) |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Operating income | 33,100 | 49,216 | 76,677 | 77,623 | 76,647 | 88,164 | 99,745 | 109,890 | 119,359 | 126,469 | 131,936 |
| Operating costs | 2,197 | 3,870 | 4,348 | 5,142 | 6,011 | 7,159 | 8,235 | 9,296 | 10,298 | 11,136 | 11,751 |
| Taxes, excluding income tax | 6,990 | 10,890 | 16,542 | 15,249 | 14,574 | 16,643 | 18,570 | 20,319 | 22,101 | 23,427 | 24,454 |
| Oil and oil products export duties | 11,140 | 13,032 | 22,395 | 21,537 | 20,221 | 23,398 | 24,560 | 27,058 | 29,652 | 31,610 | 33,162 |
| Cost of purchased oil and oil products | 1,320 | 1,610 | 2,552 | 2,514 | 2,436 | 2,767 | 3,078 | 3,362 | 3,652 | 3,861 | 4,017 |
| Use of pipelines and delivery costs | 3,226 | 4,226 | 5,522 | 6,590 | 7,774 | 9,088 | 10,502 | 11,912 | 13,258 | 14,337 | 15,129 |
| Marketing, managerial and general expenses | 757 | 1,341 | 2,089 | 2,115 | 2,088 | 2,402 | 2,718 | 2,994 | 3,252 | 3,446 | 3,595 |
| Other | 227 | 240 | 396 | 460 | 529 | 604 | 686 | 766 | 841 | 904 | 951 |
| EBITDA | 7,242 | 14,007 | 22,833 | 24,017 | 23,015 | 26,102 | 31,396 | 34,182 | 36,304 | 37,748 | 38,877 |
| EBITDA margin, % | 21.9 | 28.5 | 29.8 | 30.9 | 30.0 | 29.6 | 31.5 | 31.1 | 30.4 | 29.8 | 29.5 |
| PPE amortization | 1,638 | 3,286 | 3,840 | 4,222 | 4,948 | 5,389 | 5,840 | 6,678 | 7,108 | 7,524 | 7,864 |
| EBIT | 5,604 | 10,721 | 18,993 | 19,795 | 18,067 | 20,712 | 25,556 | 27,505 | 29,197 | 30,224 | 31,014 |
| EBIT margin, % | 16.9 | 21.8 | 24.8 | 25.5 | 23.6 | 23.5 | 25.6 | 25.0 | 24.5 | 23.9 | 23.5 |
| Non-operating income/expense | (1,439) | 7,068 | (2,172) | (1,853) | (1,431) | (1,134) | (883) | (493) | (59) | 401 | 901 |
| Income before taxes and minority interest | 4,165 | 17,789 | 16,821 | 17,941 | 16,636 | 19,578 | 24,673 | 27,012 | 29,137 | 30,625 | 31,914 |
| Income before margin tax, % | 12.6 | 36.1 | 21.9 | 23.1 | 21.7 | 22.2 | 24.7 | 24.6 | 24.4 | 24.2 | 24.2 |
| Income tax | 2,385 | 3,848 | 4,458 | 4,665 | 4,242 | 4,895 | 6,045 | 6,483 | 6,993 | 7,350 | 7,659 |
| Net income | 3,533 | 12,862 | 12,364 | 13,277 | 12,394 | 14,684 | 18,628 | 20,529 | 22,144 | 23,275 | 24,254 |
| Net income margin, % | 10.7 | 26.1 | 16.1 | 17.1 | 16.2 | 16.7 | 18.7 | 18.6 | 18.4 | 18.4 | 18.4 |

Source: company's data, Estimation: Veles Capital

Rosneft's cash flows, 2006-2016, mn USD

| | 2006 | 2007 | 2008 (F) | 2009 (F) | 2010 (F) | 2011 (F) | 2012 (F) | 2013 (F) | 2014 (F) | 2015 (F) | 2016 (F) |
|--|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Operating activities | | | | | | | | | | | |
| Net income | 3,533 | 12,862 | 12,364 | 13,277 | 12,394 | 14,684 | 18,628 | 20,529 | 22,144 | 23,275 | 24,254 |
| Depreciation and amortization | 1,638 | 3,286 | 3,840 | 4,222 | 4,948 | 5,389 | 5,840 | 6,678 | 7,108 | 7,524 | 7,864 |
| Other corrections | (1,411) | 3,867 | (122) | (134) | (146) | (158) | (170) | (181) | (191) | (201) | (211) |
| Cash flows provided by operating activities, before change of turnover capital | 3,760 | 20,015 | 16,082 | 17,364 | 17,195 | 19,915 | 24,298 | 27,026 | 29,061 | 30,598 | 31,906 |
| Change of turnover assets | (1,633) | (5,563) | (2,676) | (296) | 41 | (2,257) | (2,367) | (2,174) | (2,012) | (1,500) | (1,183) |
| Change of turnover liabilities | 466 | 2,658 | 2,251 | 78 | (80) | 944 | 950 | 832 | 776 | 583 | 448 |
| Net cash provided by operating activities | 2,593 | 17,110 | 15,657 | 17,146 | 17,156 | 18,602 | 22,881 | 25,684 | 27,826 | 29,680 | 31,172 |
| Cash flows from investing activities | | | | | | | | | | | |
| CapEx | (3,462) | (6,240) | (9,410) | (10,037) | (10,554) | (10,976) | (11,387) | (11,634) | (11,847) | (11,255) | (10,692) |
| Licenses | (916) | (90) | (230) | (276) | (332) | (369) | (260) | (293) | (306) | (312) | (308) |
| Purchase of short-term financial investments | (277) | (244) | (1,152) | (320) | (568) | (3,681) | (6,972) | (10,135) | (11,885) | (14,157) | (16,157) |
| Other | (1,861) | (13,521) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net cash provided by investing activities | (6,516) | (20,095) | (10,793) | (10,633) | (11,453) | (15,025) | (18,619) | (22,062) | (24,039) | (25,724) | (27,157) |
| Cash flows from financing activities | | | | | | | | | | | |
| Earnings from short-term credits | 2,768 | 14,391 | 101 | 397 | 64 | 714 | 709 | 549 | 451 | 306 | 216 |
| Payment of short-term credits | (796) | (3,731) | (10,865) | (101) | (397) | (64) | (714) | (709) | (549) | (451) | (306) |
| 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) | (2,925) | (5,024) | (3,654) | (1,790) | (1,229) | (176) | (176) | (176) | (176) |
| 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) | (1,484) | (1,766) | (1,735) | (2,203) | (2,794) | (3,079) | (3,322) | (3,491) | (3,638) |
| 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 | (4,308) | (6,494) | (5,722) | (3,343) | (4,028) | (3,416) | (3,595) | (3,812) | (3,904) |
| (Decrease) increase of cash and equivalents | (698) | 455 | 557 | 19 | (20) | 234 | 235 | 206 | 192 | 144 | 111 |
| Cash at the beginning of period | 1,173 | 505 | 998 | 1,555 | 1,574 | 1,554 | 1,788 | 2,023 | 2,228 | 2,420 | 2,565 |
| 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 | 1,555 | 1,574 | 1,554 | 1,788 | 2,023 | 2,228 | 2,420 | 2,565 | 2,675 |

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 | 10.33 | 10.61 | 11.00 | 11.00 | 11.00 | 11.00 | 11.00 | 11.00 | 11.00 | 11.00 |
| 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 | 0.98 | 1.04 | 1.04 | 1.04 | 1.04 | 1.04 | 1.04 | 1.04 | 1.04 | 1.04 |
| Share of equity, % | 61.3 | 51.0 | 61.7 | 72.0 | 79.6 | 83.5 | 87.0 | 89.2 | 90.8 | 92.1 | 93.2 |
| 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 | 26.50 | 26.00 | 25.50 | 25.00 | 24.50 | 24.00 | 24.00 | 24.00 | 24.00 |
| Share of debt, % | 38.73 | 48.95 | 38.34 | 27.95 | 20.37 | 16.48 | 12.95 | 10.83 | 9.18 | 7.85 | 6.81 |
| WACC | 8.72 | 7.66 | 8.52 | 9.48 | 9.90 | 10.11 | 10.31 | 10.43 | 10.51 | 10.58 | 10.64 |

Source: company's data, Estimation: Veles Capital

Free Cash Flow of Gazprom Neft, forecast, 2006-2016, mn USD

| | 2006 | 2007 | 2008 (F) | 2009 (F) | 2010 (F) | 2011 (F) | 2012 (F) | 2013 (F) | 2014 (F) | 2015 (F) | 2016 (F) |
|-------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| EBITDA | 7,242 | 14,007 | 22,833 | 24,017 | 23,015 | 26,102 | 31,396 | 34,182 | 36,304 | 37,748 | 38,877 |
| Amortization and depreciation | 1,638 | 3,286 | 3,840 | 4,222 | 4,948 | 5,389 | 5,840 | 6,678 | 7,108 | 7,524 | 7,864 |
| EBIT | 5,604 | 10,721 | 18,993 | 19,795 | 18,067 | 20,712 | 25,556 | 27,505 | 29,197 | 30,224 | 31,014 |
| Income tax | 2,385 | 3,848 | 4,458 | 4,665 | 4,242 | 4,895 | 6,045 | 6,483 | 6,993 | 7,350 | 7,659 |
| after-tax EBITDA | 4,857 | 10,159 | 18,375 | 19,352 | 18,772 | 21,207 | 25,351 | 27,700 | 29,311 | 30,398 | 31,218 |
| CapEx | 4,378 | 6,330 | 9,640 | 10,314 | 10,885 | 11,345 | 11,647 | 11,927 | 12,153 | 11,567 | 11,000 |
| Change of operating capital | (1,167) | (2,905) | (424) | (218) | (39) | (1,313) | (1,417) | (1,342) | (1,235) | (917) | (734) |
| FCF | 970 | 1,816 | 7,735 | 8,338 | 7,483 | 8,266 | 12,071 | 14,312 | 15,908 | 18,010 | 19,700 |

Source: company's data, Estimation: Veles Capital

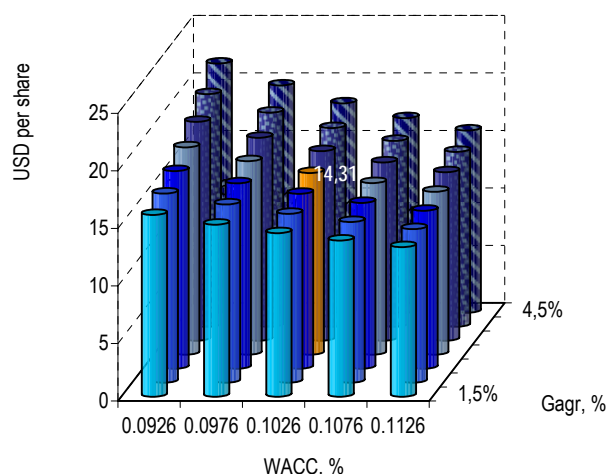
Rosneft's stocks valuation

| | |
|--|----------------|
| TGR, % | 3.00 |
| Terminal value, mn USD | 265,614 |
| Discounted terminal value, mn USD | 106,923 |
| Enterprise value, mn USD | 177,933 |
| Net debt, mn USD | 26,275 |
| Shareholder's equity (incl. minority interest), mn USD | 151,658 |
| Number of shares, mn units | 10,598,177,810 |
| Fair value of common stock at the year end, USD | 14.31 |
| Upside (downside) of common stock, % | 22.73 |

Source: company's data, Estimation: Veles Capital

Average fair price analysis of shares

| Growth rate in postforecasted period, % | WACC, % | | | | |
|---|---------|-------|--------------|-------|-------|
| | 9.6% | 10.1% | 10.6% | 11.1% | 11.6% |
| 1.5% | 14.35 | 13.38 | 12.53 | 11.79 | 11.13 |
| 2.0% | 15.06 | 13.99 | 13.06 | 12.24 | 11.52 |
| 2.5% | 15.88 | 14.68 | 13.64 | 12.75 | 11.96 |
| 3.0% | 16.82 | 15.47 | 14.31 | 13.31 | 12.45 |
| 3.5% | 17.91 | 16.37 | 15.07 | 13.96 | 13.00 |
| 4.0% | 19.20 | 17.42 | 15.94 | 14.69 | 13.62 |
| 4.5% | 20.73 | 18.66 | 16.96 | 15.53 | 14.32 |



Source: estimation of 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 | 13.7 | 10.9 | 9.7 | 14.7 | 16.6 | 16.7 | 15.6 | 14.2 | 13.0 |
| Invested capital (IC), mn USD | 35,199 | 54,715 | 62,214 | 68,978 | 75,669 | 86,776 | 101,142 | 118,049 | 136,407 | 155,725 | 175,964 |
| Equity, mn USD | 21,875 | 28,440 | 39,320 | 50,831 | 61,489 | 73,970 | 89,804 | 107,254 | 126,077 | 145,861 | 166,477 |

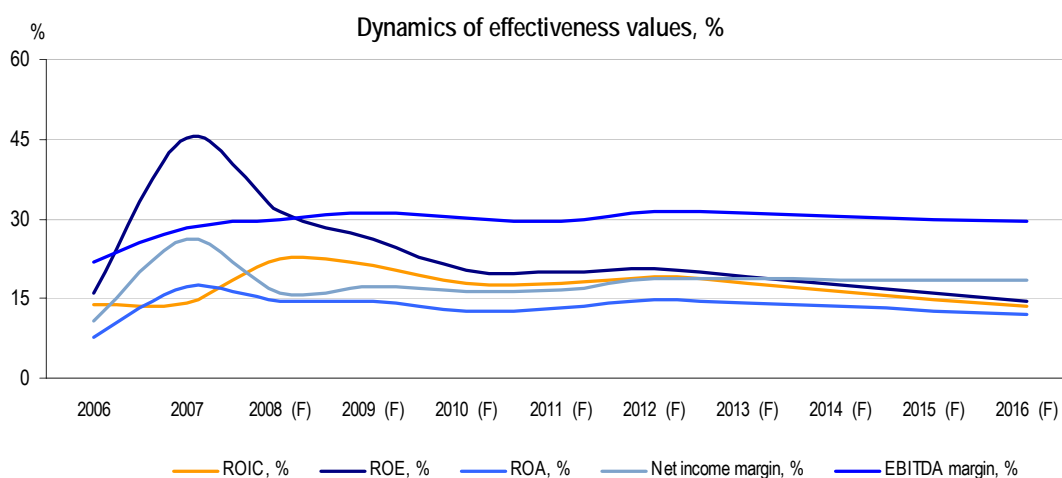
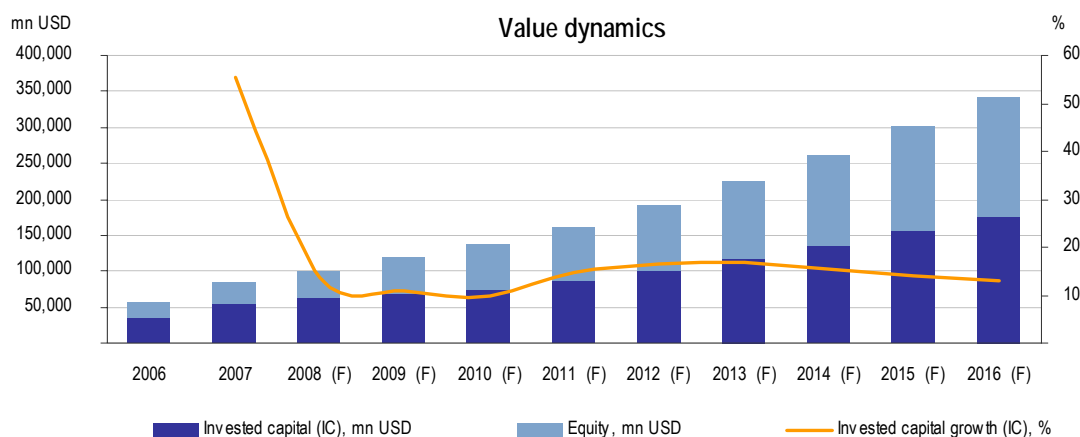
Business efficiency analysis

| | 2006 | 2007 | 2008 (F) | 2009 (F) | 2010 (F) | 2011 (F) | 2012 (F) | 2013 (F) | 2014 (F) | 2015 (F) | 2016 (F) |
|----------------------|------|------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| ROIC, % | 13.9 | 14.2 | 22.4 | 21.2 | 17.8 | 17.9 | 19.1 | 17.7 | 16.3 | 14.8 | 13.4 |
| ROE, % | 16.2 | 45.2 | 31.4 | 26.1 | 20.2 | 19.9 | 20.7 | 19.1 | 17.6 | 16.0 | 14.6 |
| ROA, % | 7.6 | 17.2 | 14.5 | 14.4 | 12.6 | 13.2 | 14.7 | 14.2 | 13.5 | 12.7 | 11.9 |
| EBITDA margin, % | 21.9 | 28.5 | 29.8 | 30.9 | 30.0 | 29.6 | 31.5 | 31.1 | 30.4 | 29.8 | 29.5 |
| EBIT margin, % | 16.9 | 21.8 | 24.8 | 25.5 | 23.6 | 23.5 | 25.6 | 25.0 | 24.5 | 23.9 | 23.5 |
| Net profit margin, % | 10.7 | 26.1 | 16.1 | 17.1 | 16.2 | 16.7 | 18.7 | 18.7 | 18.6 | 18.4 | 18.4 |

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 | 0.62 | 0.39 | 0.26 | 0.20 | 0.15 | 0.12 | 0.10 | 0.09 | 0.07 |
| liquidity estimates | | | | | | | | | | | |
| coverage coeff. | 0.78 | 0.59 | 1.21 | 1.22 | 1.29 | 1.54 | 2.02 | 2.66 | 3.34 | 4.12 | 4.99 |
| fast liquidity coeff. | 0.87 | 0.68 | 1.42 | 1.43 | 1.51 | 1.76 | 2.25 | 2.91 | 3.60 | 4.39 | 5.26 |
| absolute liquidity coeff. | 0.09 | 0.06 | 0.22 | 0.24 | 0.29 | 0.52 | 0.93 | 1.51 | 2.15 | 2.89 | 3.73 |
| 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 | 14 | 13 | 14 | 14 | 13 | 14 | 14 | 14 | 14 |
| usage of turnover capital | (22.49) | (6.88) | 13.35 | 12.93 | 11.07 | 7.67 | 4.96 | 3.44 | 2.63 | 2.08 | 1.70 |

Source: company's data; Estimation: Veles Capital

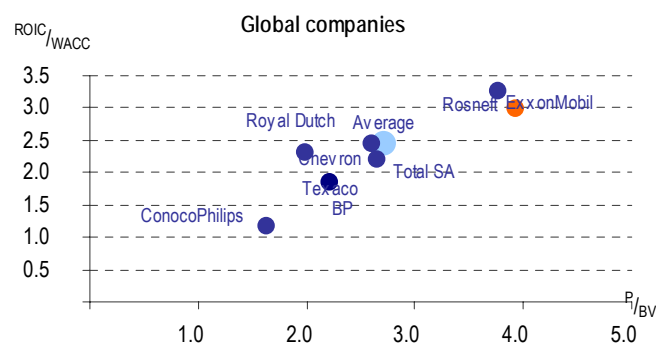
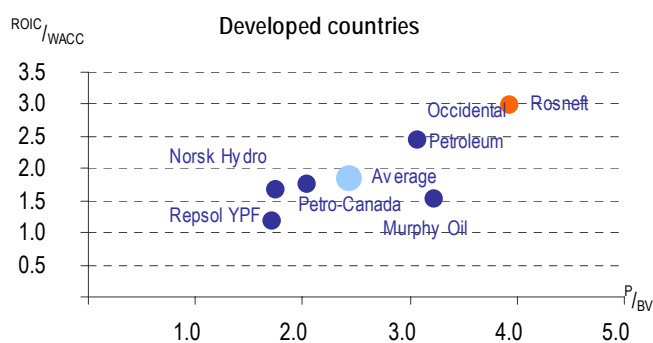
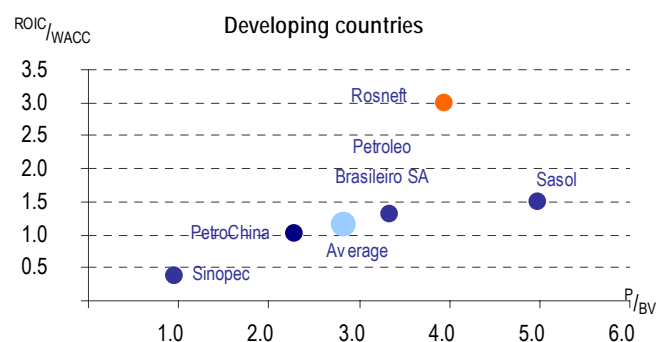
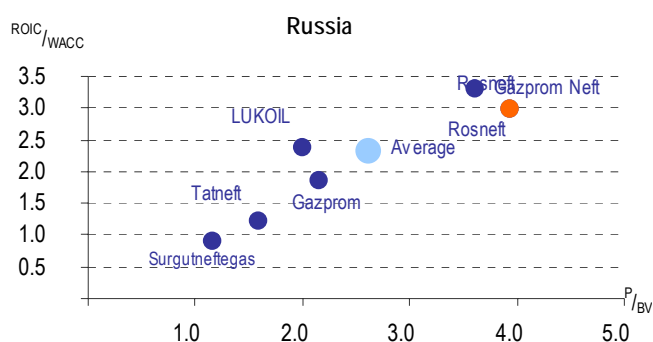


Public comparables

| Company | Country | Ticker | Current capitalization, mn USD | Market multipliers | | | | Financial multipliers | | | | |
|---------------------------|---------|----------|--------------------------------|--------------------|-------|-----------|------|-----------------------|--------|---------|---------|-----------|
| | | | | P/S | P/E | EV/EBITDA | P/BV | ROE, % | ROA, % | ROIC, % | WACC, % | ROIC/WACC |
| Gazprom | Russia | GAZP RU | 336,637 | 3.51 | 13.08 | 9.82 | 2.16 | 21.28 | 12.70 | 16.51 | 8.89 | 1.86 |
| LUKOIL | Russia | LKOH RU | 88,884 | 1.15 | 7.60 | 5.34 | 2.00 | 25.67 | 17.63 | 22.46 | 9.50 | 2.36 |
| Gazprom Neft | Russia | SIBN RU | 37,219 | 1.93 | 9.98 | - | 3.61 | 40.69 | 26.98 | 33.44 | 10.15 | 3.29 |
| Surgutneftegas | Russia | SNGS RU | 45,901 | 1.86 | 12.29 | - | 1.17 | 9.83 | 9.15 | 9.71 | 10.84 | 0.90 |
| Tatneft | Russia | TATN RU | 17,503 | 1.20 | 13.37 | 7.14 | 1.60 | 13.84 | 9.90 | 13.59 | 11.30 | 1.20 |
| TNK-BP | Russia | TNBP RU | 32,803 | 1.40 | 4.84 | - | 2.71 | 73.96 | 31.86 | 60.87 | 10.50 | 5.80 |
| Transneft | Russia | TRNFP RU | 9,018 | 0.74 | 3.42 | 3.47 | 0.39 | 15.09 | 10.38 | 13.94 | 9.86 | 1.41 |
| Rosneft | Russia | ROSN RU | 123,575 | 1.96 | 15.42 | 10.69 | 3.94 | 51.13 | 21.16 | 29.45 | 9.86 | 2.99 |
| NOVATEK | Russia | NVTK RU | 25,657 | - | 24.54 | - | 6.84 | 25.04 | 19.90 | 23.62 | 9.86 | 2.40 |
| Russia average | | | | 2.54 | 12.51 | 9.13 | 2.62 | 29.53 | 16.32 | 22.10 | 9.50 | 2.31 |
| PetroChina | China | 857 HK | 399,920 | 1.97 | 11.31 | 10.53 | 2.29 | 22.06 | 15.07 | 20.44 | 19.88 | 1.03 |
| Petroleo Brasileiro SA | Brazil | PETRA BZ | 271,150 | 2.26 | 16.61 | 9.54 | 3.34 | 20.35 | 9.74 | 16.07 | 12.34 | 1.30 |
| Sasol | SAR | SOL SJ | 40,138 | 2.53 | 17.32 | - | 4.99 | 29.82 | 15.33 | 23.82 | 15.92 | 1.50 |
| Sinopec | China | 338 HK | 6,657 | 0.36 | 12.06 | 20.87 | 0.95 | 8.25 | 5.71 | 7.45 | 19.42 | 0.38 |
| Emerging markets average | | | | 2.10 | 13.65 | 10.24 | 2.83 | 21.72 | 12.98 | 18.86 | 16.81 | 1.15 |
| Murphy Oil | USA | MUR US | 17,566 | 0.81 | 16.31 | 8.02 | 3.23 | 16.69 | 8.51 | 13.46 | 8.81 | 1.53 |
| Norsk Hydro | Norway | NHY NO | 18,540 | 0.72 | 7.06 | - | 1.75 | 24.17 | 11.16 | 21.40 | 12.91 | 1.66 |
| Occidental Petroleum | USA | OXY US | 73,759 | 3.59 | 13.74 | 6.24 | 3.08 | 25.67 | 15.66 | 24.14 | 9.87 | 2.45 |
| Petro-Canada | Canada | PCA CN | 27,269 | 1.20 | 10.04 | 3.64 | 2.04 | 24.50 | 11.76 | 19.69 | 11.33 | 1.74 |
| Repsol YPF | Spain | REP SM | 49,792 | 0.58 | 9.24 | - | 1.71 | 17.74 | 6.90 | 11.95 | 10.19 | 1.17 |
| Developed markets average | | | | 1.89 | 11.58 | 5.91 | 2.45 | 22.39 | 11.64 | 18.97 | 10.37 | 1.84 |
| BP | UK | BP/ LN | 217,495 | 0.72 | 9.24 | 5.75 | 2.21 | 23.39 | 9.19 | 18.64 | 10.04 | 1.86 |
| Chevron Texaco | USA | CVX | 204,315 | 0.93 | 10.70 | 5.44 | 2.61 | 25.60 | 13.28 | 23.11 | 9.47 | 2.44 |
| ConocoPhillips | USA | COP | 143,247 | 0.81 | 8.84 | 5.13 | 1.64 | 13.86 | 6.94 | 11.33 | 9.64 | 1.18 |
| ExxonMobil | USA | XOM US | 464,384 | 1.23 | 11.43 | 5.81 | 3.77 | 34.47 | 17.61 | 32.47 | 9.94 | 3.27 |
| Royal Dutch | Holland | RDSA LN | 256,961 | 0.65 | 7.78 | 4.56 | 1.99 | 27.28 | 12.41 | 23.75 | 10.25 | 2.32 |
| Total SA | France | FP FP | 201,528 | 0.84 | 8.88 | 4.36 | 2.65 | 30.95 | 12.05 | 22.81 | 10.39 | 2.20 |
| Global average | | | | 0.92 | 9.78 | 5.27 | 2.72 | 27.93 | 13.11 | 24.31 | 9.98 | 2.44 |

Source: Bloomberg; Estimation: Veles Capital

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



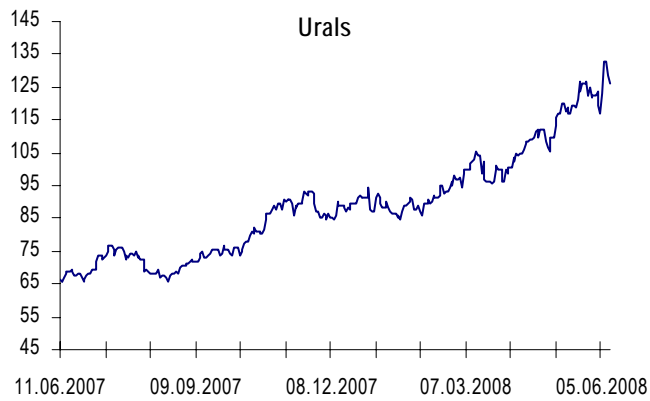
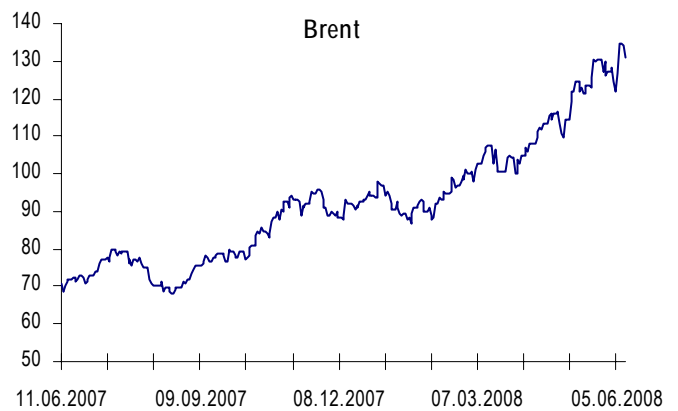
Source: Bloomberg; Estimation: Veles Capital

Commodity markets

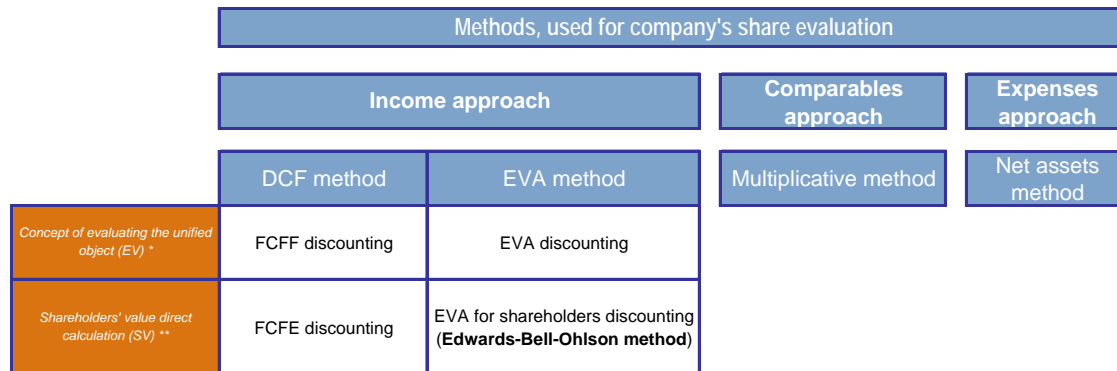
Current oil prices

| | | Close, USD | Change, USD | Change, % | | | | | Current year, USD | |
|------------------|---|------------|-------------|-----------|------|-------|------------|-------|-------------------|--------|
| | | | | day | week | month | from Jan 1 | year | min | max |
| Light, USD / bbl | ▼ | 130,37 | -2,36 | -1,78 | 4,29 | 4,51 | 35,94 | 89,68 | 86,75 | 136,83 |
| Brent, USD / bbl | ▼ | 131,15 | -3,05 | -2,27 | 5,38 | 5,29 | 39,68 | 85,79 | 85,05 | 137,76 |
| Urals, USD / bbl | ▼ | 126,17 | -2,34 | -1,82 | 5,46 | 4,95 | 38,22 | 90,50 | 82,80 | 132,88 |
| WTI, USD / bbl | ▼ | 131,31 | -3,04 | -2,26 | 5,63 | 4,25 | 36,78 | 99,05 | 86,47 | 138,54 |

Oil price charts



Brief investor's guide



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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

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

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

$$EVA = \text{economic profit spread} * IC = (ROIC - WACC) * IC$$
- SVA - Shareholders Value Added

$$SVA = \text{spread} * E = (ROE - k_s) * E$$
- WACC - Weighted Average Cost of Capital
- k_s - required shareholders' yield
- D - fair (market) cost of net debt
- Cash - cash assets, along with market securities on thee balance
- NA - non-operational assets
- IC - Invested Capital
- ROIC - Return on Invested Capital

$$ROIC = \frac{NOPAT}{IC}$$
- ROE - Return on Equity
- ROA - Return on Assets

Information disclosure

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The principle of recommendation assignment

The investment recommendations are given based on the evaluation of the company's share yield. The basis for the calculation of the expected company's cost is the evaluation by the discounted cash flows method (DCF). In some estimations the method of comparable coefficients, and also the mixed estimation (by DCF method and by comparable coefficients method) are applied. All recommendations are assigned based on the determined by us the fair cost of the shares within the nearest 12 months.

At the present moment the investment scale of the Investment Company Veles Capital is the following:

BUY – corresponds to the growth potential of the shares within the nearest 12 months by 15% or more.

ACCUMULATE – corresponds to the growth potential of the shares within the nearest 12 months for 5-15%.

HOLD – corresponds to the growth (reduction) potential of the shares within the nearest 12 months from -5% to 5%.

REDUCE – corresponds to the reduction potential of the shares within the nearest 12 months from 15% to 5%.

SELL – corresponds to the reduction potential of the shares within the nearest 12 months by 15% or more.

In some cases the deviations from the evaluation scale given above, based on which the recommendations are assigned, are possible. That fact relates to the high volatility of some securities in particular, and market in the whole, and also to the individual characteristics of one or another issuer.

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