

STRONG, DESPITE 4Q08 DOWNTURN

2008 US GAAP REVIEW

BUY

4Q08 – down on low oil and currency losses – as with peers ... Today, Gazprom Neft (SIBN – Buy) published 4Q08 and 2008 US GAAP results. In 4Q08, revenues fell 51% QoQ to \$5 bln (in line with the consensus), EBITDA dropped 92% QoQ to \$204 mln (falling 40% short of the consensus). In 4Q08, the company posted a net loss of \$543 mln (six-times greater than the consensus forecast of a net loss of \$77 mln) versus a net income of \$1.6 bln in 3Q08. As with Rosneft and LUKOIL, which have already posted 2008 US GAAP results, Gazprom Neft's numbers were influenced by two main factors: volatile financials due to oil price swings throughout the year (from \$98.8/bbl in 1Q08 to a peak of \$140/bbl in 2Q08, and down to a low of \$35/bbl in 4Q08) and substantial one-offs related to ruble weakening in 4Q08 (which resulted in a currency loss of \$0.5 bln for the year for Gazprom Neft). Since the impact of these factors was pre-determined by the 2008 results of Rosneft and LUKOIL, we believe the market has priced in this effect for Gazprom Neft's financials. In our view, Gazprom Neft's 2008 results are strong. All of the negative drivers were obvious and one-offs. We believe, the business position and strategy of the company is solid and we reiterate our Buy recommendation on Gazprom Neft shares, with a target price \$3.4/share.

... but EBITDA and net income below consensus ... At the same time, the market might react negatively to the 4Q08 EBITDA and net loss, as they are lower than the consensus estimate. We believe this is due to the inability of the financial community to properly incorporate substantial changes from the 4Q08 one-off items and specific operating costs into their forecasts, while it was easy to forecast revenue. To remind the reader, this was exactly the case with Rosneft and LUKOIL also, when the consensus spread over EBITDA and net income was substantial. We believe that if the market dips on the publication of the results, we would strongly recommend buying into any weakness.

Ruble devaluation had negative impact on 4Q08 net loss

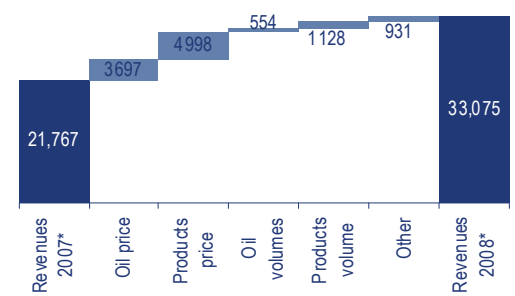
Gazprom Neft 2008 and 4Q08 US GAAP results, Mln \$										
	2007	2008	YoY, %	4Q07	3Q08	4Q08	QoQ, %	YoY, %	4Q08E Cons.	Diff., %
Total revenues	21767	33075	52	6,604	10,085	4,988	(51)	(24)	4,969	0
EBITDA	6236	7965	28	1,751	2,642	204	(92)	(88)	338	(40)
Net income/(loss)	4143	4658	12	1,324	1,594	(543)	n/a	n/a	(77)	n/a
Key Profitability Ratios, %										
	2007	2008		4Q07	3Q08	4Q08	ΔoQ, pp	YoY, pp	4Q08	Diff., %
EBITDA margin	29	24	(5)	27	26	4	(22)	(22)	7	(3)
Net margin	19	14	(5)	20	16	n/a	n/a	n/a	n/a	n/a
Key Operational and Market Data										
	2007	2008		4Q07	3Q08	4Q08E	QoQ, %	YoY, %		
Urals price, \$/bbl	71.3	92.7	30	88	108	46	(57)	(48)		
Crude oil output, kbpd	654	616	(6)	649	615	599	(3)	(8)		
Remaining production, kbpd	527	569	8	523	604	564	(7)	8		

Source: Gazprom Neft, Interfax, URALSIB estimates

Price, \$	2.72	Target Price, \$	3.41	
52 Wk Hi	8.58	52 Wk Lo	1.35	
MC, \$ mln	12,873	sh, mln	4,741.30	
P/S	0.6	P/B	1.2	
Reuters	SIBN.RTS	Bloomberg	SIBN RU	
EPS, \$/sh	0.87	0.98	0.16	0.57
P/E	3.1	2.1	17.4	4.8
EV/EBITDA	2.7	1.3	8.0	3.4

Source: RTS, URALSIB estimates

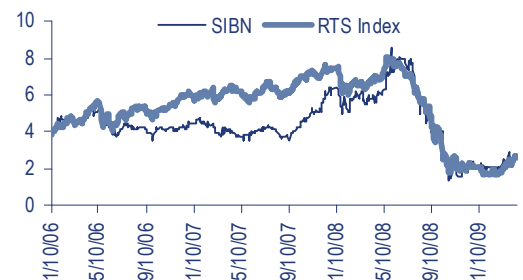
Revenue driven by commodity prices 2007-08 Revenues Reconciliation, Mln \$



Source: Gazprom Neft

* - in 4Q08 Gazprom Neft started accounting excise duties in revenues, thus revenues for previous periods have been adjusted on this item

Gazprom Neft, RTS, \$



Source: RTS, URALSIB estimates

Note: Market data as of 14 April 2009

2008 US GAAP REVIEW

... but 2008 results are very healthy. Gazprom Neft posted record strong financials on an annualized basis due to favorable pricing conditions and good exposure to the domestic oil product market:

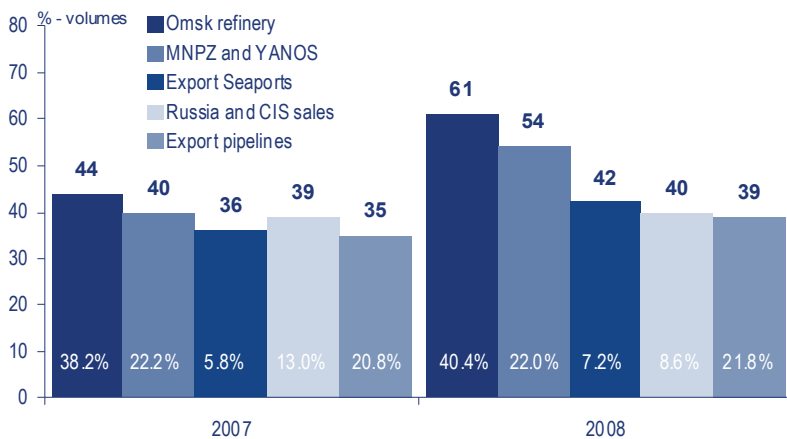
- **Revenues growth was driven by higher oil product sales.** In 2008, revenue grew by 52% YoY to \$33.1 bln. Gazprom Neft has the highest refining cover among Russian peers and the largest share of oil product sales on the domestic market. Oil products sales provided 55% of the overall revenue growth from 2007 to 2008. In 2008, the company's throughput grew by 9% YoY to 28.5 mtpa, and provided 17% YoY growth in products sales on the domestic market (15.7 mtpa), while retail sales grew by 22% to 2.8 mtpa.
 - **Specific factor behind revenue growth.** The consolidation of 50% of Tomskneft from 2008 added an extra 5 mln tons to the overall volume of oil extracted by the company (Gazprom Neft purchased a 50% stake in Tomskneft in December 2007). For financial purposes Gazprom Neft accounts for Tomskneft as equity share in its income. It purchases a proportionate share of crude oil from Tomskneft at low prices and then sells these volumes at market prices in the form of oil products or exported crude oil. The difference between the cost of oil purchased (included in Gazprom Neft's oil and refined products purchase costs) and revenue from the resale of these volumes is accounted by the company as its own revenue. Such a system was also used in 2008 with two Gazprom Neft affiliates – Tomskneft and Slavneft – and this strengthened Gazprom Neft's 2008 financial results. A substantial share of crude purchased from the two affiliates – Slavneft (49.8% controlled) and Tomskneft (50% controlled) – was refined and sold in the form of oil products.

- **EBITDA rose, but the margin fell.** 2008 EBITDA rose by 28% YoY to \$8 bln. EBITDA was mainly under pressure from significant tax burden - Mineral Extraction Tax and export duty. During 2H08, when oil prices started to decline, the lagging negative effect of export duties eroded EBITDA significantly. EBITDA margin down by 5 ppt YoY to 24%.

- **Net income was up.** The main destructive factor for 2008 net income was a 4Q08 currency loss of \$0.5 bln (due to ruble devaluation). Nevertheless, 2008 net income increased by 12% YoY to \$4.7 bln.

Refining remained the most profitable segment

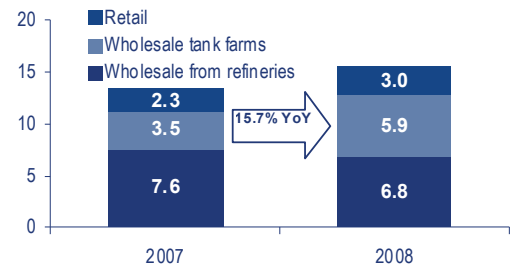
Netback 2007 and 2008, \$/bbl



Source: Gazprom Neft

Retail sales jumped by 22% YoY

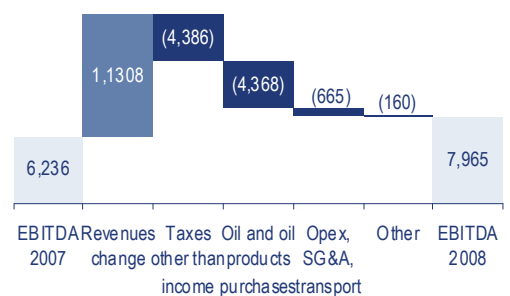
Oil and Products Distribution in Russia, Mln Tons



Source: Gazprom Neft

Taxes eroded EBITDA

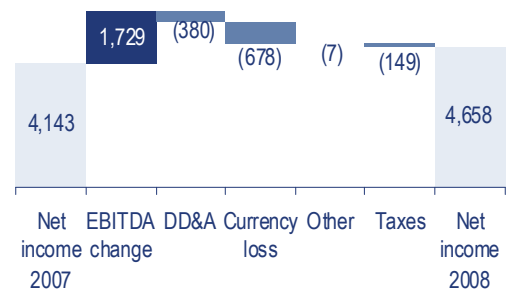
2007-08 EBITDA Reconciliation, Mln \$



Source: Gazprom Neft

Net income increased by 12% YoY

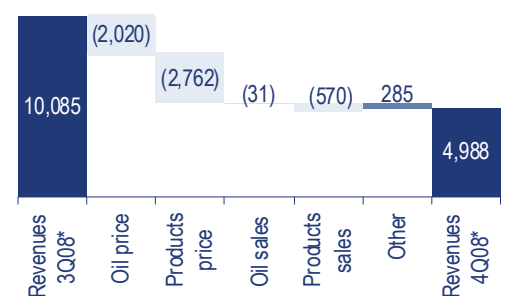
2007-08 Net Income Reconciliation, Mln \$



Source: Gazprom Neft

4Q08 sales fell on low oil price

4Q08 Revenues Reconciliation, Mln \$



Source: Gazprom Neft

* - in 4Q08 Gazprom Neft started accounting excise duties in revenues, thus revenues for previous periods have been adjusted on this item

2008 US GAAP REVIEW

Plummeting oil prices hit 4Q08 results hard. In 4Q08, declining crude oil and oil product prices pushed revenue down. This, coupled with the negative effect of the export duties calculation (“Kudrin’s scissors”), destroyed the company’s EBITDA margin. In addition, ruble devaluation resulted in a currency loss that affected the bottom line.

- **Lower prices and oil production resulted in lower revenue.** The core factors that pressed down Gazprom Neft’s 4Q08 revenue were:
 - **Lower commodity prices.** In 4Q08, the Urals price fell 57% QoQ to \$46/bbl, and diesel and fuel oil prices fell by 48% QoQ and 65% QoQ to \$535/ton and \$235/ton.
 - **Weaker oil output.** In 4Q08, oil output at Gazprom Neft’s biggest production subsidiaries Gazprom-Noyabrsk and Zapolyarneft fell by 6% QoQ and 5% QoQ, respectively, to 314 kbpd and 81 kbpd, resulting in an overall production decline of 3% QoQ to 599 kbpd.

Production output down

Production Breakdown, kbpd

	07/2008	08/2008	09/2008	10/2008	11/2008	12/2008
Archinskoye	7	8	9	9	9	10
Gazprom Neft	41	41	43	43	42	41
Gazprom Neft-Khantos	3	3	3	3	3	3
Gazprom-NNG	344	332	326	321	314	309
Zapolyarneft	88	84	83	80	80	82
Sibneft-Ugra	150	144	145	145	146	147
Others	3	3	3	3	3	3
Total:	637	615	611	603	598	595

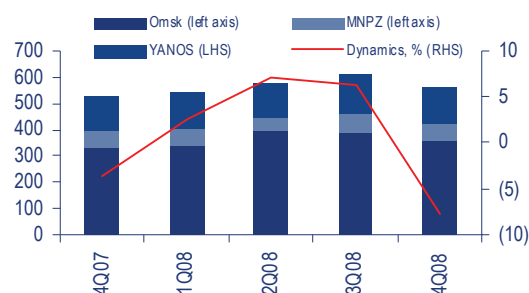
Source: Infotek

- **Reduction of refining throughput.** In 4Q08, refining throughput at Omsk, YANOS and MNPZ refineries fell by 8.3%QoQ, 7.9% QoQ and 5.1% QoQ to, respectively, to 136 kbpd, 357 kbpd and 70 kbpd.
- **Falling oil prices ... supported EBITDA from the costs side:** Although EBITDA in 4Q08 declined to a mere \$204 mln (or 92% down QoQ) and EBITDA margin declined from 26% in 3Q08 to 4% in 4Q08, the drop in oil prices supported EBITDA through lower operational costs:
 - **Lower oil prices = lower cost of oil purchases.** On the back of lower commodity prices cost of oil and refined products purchases shrank by 41% QoQ to \$1.4 bln.
 - **Taxes remained very high.** Taxes other than income tax were down by 21% QoQ to \$2.6 bln due to lower commodity prices. Although the lagging effect of export duties was still present in 4Q08, its effect was very much milder, as the government undertook force majeure measures to cut export duties by shortening the tax calculation period from two months to two weeks in October and November 2008. Starting from December 2008, the calculation period was officially abridged from two months to one month.

1Q09 results should be stronger. We expect that Gazprom Neft and other oil companies will post positive 1Q09 results, since oil prices increased from the low of \$35/bbl in December to \$53/bbl in 1Q09. In addition, ruble devaluation helped to reduce operational expenses.

4Q08 refining throughput fell 7% QoQ

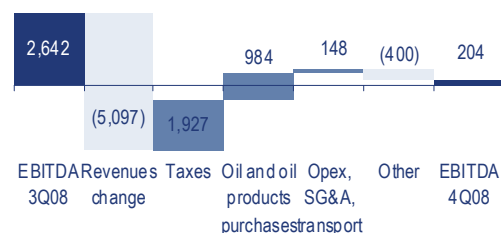
Gazprom Neft Refineries, kbpd



Source: Gazprom Neft

Oil & product purchases supportive

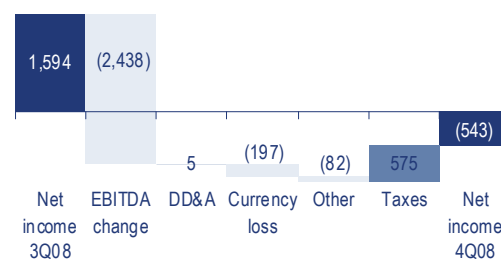
4Q08 EBITDA Reconciliation, Mln \$



Source: Gazprom Neft

Net loss was posted in 4Q08

4Q08 Net Income Reconciliation, Mln \$



Source: Gazprom Neft

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