

UPDATE

# Russian oil and gas

## Outlook for 2012

### Sector ratings

| Stock                  | TP    | Upside potential | Rating |
|------------------------|-------|------------------|--------|
| Alliance Oil Company   | 73.3  | -11%             | HOLD   |
| Bashneft (ord.)        | 59.7  | 34%              | BUY    |
| Bashneft (pref.)       | 53.7  | 64%              | BUY    |
| Gazprom                | 12.4  | 127%             | BUY    |
| Gazprom neft           | 3.50  | -24%             | SELL   |
| LUKOIL                 | 63.8  | 22%              | BUY    |
| NOVATEK                | 14.7  | 22%              | HOLD   |
| Rosneft                | 9.00  | 33%              | BUY    |
| Surgutneftegas (ord.)  | 1.00  | 25%              | BUY    |
| Surgutneftegas (pref.) | 0.57  | 10%              | BUY    |
| Tatneft (ord.)         | 6.05  | 25%              | BUY    |
| Tatneft (pref.)        | 3.38  | 18%              | BUY    |
| TNK-BP Holding (ord.)  | 2.90  | 10%              | HOLD   |
| TNK-BP Holding (pref.) | 2.90  | 26%              | HOLD   |
| Transneft (pref.)      | 2,809 | 89%              | BUY    |

Sources: Bloomberg, Otkritie Capital Research

### Valuation multiples

|                  | P/E   |       | EV/EBITDA |       |
|------------------|-------|-------|-----------|-------|
|                  | 2012E | 2013E | 2012E     | 2013E |
| Alliance Oil Co. | 10.7  | 6.3   | 6.2       | 4.0   |
| Bashneft         | 9.3   | 8.6   | 5.2       | 5.1   |
| Gazprom          | 3.3   | 3.3   | 2.5       | 2.3   |
| Gazprom neft     | 9.0   | 8.2   | 5.4       | 4.9   |
| LUKOIL           | 5.2   | 4.7   | 2.9       | 2.4   |
| NOVATEK          | 17.8  | 13.8  | 13.3      | 10.4  |
| Rosneft          | 7.3   | 7.7   | 4.5       | 4.3   |
| Surgutneftegas   | 10.4  | 13.1  | 0.7       | 0.8   |
| Tatneft          | 4.9   | 5.1   | 3.5       | 3.5   |
| TNK-BP Holding   | 8.3   | 9.4   | 5.3       | 5.7   |
| Transneft        | 3.3   | 2.5   | 2.8       | 2.0   |

Sources: Bloomberg, Otkritie Capital Research

An acceleration of the reform agenda in 2012 has now become both a political and economic necessity, we think. No reform process in Russia can be successful without proper attention being given to its largest but badly regulated sector. Lack of progress over the past six years has produced significant structural cracks, resulting in a shortage of oil products, reduced production growth and a generally deteriorated investment climate. It is with the improvements of these issues that we associate the revaluation potential of Russia's listed oil & gas stocks in 2012. Our top picks are LUKOIL, Gazprom and Transneft.

**Oil tax reform.** We view the recent changes to the oil taxation in Russia (the so called 60-66-90 tax regime) as just the first step in the painful adjustment process of the – still – inefficient and backward-looking regulatory regime. Future changes are likely to include a continuing reduction in the export duty on crude; greater benefits for greenfield developments; and a revamp of the oil products regulation to stimulate much needed upgrades of the existing refining capacity. The end-outcome of this process, we believe, will be more profitable upstream and less profitable downstream operations. We like LUKOIL as a play on brownfield redevelopment, Rosneft as having the best portfolio of greenfield assets, and Tatneft as having the lowest downstream exposure.

**Corporate governance improvements.** As a typical representative of the “old economy”, the Russian oil & gas sector still suffers from one of the worst corporate governance records on the local stock market. Three companies in particular – Gazprom, Transneft and Surgutneftegas – have the capacity to show the biggest gains. In the case of Gazprom and Transneft, these could come from improved dividend policies and better strategic management; while Surgutneftegas should benefit from the improvement in Russian financial regulation, particularly with respect to the shareholding disclosure rules and consolidated reporting.

**Improving gas fundamentals.** We believe the change in Russia's political cycle will create opportunities to speed up much needed reforms of the domestic gas sector, which should ultimately result, among other things, in significantly higher-than-currently-expected domestic gas prices, and improved regulation of the gas pipeline network and access rights. We view Gazprom as a revaluation play on the improvements in corporate governance, domestic gas sector reforms and a changed perception of the European gas markets.

Important disclosures are found at the Disclosures Appendix.

This investment research is produced by Otkritie Securities Ltd, authorised and regulated by the Financial Services Authority (FSA), and has been prepared by non-US research analysts who are not FINRA registered/qualified as research analysts.



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# Executive Summary

No reform process in Russia can be successful without proper attention being given to its largest but badly regulated sector. Lack of reform over the past six years has produced significant structural cracks, resulting in a shortage of oil products, reduced production growth and a generally deteriorated investment climate. It is with the improvements of these issues that we associate the revaluation potential of Russia's listed oil & gas stocks in 2012.

## Themes

- 1. Oil tax reform.** We view the recent changes to the oil taxation in Russia (the so called 60-66-90 tax regime, introduced from 1 Oct 2011) as just the first step in the painful adjustment process of the – still – inefficient and backward-looking regulatory regime. Future changes are likely to include a continuing reduction in the export duty on crude oil; greater benefits for greenfield developments; and a revamp of the oil products regulation (potentially including export duties, domestic excise taxes and domestic product prices regulation) to stimulate much needed upgrades of the existing refining capacity. The end-outcome of this process, we believe, will be more profitable upstream and less profitable downstream operations. We like LUKOIL as a play on brownfield redevelopment, Rosneft as having the best portfolio of greenfield assets, and Tatneft as having the lowest downstream exposure among blue-chip oils.
- 2. Corporate governance improvements.** As a typical representative of the “old economy”, the Russian oil & gas sector still suffers from one of the worst corporate governance records on the local stock market. Three companies in particular – Gazprom, Transneft and Surgutneftegas – have the capacity to show the biggest gains. In the case of Gazprom and Transneft, these could come from improved dividend policies and better strategic management; while Surgutneftegas should benefit from the improvement in Russian financial regulation, particularly with respect to the shareholding disclosure rules and consolidated reporting.
- 3. Improving gas fundamentals in Russia and Europe.** We believe the change in Russia's political cycle will create opportunities to speed up much needed reforms of the domestic gas sector, which should ultimately result, among other things, in significantly higher-than-currently-expected domestic gas prices, and improved regulation of the gas pipeline network and access rights. In Europe, we expect Gazprom's market share will strengthen following the recent launch of the Nord Stream pipeline amid Europe's growing dependency on imported gas. We believe the recent scares over the terms of Gazprom's long-term contracts are unlikely to cause substantial changes to the existing terms of supply.

## Trade Ideas

1. LUKOIL (BUY, target price \$63.8) can deliver the biggest positive surprise vs current (undemanding) market expectations through improved production growth, better capital efficiencies and higher dividends, we think.
2. Gazprom (BUY, target price \$12.4/share, \$24.8/GDR) is a revaluation play on the improvements in corporate governance, domestic gas sector reforms and a changed perception of the European gas markets.
3. Transneft (BUY, target price \$2,809/share) has a multiple-fold revaluation potential but requires support from its board of directors and senior management in the form of higher dividends and improved regulation. Having been included in the privatisation list, and in need of external funding, we believe there is now an incentive to change.

## Risks

As a heavily regulated sector, the government's commitment to reform is required. There is likely to be less support if the government's popularity rankings continue to dwindle, and the oil price stays high.

## Models update

We have updated our company models, taking into account recent changes to industry taxes, actual prices and production volumes in 2011, and our new outlooks on production and capex for 2012. We detail the changes to our target prices and ratings in Figure 1 below.

**Figure 1. Changes to our target prices and ratings**

| Stock                      | Old TP   | Old Rating | New TP   | % chg  | New Rating | TP/ Rating Δ | Upside/ (Downside) |
|----------------------------|----------|------------|----------|--------|------------|--------------|--------------------|
| Alliance Oil Company       | SEK 76.1 | HOLD       | SEK 73.3 | -3.7%  | HOLD       | -/=          | -11%               |
| Bashneft (common)          | \$59.6   | BUY        | \$59.7   | 0.2%   | BUY        | +/=          | 34%                |
| Bashneft (preferred)       | \$53.6   | BUY        | \$53.7   | 0.2%   | BUY        | +/=          | 64%                |
| Gazprom                    | \$12.4   | BUY        | \$12.4   | 0.0%   | BUY        | =/=          | 127%               |
| Gazprom neft               | \$2.8    | SELL       | \$3.5    | 25.0%  | SELL       | +/=          | -24%               |
| LUKOIL                     | \$69.0   | BUY        | \$63.8   | -7.5%  | BUY        | -/=          | 22%                |
| NOVATEK                    | \$14.5   | HOLD       | \$14.7   | 1.4%   | HOLD       | +/=          | 22%                |
| Rosneft                    | \$9.8    | BUY        | \$9.0    | -8.2%  | BUY        | -/=          | 33%                |
| Surgutneftegaz (common)    | \$1.0    | BUY        | \$1.0    | 0.0%   | BUY        | =/=          | 27%                |
| Surgutneftegaz (preferred) | \$0.57   | BUY        | \$0.57   | 0.0%   | BUY        | =/=          | 27%                |
| Tatneft (common)           | \$6.8    | BUY        | \$6.05   | -11.0% | BUY        | -/=          | 25%                |
| Tatneft (preferred)        | \$3.8    | BUY        | \$3.38   | -11.1% | BUY        | -/=          | 18%                |
| TNK-BP Holding (common)    | \$3.0    | HOLD       | \$2.9    | -3.3%  | HOLD       | -/=          | 11%                |
| TNK-BP Holding (preferred) | \$3.0    | HOLD       | \$2.9    | -3.3%  | HOLD       | -/=          | 26%                |

Sources: Otkritie Capital Research

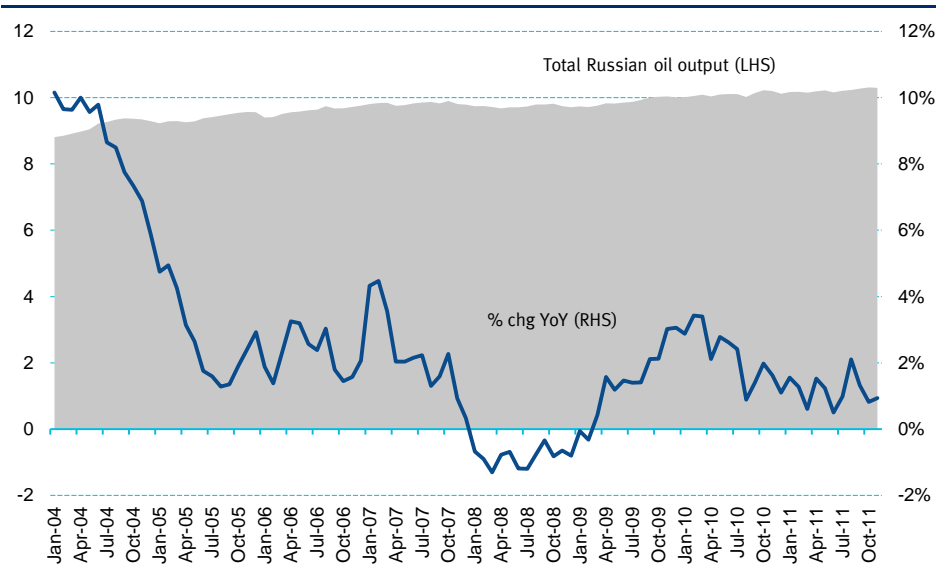
# Fundamentals watch

## Crude production – growth is set to flatten

### 2011 performance

We estimate total Russian crude output will amount to 511.3mnt or 10.23mnbpd in 2011, which represents a 1.2% increase over 2010. Although the pace of growth in the oil sector decelerated from 2.2% in 2010, Russia posted another post-USSR record in 2011 in terms of total crude output. On our estimates, Russia maintained the top position among crude producers globally, despite Saudi Arabia increasing its output by about 10% YoY (from the average of 8.13mnbpd in 2010 to almost 9.0mnbpd in 2011), according to IEA.

**Figure 2. Russian oil output (mnbpd)**

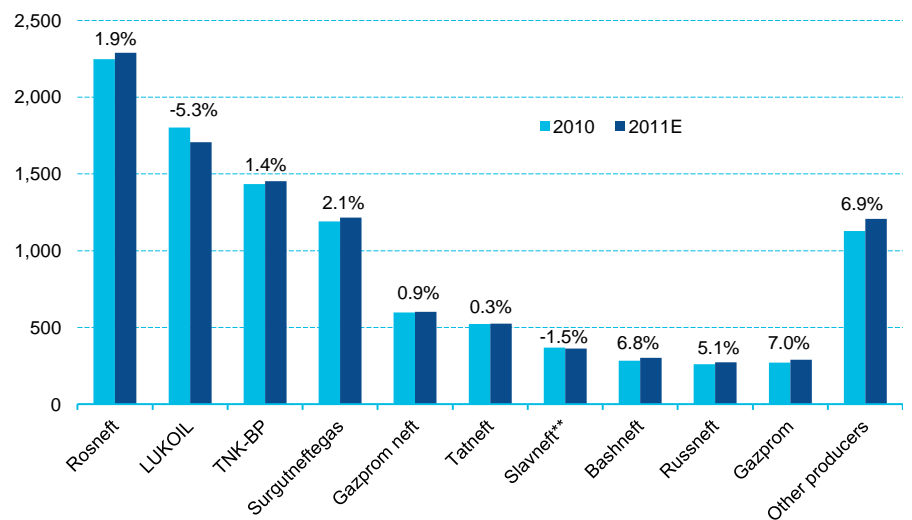


Sources: Neftyanaya Torgovlya, Otkritie Capital Research

While we had more conservative expectations for 2011 at the end of last year (we had forecast Russian oil output to be essentially flat), a number of companies (TNK-BP, Rosneft, Surgut) demonstrated better performance due to both improving production rates at their brownfields and investing more in their greenfield projects. In particular, TNK-BP achieved higher output rates at the Verkhnechonsk and Uvat fields compared to the company’s own projections at the end of last year. This was, however, somewhat mitigated by a 7% decline at the Samotlor field. On the other hand, Surgutneftegas increased crude production at the Talakan field to about 4.4mnt in 2011 (versus the company’s original plan of 5.3mnt), but this was more than offset by higher output from Surgut’s mature fields in Western Siberia, where the company managed to reverse the output decline.

As illustrated in Figure 3, in 2011 Bashneft retained the leading position in the sector in terms of relative volume growth (+6.8% YoY) among integrated Russian oil companies. That said, consistent with expectations, its growth rate has decelerated (from 15.6% in 2010) and is set to decrease further next year, in our view, to low single digits. Russneft also delivered strong volume growth of 5.1% in 2011 and we expect the company to maintain 3-5% growth in the next few years. Among the top-5 integrated oils, Surgutneftegas showed the best expansion rate of 2.1% in 2011, followed by Rosneft (+1.9%), TNK-BP (+1.4%) and Gazprom neft (+0.9%). LUKOIL’s production continued to decline throughout the year, down 5.3%.

**Figure 3. Russian oil output by company (kbpd)\***



\* Output within Russia based on CDU-TEK data, not including share in equity affiliates.  
 \*\* Slavneft is parity-controlled by TNK-BP and Gazprom neft.  
 Sources: Neftyanaya Torgovlya, Otkritie Capital Research

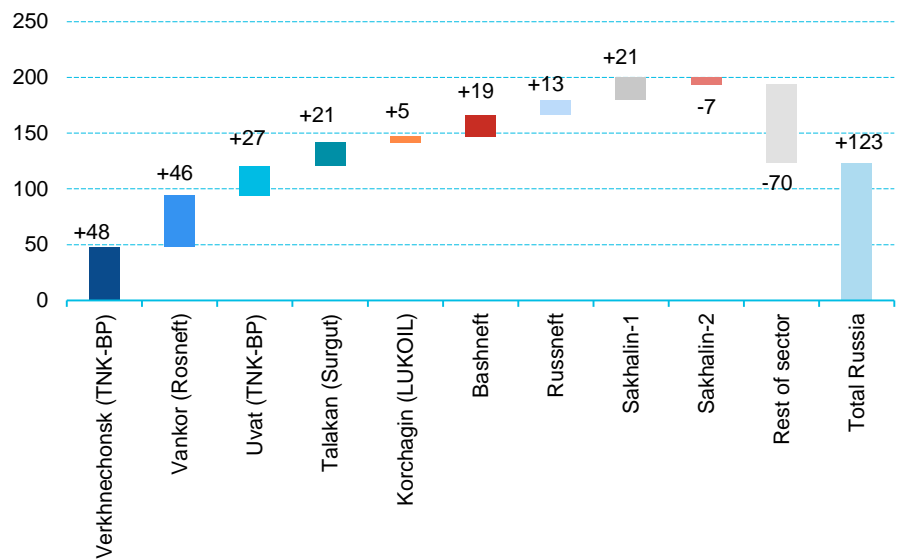
Elsewhere in the sector, Gazprom and NOVATEK delivered strong growth for liquids (both around +7.0%). In addition, production of the Exxon-led Sakhalin-1 project increased by almost 15% in 2011 (after output drop in 2010), which contributed to a 5.1% volume increase by Russian PSA producers.

### Sources of growth

Figure 4 details the key 2011 growth sources in the Russian oil sector, including the country's major greenfield projects developed by integrated oil companies. Last year, TNK-BP's Verkhnechonsk field outpaced Vankor in terms of its annual volume increase (+48kbpd). The Vankor field developed by Rosneft increased its output by 46kbpd amid heavy investments made by the company into the field's second expansion phase with a view to attain production of 22.5mnt (450kbpd) in the next two years. The Uvat project of TNK-BP boosted volumes by 27kbpd, ahead of the company's original guidance for 2011 (15-20kbpd). Surgutneftegas increased output at its Talakan field in Yakutiya by 21kbpd, where production is expected to grow further in 2012. LUKOIL saw a relatively small output increment at its offshore fields named after Yury Korchagin in the Caspian Sea (+5kbpd), although we forecast the company will ramp up Caspian volumes much faster in the next two years after receiving an export duty exemption.

Excluding the major greenfields and the Sakhalin PSAs, we estimate the baseline volume drop in the sector amounted to only 70kbpd in 2011, which represents less than 1% of total output. This represents a visible improvement on 2010 when the baseline decline was 111kbpd, based on our estimates. In our view, this underpins the thesis that modern enhanced recovery technologies (changes in water-flooding patterns, sidetracking, well treatment, hydrofracking) now widely applied across Western Siberia in combination with higher development drilling footage translated into both a slower decline at mature oil fields and an overall improvement of recovery rates in the sector. We believe this trend can be extended over the next several years, particularly given the recent reduction in the export duty to 60% (from 65%, effective 1 Oct 2011), which is applied to both greenfields and brownfields.

Figure 4. Russian oil output: 2011E growth sources (kbpd)



Sources: Neftyanaya Torgovlya, Otkritie Capital estimates

## Outlook for 2012

Predicting Russian volume growth is becoming more challenging, we think, as companies tend to limit their guidance, even for the short-term. In addition, the 2011 sector performance demonstrated that actual output rates could deviate from expectations made by producers themselves. Figure 5 details our near-term Russian supply forecast. It is based on companies' guidance for major greenfield projects as well as our own forecasts.

Conservatively, we assume a baseline decline rate of 2% for the next few years. In combination with our greenfield projections this brings us to total output changing insignificantly and staying effectively in a 10.2-10.3mnbpd range. Specifically for 2012, we forecast a marginal increase of 0.3% to 10.25mnbpd and we anticipate that total output volumes could slightly decrease in 2013-14 as the brownfield contraction will not be fully compensated by new production from greenfield projects.

We conclude that Russia has effectively reached its maximum oil production capacity under the current tax regime, and the future volume trend will largely depend on:

- new fiscal incentives;
- the ability of integrated oil companies to manage their brownfields;
- their pace of investment in new greenfield projects;
- scope for application of modern production technologies and improvement in recovery rates.

While our volume projections are probably prone to the upside risk, especially if oil prices stay stronger for longer and the impact of the 60-66-90 tax regime starts bearing fruit with large and small producers increasing their upstream spending and recovery rates. Offsetting this trend will be the ability of major producers to 'manage' their brownfield decline. All in all, we stick to our view that Russian supply growth is set to essentially flatten in the near future and we do not rule out that the country's total output could slide below 500mnt (10mnbpd) by 2020.

Figure 5. Russian crude output forecast – estimated contribution of major greenfields

| Field                              | Company         | Crude output (kbpd) |              |               |               |               |               |               |               |               |
|------------------------------------|-----------------|---------------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                    |                 | 2008                | 2009         | 2010          | 2011E         | 2012E         | 2013E         | 2014E         | 2015E         | 2016E         |
| Vankor                             | Rosneft         | 0                   | 73           | 254           | 300           | 399           | 450           | 450           | 450           | 439           |
| Uvat group of fields               | TNK-BP          | 0                   | 39           | 79            | 105           | 120           | 140           | 160           | 180           | 180           |
| Verkhnechonsk                      | TNK-BP/Rosneft  | 3                   | 24           | 52            | 100           | 132           | 140           | 142           | 146           | 148           |
| Talakan                            | Surgutneftegas  | 12                  | 35           | 66            | 88            | 120           | 130           | 140           | 140           | 140           |
| Korchagin                          | LUKOIL          | 0                   | 0            | 2             | 7             | 30            | 48            | 50            | 50            | 49            |
| Filanovsky                         | LUKOIL          | 0                   | 0            | 0             | 0             | 0             | 0             | 0             | 3             | 90            |
| Orenburg region (Gazprom neft)*    | Gazprom neft    | 9                   | 8            | 11            | 17            | 19            | 38            | 50            | 68            | 74            |
| SeverEnergia fields**              | SeverEnergia*** | 0                   | 0            | 0             | 0             | 12            | 35            | 104           | 160           | 187           |
| Novoportovskoye                    | Gazprom neft    | 0                   | 0            | 0             | 0             | 0             | 2             | 15            | 40            | 80            |
| Prirazlomnoye                      | Gazprom         | 0                   | 0            | 0             | 0             | 10            | 20            | 30            | 50            | 80            |
| Suzunskoye                         | TNK-BP          | 0                   | 0            | 0             | 0             | 0             | 0             | 6             | 16            | 40            |
| Tagulskoye                         | TNK-BP          | 0                   | 0            | 0             | 0             | 0             | 0             | 0             | 5             | 20            |
| Russkoye                           | TNK-BP          | 0                   | 0            | 0             | 0             | 0             | 0             | 0             | 5             | 14            |
| Messoyakhskoye                     | Gazprom neft    | 0                   | 0            | 0             | 0             | 0             | 0             | 1             | 40            | 100           |
| <b>Subtotal, major greenfields</b> |                 | <b>24</b>           | <b>179</b>   | <b>464</b>    | <b>617</b>    | <b>841</b>    | <b>1,003</b>  | <b>1,148</b>  | <b>1,353</b>  | <b>1,639</b>  |
| Other fields and producers         |                 | 9,719               | 9,706        | 9,639         | 9,609         | 9,417         | 9,229         | 9,044         | 8,863         | 8,686         |
| % change                           |                 |                     | -0.1%        | -0.7%         | -0.3%         | -2.0%         | -2.0%         | -2.0%         | -2.0%         | -2.0%         |
| <b>Total Russia</b>                |                 | <b>9,743</b>        | <b>9,885</b> | <b>10,103</b> | <b>10,226</b> | <b>10,258</b> | <b>10,232</b> | <b>10,192</b> | <b>10,216</b> | <b>10,325</b> |
| % change                           |                 |                     | 1.5%         | 2.2%          | 1.2%          | 0.3%          | -0.3%         | -0.4%         | 0.2%          | 1.1%          |

\* Includes Orenburgskoye (Eastern part), Tsarichanskoye and Kapitonovskoye fields.

\*\* Includes Samburgsky, Yevo-Yakhinsky, Yaro-Yakhinsky, and North-Chaselsky license areas.

\*\*\* SeverEnergia is a JV controlled by Gazprom neft (25.5%), NOVATEK (25.5%), Eni (29.4%) and Enel (19.6%).

Sources: company data, Neftyanaya Torgovlya, Otkritie Capital estimates

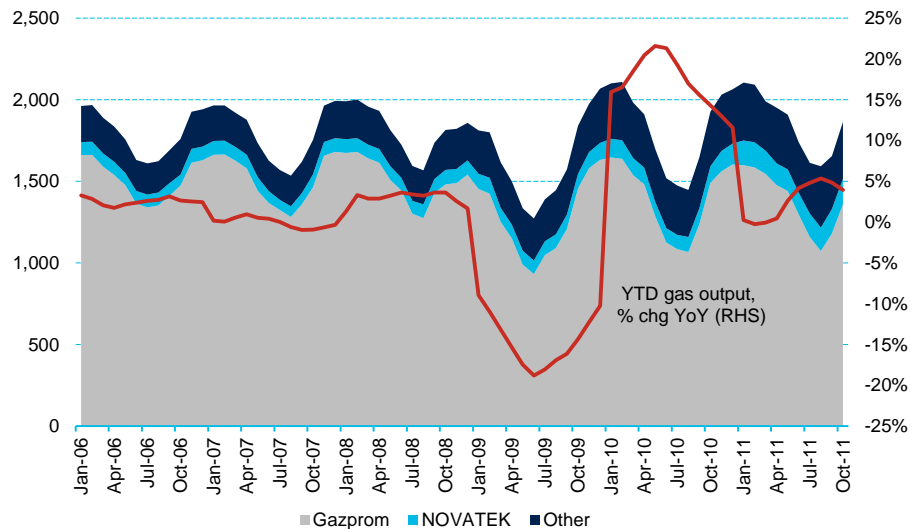


## Gas production – we expect 3% growth in 2012

Russian oil and gas companies produced 561.6bcm of natural and associated gas in January-October 2011, which represents a 3.9% increase YoY. We forecast total Russian gas production at 685.5bcm for the full year (+3.0% YoY), with Gazprom (based on CDU-TEK statistics) accounting for 507.3bcm (74.0% of the total). Based on our forecasts, Gazprom will increase its gas output by 2.8% in 2011 mainly due to stronger natural demand seen both in Europe and in the domestic market. NOVATEK estimates its output for the full year at 53.4bcm, which includes 5.4bcm of gas purchased from Sibneftegas (equity share). Thus, the company's 2011 growth rate should amount to 41.0% and its organic growth (excluding Sibneftegas) to 29.0%.

Gazprom's production statistics YtD were affected by its purchase of 12.1bcm of gas from RosUkrEnergo earlier this year, which was returned by Naftogaz following a favourable ruling by the Stockholm Arbitration Court in July 2010. These additional volumes have accounted for 2.6% of Gazprom's reported 2011 output YtD, and 2.0% of Russia's total output, suggesting that underlying end-user demand for Russian gas is up 4.6% YoY.

Figure 6. Russia gas output (mcmpd)



Sources: Neftyanaya Torgovlya, Otkritie Capital Research

Our outlook for Russian natural gas production in 2012 remains constructive with a projected 3.0% increase in output. We expect European gas exports to increase to 162bcm or 6.6%, driven by a combination of (1) a favourable baseline effect, affected by the above-mentioned 12.1bcm acquired by Gazprom from RosUkrEnergo in 2011; (2) continuing increase in Europe's demand for imported natural gas driven by a decline in its indigenous gas output; and (3) Gazprom's market share gains following the recent launch of its NordStream pipeline and global constraints in LNG supply. Domestically, we expect demand will grow 1.0%, while Gazprom's exports to FSU will remain broadly flat, we estimate. Overall, this leads to a 2.8% increase in Gazprom's gas output to 528bcm in 2012 (this figure includes the relevant shares of production in Sakhalin 2 and Yuzhno-Russkoye projects, but excludes Gazprom neft). While NOVATEK projects to increase output by 6-7% next year, this is achieved mainly through the company's new contract with Inter RAO, as the company will have a guaranteed off-take by OGK-3's power plants.

Figure 7. Monthly oil and gas output

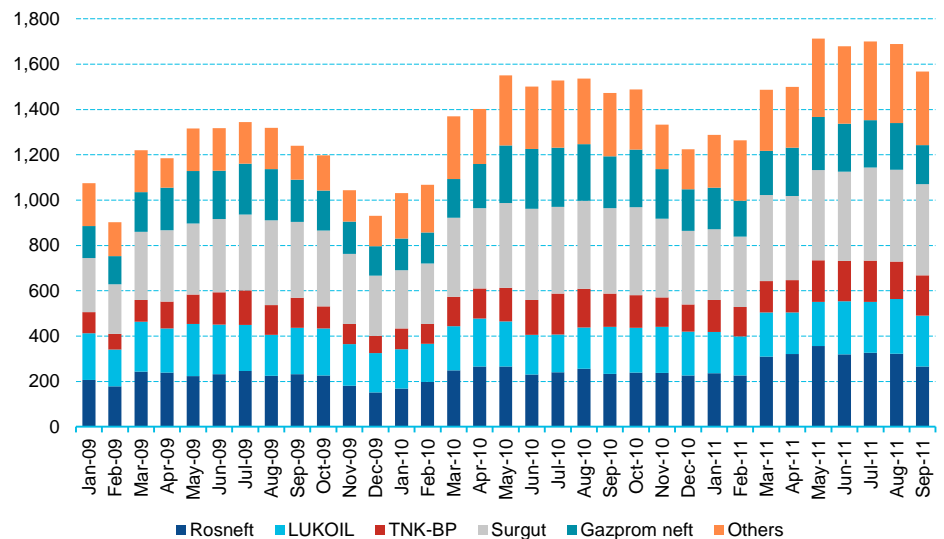
| Company                     | Sep-10        | Oct-10        | Nov-10        | Dec-10        | Jan-11        | Feb-11        | Mar-11        | Apr-11        | May-11        | Jun-11        | Jul-11        | Aug-11        | Sep-11        | MoM abs chg   | MoM % chg    | YoY % chg   | LTM -1Y        | LTM            | YoY % chg   | YTD -1Y        | YTD            | YoY % chg   |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|-------------|----------------|----------------|-------------|----------------|----------------|-------------|
| <b>Crude output (mnt)</b>   |               |               |               |               |               |               |               |               |               |               |               |               |               |               |              |             |                |                |             |                |                |             |
| Rosneft                     | 9,318         | 9,664         | 9,322         | 9,581         | 9,671         | 8,688         | 9,594         | 9,326         | 9,707         | 9,398         | 9,805         | 9,811         | 9,489         | -322          | -3.3%        | 1.8%        | 111,660        | 114,057        | 2.1%        | 83,828         | 85,490         | 2.0%        |
| LUKOIL                      | 7,344         | 7,580         | 7,278         | 7,346         | 7,403         | 6,647         | 7,342         | 7,066         | 7,272         | 7,006         | 7,235         | 7,180         | 6,950         | -230          | -3.2%        | -5.4%       | 90,832         | 86,305         | -5.0%       | 67,899         | 64,102         | -5.6%       |
| TNK-BP                      | 5,955         | 6,132         | 5,909         | 6,083         | 6,086         | 5,496         | 6,097         | 5,902         | 6,133         | 5,920         | 6,171         | 6,252         | 6,063         | -189          | -3.0%        | 1.8%        | 71,477         | 72,243         | 1.1%        | 53,530         | 54,119         | 1.1%        |
| Surgutneftegaz              | 4,930         | 5,135         | 4,967         | 5,127         | 5,126         | 4,629         | 5,122         | 5,004         | 5,169         | 5,007         | 5,181         | 5,182         | 5,010         | -172          | -3.3%        | 1.6%        | 59,302         | 60,657         | 2.3%        | 44,320         | 45,429         | 2.5%        |
| Gazprom neft                | 2,474         | 2,547         | 2,462         | 2,467         | 2,529         | 2,277         | 2,540         | 2,459         | 2,557         | 2,463         | 2,554         | 2,568         | 2,491         | -77           | -3.0%        | 0.7%        | 29,925         | 29,914         | 0.0%        | 22,353         | 22,438         | 0.4%        |
| Tatneft                     | 2,151         | 2,224         | 2,152         | 2,204         | 2,223         | 2,008         | 2,224         | 2,151         | 2,224         | 2,152         | 2,225         | 2,224         | 2,156         | -68           | -3.1%        | 0.2%        | 26,118         | 26,166         | 0.2%        | 19,532         | 19,586         | 0.3%        |
| Slavneft                    | 1,503         | 1,547         | 1,500         | 1,556         | 1,542         | 1,389         | 1,525         | 1,477         | 1,531         | 1,487         | 1,539         | 1,535         | 1,493         | -42           | -2.7%        | -0.7%       | 18,492         | 18,120         | -2.0%       | 13,760         | 13,517         | -1.8%       |
| Russneft                    | 1,090         | 1,141         | 1,104         | 1,129         | 1,109         | 998           | 1,107         | 1,071         | 1,139         | 1,129         | 1,183         | 1,195         | 1,173         | -22           | -1.9%        | 7.6%        | 12,759         | 13,476         | 5.6%        | 9,613          | 10,102         | 5.1%        |
| Bashneft                    | 1,195         | 1,234         | 1,189         | 1,232         | 1,262         | 1,142         | 1,275         | 1,233         | 1,266         | 1,239         | 1,284         | 1,297         | 1,258         | -39           | -3.0%        | 5.3%        | 13,710         | 14,913         | 8.8%        | 10,489         | 11,257         | 7.3%        |
| Gazprom                     | 1,109         | 1,160         | 1,132         | 1,181         | 1,203         | 1,091         | 1,171         | 1,246         | 1,294         | 1,106         | 1,119         | 1,243         | 1,184         | -59           | -4.7%        | 6.7%        | 13,345         | 14,128         | 5.9%        | 10,073         | 10,655         | 5.8%        |
| NOVATEK                     | 290           | 330           | 323           | 343           | 352           | 320           | 354           | 345           | 358           | 334           | 331           | 334           | 331           | -3            | -1.0%        | 13.9%       | 3,752          | 4,056          | 8.1%        | 2,835          | 3,060          | 7.9%        |
| PSA operators               | 1,133         | 1,363         | 1,319         | 1,410         | 1,395         | 1,290         | 1,361         | 1,324         | 1,342         | 1,172         | 1,225         | 1,135         | 1,146         | 11            | 1.0%         | 1.1%        | 14,300         | 15,482         | 8.3%        | 10,332         | 11,390         | 10.2%       |
| Other                       | 4,276         | 4,512         | 4,375         | 4,448         | 4,407         | 4,062         | 4,513         | 4,354         | 4,552         | 4,475         | 4,686         | 4,693         | 4,656         | -37           | -0.8%        | 8.9%        | 50,239         | 53,732         | 7.0%        | 37,847         | 40,398         | 6.7%        |
| <b>Russia, total</b>        | <b>41,679</b> | <b>43,428</b> | <b>41,928</b> | <b>42,977</b> | <b>43,199</b> | <b>39,039</b> | <b>43,118</b> | <b>41,886</b> | <b>43,403</b> | <b>41,759</b> | <b>43,356</b> | <b>43,453</b> | <b>42,228</b> | <b>-1,226</b> | <b>-2.8%</b> | <b>1.3%</b> | <b>503,152</b> | <b>509,772</b> | <b>1.3%</b> | <b>376,798</b> | <b>381,439</b> | <b>1.2%</b> |
| <b>Crude output (mnbpd)</b> |               |               |               |               |               |               |               |               |               |               |               |               |               |               |              |             |                |                |             |                |                |             |
| Rosneft                     | 2,267         | 2,276         | 2,268         | 2,256         | 2,277         | 2,265         | 2,259         | 2,269         | 2,286         | 2,287         | 2,309         | 2,310         | 2,309         | -1            | -0.1%        | 1.8%        | 2,233          | 2,281          | 2.1%        | 2,242          | 2,286          | 2.0%        |
| LUKOIL                      | 1,787         | 1,785         | 1,771         | 1,730         | 1,743         | 1,733         | 1,729         | 1,719         | 1,712         | 1,705         | 1,704         | 1,691         | 1,691         | 0             | 0.0%         | -5.4%       | 1,817          | 1,726          | -5.0%       | 1,816          | 1,714          | -5.6%       |
| TNK-BP                      | 1,449         | 1,444         | 1,438         | 1,432         | 1,433         | 1,433         | 1,436         | 1,436         | 1,444         | 1,440         | 1,453         | 1,472         | 1,475         | 3             | 0.2%         | 1.8%        | 1,430          | 1,445          | 1.1%        | 1,431          | 1,447          | 1.1%        |
| Surgutneftegaz              | 1,200         | 1,209         | 1,209         | 1,207         | 1,207         | 1,207         | 1,206         | 1,218         | 1,217         | 1,218         | 1,220         | 1,220         | 1,219         | -1            | -0.1%        | 1.6%        | 1,186          | 1,213          | 2.3%        | 1,185          | 1,215          | 2.5%        |
| Gazprom neft                | 602           | 600           | 599           | 581           | 595           | 594           | 598           | 598           | 602           | 599           | 601           | 605           | 606           | 1             | 0.2%         | 0.7%        | 599            | 598            | 0.0%        | 598            | 600            | 0.4%        |
| Tatneft                     | 524           | 524           | 524           | 519           | 523           | 523           | 524           | 523           | 524           | 524           | 524           | 524           | 525           | 1             | 0.2%         | 0.2%        | 522            | 523            | 0.2%        | 522            | 524            | 0.3%        |
| Slavneft                    | 366           | 364           | 365           | 366           | 363           | 362           | 359           | 359           | 360           | 362           | 362           | 361           | 363           | 2             | 0.5%         | -0.7%       | 370            | 362            | -2.0%       | 368            | 361            | -1.8%       |
| Bashneft                    | 291           | 291           | 289           | 290           | 297           | 298           | 300           | 300           | 298           | 301           | 302           | 305           | 306           | 1             | 0.2%         | 5.3%        | 274            | 298            | 8.8%        | 280            | 301            | 7.3%        |
| Gazprom                     | 270           | 273           | 276           | 278           | 283           | 284           | 276           | 303           | 305           | 269           | 263           | 293           | 288           | -5            | -1.6%        | 6.7%        | 267            | 283            | 5.9%        | 269            | 285            | 5.8%        |
| NOVATEK                     | 71            | 78            | 79            | 81            | 83            | 83            | 83            | 84            | 84            | 81            | 78            | 79            | 81            | 2             | 2.3%         | 13.9%       | 75             | 81             | 8.1%        | 76             | 82             | 7.9%        |
| PSA operators               | 276           | 321           | 321           | 332           | 329           | 336           | 320           | 322           | 316           | 285           | 288           | 267           | 279           | 12            | 4.3%         | 1.1%        | 286            | 310            | 8.3%        | 276            | 305            | 10.2%       |
| Other                       | 1,040         | 1,062         | 1,064         | 1,047         | 1,038         | 1,059         | 1,063         | 1,059         | 1,072         | 1,089         | 1,103         | 1,105         | 1,133         | 28            | 2.5%         | 8.9%        | 1,005          | 1,075          | 7.0%        | 1,012          | 1,080          | 6.7%        |
| <b>Russia, total</b>        | <b>10,142</b> | <b>10,227</b> | <b>10,202</b> | <b>10,120</b> | <b>10,173</b> | <b>10,178</b> | <b>10,153</b> | <b>10,192</b> | <b>10,221</b> | <b>10,161</b> | <b>10,210</b> | <b>10,233</b> | <b>10,275</b> | <b>43</b>     | <b>0.4%</b>  | <b>1.3%</b> | <b>10,063</b>  | <b>10,195</b>  | <b>1.3%</b> | <b>10,076</b>  | <b>10,200</b>  | <b>1.2%</b> |
| <b>Gas output (mncm)</b>    |               |               |               |               |               |               |               |               |               |               |               |               |               |               |              |             |                |                |             |                |                |             |
| Gazprom                     | 37,113        | 46,206        | 46,828        | 49,682        | 49,546        | 44,366        | 47,879        | 44,279        | 44,636        | 38,851        | 35,882        | 33,241        | 35,371        | 2,131         | 6.4%         | -4.7%       | 509,300        | 516,766        | 1.5%        | 366,270        | 374,050        | 2.1%        |
| NOVATEK                     | 2,938         | 3,146         | 3,749         | 3,993         | 4,695         | 4,324         | 4,404         | 3,998         | 4,125         | 4,001         | 4,469         | 4,443         | 4,519         | 76            | 1.7%         | 53.8%       | 35,893         | 49,865         | 38.9%       | 26,906         | 38,978         | 44.9%       |
| LUKOIL                      | 1,384         | 1,444         | 1,437         | 1,495         | 1,554         | 1,389         | 1,375         | 1,487         | 1,546         | 1,463         | 1,489         | 1,483         | 1,422         | -61           | -4.1%        | 2.8%        | 17,019         | 17,585         | 3.3%        | 12,985         | 13,209         | 1.7%        |
| Gazprom neft (Sibneft)      | 348           | 391           | 530           | 683           | 784           | 683           | 603           | 716           | 739           | 717           | 691           | 624           | 743           | 120           | 19.2%        | 113.9%      | 4,369          | 7,902          | 80.9%       | 3,299          | 6,298          | 90.9%       |
| Surgutneftegaz              | 1,115         | 1,139         | 1,113         | 1,224         | 1,117         | 1,051         | 1,079         | 1,094         | 1,089         | 1,086         | 1,129         | 1,113         | 1,095         | -18           | -1.7%        | -1.9%       | 14,068         | 13,330         | -5.3%       | 10,484         | 9,853          | -6.0%       |
| Tatneft                     | 71            | 70            | 70            | 71            | 72            | 64            | 66            | 69            | 73            | 73            | 74            | 0             | 72            | 72            | #DIV/0!      | 1.1%        | 834            | 773            | -7.3%       | 625            | 562            | -10.0%      |
| TNK-BP                      | 1,125         | 1,203         | 1,176         | 1,205         | 1,218         | 1,132         | 1,043         | 1,203         | 1,257         | 1,129         | 1,245         | 1,235         | 1,191         | -44           | -3.6%        | 5.9%        | 13,437         | 14,237         | 6.0%        | 10,008         | 10,653         | 6.4%        |
| Bashneft                    | 38            | 43            | 42            | 44            | 48            | 43            | 42            | 47            | 43            | 41            | 42            | 43            | 41            | -1            | -3.3%        | 10.1%       | 471            | 520            | 10.4%       | 351            | 390            | 11.2%       |
| Rosneft                     | 1,373         | 1,471         | 1,417         | 1,480         | 1,597         | 1,413         | 1,009         | 1,509         | 1,557         | 1,481         | 1,538         | 1,548         | 1,531         | -17           | -1.1%        | 11.5%       | 17,507         | 17,549         | 0.2%        | 12,921         | 13,181         | 2.0%        |
| Slavneft                    | 96            | 101           | 96            | 98            | 98            | 87            | 71            | 92            | 94            | 94            | 96            | 92            | 94            | 2             | 2.0%         | -1.8%       | 1,216          | 1,112          | -8.5%       | 895            | 818            | -8.6%       |
| Russneft                    | 155           | 165           | 163           | 173           | 168           | 156           | 136           | 168           | 188           | 174           | 175           | 163           | 177           | 14            | 8.5%         | 14.0%       | 1,819          | 2,007          | 10.3%       | 1,361          | 1,506          | 10.7%       |
| PSA operators               | 1,950         | 2,181         | 2,139         | 2,744         | 4,683         | 4,246         | 4,458         | 4,376         | 4,427         | 3,279         | 3,250         | 3,947         | 1,746         | -2,201        | -55.8%       | -10.5%      | 23,363         | 41,476         | 77.5%       | 17,603         | 34,412         | 95.5%       |
| Other                       | 1,711         | 2,173         | 2,160         | 2,444         | 2,006         | 1,736         | 1,730         | 1,660         | 1,588         | 1,387         | 1,537         | 1,421         | 1,627         | 206           | 14.5%        | -4.9%       | 21,768         | 21,469         | -1.4%       | 17,040         | 14,691         | -13.8%      |
| <b>Russia, total</b>        | <b>49,416</b> | <b>59,734</b> | <b>60,920</b> | <b>65,336</b> | <b>67,586</b> | <b>60,691</b> | <b>63,894</b> | <b>60,697</b> | <b>61,361</b> | <b>53,775</b> | <b>51,616</b> | <b>49,353</b> | <b>49,629</b> | <b>276</b>    | <b>0.6%</b>  | <b>0.4%</b> | <b>661,065</b> | <b>704,591</b> | <b>6.6%</b> | <b>480,747</b> | <b>518,601</b> | <b>7.9%</b> |
| Oil companies               | 5,356         | 5,637         | 5,513         | 5,791         | 5,872         | 5,337         | 4,820         | 5,668         | 5,846         | 5,542         | 5,788         | 5,677         | 5,622         | -55           | -1.0%        | 5.0%        | 66,371         | 67,112         | 1.1%        | 49,629         | 50,171         | 1.1%        |

Sources: Neftyanaya Torgovlya, Otkritie Capital Research

## Drilling volumes – riding on high oil prices

In 2011, oil companies have significantly increased development drilling, while holding back on exploratory activities. Development drilling for the 9M11 increased 11.5% YoY (from 12.5mn meters to 13.9mn meters), while exploration drilling increased only marginally by 0.7% YoY (from 578.6km to 582.4km), as companies focused on developing fields acquired last year (exploration drilling for full-year 2010 amounted to 701.1km – a 51% increase YoY), and on maintaining brownfield production rates.

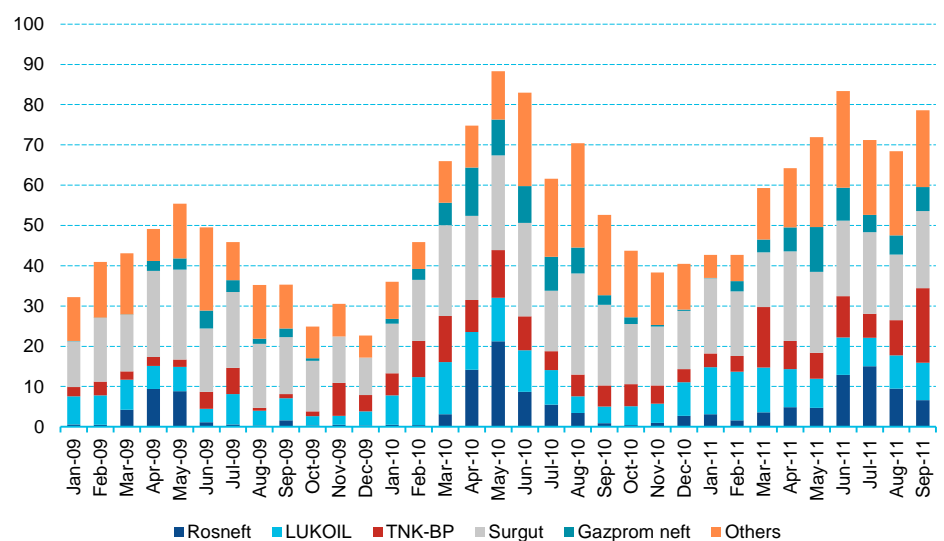
Figure 8. Development drilling ('000 meters)



Sources: Neftyanaya Torgovlya, Otkritie Capital Research

Surgutneftegaz has remained the traditional leader of the Russian oil sector in terms of both development and exploration drilling. The company accounted for 11.9% of Russian total oil production, while drilling 24.4% of the total development drilling footage and 28.4% of total exploratory drilling meters.

Figure 9. Exploration drilling ('000 meters)



Sources: : Neftyanaya Torgovlya, Otkritie Capital Research

Next year, we expect exploratory drilling activity to increase by 5-10% across the sector, as E&P producers will enjoy a combination of strong oil prices and higher upstream margins owing to the effective reduction of crude export duty rates (impact of the 60-66-90 tax reform).

Figure 10. Monthly drilling volumes by company

| Company                                   | Sep-10         | Oct-10         | Nov-10         | Dec-10         | Jan-11         | Feb-11         | Mar-11         | Apr-11         | May-11         | Jun-11         | Jul-11         | Aug-11         | Sep-11         | 9M10            | 9M11            | % chg        |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|--------------|
| <b>Development drilling ('000 meters)</b> |                |                |                |                |                |                |                |                |                |                |                |                |                |                 |                 |              |
| LUKOIL                                    | 207.5          | 197.7          | 203.7          | 192.9          | 181.9          | 172.3          | 195.5          | 183.2          | 194.9          | 234.5          | 223.8          | 241.2          | 224.5          | 1,680.3         | 1,851.8         | 10.2%        |
| Rosneft                                   | 233.8          | 239.7          | 237.7          | 226.4          | 237.0          | 226.1          | 309.2          | 321.4          | 356.8          | 320.0          | 327.3          | 322.6          | 265.9          | 2,107.7         | 2,686.3         | 27.5%        |
| Gazprom neft                              | 229.1          | 253.2          | 218.9          | 184.6          | 182.6          | 158.4          | 194.3          | 213.3          | 234.8          | 212.5          | 209.5          | 206.2          | 172.1          | 1,901.0         | 1,783.7         | -6.2%        |
| Surgutneftegaz                            | 376.3          | 389.0          | 347.4          | 324.3          | 312.1          | 310.6          | 380.3          | 371.6          | 397.8          | 392.8          | 410.3          | 404.2          | 402.1          | 3,147.4         | 3,381.8         | 7.4%         |
| TNK-BP Holding                            | 147.2          | 143.2          | 129.3          | 120.3          | 140.9          | 130.4          | 137.6          | 142.6          | 182.8          | 178.0          | 182.1          | 165.6          | 178.6          | 1,243.6         | 1,438.6         | 15.7%        |
| Tatneft                                   | 35.8           | 27.4           | 18.3           | 26.0           | 37.0           | 38.3           | 45.2           | 34.4           | 48.0           | 50.1           | 55.8           | 48.2           | 34.5           | 392.4           | 391.5           | -0.2%        |
| Bashneft                                  | 18.6           | 15.7           | 9.0            | 13.6           | 13.2           | 8.9            | 10.1           | 0.2            | 4.2            | 11.5           | 14.2           | 16.9           | 10.5           | 195.7           | 89.7            | -54.2%       |
| Slavneft                                  | 109.1          | 110.0          | 81.7           | 63.3           | 70.9           | 133.0          | 79.6           | 61.0           | 83.7           | 60.7           | 58.5           | 64.5           | 85.7           | 686.3           | 697.6           | 1.6%         |
| Russneft                                  | 18.0           | 14.2           | 9.3            | 8.3            | 7.6            | 14.1           | 46.5           | 64.0           | 84.1           | 66.1           | 62.2           | 56.1           | 49.7           | 302.6           | 450.4           | 48.8%        |
| Gazprom                                   | 1.6            | 0.2            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 2.4            | 1.5            | 0.5            | 0.0            | 37.5            | 4.4             | -88.3%       |
| NOVATEK                                   | 4.2            | 7.1            | 3.6            | 0.0            | 5.3            | 4.9            | 2.6            | 6.0            | 4.6            | 4.1            | 5.1            | 7.0            | 6.7            | 52.3            | 46.3            | -11.5%       |
| Other producers                           | 86.4           | 90.7           | 65.2           | 60.8           | 92.7           | 66.4           | 86.4           | 101.7          | 121.5          | 146.9          | 149.8          | 155.8          | 136.6          | 661.3           | 1,057.8         | 60.0%        |
| PSA operators                             | 5.5            | 0.7            | 9.1            | 4.1            | 6.9            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 51.8            | 6.9             | -86.7%       |
| <b>Total Russia</b>                       | <b>1,472.9</b> | <b>1,488.8</b> | <b>1,333.2</b> | <b>1,224.5</b> | <b>1,288.2</b> | <b>1,263.3</b> | <b>1,487.3</b> | <b>1,499.3</b> | <b>1,713.2</b> | <b>1,679.7</b> | <b>1,700.0</b> | <b>1,688.8</b> | <b>1,566.9</b> | <b>12,459.9</b> | <b>13,886.7</b> | <b>11.5%</b> |
| Total Russia, YTD                         | 12,459.9       | 13,948.7       | 15,281.9       | 16,506.4       | 1,288.2        | 2,551.5        | 4,038.8        | 5,538.1        | 7,251.3        | 8,931.0        | 10,631.0       | 12,319.8       | 13,886.7       |                 |                 |              |
| Total Russia, YTD, % chg YoY              | 14.1%          | 15.1%          | 16.1%          | 17.1%          | 24.9%          | 21.5%          | 16.4%          | 13.7%          | 12.9%          | 12.7%          | 12.5%          | 12.1%          | 11.5%          |                 |                 |              |
| <b>Exploration drilling ('000 meters)</b> |                |                |                |                |                |                |                |                |                |                |                |                |                |                 |                 |              |
| LUKOIL                                    | 4.1            | 4.7            | 4.7            | 8.4            | 11.7           | 12.1           | 11.1           | 9.4            | 7.2            | 9.3            | 7.1            | 8.2            | 9.3            | 79.5            | 85.4            | 7.4%         |
| Rosneft                                   | 0.9            | 0.4            | 1.0            | 2.7            | 3.1            | 1.6            | 3.6            | 4.9            | 4.7            | 12.9           | 15.0           | 9.5            | 6.6            | 57.9            | 61.9            | 6.9%         |
| Gazprom neft                              | 2.4            | 1.7            | 0.4            | 0.3            | 0.1            | 2.6            | 3.2            | 5.9            | 11.1           | 8.2            | 4.3            | 4.7            | 5.9            | 56.7            | 46.0            | -18.9%       |
| Surgutneftegaz                            | 20.0           | 14.9           | 14.6           | 14.5           | 18.7           | 16.0           | 13.6           | 22.3           | 20.1           | 18.8           | 20.2           | 16.3           | 19.2           | 177.8           | 165.2           | -7.1%        |
| TNK-BP Holding                            | 5.3            | 5.5            | 4.6            | 3.2            | 3.4            | 3.9            | 15.0           | 7.0            | 6.5            | 10.2           | 6.0            | 8.8            | 18.5           | 69.6            | 79.3            | 13.9%        |
| Tatneft                                   | 1.4            | 5.3            | 1.7            | 0.3            | 0.2            | 0.0            | 0.0            | 0.0            | 0.3            | 1.5            | 0.2            | 2.7            | 3.4            | 19.8            | 8.3             | -58.1%       |
| Bashneft                                  | 0.5            | 1.2            | 0.2            | 2.7            | 0.8            | 0.4            | 2.4            | 0.0            | 1.5            | 2.1            | 1.8            | 4.2            | 5.4            | 2.7             | 18.6            | 588.9%       |
| Slavneft                                  | 0.5            | 0.5            | 0.0            | 0.0            | 0.0            | 0.6            | 3.0            | 5.5            | 0.9            | 3.8            | 0.5            | 0.6            | 0.8            | 31.4            | 15.7            | -50.0%       |
| Russneft                                  | 0.0            | 0.0            | 0.0            | 0.0            | 1.3            | 1.5            | 0.0            | 2.9            | 4.0            | 1.2            | 0.8            | 1.3            | 0.0            | 0.0             | 13.0            | n/a          |
| Gazprom                                   | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0             | 0.0             | n/a          |
| NOVATEK                                   | 0.9            | 1.2            | 0.3            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 1.4            | 1.7            | 0.5            | 0.3            | 5.0             | 3.9             | -22.0%       |
| Other producers                           | 16.6           | 8.3            | 10.8           | 8.4            | 3.4            | 4.0            | 7.4            | 6.3            | 15.6           | 14.0           | 13.6           | 11.6           | 9.2            | 78.2            | 85.1            | 8.8%         |
| PSA operators                             | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0             | 0.0             | n/a          |
| <b>Total Russia</b>                       | <b>52.9</b>    | <b>43.7</b>    | <b>38.2</b>    | <b>40.4</b>    | <b>42.6</b>    | <b>42.8</b>    | <b>59.2</b>    | <b>64.2</b>    | <b>72.0</b>    | <b>83.4</b>    | <b>71.1</b>    | <b>68.6</b>    | <b>78.5</b>    | <b>578.7</b>    | <b>582.4</b>    | <b>0.6%</b>  |
| Total Russia, YTD                         | 578.7          | 622.4          | 660.6          | 701.0          | 42.6           | 85.4           | 144.6          | 208.8          | 280.8          | 364.2          | 435.3          | 503.9          | 582.4          |                 |                 |              |
| Total Russia, YTD, % chg YoY              | 49.8%          | 51.3%          | 49.6%          | 50.9%          | 18.7%          | 4.7%           | -2.0%          | -6.1%          | -9.6%          | -7.5%          | -4.4%          | -4.2%          | 0.6%           |                 |                 |              |

Sources: Neftyanaya Torgovlya, Neftegazovaya Vertikal, Otkritie Capital Research

## Refining – passing the inflection point

Russian refining throughput amounted to 212mnt (5.1mnbpd) in January-October 2011, increasing 3.0% YoY from 206mnt (4.9mnbpd). We expect Russian refineries to increase processing by 2.5% to 254mnt in 2011 (versus 248mnt refined in 2010) – a level that we do not expect will ever be repeated. We estimate that the average utilization rate for Russian refineries will amount to 94%, up from the previous year's average of 92%

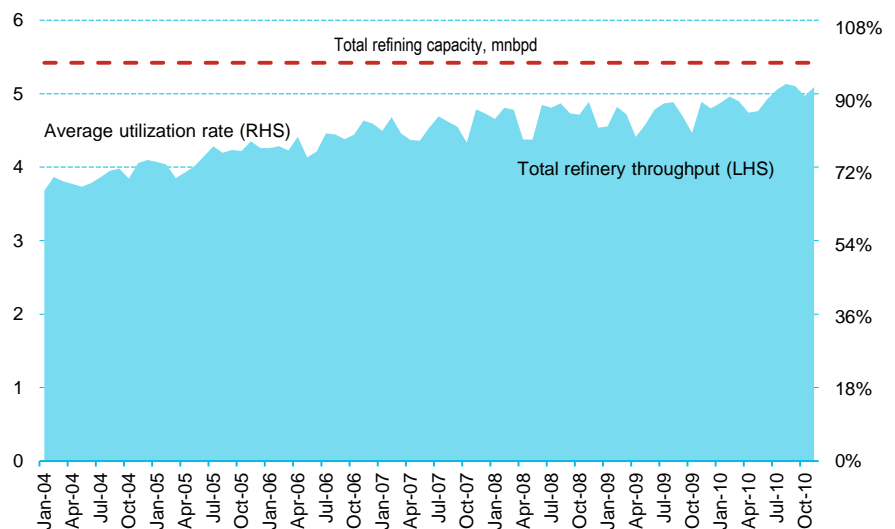
Rosneft remained the largest refiner in Russia in 2011, processing 41.5mnt during 9M11 (1.0mnbpd). It was followed by LUKOIL (0.9mnbpd), Gazprom neft (0.63mnbpd) and TNK-BP (0.47mnbpd). For the latter two, the figures presented exclude the companies' share in Slavneft, which would increase their throughput by 0.13mnbpd and 0.16mnbpd respectively. Surgutneftegas and Bashneft continue to share the number 5 position in Russian refining, with throughput for both at around 0.42mnbpd.

The most notable increase in refining throughput was shown by the Khabarovsk refinery, owned by Alliance Oil Company. Processing there increased 13.4% to 74kbpd (versus 65kbpd in 2010).

We also note, that the newly launched TANECO refinery will add to the 2012 throughput. The refinery (owned and built by Tatneft) was officially launched at full capacity in December.

We expect a 2-4% reduction in Russian refining runs in 2012 which will be driven by the impact of the 60-66-90 tax reform, higher crude exports, and ongoing refinery modernizations (and associated maintenance breaks). Industry statistics already reveal some throughput reduction in 2H11 (Figure 11), which we tend to associate with a visible increase in relative export margins on heavy refined products (heavy fuel oil and vacuum gasoil).

**Figure 11. Refinery throughput (mnbpd)**



Sources: Neftyanaya Torgovlya, Otkritie Capital Research

Figure 12. Monthly refinery throughput

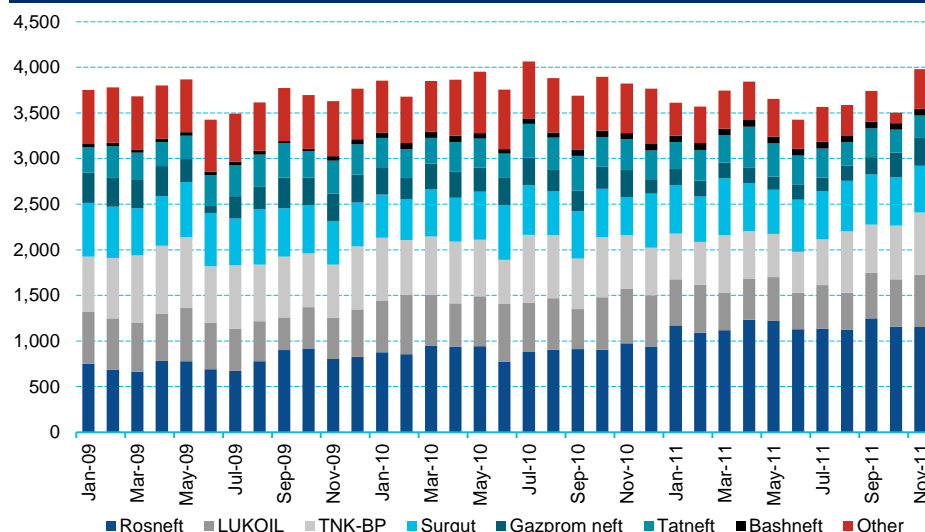
| Company                            | Sep-10        | Oct-10        | Nov-10        | Dec-10        | Jan-11        | Feb-11        | Mar-11        | Apr-11        | May-11        | Jun-11        | Jul-11        | Aug-11        | Sep-11        | MoM Abs chg | MoM % chg   | YoY % chg    | LTM -1Y        | LTM            | YoY % chg    | YTD -1Y        | YTD            | YoY % chg    |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------|-------------|--------------|----------------|----------------|--------------|----------------|----------------|--------------|
| <b>Refinery throughput (mnt)</b>   |               |               |               |               |               |               |               |               |               |               |               |               |               |             |             |              |                |                |              |                |                |              |
| Rosneft                            | 4,002         | 4,136         | 4,311         | 4,431         | 4,352         | 3,807         | 4,202         | 3,812         | 3,890         | 4,501         | 4,587         | 4,346         | 3,802         | -544        | -12.5%      | -5.0%        | 49,791         | 50,176         | 0.8%         | 37,350         | 37,298         | -0.1%        |
| LUKOIL                             | 3,858         | 3,929         | 3,419         | 3,880         | 3,903         | 3,296         | 3,782         | 3,646         | 3,934         | 3,875         | 3,961         | 3,963         | 3,475         | -488        | -12.3%      | -9.9%        | 44,631         | 45,062         | 1.0%         | 33,804         | 33,834         | 0.1%         |
| Gazprom neft                       | 2,738         | 2,668         | 2,366         | 2,461         | 2,375         | 2,296         | 2,515         | 2,576         | 2,733         | 2,665         | 2,915         | 2,869         | 2,777         | -92         | -3.2%       | 1.4%         | 28,494         | 31,215         | 9.6%         | 21,641         | 23,721         | 9.6%         |
| TNK-BP                             | 1,964         | 2,038         | 2,006         | 2,079         | 2,082         | 1,888         | 2,043         | 1,794         | 2,061         | 2,031         | 2,093         | 2,089         | 1,666         | -424        | -20.3%      | -15.2%       | 21,169         | 23,869         | 12.8%        | 16,435         | 17,746         | 8.0%         |
| Bashneft                           | 1,805         | 1,819         | 1,747         | 1,688         | 1,670         | 1,618         | 1,705         | 1,792         | 1,830         | 1,816         | 1,818         | 1,722         | 1,759         | 37          | 2.2%        | -2.5%        | 21,415         | 20,983         | -2.0%        | 15,938         | 15,729         | -1.3%        |
| Surgutneftegaz                     | 1,683         | 1,754         | 1,796         | 1,686         | 1,824         | 1,696         | 1,649         | 1,795         | 1,793         | 1,814         | 1,797         | 1,706         | 1,697         | -9          | -0.6%       | 0.8%         | 20,608         | 21,007         | 1.9%         | 15,941         | 15,772         | -1.1%        |
| Slavneft                           | 1,271         | 1,301         | 1,250         | 1,250         | 1,200         | 1,121         | 1,152         | 846           | 1,210         | 1,302         | 1,345         | 1,345         | 1,261         | -85         | -6.3%       | -0.8%        | 13,996         | 14,581         | 4.2%         | 10,490         | 10,781         | 2.8%         |
| Gazprom                            | 915           | 1,020         | 1,050         | 1,054         | 1,066         | 929           | 1,018         | 844           | 990           | 1,061         | 729           | 950           | 895           | -56         | -5.9%       | -2.3%        | 11,613         | 11,606         | -0.1%        | 8,561          | 8,482          | -0.9%        |
| TAIF                               | 478           | 388           | 724           | 746           | 738           | 688           | 765           | 742           | 764           | 738           | 763           | 761           | 233           | -528        | -69.3%      | -51.2%       | 8,159          | 8,050          | -1.3%        | 6,042          | 6,192          | 2.5%         |
| Russneft                           | 450           | 432           | 429           | 425           | 400           | 400           | 390           | 410           | 460           | 450           | 450           | 420           | 500           | 80          | 19.0%       | 11.2%        | 5,182          | 5,167          | -0.3%        | 3,847          | 3,881          | 0.9%         |
| Alliance Oil                       | 304           | 210           | 285           | 271           | 279           | 270           | 290           | 311           | 322           | 320           | 332           | 331           | 315           | -16         | -4.8%       | 3.6%         | 3,249          | 3,535          | 8.8%         | 2,485          | 2,769          | 11.5%        |
| Other                              | 1,499         | 1,405         | 1,539         | 1,645         | 1,632         | 1,466         | 1,620         | 1,635         | 1,638         | 1,588         | 1,724         | 1,752         | 1,618         | -133        | -7.6%       | 8.0%         | 15,806         | 19,259         | 21.8%        | 12,129         | 14,671         | 21.0%        |
| <b>Total</b>                       | <b>20,966</b> | <b>21,100</b> | <b>20,921</b> | <b>21,619</b> | <b>22,339</b> | <b>23,084</b> | <b>23,854</b> | <b>24,649</b> | <b>25,470</b> | <b>26,319</b> | <b>27,197</b> | <b>28,103</b> | <b>29,040</b> | <b>937</b>  | <b>3.3%</b> | <b>38.5%</b> | <b>244,111</b> | <b>293,695</b> | <b>20.3%</b> | <b>184,665</b> | <b>230,055</b> | <b>24.6%</b> |
| <b>Refinery throughput (mnbpd)</b> |               |               |               |               |               |               |               |               |               |               |               |               |               |             |             |              |                |                |              |                |                |              |
| Rosneft                            | 974           | 974           | 1,049         | 1,043         | 1,025         | 993           | 990           | 927           | 916           | 1,095         | 1,080         | 1,023         | 925           | -98         | -9.6%       | -5.0%        | 996            | 1,004          | 0.8%         | 8,990          | 8,974          | -0.2%        |
| LUKOIL                             | 939           | 925           | 832           | 914           | 919           | 859           | 891           | 887           | 926           | 943           | 933           | 933           | 845           | -88         | -9.4%       | -9.9%        | 893            | 901            | 1.0%         | 8,133          | 8,137          | 0.0%         |
| Gazprom neft                       | 666           | 628           | 576           | 580           | 559           | 599           | 592           | 627           | 644           | 648           | 686           | 676           | 676           | 0           | 0.0%        | 1.4%         | 570            | 624            | 9.6%         | 5,210          | 5,707          | 9.5%         |
| TNK-BP                             | 478           | 480           | 488           | 490           | 490           | 492           | 481           | 436           | 485           | 494           | 493           | 492           | 405           | -87         | -17.6%      | -15.2%       | 423            | 477            | 12.8%        | 3,955          | 4,270          | 8.0%         |
| Bashneft                           | 439           | 428           | 425           | 397           | 393           | 422           | 401           | 436           | 431           | 442           | 428           | 405           | 428           | 23          | 5.6%        | -2.5%        | 428            | 420            | -2.0%        | 3,837          | 3,787          | -1.3%        |
| Surgutneftegaz                     | 409           | 413           | 437           | 397           | 430           | 442           | 388           | 437           | 422           | 441           | 423           | 402           | 413           | 11          | 2.8%        | 0.8%         | 412            | 420            | 1.9%         | 3,838          | 3,798          | -1.0%        |
| Slavneft                           | 309           | 306           | 304           | 294           | 283           | 292           | 271           | 206           | 285           | 317           | 317           | 317           | 307           | -10         | -3.2%       | -0.8%        | 280            | 292            | 4.2%         | 2,525          | 2,594          | 2.7%         |
| Gazprom                            | 223           | 240           | 256           | 248           | 251           | 242           | 240           | 205           | 233           | 258           | 172           | 224           | 218           | -6          | -2.7%       | -2.3%        | 232            | 232            | -0.1%        | 2,063          | 2,043          | -1.0%        |
| TAIF                               | 116           | 91            | 176           | 176           | 174           | 179           | 180           | 181           | 180           | 179           | 180           | 179           | 57            | -122        | -68.3%      | -51.2%       | 163            | 161            | -1.3%        | 1,454          | 1,489          | 2.4%         |
| Russneft                           | 110           | 102           | 104           | 100           | 94            | 104           | 92            | 100           | 108           | 110           | 106           | 99            | 122           | 23          | 23.0%       | 11.2%        | 104            | 103            | -0.3%        | 925            | 935            | 1.0%         |
| Alliance Oil                       | 74            | 49            | 69            | 64            | 66            | 70            | 68            | 76            | 76            | 78            | 78            | 78            | 77            | -1          | -1.6%       | 3.6%         | 65             | 71             | 8.8%         | 598            | 666            | 11.5%        |
| Other                              | 365           | 331           | 374           | 387           | 384           | 382           | 382           | 398           | 386           | 386           | 406           | 412           | 394           | -19         | -4.5%       | 8.0%         | 316            | 385            | 21.8%        | 2,915          | 3,530          | 21.1%        |
| <b>Total</b>                       | <b>5,102</b>  | <b>4,969</b>  | <b>5,091</b>  | <b>5,091</b>  | <b>5,261</b>  | <b>6,018</b>  | <b>5,617</b>  | <b>5,998</b>  | <b>5,998</b>  | <b>6,404</b>  | <b>6,404</b>  | <b>6,618</b>  | <b>7,066</b>  | <b>449</b>  | <b>6.8%</b> | <b>38.5%</b> | <b>4,882</b>   | <b>5,874</b>   | <b>20.3%</b> | <b>44,442</b>  | <b>55,385</b>  | <b>24.6%</b> |

Sources: Neftyanaya Torgovlya, Otkritie Capital Research

## Crude exports – rising despite flattening output growth

Russian crude exports outside the FSU amounted to 3.80mnbpd (173.7mnt) in January-November 2011, which reflects a 1.3% decrease on the average 2010 level. Seaborne deliveries decreased by 5.4% YoY, while pipeline shipments increased by 31.9%. The strong rise in pipeline exports is attributed to the launch of full-scale exports through the ESPO pipeline to China. Rosneft currently supplies 100% of the flow, which explains the jump in the company's pipeline exports in January 2011. Chinese exports amounted to 12.5mnt in January-October 2011 or 8.3% of the Russian total exports, which led Rosneft to increase its export share to 31.8% (from 28.1% in 2010).

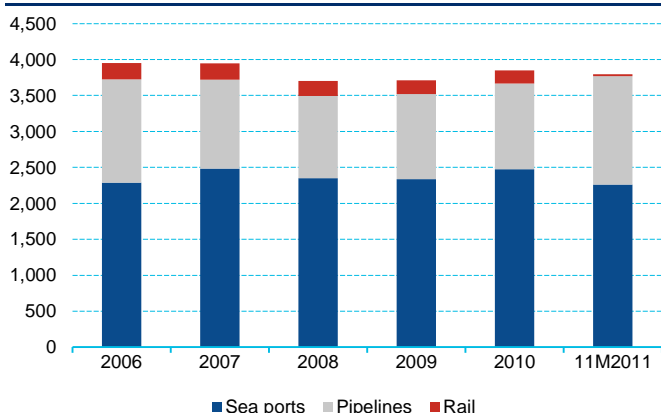
Figure 13. Monthly crude exports (kbpd)



Sources: Neftyanaya Torgovlya, Otkritie Capital Research

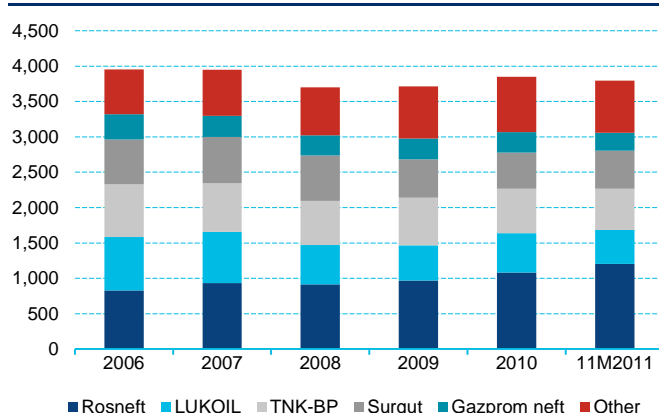
We expect Russian crude exports to grow 2-4% in 2012 on the back of the 60-66-90 tax reform, despite crude output being essentially flat YoY. Due to the substantial increase in heavy oil products and gasoline export duties (to 66% and 90% of the crude export duty respectively), oil companies will tend to export more crude rather than HFO and vacuum gasoil, in our view.

Figure 14. Oil exports by type of transport (kbpd)



Sources: Neftyanaya Torgovlya, Otkritie Capital Research

Figure 15. Oil exports by company (kbpd)



Sources: Neftyanaya Torgovlya, Otkritie Capital Research

## Cost trends – following the exchange rate

In 1H11 production costs for Russian oil companies were adversely affected by a sizeable appreciation (around 13% in real terms) of the ruble. Although this produced a very minor impact on upstream margins owing to higher oil prices, unit lifting and refining costs increased across the Russian oil sector in 1H11. However, the ruble underwent a visible devaluation in 3Q11 with the official exchange rate moving from RUB28.08/\$ at the end of June to RUB31.88/\$ at the end of September 2011, which has softened inflationary pressures on operating expenses in the Russian energy sector.

Overall, lifting costs of two largest Russian oil producers – Rosneft and LUKOIL – were increasing throughout the year (Figure 17). Also, refining costs increased most visibly YoY (Figure 18), which in the case of Rosneft was affected by the acquisition of Ruhr Oel and in LUKOIL’s case by the launch of new secondary processing units (specifically, the cracking complex at the NORSI refinery).

**Figure 16. Official exchange rate (RUB/\$)**



Sources: Central Bank of Russia, Otkritie Capital Research

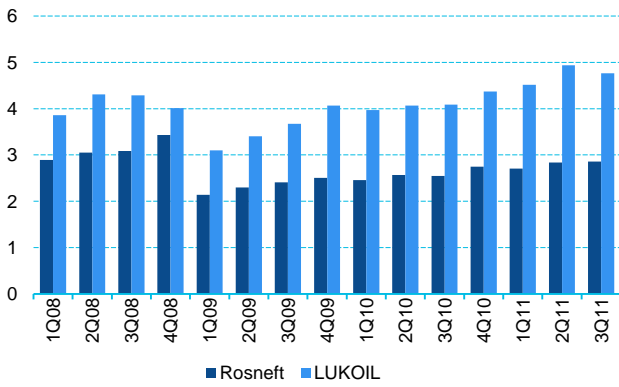
LUKOIL's upstream capex in 9M11 increased by 24.1% YoY (to \$4.31bn) owing to higher investments in foreign projects and assets in the Caspian Sea. Its capex in the downstream increased insubstantially by 1.1% YoY (from \$0.84bn to \$0.85bn).

Rosneft increased its total capex by 45.7% during 9M11. The growth comes mainly from an 88.1% YoY increase in the downstream capex on the back of the large-scale refinery modernization program implemented by the company. Rosneft’s upstream capex also increased substantially (+28.1% YoY) on the back of the second expansion phase of the Vankor field and higher spending by Yuganskneftegas.

We expect upstream investments in the Russian oil sector to increase by 10-15% in 2012, as companies will need to allocate more capital to drilling and greenfield developments. We expect to see a more visible (15-25%) increase in the downstream spending across the sector in 2012, as integrated oil companies now face more administrative pressures from the government and more economic incentives to upgrade their refineries in view of the 60-66-90 tax reform.

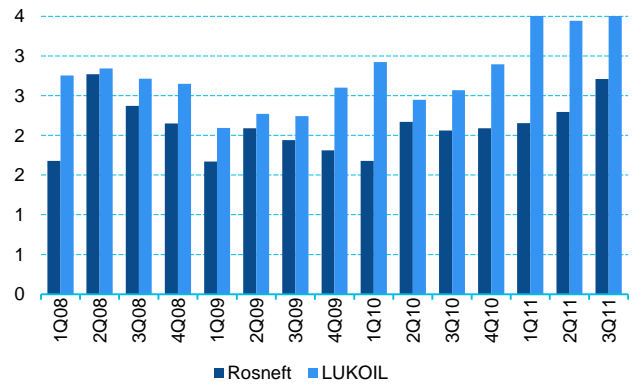


Figure 17. Lifting costs (\$/boe)



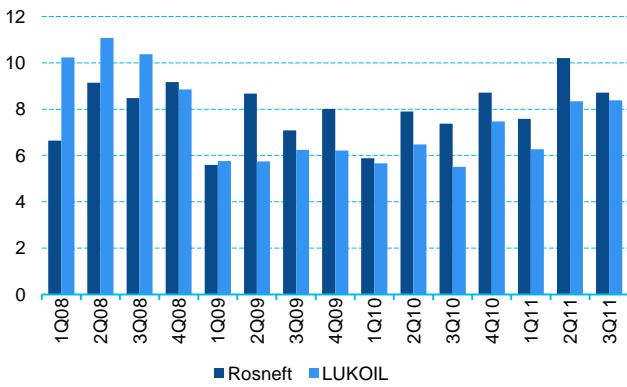
Sources: Company data, Otkritie Capital Research

Figure 18. Refining costs (\$/boe)



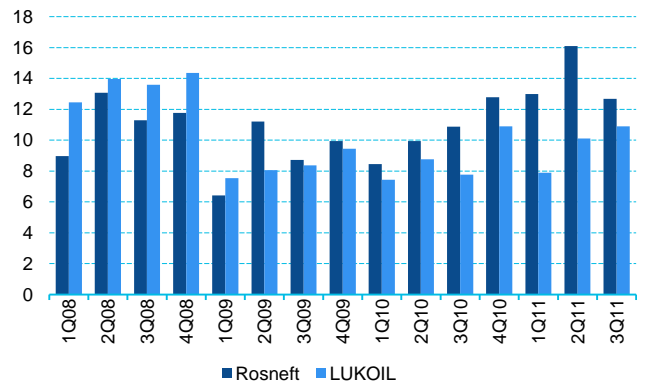
Sources: Company data, Otkritie Capital Research

Figure 19. Upstream capex per boe of output (\$/boe)



Sources: Company data, Otkritie Capital Research

Figure 20. Total capex per barrel of output (\$/boe)

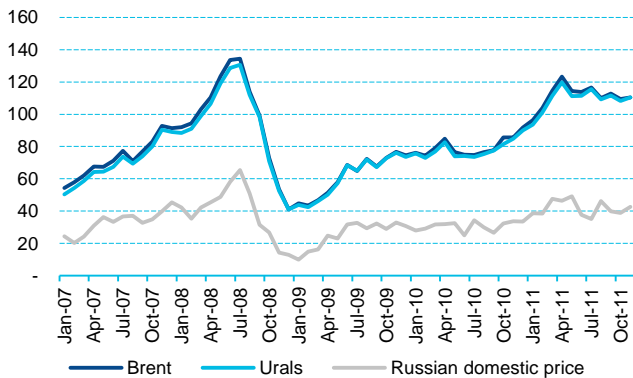


Sources: Company data, Otkritie Capital Research

## Domestic prices driven by export margins

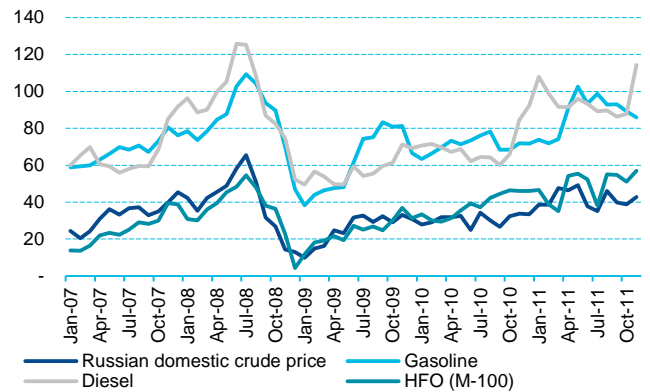
As illustrated below, the general domestic crude and refined product price trend were positive throughout the year, although domestic prices were affected by FX fluctuations, in addition to changes in export netbacks.

**Figure 21. Average crude prices (\$/bbl)**



Sources: InfoTEK, Bloomberg, Otkritie Capital Research

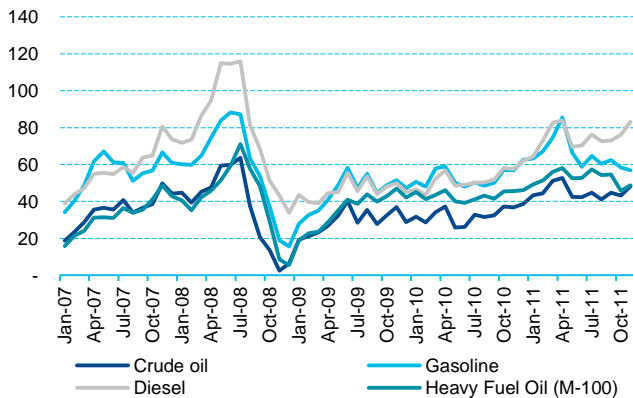
**Figure 22. Average gross domestic prices (\$/bbl)**



Sources: InfoTEK, Otkritie Capital Research

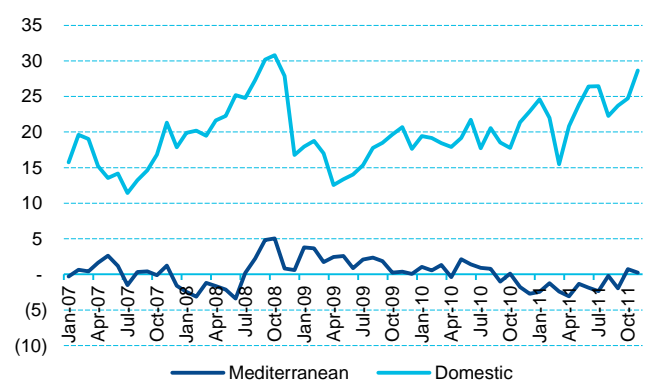
On the export side, the first half of the year was driven by high light products netbacks, which reached \$85/bbl in April 2011. The introduction of the 60-66-90 tax regime in October curbed gasoline exports, however paving the way for crude and middle distillates. Average netbacks on crude oil have increased 40.1% YE10 and diesel fuel netbacks increased 45.3%. This compares with netback growth of 25.2% for gasoline and 22% for heavy fuel oil (Figure 23) respectively, which reduced the volatility of domestic product prices during 2H11, we think.

**Figure 23. Estimated export netbacks (\$/bbl)**



Sources: InfoTEK, Bloomberg, Otkritie Capital Research

**Figure 24. Theoretical refining margins (\$/bbl)**

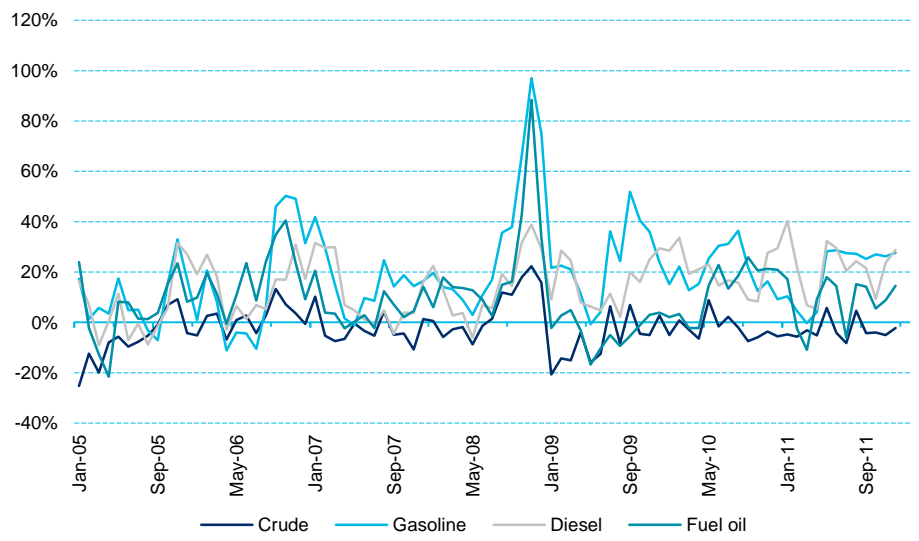


Sources: International Energy Agency, InfoTEK, Otkritie Capital Research

We expect the government will retain the 90% link of gasoline export duties to oil for the foreseeable future in order to lessen pressures on the domestic gasoline market.

Russian domestic premiums versus export netbacks have kept to their general trends, with the effects of the 60-66-90 tax regime affecting mostly gasoline premiums. Figure 25 shows that the government was instrumental in keeping domestic premiums stable at around 27% (vs. 23% average for 2010), which led to the decline in domestic gasoline prices in 2H11 (as shown in Figure 22). On the downside, the new tax regime still favors the export of middle-distillates, with diesel prices soaring in the domestic market due to a deficit, arising from the low domestic premium on diesel throughout October (when the tax measures were introduced).

Figure 25. Russian domestic price premium vs. export netbacks



Sources: InfoTEK, Bloomberg, Otkritie Capital Research

**Figure 26. Monthly prices, estimated netbacks and margins**

| (\$/bbl)                             | Dec-10 | Jan-11 | Feb-11 | Mar-11 | Apr-11 | May-11 | Jun-11 | Jul-11 | Aug-11 | Sep-11 | Oct-11 | Nov-11 | Avg. 12M | Avg. 12M-1 | Chg. %  |
|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|------------|---------|
| <b>Average crude prices</b>          |        |        |        |        |        |        |        |        |        |        |        |        |          |            |         |
| Brent                                | 91.70  | 96.27  | 103.85 | 114.50 | 123.32 | 114.43 | 113.67 | 116.44 | 109.97 | 112.79 | 109.46 | 110.44 | 109.74   | 79.23      | 38.5%   |
| Urals (Mediterranean)                | 89.97  | 93.66  | 101.01 | 111.44 | 119.61 | 111.19 | 111.37 | 115.56 | 109.18 | 111.66 | 108.16 | 110.33 | 107.76   | 77.84      | 38.4%   |
| <b>Average Mediterranean prices</b>  |        |        |        |        |        |        |        |        |        |        |        |        |          |            |         |
| Gasoline                             | 99.16  | 101.91 | 106.77 | 116.59 | 132.37 | 128.02 | 120.59 | 124.46 | 119.14 | 121.05 | 113.86 | 110.33 | 116.19   | 85.58      | 35.8%   |
| Gasoil                               | 103.36 | 108.03 | 117.83 | 130.38 | 136.96 | 125.24 | 126.13 | 130.30 | 125.78 | 125.64 | 125.60 | 131.07 | 123.86   | 88.87      | 39.4%   |
| Heavy fuel oil (3.5%)                | 71.25  | 75.05  | 83.67  | 90.31  | 96.02  | 92.57  | 93.32  | 96.64  | 92.94  | 94.04  | 94.51  | 94.82  | 89.59    | 65.99      | 35.8%   |
| <b>Average gross domestic prices</b> |        |        |        |        |        |        |        |        |        |        |        |        |          |            |         |
| Crude oil                            | 33.51  | 38.69  | 38.60  | 47.55  | 46.35  | 49.20  | 37.74  | 35.22  | 46.14  | 39.88  | 38.85  | 42.75  | 41.20    | 30.55      | 34.9%   |
| Gasoline A-92                        | 71.75  | 73.87  | 71.94  | 74.19  | 91.03  | 102.63 | 93.38  | 98.83  | 92.78  | 93.01  | 89.21  | 85.85  | 86.54    | 70.57      | 22.6%   |
| Diesel fuel (summer brand)           | 92.40  | 107.88 | 98.74  | 91.62  | 91.40  | 95.98  | 93.42  | 89.29  | 89.75  | 86.33  | 87.81  | 114.32 | 94.91    | 68.22      | 39.1%   |
| Heavy fuel oil (M-100)               | 46.05  | 46.65  | 38.83  | 35.18  | 54.18  | 55.50  | 52.27  | 38.06  | 55.15  | 54.67  | 51.04  | 57.03  | 48.72    | 37.23      | 30.8%   |
| <b>Export duties</b>                 |        |        |        |        |        |        |        |        |        |        |        |        |          |            |         |
| Crude oil                            | 41.62  | 43.49  | 47.48  | 50.00  | 58.04  | 62.16  | 63.30  | 60.97  | 60.03  | 60.84  | 56.36  | 53.84  | 54.84    | 37.11      | 47.8%   |
| Crude (reduced)                      | 14.79  | 16.10  | 18.85  | 20.60  | 26.16  | 29.00  | 29.79  | 28.19  | 27.53  | 28.10  | 28.01  | 26.12  | 24.44    | 5.21       | 369.4%  |
| Gasoline                             | 25.62  | 26.71  | 27.41  | 28.88  | 33.52  | 48.22  | 49.10  | 47.30  | 46.56  | 47.19  | 43.71  | 41.76  | 38.83    | 23.00      | 68.8%   |
| Gasoil                               | 29.01  | 30.24  | 31.04  | 32.70  | 37.95  | 40.64  | 41.39  | 39.87  | 39.25  | 39.77  | 36.30  | 34.67  | 36.07    | 26.04      | 38.5%   |
| Heavy fuel oil                       | 17.40  | 18.14  | 24.08  | 25.36  | 29.45  | 31.52  | 32.11  | 30.92  | 30.45  | 30.86  | 40.40  | 38.59  | 29.11    | 15.62      | 86.4%   |
| <b>Estimated export netbacks</b>     |        |        |        |        |        |        |        |        |        |        |        |        |          |            |         |
| Crude                                | 38.63  | 43.30  | 44.46  | 51.20  | 52.77  | 42.57  | 42.41  | 44.74  | 41.13  | 44.77  | 43.27  | 48.31  | 44.80    | 31.97      | 40.1%   |
| Gasoline                             | 62.66  | 63.29  | 67.11  | 74.55  | 85.56  | 66.49  | 58.84  | 64.62  | 60.27  | 62.48  | 58.47  | 56.96  | 65.11    | 52.02      | 25.2%   |
| Diesel fuel                          | 62.03  | 64.29  | 72.92  | 82.77  | 83.96  | 69.52  | 70.42  | 76.24  | 72.60  | 72.99  | 76.06  | 83.25  | 73.92    | 50.87      | 45.3%   |
| Heavy fuel oil                       | 46.10  | 49.25  | 51.41  | 56.04  | 58.14  | 52.60  | 52.81  | 57.43  | 54.35  | 54.72  | 45.84  | 48.67  | 52.28    | 42.85      | 22.0%   |
| <b>Theoretical refining margins</b>  |        |        |        |        |        |        |        |        |        |        |        |        |          |            |         |
| Miditerranean                        | -2.73  | -2.44  | -1.26  | -2.38  | -3.09  | -1.34  | -1.88  | -2.35  | -0.21  | -1.94  | 0.75   | 0.26   | -1.55    | 1.15       | -234.8% |
| Russian domestic                     | 22.89  | 24.61  | 21.98  | 15.46  | 20.80  | 23.85  | 26.40  | 26.46  | 22.26  | 23.72  | 24.75  | 28.63  | 23.48    | 19.11      | 22.9%   |

Sources: Neftyanaya Torgovlya, InfoTEK, International Energy Agency, Otkritie Capital Research

# Policy watch

Unfortunately, the pace of policy-making in the Russian oil & gas sector remained lackluster in 2011. The only exception was the beginnings of the oil tax reform – the so called 60-66-90 tax regime, introduced from 1 Oct 2011 – but both the timing and the magnitude of the announced change falls short of the requirements. The reform of the gas sector has seen no progress in 2011. While the pace of the policy changes is notoriously difficult to predict, particularly in the election year of 2012, we, generally, expect the reform process to accelerate after the elections.

## Oil tax reform

After two and a half years of deliberations, the Russian government has finally approved and introduced the first major change in the fiscal regime of Russia's oil sector from 1 Oct 2011, with the so called 60-66-90 tax reform. We have outlined the key elements of this decision in our 24 Aug 2011 report *Pricing in 60-66-90*. Without repeating in detail the key points discussed in that report, we believe it is important to stress our understanding of two key policy changes that have become apparent:

1. **Downstream vs. upstream.** Historically, the Russian government has been a strong supporter of the downstream sector, viewing refining as a 'value added' industry. Our own view has been very different — due to the poor complexity of the Russian refining sector we see it as primarily a value destructive proposition. It appears that the view of the government has changed, with the state prepared to sacrifice the existing subsidies for refiners for a better tax regime for the upstream producers. We view this development as a major change in government policy that could eventually lead to a more sustainable and more economically justified tax regime in the oil sector.
2. **Brownfields vs. greenfields.** It has long been perceived by numerous commentators (not without reason) that the Russian government has given up on incentivising brownfields, focusing instead on the development of greenfields. It now seems to us that the government's attitude towards brownfields has changed, with the state seemingly prepared to accept that additional incentives are required to stimulate their development. This is a major, positive change, in our view. Lower taxation on brownfields will lead to better economics, higher production growth rates, and reserve upgrades for Russian crude producers.

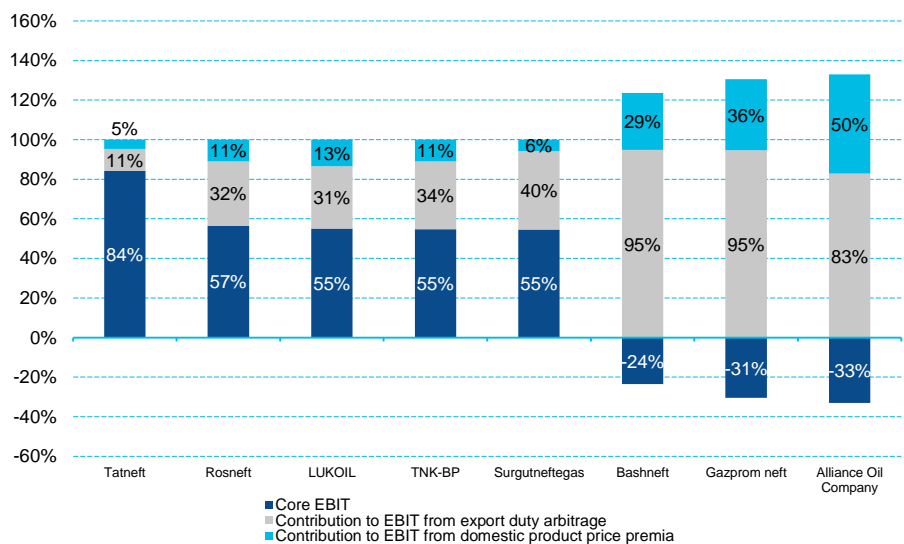
This decision is just the first step in a larger reform plan that we believe will include more of the same. While this is the right step in the right direction, we see the 60-66-90 reform as insufficient to substantially change the economics of oil production and refining in Russia and promote necessary changes in investments.

- In the upstream, we believe the government will continue to reduce the overall tax burden with an on-going reduction of the marginal export duty rate (to somewhere around 50-55%, we think) and a more radical set of measures adopted for greenfields. On the latter point, a series of proposals has been made, including a substitution of the existing set of taxes with an excess profits tax, as well as a brand new fiscal regime for offshore developments.
- In the downstream, the government has only approved one future change so far – an increase in the export duty for fuel oil to the level of 90% of crude's export duty (from 66% today) from 1 Jan 2015. However, we believe much more radical changes are required to promote investments in the upgrade of Russia's refining capacity, as the 60-66-90 reform – while a positive change in itself – still leaves too much profit on the table for the unsophisticated refineries, we estimate. Some of these possible changes include further alignment of the export duties on crude and oil products, changes to domestic excise taxes and more forceful monitoring – or regulation – of domestic product prices.

While the exact details of future tax changes remain uncertain, we view their general direction as quite certain. In particular, we see the likely regulatory changes as positive for pure upstream producers (who will see lower crude export duties, higher domestic crude prices and lower marginal tax rates for new fields) and negative for pure refiners (who will be exposed to reduced refining margins and throughput). We therefore see more upside potential and less downside risk in those companies that have lower refining cover, and vice-versa.

Figure 27 below shows the composition of 2012 EBIT for Russia’s vertically integrated oil companies, separating the effects of the still existing export duty subsidy on the export of oil products, and the abnormally high domestic oil product prices (as discussed earlier). As evident from this chart, Tatneft remains least negatively exposed to the ongoing oil tax reform, as it is less dependent on downstream’s excess profits. At the same time, the companies with higher refining cover – Alliance Oil Company, Bashneft and Gazprom neft – face the highest risk of earnings loss due to tightening regulation of Russia’s refining sector.

**Figure 27. Quality of earnings: breakdown of 2012E EBIT**



Sources: Company data, Otkritie Capital estimates

## Gas sector reform – no visible progress

No progress was achieved in Russia’s gas sector reform in 2011 – quite the opposite, we think the sector’s regulatory process has taken a turn for the worse. While hoping for the best, it is difficult to see how matters could improve in 2012.

To us the concept of Russia’s gas sector reform encompasses four main elements:

1. Deregulation of the domestic gas market with a level playing field created for Gazprom (whose tariffs are regulated by Federal Tariff Service) and non-Gazprom producers (whose tariffs are not regulated)
2. Introducing independent regulation of third-party access into Gazprom’s pipeline system, as well as bringing Gazprom’s transportation tariffs up to the economically justified level
3. Abolishing Gazprom’s gas export monopoly
4. Introducing a transparent, predictable and economically justified tax regime in Russia’s gas sector

We have discussed each of these points on many previous occasions (see, for example our 23 May 2011 report *Gazprom: focus on fundamentals*). We have stated before, and state again, that we only expect a successful outcome of the reform process if all of the above-mentioned four elements of the reform are tackled together. Focusing on each of them separately will breed failure and excess complexity, in our view. The government's tax decision for 2012 provides a good example. Without any obvious economic justification, the government decided to differentiate the mineral extraction tax between Gazprom and non-Gazprom producers from 2012, stipulating the difference of 50.7% for 2012, 54.5% for 2013 and 55.3% for 2014. This was portrayed as a fair benefit for the independent gas producers, which was supposed to offset their difficulties in getting access to Gazprom's pipelines. The end result is the opposite: this decision looks highly unfair to us, as it benefits only those producers who already enjoy access to Gazprom's pipelines, and, in addition, do not pay a fair transportation tariff either, we think.

The much expected regulatory separation of Gazprom's transportation and production units – originally targeted for 2011 – has been quietly postponed until 2015, according to a last-minute government decree (#1205) dated 31 December 2010. This document legalized the amendments to the seminal government decree #1021, *On state regulation of gas prices and gas transportation tariffs on the territory of Russian Federation*, dated 29 December 2000. The amended decree anticipates a transition from the regulation of wholesale prices to the regulation of gas transportation tariffs in two stages: 1) the current stage, when the transportation tariff is regulated only for third parties; and 2) a second stage, when end-user tariffs are deregulated — meaning there will not be a fixed regulated tariff, but rather the end-user gas price will be determined by a 'regulated' formula — and the FTS starts regulating gas transportation tariffs for all delivered volumes. While as recently as 28 May 2007 the government confirmed that the second stage should start on 1 January 2011, it has now been postponed to 1 January 2015, with no explanation provided.

Finally, it is worth pointing out that previously expected 15% tariff hike to Gazprom's regulated tariffs from 1 Jan 2012 has been pushed out to 1 July 2012, effectively reducing the average tariff growth to just 7.5%. Still, the year-end 2012 objective remained intact, meaning that the domestic gas price target (for industrial customers – representing around 80% of demand) has been stretched to around \$100/mcm, which we believe is close to a fair level for the domestic gas prices (based on our estimates of marginal production costs and fuel parity). After another 15% tariff hike expected for 2013, we do not envisage significant real gas price growth in Russia afterwards. Although in the past the Russian government has promised netback parity, this was based on a rather conservative oil price outlook of \$50-55/bbl, and the official language also includes a reference to fuel parity in addition to netback parity. With our expectations of oil prices exceeding this rather conservative estimate (and as a result, much higher than previously expected gas prices in Europe), we see a risk that netback parity will not be achieved in the foreseeable future. We still think netback parity is a worthy long-term objective for the government, but we doubt it can be achieved in the next few years given the Russian economy's continuing high dependency on energy resources as well as due to significant remaining structural impediments.

Bottom-line, we associate any possibility of a renewed impetus for reform of the Russian gas sector with a noticeable change in the broader priorities of the Russian government towards a more liberalized and modernized domestic economy – a change that we see possible after the March 2012 elections.



## Investment views

**LUKOIL** (BUY, target price \$63.8) can deliver the biggest positive surprise vs current (undemanding) market expectations through improved production growth, better capital efficiencies and higher dividends, we think. We view the recent changes to the oil taxation in Russia (the so called 60-66-90 tax regime, introduced from 1 Oct 2011) as just the first step in the painful adjustment process of the – still – inefficient and backward-looking regulatory regime. Future changes are likely to include a continuing reduction in the export duty on crude oil; greater benefits for greenfield developments; and revamp of the oil products regulation (potentially including export duties, domestic excise taxes and domestic product prices regulation) to stimulate much needed upgrades of the existing refining capacity. The end-outcome of this process, we believe, will be more profitable upstream and less profitable downstream operations. We like LUKOIL as a play on brownfield redevelopment, which offers an attractive balance between growth and investments. LUKOIL's superior capital efficiency and free cash flow generation (FCF of \$7.7bn in 9M11 versus only \$5.0bn for Rosneft) and undemanding valuations (2012E P/E multiple of 4.9 and EV/EBITDA multiple of only 2.7) makes it one of the world's cheapest large integrated oils. We forecast its 2011E FCF yield at 14%, which bodes well for the company's dividend outlook. We maintain our BUY rating on LUKOIL with a 12-month target price of \$63.8 per share or ADR.

In our view, **Rosneft** will be one of the key beneficiaries of the 60-66-90 tax reform in Russia's oil sector because of its strong upstream focus, significant resource potential and proximity to the Russian government. In addition, its strategic alliance with ExxonMobil should be beneficial for the company's longer-term growth prospects, we think, in view of substantial offshore acreage licensed to Rosneft and a reasonably high probability of confirming substantial commercial reserves. We believe Rosneft will remain one of the fastest growing oil companies in Russia capable of generating significant free cash flows, reducing its debt, and gradually increasing dividend payments. We maintain our BUY rating on Rosneft with a target price of \$9.00, which implies upside potential of 33%.

We see **TNK-BP Holding** as a balanced play on the ongoing volume growth, positive influence of the 60-66-90 tax reform, superior capital efficiency and high dividend payments. The company aims to reduce the production decline at its largest oil field (Samotlor) from 7% pa to 2-3% pa in the next few years. In conjunction with greenfield output growth (Uvat, Verkhnechonsk, Suzun, Tagul, Russkoye), this should translate into medium-term earnings and cash-flow growth. In our opinion, the standoff between the core shareholders of the TNK-BP group will have little influence on the stock performance, which will remain mainly driven by cash-flow growth and dividend expectations. Our updated target price (\$2.90) suggests appreciation potential of 10% for the common and 26% for the preferred stock. In view of the lack of apparent catalysts, we maintain our HOLD rating on TNK-BP Holding.

We maintain our BUY rating on both the common and preferred shares of **Surgutneftegas** [BUY, TP\$1.0/ordinary and TP\$0.57/preferred share]. This is a longer-term call which requires greater clarity in the company's ownership and balance sheet structures, which have been kept secretive for the past 10 years. Two elements of this uncertainty – the amount of treasury shares and the size of the cash pile – are more important possible drivers of its share price than the underlying oil & gas business, with 2x-4x upside potential, we estimate. While there is no evidence of an imminent improvement in transparency, the government may force greater financial visibility in the coming years (as evidenced, for example, by the recent adoption of the law on the central depository and the introduction of a new requirement to disclose final beneficiaries for DR-holders; as well as significant progress made towards the mandatory adoption of IFRS standards in Russia). An improved level of financial disclosure could have a material impact on Surgutneftegas' share price, we estimate, although the timing remains uncertain. In the meantime, we



note that Surgutneftegas' preferred shares are trading at a likely 2011 dividend yield of 11%, while also offering exposure to the possible revaluation from any improvement in corporate governance and transparency.

Being more exposed to the downstream than other large vertically integrated oil companies, **Gazprom neft** should see the adverse impact of the 60-66-90 tax reform, on our estimates, which should be mitigated by the relatively good complexity of the company's major oil refinery in Omsk. In addition, the company started to deliver volume growth following the acquisition of licenses from Gazprom (eastern part of the Orenburgskoye fields), which should help offset the negative impact of 60-66-90 on the company. Notwithstanding, our updated target price on the stock (\$3.50) suggests the downside risk of 24% for the stock. Therefore, we maintain our SELL rating in the stock.

Since it is the company most exposed in the upstream, **Tatneft** should see the maximum benefit among integrated Russian oils from the ongoing taxation reform. While the recent commissioning of the TANECO refinery (primary capacity of 140kbpd, or 7mntpa) increases the company's refining cover from effectively 0% to 27% (and initially TANECO will produce a relatively high proportion of heavy products), Tatneft's crude balance will remain very heavily skewed toward the upstream, where we see significant potential for further easing of the tax burden. We maintain our BUY rating on Tatneft, but reduce our DCF-based target to \$6.05 per common share (our new target for the preferred shares is \$3.38).

We maintain our bullish stance on **Bashneft**, and we anticipate the stock to benefit from the simplification of the group's internal ownership structure and the acquisition of a proper listing on the unified MICEX-RTS exchange. Although the pace of Bashneft's organic expansion should moderate in 2012, we expect the company to remain active on the M&A front and we do not rule out that it will add more undeveloped oil reserves to its assets portfolio, in addition to the T&T fields. We believe that potential stock-specific catalysts could push the stock out of the established trading range. We maintain our BUY rating on both common and preferred shares of Bashneft, and our updated targets (\$59.7 and \$53.7) imply upside potential of 34% and 64%, respectively.

We remain cautious on **Alliance Oil Company** owing to its excessive refining cover, poor quality of earnings (Figure 27) and risks related to the production ramp-up of its Kolvinskoye oil field and the completion of the upgrade of its Khabarovsk oil refinery. Specifically, the company's recent decision to stabilise production at the Kolvinskoye field and the notoriously challenging geology of the Timan-Pechora fields in general raises questions about the ultimate production potential of the Kolvinskoye field (previously guided at 50kbpd), particularly given other well-publicised disappointments in the Timan-Pechora region. The recent downgrade of the 2011 upstream production target and questions over Kolvinskoye's potential suggest the forthcoming announcement of 2012 targets in January may disappoint. In addition, the introduction of the 60-66-90 tax regime from 1 Oct 2011 should lead to a weakening financial performance in 4Q11 due to reduced refining throughput and lower margins, we think. Finally, while the company is still guiding for 2012 completion of the Khabarovsk refinery upgrade, we see risks for a delay, given the company's comments that the construction is not expected to be completed before spring, which we assume will be followed by the installation, testing and commissioning of the equipment. In the meantime, we retain our HOLD rating on the stock [with target price of 73.3].

**Gazprom** (BUY, target price \$12.4/share, \$24.8/GDR) is a revaluation play on the improvements in corporate governance, domestic gas sector reforms and a changed perception of the European gas markets. We believe the change in Russia's political cycle will create opportunities to speed up much needed reforms of the domestic gas sector, which should ultimately result, among other things, in significantly higher-than-currently-expected domestic gas prices, and improved regulation of the gas pipeline network and access rights. In Europe, we expect Gazprom's market share will strengthen following the recent launch of the Nord Stream pipeline amid Europe's growing dependency on imported



gas. We believe the recent scares over the terms of Gazprom's long-term contracts are unlikely to cause substantial changes to the existing terms of supply.

We continue to see **NOVATEK** as a beneficiary of rising domestic natural gas prices and their potential liberalization. In addition, the company should visibly increase the proportion of its end customer gas sales in 2012 largely owing to its new long-term contract with Inter RAO, which assumes direct gas supplies to OGK-3 power plants. In combination with 6-7% organic volume growth and a 15% increase in regulated gas prices (in July 2012) this should translate into expansion of margins and operating cash flows. Our NOVATEK valuation suggests a fair equity value of \$14.7/share (\$147/GDR). With the completion of the partner selection process for Yamal LNG now pushed into early 2012, we believe the stock will lack catalysts in the short-term. Hence, we maintain our HOLD rating on the stock.

**Transneft** (BUY, target price \$2,809/share) has x-fold revaluation potential but requires support from its board of directors and senior management in the form of higher dividends and improved regulation. Having been included in the privatisation list, and in need of external funding, we believe there is now an incentive to change. Interestingly, the company's last reported non-consolidated 3Q11 RAS results – which are generally irrelevant but are used to determine dividends – showed a sudden increase, giving hopes for a substantial increase in dividends. We calculate that based on the 3Q11 report, Transneft's dividend for 2011 will more than double to RUB 745/preferred share, implying a dividend yield of 1.9%. While still low, if the improved ratio of RAS/IFRS earnings were to hold for FY11, for example, the dividend yield would be a more substantial 5.5%. Whether this remains the new reality remains to be seen. However, we note that the company has made considerable effort this year to improve its relationship with the capital markets, including greater levels of disclosure and improved communications. Higher dividend payouts would be consistent with these changes.

# Appendix 1. Oil price outlook

## Demand outlook is stable

Forecasts from the IEA, the Energy Information Administration (EIA) of the US Department of Energy, and OPEC now average at 0.7% demand growth in 2011 to 88.8mnbpd, after a 3.9% rise registered for 2010. The growth is then expected to accelerate only slightly to 1.3% in 2012 to 90.0mnbpd and 0.1% in 2013 to 90.1mnbpd. These forecasts are summarized in Figure 28. These figures represent only marginal changes from forecasts as of 12 months ago, which suggests the world's oil demand outlook has not changed much over the past year despite a multiple set of revisions in the interim.

Figure 28. World crude supply/demand balance (mnbpd)

|                                      | 2009         | 2010        |             |              |              |             | 2011E        |              |              |             |             | 2012E        |              |             |             |             | 2013E       |              |             |             |             |
|--------------------------------------|--------------|-------------|-------------|--------------|--------------|-------------|--------------|--------------|--------------|-------------|-------------|--------------|--------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|
|                                      | FY           | 1Q          | 2Q          | 3Q           | 4Q           | FY          | 1Q           | 2Q           | 3Q           | 4QE         | FY          | 1QE          | 2QE          | 3QE         | 4QE         | FY          | 1QE         | 2QE          | 3QE         | 4QE         | FY          |
| <b>Demand</b>                        | <b>84.9</b>  | <b>85.8</b> | <b>86.2</b> | <b>88.0</b>  | <b>88.3</b>  | <b>88.2</b> | <b>87.9</b>  | <b>87.1</b>  | <b>88.9</b>  | <b>89.5</b> | <b>88.8</b> | <b>89.2</b>  | <b>88.5</b>  | <b>90.1</b> | <b>90.6</b> | <b>90.0</b> | <b>89.7</b> | <b>88.8</b>  | <b>90.8</b> | <b>91.0</b> | <b>90.1</b> |
| IEA                                  | 85.5         | 86.8        | 87.4        | 89.0         | 89.8         | 88.3        | 88.9         | 87.9         | 89.6         | 90.2        | 89.2        | 90.2         | 89.4         | 90.9        | 91.4        | 90.5        | 90.4        | 89.9         | 91.8        | 92.0        | 91.0        |
| US DOE                               | 84.6         | 85.6        | 86.3        | 87.9         | 88.5         | 89.5        | 87.3         | 87.2         | 88.7         | 89.3        | 89.6        | 88.9         | 88.7         | 90.0        | 90.5        | 90.7        | 89.7        | 89.1         | 90.1        | 90.5        | 89.8        |
| OPEC                                 | 84.5         | 84.9        | 85.0        | 87.2         | 86.6         | 86.9        | 87.5         | 86.3         | 88.3         | 89.1        | 87.8        | 88.4         | 87.5         | 89.5        | 90.0        | 88.9        | 88.8        | 87.6         | 90.6        | 90.7        | 89.4        |
| <b>Supply</b>                        | <b>84.7</b>  | <b>86.3</b> | <b>86.7</b> | <b>87.5</b>  | <b>88.2</b>  | <b>87.6</b> | <b>88.0</b>  | <b>86.9</b>  | <b>88.3</b>  | <b>89.5</b> | <b>88.8</b> | <b>89.2</b>  | <b>89.1</b>  | <b>89.8</b> | <b>90.2</b> | <b>89.7</b> | <b>89.3</b> | <b>89.4</b>  | <b>89.7</b> | <b>90.3</b> | <b>89.7</b> |
| <b>Non-OPEC</b>                      | <b>51.0</b>  | <b>52.0</b> | <b>52.1</b> | <b>52.0</b>  | <b>52.7</b>  | <b>52.4</b> | <b>52.5</b>  | <b>51.9</b>  | <b>52.2</b>  | <b>53.2</b> | <b>52.8</b> | <b>53.4</b>  | <b>53.3</b>  | <b>53.3</b> | <b>53.6</b> | <b>53.4</b> | <b>53.6</b> | <b>53.5</b>  | <b>53.7</b> | <b>53.7</b> |             |
| IEA                                  | 51.5         | 52.1        | 52.5        | 52.6         | 53.1         | 52.6        | 52.7         | 52.3         | 52.6         | 53.4        | 52.7        | 53.7         | 53.6         | 53.8        | 54.1        | 53.8        | 54.0        | 53.9         | 54.0        | 54.3        | 54.0        |
| US DOE                               | 50.5         | 51.6        | 51.6        | 51.5         | 52.4         | 52.4        | 52.1         | 51.4         | 52.1         | 53.1        | 53.1        | 53.4         | 53.4         | 53.2        | 53.3        | 53.3        | 53.2        | 53.3         | 52.9        | 53.0        | 53.1        |
| OPEC                                 | 51.1         | 52.1        | 52.1        | 51.9         | 52.7         | 52.3        | 52.8         | 52.0         | 52.0         | 53.1        | 52.5        | 53.2         | 53.0         | 53.0        | 53.4        | 53.1        | 53.6        | 53.4         | 53.5        | 53.9        | 53.6        |
| Of which FSU                         | 13.1         | 13.2        | 13.3        | 13.3         | 13.5         | 13.3        | 13.4         | 13.4         | 13.4         | 13.5        | 13.5        | 13.6         | 13.6         | 13.5        | 13.6        | 13.5        | 13.6        | 13.6         | 13.5        | 13.5        | 13.5        |
| IEA                                  | 13.3         | 13.5        | 13.5        | 13.5         | 13.6         | 13.5        | 13.6         | 13.6         | 13.6         | 13.7        | 13.6        | 13.8         | 13.8         | 13.7        | 13.8        | 13.8        | 13.7        | 13.8         | 13.6        | 13.7        | 13.7        |
| US DOE                               | 12.9         | 13.1        | 13.2        | 13.2         | 13.3         | 13.3        | 13.3         | 13.3         | 13.4         | 13.5        | 13.4        | 13.7         | 13.6         | 13.5        | 13.3        | 13.3        | 13.6        | 13.5         | 13.4        | 13.2        | 13.4        |
| OPEC                                 | 13.0         | 13.1        | 13.2        | 13.2         | 13.5         | 13.2        | 13.3         | 13.3         | 13.2         | 13.4        | 13.3        | 13.5         | 13.4         | 13.4        | 13.5        | 13.4        | 13.5        | 13.4         | 13.4        | 13.5        | 13.5        |
| <b>OPEC NGLs</b>                     | <b>4.7</b>   | <b>5.0</b>  | <b>5.2</b>  | <b>5.3</b>   | <b>5.4</b>   | <b>5.3</b>  | <b>5.6</b>   | <b>5.6</b>   | <b>5.7</b>   | <b>5.9</b>  | <b>5.8</b>  | <b>6.0</b>   | <b>6.0</b>   | <b>6.2</b>  | <b>6.2</b>  | <b>6.1</b>  | <b>6.0</b>  | <b>6.0</b>   | <b>6.2</b>  | <b>6.2</b>  | <b>6.1</b>  |
| IEA                                  | 4.9          | 5.2         | 5.2         | 5.5          | 5.6          | 5.3         | 5.8          | 5.8          | 5.9          | 6.0         | 5.9         | 6.2          | 6.2          | 6.4         | 6.4         | 6.3         | 6.2         | 6.2          | 6.4         | 6.4         | 6.3         |
| US DOE                               | 4.8          | 5.2         | 5.5         | 5.8          | 5.7          | 5.7         | 5.8          | 5.7          | 5.9          | 6.2         | 6.3         | 6.2          | 6.3          | 6.3         | 6.3         | 6.3         | 6.3         | 6.3          | 6.4         | 6.4         | 6.3         |
| OPEC                                 | 4.3          | 4.6         | 4.8         | 4.8          | 5.0          | 4.9         | 5.1          | 5.3          | 5.4          | 5.4         | 5.3         | 5.5          | 5.6          | 5.7         | 5.8         | 5.7         | 5.5         | 5.6          | 5.7         | 5.8         | 5.7         |
| <b>Call on OPEC crude and stocks</b> | <b>29.2</b>  | <b>28.8</b> | <b>29.0</b> | <b>30.7</b>  | <b>30.2</b>  | <b>30.4</b> | <b>29.8</b>  | <b>29.7</b>  | <b>30.9</b>  | <b>30.5</b> | <b>30.3</b> | <b>29.8</b>  | <b>29.2</b>  | <b>30.6</b> | <b>30.9</b> | <b>30.5</b> | <b>30.1</b> | <b>29.3</b>  | <b>31.2</b> | <b>31.1</b> | <b>30.4</b> |
| IEA                                  | 29.1         | 29.4        | 29.7        | 31.0         | 31.1         | 30.3        | 30.4         | 29.9         | 31.1         | 30.8        | 30.5        | 30.3         | 29.6         | 30.7        | 30.8        | 30.4        | 30.3        | 29.8         | 31.4        | 31.2        | 30.7        |
| US DOE                               | 29.3         | 28.8        | 29.2        | 30.6         | 30.5         | 31.3        | 29.4         | 30.2         | 30.7         | 30.0        | 30.2        | 29.3         | 29.0         | 30.5        | 30.9        | 31.1        | 30.3        | 29.5         | 30.8        | 31.1        | 30.4        |
| OPEC                                 | 29.1         | 28.2        | 28.1        | 30.5         | 28.9         | 29.7        | 29.6         | 29.1         | 30.9         | 30.6        | 30.0        | 29.8         | 29.0         | 30.8        | 30.9        | 30.1        | 29.7        | 28.6         | 31.4        | 31.0        | 30.1        |
| <b>OPEC crude</b>                    | <b>29.0</b>  | <b>29.3</b> | <b>29.5</b> | <b>30.1</b>  | <b>30.1</b>  | <b>29.9</b> | <b>29.9</b>  | <b>29.4</b>  | <b>30.3</b>  | <b>30.4</b> | <b>30.2</b> | <b>29.8</b>  | <b>29.7</b>  | <b>30.4</b> | <b>30.4</b> | <b>30.2</b> | <b>29.8</b> | <b>29.9</b>  | <b>30.0</b> | <b>30.4</b> | <b>30.0</b> |
| IEA                                  | 29.1         | 29.4        | 29.7        | 31.0         | 31.1         | 30.3        | 30.4         | 29.9         | 31.1         | 30.8        | 30.5        | 30.3         | 29.6         | 30.7        | 30.8        | 30.4        | -           | -            | -           | -           | -           |
| US DOE                               | 29.1         | 29.4        | 29.7        | 30.1         | 29.9         | 29.9        | 29.8         | 29.2         | 29.9         | 29.9        | 29.9        | 29.4         | 29.8         | 30.0        | 30.1        | 30.1        | 29.8        | 29.9         | 30.0        | 30.4        | 30.0        |
| OPEC                                 | 28.7         | 29.2        | 29.0        | 29.2         | 29.3         | 29.3        | 29.6         | 29.2         | 29.9         | -           | -           | -            | -            | -           | -           | -           | -           | -            | -           | -           | -           |
| <b>Stock-build/(draw)</b>            | <b>(0.0)</b> | <b>0.1</b>  | <b>0.0</b>  | <b>(0.7)</b> | <b>(0.4)</b> | <b>0.0</b>  | <b>(0.1)</b> | <b>(0.2)</b> | <b>(0.5)</b> | <b>0.8</b>  | <b>0.4</b>  | <b>(0.1)</b> | <b>(0.9)</b> | <b>0.5</b>  | <b>0.9</b>  | <b>1.0</b>  | <b>0.5</b>  | <b>(0.4)</b> | <b>0.7</b>  | <b>0.8</b>  | <b>0.4</b>  |
| IEA                                  | 0.1          | (0.1)       | (0.4)       | (1.3)        | (1.4)        | (0.8)       | (0.5)        | (0.4)        | (1.1)        | -           | -           | -            | -            | -           | -           | -           | -           | -            | -           | -           | -           |
| US DOE                               | 0.2          | (0.6)       | (0.5)       | 0.4          | 0.6          | 1.3         | 0.1          | (0.2)        | 0.6          | 1.5         | 0.5         | (0.1)        | (0.9)        | 0.5         | 0.9         | 1.0         | 0.5         | (0.4)        | 0.7         | 0.8         | 0.4         |
| OPEC                                 | (0.3)        | 1.0         | 0.9         | (1.3)        | -            | (0.5)       | 0.0          | 0.1          | (1.0)        | 0.0         | 0.3         | -            | -            | -           | -           | -           | -           | -            | -           | -           | -           |

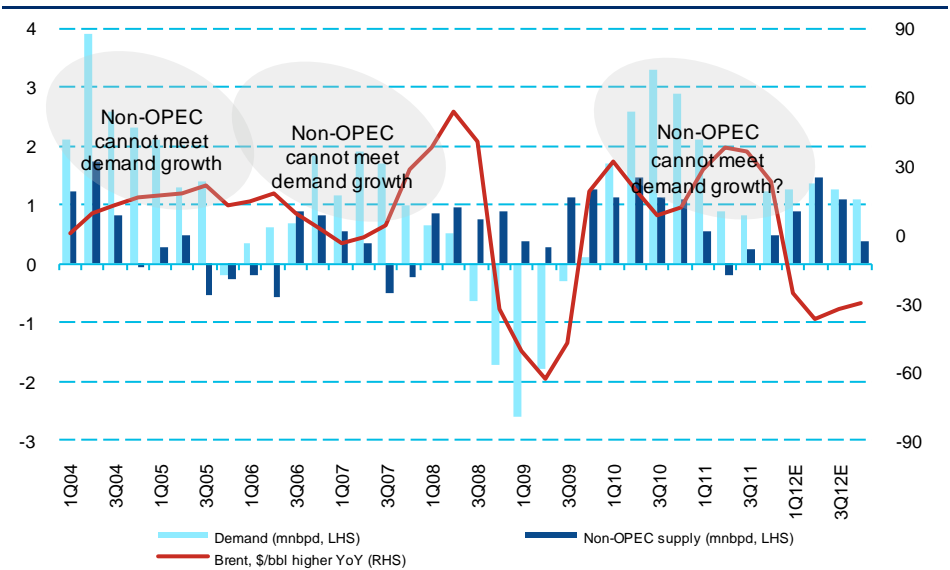
Notes: The IEA and OPEC numbers do not project OPEC crude supply. Processing volumetric gains, losses and biofuels are included in non-OPEC supply. Source: IEA, US EIA, OPEC, Otkritie Capital research

All three international agencies are forecasting that oil demand will continue to grow in 2012. While the world economy is expected to expand 3.8%, oil demand is forecast to grow at just 1.3% as the effect of energy efficiency policies and the use of biofuels take their toll. In addition, a more precarious economic backdrop and weaker 4Q11 data – particularly for OECD Europe – have lead IEA to marginally reduce its oil demand expectations for 2012 this month. OECD demand, which unexpectedly rose 1.1% in 2010, is now forecast to contract 0.8% in 2011 and 0.5% in 2012, reflecting a combined effect of lower demand growth in the US, Japan and Europe, according to IEA. It is therefore non-OECD demand that is expected to fuel the global consumption growth, with a projected growth rate of 3.0% in 2011 and 3.5% in 2012, led by Asia and Latin America.

On the supply side, forecasts continue to be revised upwards (particularly non-OPEC production), now expected to add 1.3% or 1.2mnbpd in 2011 (a 0.8mnbpd upgrade vs. the consensus view 12 months ago) and a further 1.0% or 0.9mnbpd in 2012. This is chiefly attributable to positive revisions of production growth in Brazil and North America, the latter driven by sky-rocketing production of tight oil in the US. FSU supply estimates have also seen positive revisions, albeit marginal, due to higher-than-expected output growth in Russia. The consensus now calls for growth of 0.9% in 2011 to 13.5mnbpd, compared to the 13.2mnbpd expectation 12 months ago. For 2012, the consensus now expects FSU production to remain broadly unchanged at 13.5mnbpd, which is in line with our expectations as well.

Taking the abovementioned demand and non-OPEC supply forecasts at face value, as well as the IEA, EIA and OPEC forecasts of 4.8% growth in OPEC natural gas liquids (NGL) supply in 2012, balanced markets would require 0.8% (0.2mnbpd) more OPEC crude (and stock draws) in 2012 than in 2011, or 30.5mnbpd. In 2013, the call on OPEC crude is actually expected to decline marginally, by 0.1mnbpd, as non-OPEC supply is projected to rise faster than the demand for crude. We expect the ability of OPEC to continue to control global supplies to diminish, given the substantial potential of non-OPEC countries to increase future production. As shown in Figure 29, EIA estimates that non-OPEC production growth will exceed demand growth in 2Q12E, meaning a reducing call on OPEC crude.

**Figure 29. Non-OPEC supply growth fails to meet global demand growth**

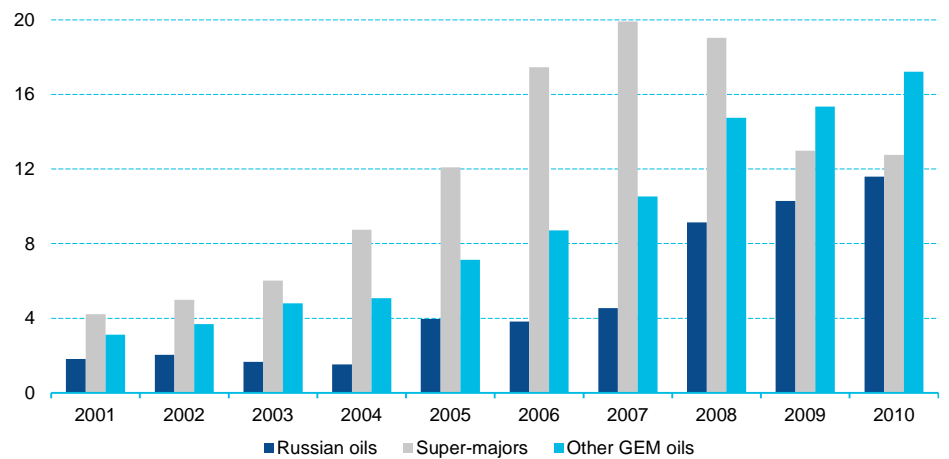


Sources: IEA, US EIA, OPEC, Otkritie Capital Research

## Our oil price view is unchanged

Overall, we believe the global resource base is adequate to meet increasing demand, although spare production capacity outside of OPEC is currently limited and development risks are high. Based upon reported 2010 data for the global oil majors and on GEM alternatives and Russian oil producers, we estimate that average three-year finding and development costs have risen 12.3% for GEM and 12.8% for Russian oil companies over the past year, although these have declined 1.7% for the super-majors (see Figure 30). It is worth noting that the performance of the super-majors reflects large additions of gas reserves, which are included along with oil reserves in SFAS 69 disclosures and to some extent distort the underlying picture. Still, the costs of services and materials continued to rise this year, which should result in higher reported F&D costs for 2011.

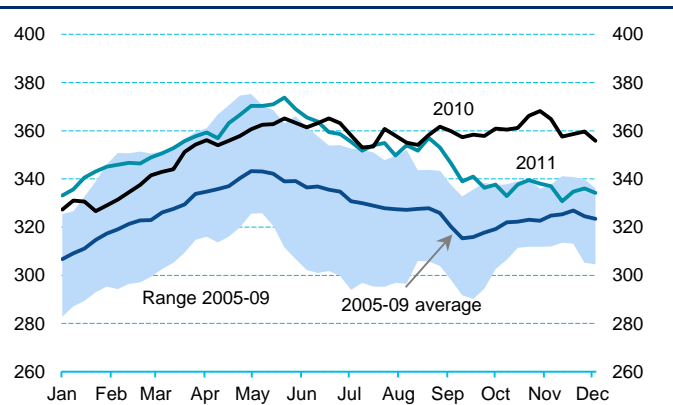
**Figure 30. Three-year weighted average F&D costs (\$/boe)**



Sources: company data, Otkritie Capital Research

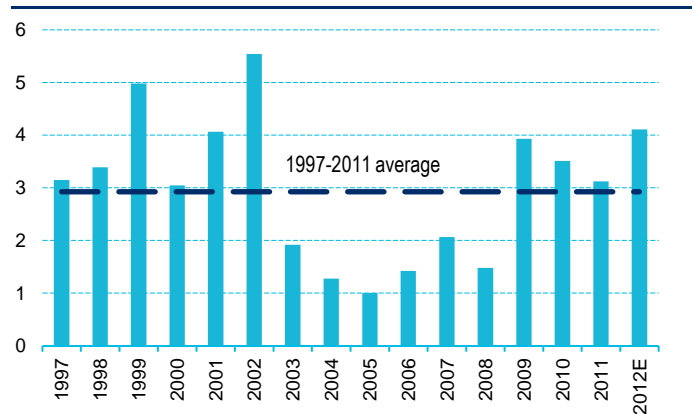
We estimate marginal development costs globally at approximately \$80/bbl, and therefore believe there is little fundamental upside to the current oil price level. We believe that an extended period of much higher oil price levels is unlikely, as this would only exacerbate a negative demand response and promote greater level of investments in higher cost oil, such as tight oil reserves in the US, which already see a record high level of drilling activity. We would expect OPEC to release some of its spare capacity to offset the price gains. While crude inventories (Figure 31) and OPEC surplus production capacity (Figure 32) remain high, we anticipate a more modest oil price going forward. Outside an adjustment to the 2011 actual, our oil price forecasts remain unchanged, as summarized in Figure 33.

**Figure 31. US crude inventories (mnbbl)**



Sources: US EIA, Otkritie Capital Research

**Figure 32. OPEC spare oil production capacity (mnbpd)**



Sources: IEA, Otkritie Capital Research

**Figure 33. Our oil price forecasts remain unchanged (\$/bbl)**

|                     | 2011E | 2012E | 2013E | 2014E |
|---------------------|-------|-------|-------|-------|
| <b>Brent</b>        |       |       |       |       |
| New forecast        | 111.1 | 80.0  | 80.0  | 80.0  |
| Previous forecast   | 103.6 | 80.0  | 80.0  | 80.0  |
| Change, %           | +7%   | -     | -     | -     |
| Bloomberg consensus |       | 108.2 | 115.6 | 116.0 |
| <b>Urals</b>        |       |       |       |       |
| New forecast        | 109.4 | 78.5  | 78.5  | 78.5  |
| Previous forecast   | 101.7 | 78.5  | 78.5  | 78.5  |
| Change, %           | +6%   | -     | -     | -     |

Sources: Bloomberg, Otkritie Capital estimates

## Appendix 2. Company models

Figure 34. Alliance Oil Company

| Operating Statistics                     | 2007   | 2008    | 2009     | 2010    | 2011E   | 2012E   | 2013E   | 2014E   |
|--|--------|---------|----------|---------|---------|---------|---------|---------|
| Crude oil production, mnt                | 1.5    | 2.3     | 2.2      | 2.2     | 2.5     | 3.6     | 4.3     | 4.5     |
| Gas production, bcm                      | -      | -       | -        | -       | -       | -       | -       | -       |
| Total hydrocarbon production, mnboe      | 11     | 17      | 16       | 16      | 18      | 27      | 31      | 33      |
| Refining throughput, mnt                 | 0.03   | 2.39    | 2.99     | 3.25    | 3.52    | 2.95    | 2.95    | 2.95    |
| Income statement, \$mn                   | 2007   | 2008    | 2009     | 2010    | 2011E   | 2012E   | 2013E   | 2014E   |
| Gross revenues                           | 380    | 2,722   | 1,726    | 2,196   | 2,967   | 2,832   | 3,419   | 3,453   |
| Operating expenses                       | (348)  | (2,586) | (1,273)  | (1,888) | (2,458) | (2,520) | (2,947) | (2,949) |
| EBITDA                                   | 121    | 585     | 391      | 439     | 675     | 553     | 763     | 804     |
| EBITDA margin, %                         | 32%    | 21%     | 23%      | 20%     | 23%     | 20%     | 22%     | 23%     |
| EBIT                                     | 33     | 136     | 454      | 307     | 509     | 312     | 473     | 504     |
| EBIT margin, %                           | 9%     | 5%      | 26%      | 14%     | 17%     | 11%     | 14%     | 15%     |
| Financial items                          | (16)   | (31)    | (16)     | (22)    | (55)    | (67)    | (56)    | (33)    |
| Profit Before Tax                        | 42     | 79      | 418      | 290     | 439     | 245     | 417     | 472     |
| Net income                               | 30     | 41      | 344      | 222     | 345     | 193     | 327     | 371     |
| Average number of shares outstanding, mn | 1,186  | 2,720   | 172      | 172     | 172     | 172     | 172     | 172     |
| EPS, \$ per share                        | 0.03   | 0.01    | 2.00     | 1.30    | 2.01    | 1.12    | 1.91    | 2.16    |
| DPS, \$ per share                        | -      | -       | -        | -       | -       | -       | -       | -       |
| Payout ratio, %                          | -      | -       | -        | -       | -       | -       | -       | -       |
| Growth rates, %                          | 2007   | 2008    | 2009     | 2010    | 2011E   | 2012E   | 2013E   | 2014E   |
| Total hydrocarbon production             | 32.8   | 55.4    | (2.9)    | (0.5)   | 12.6    | 47.9    | 18.5    | 4.3     |
| Revenues                                 | 55.1   | 615.6   | (36.6)   | 27.2    | 35.1    | (4.6)   | 20.7    | 1.0     |
| EPS                                      | (11.6) | (40.8)  | 13,338.4 | (35.4)  | 55.4    | (44.3)  | 70.0    | 13.2    |
| DPS                                      | -      | -       | -        | -       | -       | -       | -       | -       |
| Balance sheet, \$mn                      | 2007   | 2008    | 2009     | 2010    | 2011E   | 2012E   | 2013E   | 2014E   |
| Current assets                           | 77     | 588     | 729      | 730     | 835     | 745     | 1,196   | 474     |
| Non-current assets                       | 1,057  | 1,803   | 1,998    | 2,618   | 3,423   | 3,593   | 3,509   | 3,352   |
| Total assets                             | 1,134  | 2,391   | 2,727    | 3,347   | 4,259   | 4,337   | 4,705   | 3,826   |
| Current liabilities                      | 109    | 805     | 584      | 436     | 544     | 525     | 608     | 612     |
| Long-term liabilities                    | 378    | 429     | 537      | 1,106   | 1,606   | 1,506   | 1,456   | 194     |
| Minorities                               | 0.3    | 6       | 7        | 31      | 38      | 41      | 47      | 54      |
| Equity                                   | 646    | 1,152   | 1,600    | 1,774   | 2,071   | 2,265   | 2,594   | 2,967   |
| Total equity and liabilities             | 1,134  | 2,391   | 2,727    | 3,347   | 4,259   | 4,337   | 4,705   | 3,826   |
| Cash flow statement, \$mn                | 2007   | 2008    | 2009     | 2010    | 2011E   | 2012E   | 2013E   | 2014E   |
| Net income                               | 30     | 41      | 344      | 222     | 345     | 193     | 327     | 371     |
| DD&A                                     | 78     | 132     | 108      | 132     | 166     | 241     | 290     | 300     |
| Other                                    | (20)   | 195     | (137)    | 25      | 5       | 3       | 6       | 7       |
| Changes in working capital               | 13     | (66)    | 1        | (176)   | (54)    | 25      | (30)    | 14      |
| Cash flow from operations                | 100    | 301     | 315      | 204     | 463     | 462     | 594     | 691     |
| Cash flow used for investments           | (222)  | (345)   | (238)    | (709)   | (970)   | (408)   | (205)   | (141)   |
| Cash flow used for/from financing        | 97     | 33      | (19)     | 306     | 500     | (100)   | (50)    | (1,262) |
| Effect of exchange rate changes          | (1)    | (63)    | (2)      | (15)    | -       | -       | -       | -       |
| Cash flow for the year                   | (26)   | (73)    | 57       | (214)   | (7)     | (47)    | 339     | (712)   |
| Key data                                 | 2007   | 2008    | 2009     | 2010    | 2011E   | 2012E   | 2013E   | 2014E   |
| Net debt/(cash), \$mn                    | 271    | 535     | 318      | 812     | 1,369   | 1,315   | 927     | 376     |
| Net debt/equity, %                       | 41.8   | 46.5    | 19.9     | 45.8    | 66.1    | 58.1    | 35.7    | 12.7    |
| ROE, %                                   | 6.2    | 31.0    | 10.8     | 12.5    | 16.7    | 8.5     | 12.6    | 12.5    |
| ROIC, %                                  | 4.5    | 6.7     | 19.6     | 10.9    | 14.1    | 8.4     | 11.9    | 16.3    |
| ROACE, %                                 | 4.9    | 9.2     | 20.9     | 12.0    | 15.9    | 8.5     | 12.3    | 14.2    |

Sources: Company data, Otkritie Capital estimates

Figure 35. Bashneft

| <b>Operating statistics</b>              | <b>2009</b> | <b>2010</b> | <b>2011E</b> | <b>2012E</b> | <b>2013E</b> | <b>2014E</b> |
|--|-------------|-------------|--------------|--------------|--------------|--------------|
| Crude oil production, mnt                | 12          | 14          | 15           | 15           | 15           | 15           |
| Gas production, bcm                      | 0.4         | 0.5         | 0.5          | 0.5          | 0.5          | 0.5          |
| Total hydrocarbon production, mmmboe     | 92          | 106         | 113          | 115          | 113          | 113          |
| Refining throughput, mnt                 | 21          | 21          | 21           | 21           | 21           | 21           |
| Refining cover, %                        | 165         | 146         | 136          | 135          | 138          | 138          |
| <b>Income statement, \$mn</b>            | <b>2009</b> | <b>2010</b> | <b>2011E</b> | <b>2012E</b> | <b>2013E</b> | <b>2014E</b> |
| Revenues                                 | 2,828       | 9,342       | 13,148       | 10,684       | 11,492       | 11,993       |
| Operating expenses                       | (2,210)     | (7,072)     | (10,536)     | (9,215)      | (9,927)      | (10,174)     |
| EBITDA                                   | 1,249       | 2,981       | 3,261        | 2,131        | 2,254        | 2,525        |
| EBITDA margin, %                         | 44%         | 32%         | 25%          | 20%          | 20%          | 21%          |
| EBIT                                     | 618         | 2,270       | 2,612        | 1,469        | 1,565        | 1,819        |
| EBIT margin, %                           | 22%         | 24%         | 20%          | 14%          | 14%          | 15%          |
| Financial items                          | 25          | (256)       | (315)        | (241)        | (228)        | (187)        |
| Profit Before Tax                        | 643         | 2,014       | 2,297        | 1,228        | 1,337        | 1,633        |
| Net income                               | 420         | 1,429       | 1,673        | 932          | 1,014        | 1,238        |
| Average number of shares outstanding, mn | 205         | 205         | 205          | 205          | 205          | 205          |
| EPS, \$ per share                        | 2.05        | 6.98        | 8.17         | 4.55         | 4.95         | 6.04         |
| DPS, \$ per share                        | 3.59        | 7.90        | 6.13         | 6.83         | 4.46         | 5.44         |
| Payout ratio, %                          | 175.1       | 113.2       | 75.0         | 150.0        | 90.0         | 90.0         |
| <b>Growth rates, %</b>                   | <b>2009</b> | <b>2010</b> | <b>2011E</b> | <b>2012E</b> | <b>2013E</b> | <b>2014E</b> |
| Total hydrocarbon production             |             | 15.5        | 6.7          | 1.2          | (1.6)        | -            |
| Revenues                                 |             | 230.3       | 40.7         | (18.7)       | 7.6          | 4.4          |
| EPS                                      |             | 240.2       | 17.1         | (44.3)       | 8.8          | 22.1         |
| DPS                                      |             | 119.9       | (22.4)       | 11.4         | (34.7)       | 22.1         |
| <b>Balance sheet, \$mn</b>               | <b>2009</b> | <b>2010</b> | <b>2011E</b> | <b>2012E</b> | <b>2013E</b> | <b>2014E</b> |
| Current assets                           | 2,531       | 3,752       | 3,596        | 2,958        | 2,696        | 3,152        |
| Non-current assets                       | 10,158      | 11,239      | 9,717        | 9,804        | 9,841        | 9,835        |
| Total assets                             | 12,689      | 14,991      | 13,313       | 12,763       | 12,537       | 12,987       |
| Current liabilities                      | 1,260       | 2,516       | 1,604        | 1,317        | 1,411        | 1,456        |
| Long-term liabilities                    | 2,989       | 4,483       | 4,560        | 4,560        | 4,560        | 4,560        |
| Minority interests                       | 3,135       | 2,717       | 1,429        | 1,489        | 1,554        | 1,633        |
| Equity                                   | 5,305       | 5,275       | 5,720        | 5,396        | 5,013        | 5,338        |
| Total equity and liabilities             | 12,689      | 14,991      | 13,313       | 12,763       | 12,537       | 12,987       |
| <b>Cash flow statement, \$mn</b>         | <b>2009</b> | <b>2010</b> | <b>2011E</b> | <b>2012E</b> | <b>2013E</b> | <b>2014E</b> |
| Net income                               | 420         | 1,429       | 1,673        | 932          | 1,014        | 1,238        |
| DD&A                                     | 631         | 711         | 649          | 663          | 689          | 706          |
| Other                                    | 61          | (209)       | 184          | 16           | 46           | 60           |
| Changes in working capital               | 137         | (531)       | (803)        | 236          | (54)         | (80)         |
| Cash flow from operations                | 1,249       | 1,400       | 1,704        | 1,846        | 1,695        | 1,924        |
| Cash flow used for investments           | (1,977)     | (1,995)     | (966)        | (706)        | (706)        | (681)        |
| Cash flow used for/from financing        | 1,073       | 488         | (1,429)      | (1,272)      | (1,398)      | (913)        |
| Effect of exchange rate changes          | (5)         | 8           | 15           | -            | -            | -            |
| Cash flow for the year                   | 340         | (99)        | (677)        | (132)        | (409)        | 330          |
| <b>Key data</b>                          | <b>2009</b> | <b>2010</b> | <b>2011E</b> | <b>2012E</b> | <b>2013E</b> | <b>2014E</b> |
| Net debt/(cash), \$mn                    | 343         | 2,170       | 2,305        | 2,420        | 2,828        | 2,498        |
| Net debt/equity, %                       | 6.5         | 41.1        | 40.3         | 44.8         | 56.4         | 46.8         |
| Days receivables                         | 12          | 14          | 20           | 21           | 21           | 21           |
| Days payables                            | 26          | 23          | 18           | 18           | 18           | 18           |
| ROE, %                                   | 7.9         | 27.1        | 29.3         | 17.3         | 20.2         | 23.2         |
| ROIC, %                                  | 4.0         | 13.9        | 16.3         | 10.1         | 11.0         | 12.8         |
| ROACE, %                                 | 5.1         | 18.4        | 21.1         | 12.6         | 13.5         | 15.6         |

Sources Company data, Otkritie Capital estimates

Figure 36. Gazprom

| Operating Statistics                     | 2007        | 2008        | 2009        | 2010        | 2011E       | 2012E       | 2013E       | 2014E       |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Crude oil and condensate production, mt  | 13          | 13          | 13          | 13          | 13          | 13          | 13          | 13          |
| Gas production, bcm                      | 550         | 555         | 455         | 504         | 514         | 528         | 549         | 544         |
| Total hydrocarbon production, mmbob      | 3,334       | 3,361       | 2,775       | 3,060       | 3,121       | 3,206       | 3,330       | 3,299       |
| Refining throughput, mt                  | -           | -           | -           | -           | -           | -           | -           | -           |
| Refining cover, %                        | -           | -           | -           | -           | -           | -           | -           | -           |
| Income statement, RUB mn                 | 2007        | 2008        | 2009        | 2010        | 2011E       | 2012E       | 2013E       | 2014E       |
| Gross revenues                           | 2,390,467   | 3,518,960   | 2,999,266   | 3,603,310   | 4,489,381   | 4,304,863   | 4,319,858   | 4,429,942   |
| Operating expenses                       | (1,688,689) | (2,258,654) | (2,142,354) | (2,489,488) | (2,755,524) | (2,859,597) | (2,987,337) | (3,164,959) |
| EBITDA                                   | 885,355     | 1,455,322   | 1,078,109   | 1,357,437   | 2,000,605   | 1,732,495   | 1,634,392   | 1,570,029   |
| EBITDA margin, %                         | 37%         | 41%         | 36%         | 38%         | 45%         | 40%         | 38%         | 35%         |
| EBIT                                     | 701,778     | 1,260,306   | 856,912     | 1,113,822   | 1,733,857   | 1,445,265   | 1,332,521   | 1,264,983   |
| EBIT margin, %                           | 29%         | 36%         | 29%         | 31%         | 39%         | 34%         | 31%         | 29%         |
| Financial items                          | 222,426     | (228,674)   | 122,523     | 159,881     | 59,038      | 51,156      | 53,596      | 70,211      |
| Profit Before Tax                        | 924,204     | 1,031,632   | 979,435     | 1,273,703   | 1,792,895   | 1,496,421   | 1,386,117   | 1,335,194   |
| Net income                               | 658,038     | 742,928     | 784,276     | 967,683     | 1,410,393   | 1,173,306   | 1,085,302   | 1,044,702   |
| Average number of shares outstanding, mn | 23,400      | 23,600      | 23,400      | 22,951      | 22,951      | 22,951      | 22,951      | 22,951      |
| EPS, RUB per share                       | 28.1        | 31.5        | 33.5        | 42.2        | 61.5        | 51.1        | 47.3        | 45.5        |
| DPS, RUB per share                       | 2.7         | 0.4         | 2.4         | 3.9         | 5.8         | 4.8         | 4.5         | 4.3         |
| Payout ratio, %                          | 9.5         | 1.1         | 7.1         | 9.1         | 9.5         | 9.5         | 9.5         | 9.5         |
| Growth rates, %                          | 2007        | 2008        | 2009        | 2010        | 2011E       | 2012E       | 2013E       | 2014E       |
| Total hydrocarbon production             | (0.1)       | 0.8         | (17.4)      | 10.3        | 2.0         | 2.7         | 3.9         | (0.9)       |
| Revenues                                 | 11.1        | 47.2        | (14.8)      | 20.1        | 24.6        | (4.1)       | 0.3         | 2.5         |
| EPS                                      | 4.9         | 11.9        | 6.5         | 25.8        | 45.7        | (16.8)      | (7.5)       | (3.7)       |
| DPS                                      | 4.7         | (86.5)      | 563.9       | 61.1        | 51.0        | (16.8)      | (7.5)       | (3.7)       |
| Balance sheet, RUB mn                    | 2007        | 2008        | 2009        | 2010        | 2011E       | 2012E       | 2013E       | 2014E       |
| Current assets                           | 1,566,417   | 1,572,075   | 1,688,136   | 1,865,895   | 2,538,188   | 2,891,155   | 3,265,747   | 3,837,760   |
| Non-current assets                       | 5,226,139   | 5,596,493   | 6,675,079   | 7,370,098   | 8,068,560   | 8,756,645   | 9,404,106   | 9,847,080   |
| Total assets                             | 6,792,556   | 7,168,568   | 8,363,215   | 9,235,993   | 10,606,748  | 11,647,800  | 12,669,853  | 13,684,839  |
| Current liabilities                      | 1,084,554   | 964,845     | 1,047,015   | 1,011,261   | 1,092,610   | 1,091,605   | 1,126,048   | 1,176,852   |
| Long-term liabilities                    | 1,394,905   | 1,290,624   | 1,670,254   | 1,688,371   | 1,688,371   | 1,688,371   | 1,688,371   | 1,688,371   |
| Minorities                               | 362,308     | 307,984     | 319,431     | 286,610     | 310,533     | 334,364     | 357,955     | 381,407     |
| Equity                                   | 3,950,789   | 4,605,115   | 5,326,515   | 6,249,751   | 7,515,234   | 8,533,461   | 9,497,479   | 10,438,208  |
| Total equity and liabilities             | 6,792,556   | 7,168,568   | 8,363,215   | 9,235,993   | 10,606,748  | 11,647,800  | 12,669,853  | 13,684,839  |
| Cash flow statement, RUB mn              | 2007        | 2008        | 2009        | 2010        | 2011E       | 2012E       | 2013E       | 2014E       |
| Net income                               | 658,038     | 742,928     | 784,276     | 967,683     | 1,410,393   | 1,173,306   | 1,085,302   | 1,044,702   |
| DD&A                                     | 183,577     | 195,016     | 221,197     | 243,615     | 266,748     | 287,230     | 301,871     | 305,046     |
| Other                                    | (332,628)   | 199,313     | (5,048)     | (4,727)     | 13,596      | 28,616      | 31,426      | 20,063      |
| Changes in working capital               | 89,521      | (120,706)   | (103,271)   | 253,545     | (123,357)   | 15,764      | 3,384       | 44,058      |
| Cash flow from operations                | 598,508     | 1,016,551   | 897,154     | 1,460,116   | 1,567,379   | 1,504,916   | 1,421,984   | 1,413,870   |
| Cash flow used for investments           | (892,241)   | (895,598)   | (993,111)   | (1,050,307) | (922,698)   | (924,798)   | (890,168)   | (668,523)   |
| Cash flow used for/from financing        | 309,706     | (68,893)    | (2,867)     | (212,384)   | (165,991)   | (210,380)   | (188,283)   | (180,081)   |
| Effect of exchange rate changes          | (6,088)     | 12,664      | 4,750       | (6,398)     | -           | -           | -           | -           |
| Cash flow for the year                   | 9,885       | 64,724      | (94,074)    | 191,027     | 478,690     | 369,737     | 343,533     | 565,266     |
| Key data                                 | 2007        | 2008        | 2009        | 2010        | 2011E       | 2012E       | 2013E       | 2014E       |
| Net debt/(cash), RUB mn                  | 1,105,443   | 994,612     | 1,318,897   | 863,557     | 395,971     | 26,234      | (317,299)   | (882,565)   |
| Net debt/equity, %                       | 28.0        | 21.6        | 24.8        | 13.8        | 5.3         | 0.3         | (3.3)       | (8.5)       |
| Days receivables                         | 106         | 70          | 103         | 77          | 77          | 77          | 77          | 77          |
| Days payables                            | 105         | 75          | 86          | 103         | 100         | 97          | 97          | 97          |
| ROE, %                                   | 16.7        | 16.1        | 14.7        | 15.5        | 18.8        | 13.7        | 11.4        | 10.0        |
| ROIC, %                                  | 13.2        | 19.7        | 12.8        | 15.4        | 21.1        | 16.2        | 13.9        | 12.7        |
| ROACE, %                                 | 14.7        | 13.4        | 17.0        | 13.6        | 17.6        | 13.0        | 11.0        | 9.7         |

Sources: Company data, Otkritie Capital estimates



Figure 37. Gazprom neft

| Operating statistics                     | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
|--|----------|----------|----------|----------|----------|----------|----------|----------|
| Crude oil production, mnt                | 43       | 46       | 48       | 50       | 50       | 51       | 52       | 33       |
| Gas production, bcm                      | 5.5      | 6.2      | 6.4      | 7        | 11       | 12       | 12       | 13       |
| Total hydrocarbon production, mnboe      | 348      | 374      | 385      | 403      | 427      | 441      | 448      | 317      |
| Refining throughput, mnt                 | 26       | 28       | 33       | 38       | 41       | 42       | 43       | 43       |
| Income statement, \$mn                   | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
| Revenues                                 | 21,247   | 33,075   | 24,166   | 32,772   | 44,112   | 35,188   | 37,082   | 38,073   |
| Operating expenses                       | (16,348) | (26,826) | (20,737) | (28,114) | (37,280) | (32,110) | (33,690) | (34,394) |
| EBITDA                                   | 5,828    | 7,558    | 4,904    | 6,277    | 8,825    | 5,217    | 5,701    | 6,119    |
| EBITDA margin, %                         | 27%      | 23%      | 20%      | 19%      | 20%      | 15%      | 15%      | 16%      |
| EBIT                                     | 4,899    | 6,249    | 3,429    | 4,658    | 6,831    | 3,078    | 3,392    | 3,679    |
| EBIT margin, %                           | 23%      | 19%      | 14%      | 14%      | 15%      | 9%       | 9%       | 10%      |
| Financial items                          | 559      | (88)     | 468      | (381)    | (26)     | 63       | 52       | 78       |
| Profit Before Tax                        | 5,458    | 6,161    | 3,897    | 4,277    | 6,806    | 3,141    | 3,445    | 3,758    |
| Net income                               | 4,143    | 4,658    | 3,013    | 3,148    | 5,106    | 2,421    | 2,651    | 2,892    |
| Average number of shares outstanding, mn | 4,741    | 4,736    | 4,718    | 4,718    | 4,718    | 4,718    | 4,718    | 4,718    |
| EPS, \$ per share                        | 0.87     | 0.98     | 0.64     | 0.67     | 1.08     | 0.51     | 0.56     | 0.61     |
| DPS, \$ per share                        | 0.18     | 0.18     | 0.12     | 0.15     | 0.28     | 0.16     | 0.20     | 0.25     |
| Payout ratio, %                          | 21.0     | 18.0     | 18.0     | 20.2     | 25.0     | 30.0     | 35.0     | 40.0     |
| Growth rates, %                          | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
| Total hydrocarbon production             | (2.0)    | 7.7      | 2.8      | 4.6      | 5.8      | 3.3      | 1.8      | (29.4)   |
| Revenues                                 | 5.3      | 55.7     | (26.9)   | 35.6     | 34.6     | (20.2)   | 5.4      | 2.7      |
| EPS                                      | 13.2     | 12.6     | (35.1)   | 4.5      | 62.2     | (52.6)   | 9.5      | 9.1      |
| DPS                                      | (44.2)   | (2.9)    | (34.5)   | 25.3     | 91.3     | (43.2)   | 27.8     | 24.7     |
| Balance sheet, \$mn                      | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
| Current assets                           | 4,760    | 5,937    | 6,802    | 7,093    | 9,173    | 7,651    | 8,411    | 9,538    |
| Non-current assets                       | 11,849   | 14,268   | 23,110   | 24,971   | 27,209   | 29,022   | 30,520   | 31,840   |
| Total assets                             | 16,609   | 20,205   | 29,912   | 32,064   | 36,382   | 36,673   | 38,930   | 41,379   |
| Current liabilities                      | 3,625    | 4,020    | 5,692    | 4,851    | 6,139    | 6,091    | 4,972    | 5,324    |
| Long-term liabilities                    | 2,548    | 2,085    | 5,563    | 6,415    | 5,949    | 5,103    | 6,479    | 6,535    |
| Minorities                               | 3        | 139      | 2,506    | 2,111    | 1,293    | 1,387    | 1,490    | 1,602    |
| Equity                                   | 10,433   | 13,961   | 16,151   | 18,687   | 23,000   | 24,093   | 25,989   | 27,918   |
| Total equity and liabilities             | 16,609   | 20,205   | 29,912   | 32,064   | 36,382   | 36,673   | 38,930   | 41,379   |
| Cash flow statement, \$mn                | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
| Net income                               | 4,143    | 4,658    | 3,013    | 3,148    | 5,106    | 2,421    | 2,651    | 2,892    |
| DD&A                                     | 929      | 1,309    | 1,475    | 1,619    | 1,994    | 2,139    | 2,309    | 2,440    |
| Other                                    | (360)    | (150)    | (242)    | 378      | 546      | (16)     | (58)     | (72)     |
| Changes in working capital               | 604      | (373)    | (772)    | 247      | (1,336)  | 856      | (257)    | (185)    |
| Cash flow from operations                | 5,316    | 5,444    | 3,474    | 5,392    | 6,310    | 5,401    | 4,645    | 5,075    |
| Cash flow used for investments           | (5,636)  | (3,463)  | (4,879)  | (4,852)  | (4,938)  | (3,843)  | (3,645)  | (3,577)  |
| Cash flow used for/from financing        | (320)    | (566)    | 185      | (309)    | (1,210)  | (1,572)  | (651)    | (613)    |
| Effect of exchange rate changes          | 26       | (61)     | 13       | 47       | (6)      | -        | -        | -        |
| Cash flow for the year                   | (614)    | 1,354    | (1,207)  | 278      | 155      | (14)     | 349      | 885      |
| Key data                                 | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
| Net debt/(cash), \$mn                    | 2,689    | 1,458    | 5,289    | 5,272    | 4,888    | 4,658    | 4,413    | 3,878    |
| Net debt/equity, %                       | 25.8     | 10.4     | 32.7     | 28.2     | 21.2     | 19.3     | 17.0     | 13.9     |
| ROE, %                                   | 39.7     | 33.4     | 18.7     | 16.8     | 22.2     | 10.0     | 10.2     | 10.4     |
| ROIC, %                                  | 25.6     | 28.7     | 11.3     | 13.3     | 17.3     | 7.3      | 7.7      | 7.8      |
| ROACE, %                                 | 26.9     | 28.4     | 11.9     | 13.4     | 17.3     | 7.5      | 7.8      | 8.0      |

Sources: Company data, Otkritie Capital estimates

Figure 38. LUKOIL

| Operating statistics                     | 2007     | 2008     | 2009     | 2010     | 2011E     | 2012E    | 2013E    | 2014E    |
|--|----------|----------|----------|----------|-----------|----------|----------|----------|
| Crude oil production, mnt                | 97       | 95       | 98       | 96       | 91        | 89       | 88       | 87       |
| Gas production, bcm                      | 14.0     | 17.0     | 14.9     | 18.6     | 19.7      | 20.7     | 22.5     | 24.2     |
| Total hydrocarbon production, mnboe      | 788      | 795      | 800      | 810      | 781       | 771      | 775      | 781      |
| Refining throughput, mnt                 | 57       | 62       | 63       | 65       | 65        | 76       | 78       | 78       |
| Income statement, \$mn                   | 2007     | 2008     | 2009     | 2010     | 2011E     | 2012E    | 2013E    | 2014E    |
| Gross revenues                           | 82,238   | 107,680  | 81,083   | 104,956  | 131,676   | 95,210   | 97,169   | 100,212  |
| Operating expenses                       | (68,820) | (93,971) | (71,305) | (93,423) | (117,642) | (84,620) | (85,639) | (87,305) |
| EBITDA                                   | 15,590   | 16,667   | 13,715   | 15,687   | 18,397    | 15,116   | 16,264   | 17,849   |
| EBITDA margin, %                         | 19%      | 15%      | 17%      | 15%      | 14%       | 16%      | 17%      | 18%      |
| EBIT                                     | 13,418   | 13,709   | 9,778    | 11,533   | 14,034    | 10,589   | 11,530   | 12,906   |
| EBIT margin, %                           | 16%      | 13%      | 12%      | 11%      | 11%       | 11%      | 12%      | 13%      |
| Financial items                          | (345)    | (1,015)  | (715)    | (63)     | (358)     | 156      | 336      | 521      |
| Profit Before Tax                        | 13,073   | 12,694   | 9,063    | 11,470   | 13,676    | 10,746   | 11,866   | 13,427   |
| Net income                               | 9,511    | 9,144    | 7,011    | 9,006    | 10,550    | 8,478    | 9,374    | 10,619   |
| Average number of shares outstanding, mn | 829      | 840      | 847      | 823      | 799       | 799      | 799      | 799      |
| EPS, \$ per share                        | 11.5     | 10.9     | 8.3      | 10.9     | 13.2      | 10.6     | 11.7     | 13.3     |
| DPS, \$ per share                        | 1.64     | 2.01     | 1.64     | 1.94     | 2.48      | 2.10     | 2.44     | 2.89     |
| Payout ratio, %                          | 14.3     | 18.5     | 19.8     | 17.8     | 18.8      | 19.8     | 20.8     | 21.8     |
| Growth rates, %                          | 2007     | 2008     | 2009     | 2010     | 2011E     | 2012E    | 2013E    | 2014E    |
| Total hydrocarbon production             | 1.6      | 1.0      | 0.6      | 1.2      | (3.6)     | (1.3)    | 0.6      | 0.8      |
| Revenues                                 | 20.7     | 30.9     | (24.7)   | 29.4     | 25.5      | (27.7)   | 2.1      | 3.1      |
| EPS                                      | 27.1     | (5.2)    | (23.9)   | 32.1     | 20.8      | (19.6)   | 10.6     | 13.3     |
| DPS                                      | 10.5     | 19.0     | 4.0      | 13.5     | 24.7      | (13.0)   | 19.4     | 22.1     |
| Balance sheet, \$mn                      | 2007     | 2008     | 2009     | 2010     | 2011E     | 2012E    | 2013E    | 2014E    |
| Current assets                           | 17,903   | 15,633   | 17,839   | 20,617   | 29,227    | 28,396   | 32,723   | 38,239   |
| Non-current assets                       | 41,729   | 55,828   | 61,180   | 63,400   | 66,757    | 71,303   | 74,557   | 77,778   |
| Total assets                             | 59,632   | 71,461   | 79,019   | 84,017   | 95,984    | 99,699   | 107,280  | 116,017  |
| Current liabilities                      | 9,728    | 10,575   | 9,694    | 10,775   | 12,376    | 9,732    | 9,749    | 9,925    |
| Long-term liabilities                    | 8,114    | 9,876    | 12,946   | 13,634   | 13,634    | 13,634   | 13,634   | 13,634   |
| Minorities                               | 577      | 670      | 388      | 411      | 575       | 694      | 814      | 936      |
| Equity                                   | 41,213   | 50,340   | 55,991   | 59,197   | 69,399    | 75,639   | 83,083   | 91,522   |
| Total equity and liabilities             | 59,632   | 71,461   | 79,019   | 84,017   | 95,984    | 99,699   | 107,280  | 116,017  |
| Cash flow statement, \$mn                | 2007     | 2008     | 2009     | 2010     | 2011E     | 2012E    | 2013E    | 2014E    |
| Net income                               | 9,511    | 9,144    | 7,011    | 9,006    | 10,550    | 8,478    | 9,374    | 10,619   |
| DD&A                                     | 2,172    | 2,958    | 3,937    | 4,154    | 4,363     | 4,527    | 4,733    | 4,943    |
| Other                                    | 1,026    | (489)    | 418      | 1,207    | 1,334     | (198)    | (183)    | (169)    |
| Changes in working capital               | (1,828)  | 2,699    | (2,483)  | (826)    | (1,700)   | 2,992    | (147)    | (245)    |
| Cash flow from operations                | 10,881   | 14,312   | 8,883    | 13,541   | 14,547    | 15,799   | 13,777   | 15,149   |
| Cash flow used for investments           | (9,715)  | (13,559) | (8,923)  | (7,296)  | (7,720)   | (9,072)  | (7,988)  | (8,163)  |
| Cash flow used for/from financing        | (1,098)  | 763      | 87       | (6,146)  | (1,518)   | (1,921)  | (1,626)  | (1,889)  |
| Effect of exchange rate changes          | 21       | (118)    | (12)     | (5)      | -         | (0)      | (0)      | (0)      |
| Cash flow for the year                   | 89       | 1,398    | 35       | 94       | 5,310     | 4,805    | 4,163    | 5,096    |
| Key data                                 | 2007     | 2008     | 2009     | 2010     | 2011E     | 2012E    | 2013E    | 2014E    |
| Net debt/(cash), \$mn                    | 6,154    | 7,065    | 8,974    | 8,658    | 3,348     | (1,456)  | (5,619)  | (10,715) |
| Net debt/equity, %                       | 14.9     | 14.0     | 16.0     | 14.6     | 4.8       | (1.9)    | (6.8)    | (11.7)   |
| ROE, %                                   | 23.1     | 18.2     | 12.5     | 15.2     | 15.2      | 11.2     | 11.3     | 11.6     |
| ROIC, %                                  | 21.8     | 18.5     | 12.3     | 13.3     | 14.9      | 11.2     | 11.6     | 12.4     |
| ROACE, %                                 | 22.2     | 17.3     | 11.8     | 14.0     | 14.9      | 10.9     | 11.0     | 11.4     |

Sources: Company data, Otkritie Capital estimates

Figure 39. NOVATEK

| Operating statistics                     | 2007    | 2008    | 2009    | 2010    | 2011E   | 2012E   | 2013E   | 2014E   |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| Gas production, bcm                      | 28.3    | 30.4    | 32.4    | 37.2    | 52.4    | 55.4    | 60.3    | 63.32   |
| Liquids production, mnt                  | 2       | 3       | 3       | 4       | 4       | 5       | 5       | 5       |
| Total hydrocarbon production, mnboe      | 184     | 198     | 213     | 245     | 338     | 360     | 390     | 409     |
| Refining throughput, mnt                 | -       | -       | -       | -       | -       | -       | -       | -       |
| Refining cover, %                        | -       | -       | -       | -       | -       | -       | -       | -       |
| Income statement, \$mn                   | 2007    | 2008    | 2009    | 2010    | 2011E   | 2012E   | 2013E   | 2014E   |
| Revenues                                 | 2,439   | 3,186   | 2,834   | 3,853   | 5,963   | 6,368   | 7,815   | 8,727   |
| Operating expenses                       | (1,447) | (1,895) | (1,777) | (2,199) | (3,229) | (3,629) | (4,385) | (5,138) |
| EBITDA                                   | 1,135   | 1,471   | 1,232   | 1,872   | 3,031   | 3,061   | 3,789   | 3,983   |
| EBITDA margin, %                         | 47%     | 46%     | 43%     | 49%     | 51%     | 48%     | 48%     | 46%     |
| EBIT                                     | 992     | 1,291   | 1,056   | 1,654   | 2,734   | 2,739   | 3,430   | 3,589   |
| EBIT margin, %                           | 41%     | 41%     | 37%     | 43%     | 46%     | 43%     | 44%     | 41%     |
| Financial items                          | 5       | (142)   | (33)    | 28      | (13)    | (47)    | 38      | 106     |
| Profit Before Tax                        | 997     | 1,149   | 1,024   | 1,682   | 2,722   | 2,692   | 3,468   | 3,696   |
| Net income                               | 733     | 920     | 820     | 1,335   | 2,199   | 2,168   | 2,795   | 2,984   |
| Average number of shares outstanding, mn |         |         |         | 3,032   | 3,033   | 3,033   | 3,033   | 3,033   |
| EPS, \$ per share                        | 0.24    | 0.30    | 0.27    | 0.44    | 0.72    | 0.71    | 0.92    | 0.98    |
| DPS, \$ per share                        | 0.09    | 0.05    | 0.09    | 0.14    | 0.21    | 0.25    | 0.36    | 0.38    |
| Payout ratio, %                          | 31.3    | 33.4    | 29.3    | 24.3    | 23.6    | 33.6    | 32.4    | 37.2    |
| Growth rates, %                          | 2007    | 2008    | 2009    | 2010    | 2011E   | 2012E   | 2013E   | 2014E   |
| Total hydrocarbon production             | (0.8)   | 7.6     | 7.5     | 15.4    | 37.9    | 6.3     | 8.5     | 4.9     |
| Revenues                                 | 35.7    | 30.6    | (11.1)  | 36.0    | 54.8    | 6.8     | 22.7    | 11.7    |
| EPS                                      | 41.3    | 25.6    | (10.8)  | 62.7    | 64.7    | (1.4)   | 28.9    | 6.7     |
| DPS                                      | 46.4    | (49.3)  | 89.1    | 50.8    | 54.5    | 16.8    | 44.4    | 5.8     |
| Balance sheet, \$mn                      | 2007    | 2008    | 2009    | 2010    | 2011E   | 2012E   | 2013E   | 2014E   |
| Current assets                           | 692     | 895     | 911     | 968     | 1,516   | 1,288   | 1,731   | 3,270   |
| Non-current assets                       | 3,529   | 3,863   | 5,536   | 8,370   | 9,155   | 9,589   | 10,039  | 10,476  |
| Total assets                             | 4,221   | 4,758   | 6,447   | 9,339   | 10,671  | 10,877  | 11,770  | 13,746  |
| Current liabilities                      | 490     | 493     | 786     | 1,881   | 1,356   | 1,380   | 430     | 488     |
| Long-term liabilities                    | 410     | 978     | 1,219   | 1,963   | 3,180   | 2,095   | 2,089   | 2,101   |
| Minorities                               | 19      | 19      | 637     | 677     | 21      | 6       | (9)     | (27)    |
| Equity                                   | 3,302   | 3,267   | 3,806   | 4,818   | 6,114   | 7,396   | 9,260   | 11,184  |
| Total equity and liabilities             | 4,221   | 4,758   | 6,447   | 9,339   | 10,671  | 10,877  | 11,770  | 13,746  |
| Cash flow statement, \$mn                | 2007    | 2008    | 2009    | 2010    | 2011E   | 2012E   | 2013E   | 2014E   |
| Net income                               | 733     | 920     | 820     | 1,335   | 2,199   | 2,168   | 2,795   | 2,984   |
| DD&A                                     | 143     | 180     | 176     | 218     | 297     | 323     | 359     | 394     |
| Other                                    | 27      | 65      | 128     | 13      | (296)   | 34      | (27)    | (74)    |
| Changes in working capital               | (66)    | 101     | 24      | (88)    | (76)    | (47)    | 64      | (5)     |
| Cash flow from operations                | 836     | 1,267   | 1,148   | 1,477   | 2,123   | 2,477   | 3,192   | 3,299   |
| Cash flow used for investments           | (811)   | (1,281) | (1,135) | (2,267) | (2,509) | (1,043) | (857)   | (746)   |
| Cash flow used for/from financing        | (144)   | 327     | (32)    | 783     | 441     | (1,595) | (1,953) | (1,137) |
| Effect of exchange rate changes          | 65      | (100)   | (5)     | (9)     | 3       | (9)     | (2)     | 1       |
| Cash flow for the year                   | (54)    | 212     | (23)    | (15)    | 57      | (169)   | 380     | 1,417   |
| Key data                                 | 2007    | 2008    | 2009    | 2010    | 2011E   | 2012E   | 2013E   | 2014E   |
| Net debt/(cash), \$mn                    | 106     | 520     | 905     | 2,030   | 3,097   | 2,378   | 987     | (421)   |
| Net debt/equity, %                       | 3.2     | 15.9    | 23.8    | 42.1    | 50.7    | 32.2    | 10.7    | (3.8)   |
| Days receivables                         | 47      | 35      | 27      | 26      | 35      | 29      | 22      | 22      |
| Days payables                            | 22      | 26      | 31      | 88      | 26      | 15      | 15      | 16      |
| ROE, %                                   | 22.2    | 28.2    | 21.6    | 27.7    | 36.0    | 29.3    | 30.2    | 26.7    |
| ROIC, %                                  | 20.5    | 25.1    | 15.9    | 18.0    | 22.9    | 21.3    | 25.1    | 23.3    |
| ROACE, %                                 | 24.7    | 28.8    | 19.7    | 22.6    | 26.2    | 23.1    | 27.5    | 27.4    |

Sources: Company data, Otkritie Capital estimates

Figure 40. Rosneft

| Operating statistics                     | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
|--|----------|----------|----------|----------|----------|----------|----------|----------|
| Crude oil production, mnt                | 101      | 106      | 109      | 116      | 120      | 125      | 129      | 132      |
| Gas production, bcm                      | 15.7     | 12.4     | 12.7     | 12.3     | 12.6     | 13.9     | 14.8     | 17.0     |
| Total hydrocarbon production, mnboe      | 832      | 849      | 871      | 920      | 947      | 996      | 1,026    | 1,065    |
| Refining throughput, mnt                 | 48       | 50       | 50       | 50       | 58       | 63       | 65       | 66       |
| Income statement, \$mn                   | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
| Revenues                                 | 49,216   | 68,991   | 46,826   | 63,047   | 93,370   | 80,150   | 83,828   | 86,659   |
| Operating expenses                       | (38,495) | (55,986) | (37,698) | (49,548) | (75,781) | (67,851) | (72,307) | (74,248) |
| EBITDA                                   | 14,007   | 16,988   | 13,478   | 19,096   | 23,559   | 18,712   | 18,435   | 19,525   |
| EBITDA margin, %                         | 28%      | 25%      | 29%      | 30%      | 25%      | 23%      | 22%      | 23%      |
| EBIT                                     | 10,721   | 13,005   | 9,128    | 13,499   | 17,589   | 12,299   | 11,520   | 12,411   |
| EBIT margin, %                           | 22%      | 19%      | 19%      | 21%      | 19%      | 15%      | 14%      | 14%      |
| Financial items                          | 7,068    | 114      | (609)    | (183)    | (492)    | 397      | 342      | 505      |
| Profit Before Tax                        | 17,789   | 13,119   | 8,519    | 13,316   | 17,096   | 12,696   | 11,862   | 12,916   |
| Net income                               | 12,862   | 11,120   | 6,514    | 10,400   | 13,085   | 9,799    | 9,279    | 10,223   |
| Average number of shares outstanding, mn | 9,891    | 9,598    | 9,598    | 9,598    | 9,591    | 9,588    | 9,588    | 9,588    |
| EPS, \$ per share                        | 1.30     | 1.16     | 0.68     | 1.08     | 1.36     | 1.02     | 0.97     | 1.07     |
| DPS, \$ per share                        | 0.05     | 0.05     | 0.06     | 0.08     | 0.10     | 0.14     | 0.15     | 0.17     |
| Payout ratio, %                          | 14.7     | 4.0      | 5.6      | 11.2     | 9.1      | 10.3     | 14.3     | 17.3     |
| Growth rates, %                          | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
| Total hydrocarbon production             | 25.6     | 2.0      | 2.6      | 5.6      | 3.0      | 5.1      | 3.0      | 3.8      |
| Revenues                                 | 48.7     | 40.2     | (32.1)   | 34.6     | 48.1     | (14.2)   | 4.6      | 3.4      |
| EPS                                      | 250.7    | (10.9)   | (41.4)   | 59.7     | 25.9     | (25.1)   | (5.3)    | 10.2     |
| DPS                                      | 18.4     | 2.1      | 20.5     | 17.4     | 30.1     | 41.8     | 4.0      | 14.6     |
| Balance sheet, \$mn                      | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
| Current assets                           | 14,968   | 12,807   | 15,169   | 23,043   | 26,798   | 22,346   | 26,895   | 32,464   |
| Non-current assets                       | 59,837   | 64,706   | 68,063   | 70,786   | 79,638   | 88,670   | 91,815   | 94,583   |
| Total assets                             | 74,805   | 77,513   | 83,232   | 93,829   | 106,436  | 111,016  | 118,710  | 127,047  |
| Current liabilities                      | 22,124   | 18,697   | 13,443   | 11,693   | 14,812   | 11,361   | 11,472   | 11,900   |
| Long-term liabilities                    | 23,964   | 19,218   | 24,252   | 26,632   | 23,868   | 23,259   | 22,790   | 21,893   |
| Minorities                               | 277      | 695      | 706      | 969      | 1,067    | 1,251    | 1,424    | 1,610    |
| Equity                                   | 28,440   | 38,903   | 44,831   | 54,535   | 66,689   | 75,144   | 83,024   | 91,644   |
| Total equity and liabilities             | 74,805   | 77,513   | 83,232   | 93,829   | 106,436  | 111,016  | 118,710  | 127,047  |
| Cash flow statement, \$mn                | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
| Net income                               | 12,862   | 11,120   | 6,514    | 10,400   | 13,085   | 9,799    | 9,279    | 10,223   |
| DD&A                                     | 3,286    | 3,983    | 4,350    | 5,597    | 5,970    | 6,413    | 6,915    | 7,113    |
| Other                                    | 3,867    | (2,327)  | (756)    | (41)     | (234)    | (10)     | (28)     | (21)     |
| Changes in working capital               | (2,905)  | 1,617    | 211      | (784)    | (938)    | (366)    | (78)     | (283)    |
| Cash flow from operations                | 17,110   | 14,393   | 10,319   | 15,172   | 17,884   | 15,837   | 16,088   | 17,033   |
| Cash flow used for investments           | (20,095) | (10,822) | (8,788)  | (12,439) | (13,137) | (15,100) | (9,700)  | (9,525)  |
| Cash flow used for/from financing        | 3,440    | (3,074)  | (877)    | (558)    | (4,069)  | (3,792)  | (2,418)  | (2,452)  |
| Effect of exchange rate changes          | 38       | (126)    | (26)     | (18)     | (112)    | -        | -        | -        |
| Cash flow for the year                   | 493      | 371      | 628      | 2,157    | 566      | (3,055)  | 3,970    | 5,056    |
| Key data                                 | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
| Net debt/(cash), \$mn                    | 25,903   | 21,082   | 18,982   | 12,557   | 9,853    | 10,460   | 5,471    | (433)    |
| Net debt/equity, %                       | 91.1     | 54.2     | 42.3     | 23.0     | 14.8     | 13.9     | 6.6      | (0.5)    |
| ROE, %                                   | 45.2     | 28.6     | 14.5     | 19.1     | 19.6     | 13.0     | 11.2     | 11.2     |
| ROIC, %                                  | 9.9      | 15.6     | 9.4      | 13.1     | 15.0     | 9.7      | 8.6      | 8.8      |
| ROACE, %                                 | 17.3     | 19.3     | 11.2     | 16.3     | 18.7     | 11.8     | 10.4     | 10.9     |

Sources: Company data, Otkritie Capital estimates

Figure 41. Surgutneftegas

| Operating Statistics                     | 2007      | 2008      | 2009      | 2010      | 2011E       | 2012E     | 2013E     | 2014E     |
|--|-----------|-----------|-----------|-----------|-------------|-----------|-----------|-----------|
| Crude oil production, mnt                | 64        | 62        | 60        | 60        | 61          | 60        | 60        | 59        |
| Gas production, bcm                      | 14.1      | 14.0      | 14.0      | 13.4      | 13.7        | 13.5      | 13.4      | 13.3      |
| Total hydrocarbon production, mnboe      | 554       | 533       | 518       | 513       | 524         | 519       | 514       | 509       |
| Refining throughput, mnt                 | 20        | 20        | 20        | 21        | 21          | 22        | 22        | 22        |
| Income statement, RUB mn                 | 2007      | 2008      | 2009      | 2010      | 2011E       | 2012E     | 2013E     | 2014E     |
| Gross revenues                           | 815,774   | 917,977   | 711,547   | 880,905   | 1,279,039   | 966,465   | 985,215   | 1,003,759 |
| Operating expenses                       | (670,866) | (804,863) | (583,365) | (731,357) | (1,054,629) | (856,596) | (894,875) | (937,362) |
| EBITDA                                   | 224,138   | 179,782   | 199,784   | 233,847   | 318,647     | 208,654   | 194,001   | 175,239   |
| EBITDA margin, %                         | 27%       | 20%       | 28%       | 27%       | 25%         | 22%       | 20%       | 17%       |
| EBIT                                     | 144,908   | 113,115   | 128,182   | 149,548   | 224,409     | 109,869   | 90,340    | 66,397    |
| EBIT margin, %                           | 18%       | 12%       | 18%       | 17%       | 18%         | 11%       | 9%        | 7%        |
| Financial items                          | (21,631)  | 78,481    | 13,631    | 8,802     | 27,954      | 35,836    | 36,920    | 37,834    |
| Profit Before Tax                        | 123,278   | 191,596   | 141,813   | 158,349   | 252,363     | 145,705   | 127,260   | 104,231   |
| Net income                               | 88,627    | 143,917   | 113,874   | 128,392   | 203,051     | 97,010    | 76,927    | 52,843    |
| Average number of shares outstanding, mn | 12,283    | 12,283    | 12,283    | 12,283    | 12,283      | 12,283    | 12,283    | 12,283    |
| EPS, RUB per share                       | 7.22      | 11.72     | 9.27      | 10.45     | 16.53       | 7.90      | 6.26      | 4.30      |
| DPS, RUB per share                       | 0.60      | 0.60      | 0.45      | 0.89      | 1.40        | 0.67      | 0.53      | 0.37      |
| Payout ratio, %                          | 31.3      | 22.0      | 21.2      | 31.8      | 31.8        | 31.8      | 31.8      | 31.8      |
| Growth rates, %                          | 2007      | 2008      | 2009      | 2010      | 2011E       | 2012E     | 2013E     | 2014E     |
| Total hydrocarbon production             | (1.9)     | (3.8)     | (2.8)     | (0.9)     | 2.0         | (1.0)     | (0.9)     | (0.9)     |
| Revenues                                 | 14.3      | 12.5      | (22.5)    | 23.8      | 45.2        | (24.4)    | 1.9       | 1.9       |
| EPS                                      | 14.9      | 62.4      | (20.9)    | 12.7      | 58.1        | (52.2)    | (20.7)    | (31.3)    |
| DPS                                      | 13.7      | 14.0      | (23.7)    | 68.9      | 58.1        | (52.2)    | (20.7)    | (31.3)    |
| Balance sheet, RUB mn                    | 2007      | 2008      | 2009      | 2010      | 2011E       | 2012E     | 2013E     | 2014E     |
| Current assets                           | 357,933   | 499,308   | 526,127   | 429,624   | 513,292     | 495,957   | 595,312   | 670,300   |
| Non-current assets                       | 632,391   | 666,860   | 743,896   | 950,712   | 1,080,663   | 1,107,654 | 1,042,362 | 984,872   |
| Total assets                             | 990,324   | 1,166,168 | 1,270,023 | 1,380,337 | 1,593,955   | 1,603,611 | 1,637,674 | 1,655,172 |
| Current liabilities                      | 51,068    | 40,726    | 52,446    | 54,141    | 69,425      | 62,205    | 64,581    | 68,168    |
| Long-term liabilities                    | 15,429    | 12,595    | 16,692    | 21,073    | 21,073      | 21,073    | 21,073    | 21,073    |
| Minorities                               | -         | -         | -         | -         | -           | -         | -         | -         |
| Equity                                   | 923,827   | 1,112,848 | 1,200,885 | 1,305,123 | 1,503,456   | 1,520,333 | 1,552,020 | 1,565,930 |
| Total equity and liabilities             | 990,324   | 1,166,168 | 1,270,023 | 1,380,337 | 1,593,955   | 1,603,611 | 1,637,674 | 1,655,172 |
| Cash flow statement, RUB mn              | 2007      | 2008      | 2009      | 2010      | 2011E       | 2012E     | 2013E     | 2014E     |
| Net income                               | 88,627    | 143,917   | 113,874   | 128,392   | 203,051     | 97,010    | 76,927    | 52,843    |
| DD&A                                     | 79,229    | 66,667    | 71,602    | 84,300    | 94,238      | 98,785    | 103,661   | 108,842   |
| Other                                    | 39,071    | (48,026)  | 28,769    | 23,263    | 804         | (16,465)  | (16,839)  | (16,733)  |
| Changes in working capital               | 879       | (102)     | (12,039)  | (19,092)  | (22,810)    | 28,707    | (1,684)   | (2,746)   |
| Cash flow from operations                | 207,806   | 162,456   | 202,206   | 216,863   | 275,282     | 208,037   | 162,065   | 142,206   |
| Cash flow used for investments           | (221,113) | (48,882)  | (202,071) | (337,131) | (188,569)   | (124,437) | (36,646)  | (49,241)  |
| Cash flow used for/from financing        | (10,598)  | (8,164)   | (9,789)   | (23,646)  | (41,303)    | (64,516)  | (30,824)  | (24,442)  |
| Effect of exchange rate changes          | 26,293    | (99,271)  | 7,816     | 140,553   | -           | -         | -         | -         |
| Cash flow for the year                   | 2,389     | 6,139     | (1,838)   | (3,361)   | 45,410      | 19,084    | 94,596    | 68,523    |
| Key data                                 | 2007      | 2008      | 2009      | 2010      | 2011E       | 2012E     | 2013E     | 2014E     |
| Net debt/(cash), RUB mn                  | (476,109) | (585,573) | (656,427) | (758,744) | (840,041)   | (859,125) | (853,720) | (822,243) |
| Net debt/equity, %                       | (51.5)    | (52.6)    | (54.7)    | (58.1)    | (55.9)      | (56.5)    | (55.0)    | (52.5)    |
| ROE, %                                   | 9.6       | 12.9      | 9.5       | 9.8       | 13.5        | 6.4       | 5.0       | 3.4       |
| ROIC, %                                  | 24.7      | 16.6      | 18.2      | 20.6      | 25.3        | 12.6      | 9.8       | 6.8       |
| ROACE, %                                 | 10.2      | 14.1      | 9.9       | 10.2      | 14.5        | 6.4       | 5.0       | 3.4       |

Sources: Company data, Otkritie Capital estimates

Figure 42. Tatneft

| Operating Statistics                     | 2007      | 2008      | 2009      | 2010      | 2011E     | 2012E     | 2013E     | 2014E     |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Crude oil production, mnt                | 26        | 26        | 26        | 26        | 26        | 26        | 26        | 26        |
| Gas production, bcm                      | 0.7       | 0.8       | 0.8       | 0.8       | 0.9       | 0.9       | 1.0       | 1.0       |
| Total hydrocarbon production, mnboe      | 194       | 195       | 195       | 196       | 196       | 197       | 198       | 198       |
| Refining throughput, mnt                 | 1         | 1         | 1         | 1         | 2         | 7         | 7         | 7         |
| Income statement, RUB mn                 | 2007      | 2008      | 2009      | 2010      | 2011E     | 2012E     | 2013E     | 2014E     |
| Gross revenues                           | 356,276   | 444,332   | 380,648   | 468,032   | 614,524   | 513,090   | 514,863   | 506,725   |
| Operating expenses                       | (299,538) | (410,129) | (311,939) | (403,935) | (521,420) | (421,314) | (428,572) | (426,355) |
| EBITDA                                   | 67,117    | 44,342    | 80,626    | 76,580    | 107,303   | 111,126   | 106,256   | 100,872   |
| EBITDA margin, %                         | 19%       | 10%       | 21%       | 16%       | 17%       | 22%       | 21%       | 20%       |
| EBIT                                     | 56,738    | 34,203    | 68,709    | 64,097    | 93,104    | 91,776    | 86,291    | 80,371    |
| EBIT margin, %                           | 16%       | 8%        | 18%       | 14%       | 15%       | 18%       | 17%       | 16%       |
| Financial items                          | 5,881     | (16,049)  | 5,817     | 373       | 5,627     | 1,258     | 2,270     | 3,436     |
| Profit Before Tax                        | 62,619    | 18,154    | 74,526    | 64,470    | 98,730    | 93,034    | 88,562    | 83,807    |
| Net income                               | 43,289    | 8,413     | 54,372    | 46,673    | 73,162    | 69,728    | 66,217    | 61,686    |
| Average number of shares outstanding, mn | 2,148     | 2,148     | 2,148     | 2,148     | 2,148     | 2,148     | 2,148     | 2,148     |
| EPS, RUB per share                       | 20.16     | 3.92      | 25.32     | 21.73     | 34.06     | 32.47     | 30.83     | 28.72     |
| DPS, RUB per share                       | 5.65      | 4.42      | 6.56      | 5.02      | 8.13      | 8.00      | 7.83      | 7.52      |
| Payout ratio, %                          | 30.0      | 30.0      | 30.0      | 30.0      | 31.0      | 32.0      | 33.0      | 34.0      |
| Growth rates, %                          | 2007      | 2008      | 2009      | 2010      | 2011E     | 2012E     | 2013E     | 2014E     |
| Total hydrocarbon production             | 1.1       | 0.4       | 0.3       | 0.1       | 0.3       | 0.3       | 0.3       | 0.4       |
| Revenues                                 | 11.9      | 24.7      | (14.3)    | 23.0      | 31.3      | (16.5)    | 0.3       | (1.6)     |
| EPS                                      | 45.2      | (80.6)    | 546.3     | (14.2)    | 56.8      | (4.7)     | (5.0)     | (6.8)     |
| DPS                                      | 22.8      | (21.8)    | 48.4      | (23.5)    | 61.9      | (1.6)     | (2.1)     | (4.0)     |
| Balance sheet, RUB mn                    | 2007      | 2008      | 2009      | 2010      | 2011E     | 2012E     | 2013E     | 2014E     |
| Current assets                           | 126,595   | 116,620   | 135,914   | 132,557   | 160,069   | 173,187   | 189,931   | 230,464   |
| Non-current assets                       | 243,624   | 276,360   | 359,828   | 434,622   | 474,951   | 514,487   | 554,089   | 566,503   |
| Total assets                             | 370,219   | 392,980   | 495,742   | 567,179   | 635,021   | 687,673   | 744,020   | 796,967   |
| Current liabilities                      | 38,428    | 32,043    | 110,894   | 80,836    | 74,553    | 67,598    | 67,504    | 67,381    |
| Long-term liabilities                    | 63,233    | 96,078    | 71,341    | 135,797   | 135,797   | 135,797   | 135,797   | 135,797   |
| Minorities                               | 4,499     | 4,583     | 7,984     | 11,939    | 11,939    | 11,939    | 11,939    | 11,939    |
| Equity                                   | 264,059   | 260,276   | 305,523   | 338,607   | 412,732   | 472,339   | 528,781   | 581,850   |
| Total equity and liabilities             | 370,219   | 392,980   | 495,742   | 567,179   | 635,021   | 687,673   | 744,020   | 796,967   |
| Cash flow statement, RUB mn              | 2007      | 2008      | 2009      | 2010      | 2011E     | 2012E     | 2013E     | 2014E     |
| Net income                               | 43,289    | 8,413     | 54,372    | 46,673    | 73,162    | 69,728    | 66,217    | 61,686    |
| DD&A                                     | 10,379    | 10,139    | 11,917    | 12,483    | 14,199    | 19,350    | 19,964    | 20,501    |
| Other                                    | 7,555     | 35,051    | 2,030     | 10,582    | 8,728     | 2,839     | 2,861     | 3,684     |
| Changes in working capital               | (13,190)  | (5,751)   | (1,716)   | (13,861)  | (22,692)  | 13,856    | (168)     | 963       |
| Cash flow from operations                | 48,033    | 47,852    | 66,603    | 55,877    | 73,396    | 105,773   | 88,874    | 86,834    |
| Cash flow used for investments           | (39,624)  | (61,735)  | (91,328)  | (65,137)  | (47,727)  | (52,940)  | (53,601)  | (26,995)  |
| Cash flow used for/from financing        | (2,268)   | 14,291    | 24,148    | 4,499     | (21,669)  | (18,905)  | (18,602)  | (18,221)  |
| Effect of exchange rate changes          | -         | -         | -         | -         | -         | -         | -         | -         |
| Cash flow for the year                   | 6,141     | 408       | (577)     | (4,761)   | 4,000     | 33,928    | 16,671    | 41,617    |
| Key data                                 | 2007      | 2008      | 2009      | 2010      | 2011E     | 2012E     | 2013E     | 2014E     |
| Net debt/(cash), RUB mn                  | (12,007)  | 17,815    | 48,517    | 83,792    | 72,689    | 38,761    | 22,089    | (19,528)  |
| Net debt/equity, %                       | (4.5)     | 6.8       | 15.9      | 24.7      | 17.6      | 8.2       | 4.2       | (3.4)     |
| ROE, %                                   | 16.4      | 3.2       | 17.8      | 13.8      | 17.7      | 14.8      | 12.5      | 10.6      |
| ROIC, %                                  | 8.0       | 2.1       | 10.7      | 14.0      | 13.1      | 11.5      | 10.5      | 9.7       |
| ROACE, %                                 | 2.7       | 16.3      | 12.3      | 15.7      | 13.2      | 11.2      | 9.6       | 8.3       |

Sources: Company data, Otkritie Capital estimates

Figure 43. TNK-BP Holding

| Operating statistics                     | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
|--|----------|----------|----------|----------|----------|----------|----------|----------|
| Crude oil production, mnt                | 70       | 70       | 72       | 74       | 74       | 75       | 75       | 76       |
| Gas production, bcm                      | 8.9      | 11.3     | 12.1     | 12.9     | 13.8     | 14.6     | 15.4     | 16.4     |
| Total hydrocarbon production, mnboe      | 566      | 581      | 596      | 614      | 625      | 631      | 638      | 649      |
| Refining throughput, mnt                 | 22       | 23       | 22       | 24       | 25       | 24       | 24       | 24       |
| Income statement, \$mn                   | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
| Revenues                                 | 34,995   | 45,133   | 31,449   | 41,113   | 55,843   | 42,504   | 43,730   | 44,793   |
| Operating expenses                       | (27,740) | (37,097) | (25,060) | (32,981) | (43,399) | (36,547) | (38,407) | (40,287) |
| EBITDA                                   | 8,596    | 9,517    | 8,119    | 9,944    | 14,408   | 8,126    | 7,629    | 6,888    |
| EBITDA margin, %                         | 25%      | 21%      | 26%      | 24%      | 26%      | 19%      | 17%      | 15%      |
| EBIT                                     | 7,255    | 8,036    | 6,389    | 8,132    | 12,443   | 5,957    | 5,323    | 4,506    |
| EBIT margin, %                           | 21%      | 18%      | 20%      | 20%      | 22%      | 14%      | 12%      | 10%      |
| Financial items                          | 132      | 251      | 292      | 198      | (52)     | 195      | 147      | 148      |
| Profit Before Tax                        | 7,387    | 8,287    | 6,681    | 8,330    | 12,391   | 6,152    | 5,470    | 4,654    |
| Net income                               | 5,732    | 6,367    | 5,269    | 6,540    | 9,813    | 4,873    | 4,307    | 3,619    |
| Average number of shares outstanding, mn | 15,447   | 15,447   | 15,447   | 15,447   | 15,447   | 15,447   | 15,447   | 15,447   |
| EPS, \$ per share                        | 0.37     | 0.41     | 0.34     | 0.42     | 0.64     | 0.32     | 0.28     | 0.23     |
| DPS, \$ per share                        | 0.12     | 0.20     | 0.30     | 0.39     | 0.41     | 0.19     | 0.17     | 0.14     |
| Payout ratio, %                          | 33.8     | 52.1     | 88.6     | 92.5     | 65.0     | 60.0     | 60.0     | 60.0     |
| Growth rates, %                          | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
| Total hydrocarbon production             | (4.7)    | 2.6      | 2.6      | 3.0      | 1.7      | 1.0      | 1.1      | 1.7      |
| Revenues                                 | 9.0      | 29.0     | (30.3)   | 30.7     | 35.8     | (23.9)   | 2.9      | 2.4      |
| EPS                                      | (10.6)   | 11.1     | (17.2)   | 24.1     | 50.1     | (50.3)   | (11.6)   | (16.0)   |
| DPS                                      | (55.9)   | 71.0     | 48.5     | 29.6     | 5.5      | (54.2)   | (11.6)   | (16.0)   |
| Balance sheet, \$mn                      | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
| Current assets                           | 13,038   | 14,153   | 9,201    | 10,568   | 13,302   | 10,616   | 11,500   | 12,190   |
| Non-current assets                       | 14,866   | 17,848   | 19,046   | 20,313   | 23,366   | 25,947   | 27,942   | 29,859   |
| Total assets                             | 27,904   | 32,001   | 28,247   | 30,881   | 36,668   | 36,563   | 39,442   | 42,049   |
| Current liabilities                      | 8,440    | 9,701    | 5,916    | 4,634    | 5,519    | 4,685    | 4,817    | 6,179    |
| Long-term liabilities                    | 3,171    | 2,506    | 2,863    | 5,144    | 3,691    | 5,118    | 6,119    | 5,973    |
| Minorities                               | 708      | 817      | 729      | 894      | 1,265    | 1,468    | 1,647    | 1,798    |
| Equity                                   | 15,585   | 18,977   | 18,739   | 20,209   | 26,193   | 25,291   | 26,858   | 28,099   |
| Total equity and liabilities             | 27,904   | 32,001   | 28,247   | 30,881   | 36,668   | 36,563   | 39,442   | 42,049   |
| Cash flow statement, \$mn                | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
| Net income                               | 5,732    | 6,367    | 5,269    | 6,540    | 9,813    | 4,873    | 4,307    | 3,619    |
| DD&A                                     | 1,341    | 1,481    | 1,730    | 1,812    | 1,964    | 2,169    | 2,305    | 2,382    |
| Other                                    | (193)    | (394)    | 245      | 547      | 808      | 231      | 211      | 187      |
| Changes in working capital               | (1,394)  | (840)    | 507      | 231      | (822)    | 1,448    | (59)     | (23)     |
| Cash flow from operations                | 5,486    | 6,614    | 7,751    | 9,130    | 11,764   | 8,721    | 6,764    | 6,166    |
| Cash flow used for investments           | (3,615)  | (3,564)  | (3,233)  | (4,730)  | (5,569)  | (4,750)  | (4,300)  | (4,300)  |
| Cash flow used for/from financing        | (2,115)  | (2,728)  | (5,133)  | (3,637)  | (5,405)  | (4,123)  | (1,813)  | (1,378)  |
| Effect of exchange rate changes          | 52       | (28)     | 6        | (8)      | 16       | -        | 0        | 0        |
| Cash flow for the year                   | (192)    | 294      | (609)    | 755      | 806      | (152)    | 651      | 488      |
| Key data                                 | 2007     | 2008     | 2009     | 2010     | 2011E    | 2012E    | 2013E    | 2014E    |
| Net debt/(cash), \$mn                    | 1,219    | 871      | 1,490    | 1,840    | (579)    | 1,225    | 1,501    | 2,014    |
| Net debt/equity, %                       | 7.8      | 4.6      | 8.0      | 9.1      | (2.2)    | 4.8      | 5.6      | 7.2      |
| ROE, %                                   | 36.8     | 33.6     | 28.1     | 32.4     | 37.5     | 19.3     | 16.0     | 12.9     |
| ROIC, %                                  | 40.2     | 34.3     | 25.9     | 31.4     | 43.3     | 18.9     | 15.9     | 12.5     |
| ROACE, %                                 | 40.2     | 34.3     | 25.9     | 31.4     | 43.3     | 18.9     | 15.9     | 12.5     |

Sources: Company data, Otkritie Capital estimates

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