

OMV Petrom SA (SNP)

Refining makes room for production to keep up with the global trend

Even after FP's listing, OMV Petrom SA remains the largest company in Romania listed on BVB based on the market capitalization criterion (being outshone by only one foreign issuer—Erste Bank). Currently, the company controlled by the Austrian group OMV, seems to have adopted the idea of diversifying activity by increasing the weight of hydrocarbon exploration and energy production (including from renewable resources), most likely because of the global perception according to which refining and marketing margins will stay low.

Target Price (RON): 0.3739; Time Horizon: 15 months

BVB Ticker Symbol	SNP
Last closing price (RON)	0.3000
Change set against the price valid on 31.12.2010 (RON)	-10.45%
Average of price estimates (RON)	0.4300
Capitalization (mil RON, 7.10.2011)	16,993.23

Source: Thomson Reuters

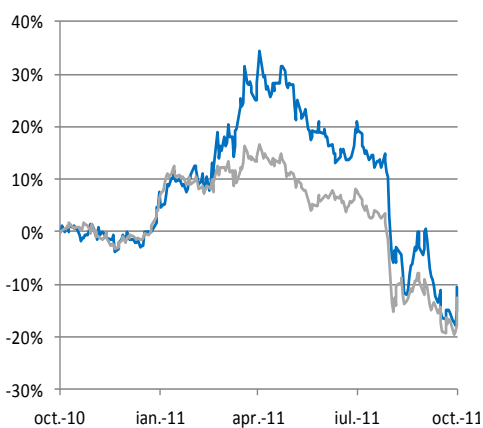
OMV Petrom SA (BVB: SNP) is part of the Energy super sector (alongside other sectors such as „Electricity production”, „Coal” or „Energy Equipment and Services”). At a fundamental level, companies belonging to this industry are strongly influenced by the macroeconomic cycle, especially by means of fuels and energy required in industrial processes. Therefore, the best time to invest in stocks of the energy field is towards the middle of the economic expansion.

The pro-cyclic character of Petrom's sector leads us to the conclusion that, at least in the upcoming months, its shares will keep facing pressures. However, starting from the hypothesis of an economic revival as of 2013 and anticipated by the stock exchange market, we have kept a rising price target set against current values.

In the upcoming years, the company's development plans entail diminishing the weight of refining-marketing assets to 25% in the group's total assets and considerably boosting activity in segments like exploration and production, and gas and energy respectively. Therefore, together with the multiples method, we have also employed the free cash flow to equity approach (FCFE) based on the financials estimated by us throughout 2011 - 2018 and on some general considerations for the next years.

The result is the above-mentioned target price. The confirmation of this forecast depends upon a series of factors, the most important ones being mentioned in the Valuation chapter of this research. Among these, we have singled out the macroeconomic situation and the overall state of capital markets: a worsening environment might lead to a negative performance while a rebound significantly improves SNP's chances to reach the target price.

SNP vs. BET
(%, 7.10.10 - 7.10.11)



— SNP; — BET.

Source: Thomson Reuters

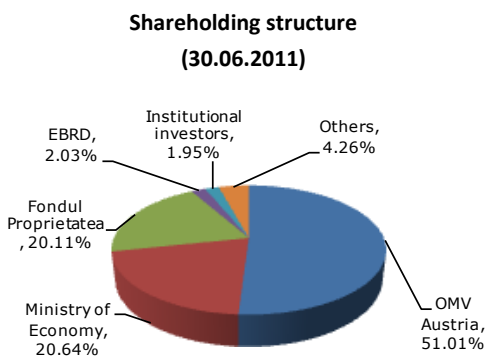
Activity sector

Grounded on the information provided in the previous research issued by Tradeville about OMV Petrom, we can consider that there are at least **three new important elements which should be taken into account**.

Firstly, we should consider the overall situation of the global economy which will continue to grow at a very slow pace at best. Therefore, taking into account the fact that SNP belongs to the oil and gas sector, it is highly likely for its sales to be negatively affected. However, once the economic growth is resumed, both sales and stocks of companies in this super-sector tend to recover quite well. For this reason, according to the sector rotation theory the best time to invest in stocks of this sector is towards the middle of the economic expansion.

A second element refers to the recent tendency to split some companies comprising both refinery and marketing activities and exploration and production into distinct companies (such as Marathon Oil and Conoco Phillips). Information appeared in the international financial media shows that this tendency is the result of a superfluous refining capacity on a global scale that led to a deterioration in relevant margins. Even companies that will not adopt such measures (like Chevron) will focus, most likely, on the Exploration and Production segment. The third observation concerns the diversification of the oil company's business by including energy generation activities either based on streamlined classic technologies in order to reduce carbon dioxide emissions or from renewable sources. In this regard, although the existing experience at the level of oil companies should represent a comparative advantage in the geothermal sector, solar and wind power projects prevail in Europe.

Structure, governance and activity



Data Source: www.petrom.com; Reuters Knowledge

In order to better handle both the current economic environment and future challenges in the relevant sectors, OMV Petrom SA decided to split its activity into 7 divisions : Exploration & Production, Refinery, Marketing, Natural Gas, Energy, Chemical Products and Global Solutions. The first six are classic operating divisions while the seventh provides corporate services for the group's other entities. This measure, although it might have the disadvantage of more bureaucracy, usually entails a series of positive effects at an organisational level that derives from the fact that it facilitates monitoring the performance of each unit and, eventually, an easier implementation of spin-off operations, sales or even bringing activity to a halt.

The major focus towards streamlining operations is also noticed from the general orientation towards reducing the company's staff. Therefore, according to Reuters data, on 30.06.2011, the company had 23,693 employees, accounting for less than 40% of the workforce employed in 2002 against a backdrop of 2.5 times higher revenues.

Grounded on existing information, Petrom's strategy responds quite well to the two trends identified at an industrial level in the previous chapter. In relation to the first aspect, SNP disclosed the intention to considerably diminish the weight of Refining and Marketing assets (to 25% from 53% in the present) and lift that of Exploration and Production assets (from 35% to 55%) fact that, in our opinion, positively influences the issuer's performance. The collaboration with Exxon Mobile to explore the Neptun perimeter is also an appropriate stra-

Structure, governance and activity

ategic move. Considering the expansion towards the field of energy generation, the company took important steps by building the Brazi-based Combined Cycle Plants (gas plant) and buying the Dorobantu wind park.

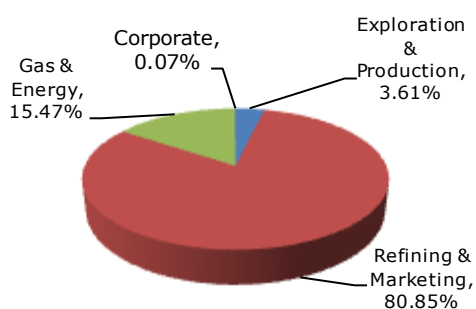
It was expected for SNP's shareholding structure and free float to undergo changes after the secondary public offering carried out by the Romanian government this year. Nonetheless, the failure of this offering left the shareholding structure unchanged relative to holders of important stakes. Another public offering might be launched by the Ministry of Economy in the first half of 2012, when the Romanian government's stake would shrink by approximately 10%.

Throughout the interval that has passed since the previous research, we have not identified new data regarding corporate governance quality. We believe that this is good towards average based on international standards and significantly above the market's average relative to companies listed on the Bucharest Stock Exchange.

The overall picture projected by Petrom's activities is rather good as it seems to be connected to the industry's trends and serve investors' interests. The relation with the Romanian government is still of primary importance for the company and the recent scandal concerning an anti-competitive agreement on the local market of fuels might draw undesired attention and even pecuniary loss. Nonetheless, SNP remains a local „blue chip” enjoying investors' appreciation, this year's offering failure being more likely caused by the unfavourable market environment and by how the offer was structured.

Financials Analysis

Structure of SNP revenues outside the group (2010)



Source: Reuters Knowledge

Further on, we will analyze a series of ratios computed based on financials reported by the issuer in order to provide an overall image of its economic situation. In the Schedule you can see an excerpt of OMV Petrom SA's annual financials throughout 2008 –2010 as well as the estimated financials drafted for 2011 – 2018.

For a better image of return on equity we have employed an extended DuPont system below:

$$ROE = \frac{Gr.p}{S} \times \frac{S}{TA} \times \frac{EBIT}{Gr.p} \times (1 + \frac{d}{EBIT}) \times (1 + \frac{TD}{Eq}) \times (\frac{NP}{EBT})$$

The gross profit ratio (Gr p) refers to the difference between net sales (S) and the cost of goods sold (COGS) and, relative to the value of Sales, offers us information about the effectiveness of the company's commercial activity („Gross Commercial Margin”). In the below-displayed table we see that this ratio has been caught on an uptrend over the past 2 years and we forecast that it will continue against a backdrop of changes underwent by the structure of SNP activities. In contrast to said trend, the total asset, a ratio that gauges operating efficiency, is sliding. As the energy industry is a capital intensive one, a slight reduction in asset turnover is understandable as activity enhances (we have not included potential net sales of assets). However, organisational efficiency (i.e. the ratio between operating profit - EBIT and the gross profit) is improving (as we've remarked in chapter 2 as well) and we expect that it will keep getting

Financials Analysis

better in the long term.

The net effect of the above-mentioned performance was a sharp upturn in ROA, which is amplified by the leverage effect. If, as we have estimated, the company chooses a more secure financial strategy but less profitable for shareholders, the positive result will not be spectacular but the result of a low leverage will. Fiscal leverage (ratio between net and gross profit) has oscillated over the past 3 years, however, we expect it to hover around the 2010 value, reason why we've set it at 84%. We believe that all these factors will lead to a long term increase in ROE and potential punctual fluctuations (as that estimated for 2011).

(mil. RON)					
Financial ratios \ Year	2008	2009	2010	2011e	2018e
Gross operating profit (Gr.p)	6,373.55	5,194.41	6,312.69	6,619.68	13,467.96
EBIT	1,204.93	1,620.48	2,985.51	3,152.11	8,052.93
Net financial result(d)*	-76.09	-451.06	-380.19	-369.96	-587.10
EBT*	1,128.84	1,169.42	2,605.32	2,782.16	7,465.83
Net profit (Np)**	978.30	860.24	2,201.22	2,337.01	6,271.30
Total debt (TD)	6,744.35	7,713.32	9,222.35	9,300.42	16,407.67
Equity (Eq)	22,172.96	22,813.32	25,542.91	27,605.67	54,003.65
Total asset (TA)	28,917.31	30,526.64	34,765.26	36,906.10	70,411.32
Sales (S)	20,127.36	16,089.73	18,615.69	19,000.00	27,919.42
DuPont System \ Year	2008	2009	2010	2011e	2018e
Gross commercial margin (Gr p / S)	31.67%	32.28%	33.91%	34.84%	48.24%
x Operational efficiency (S/TA)	69.60%	52.71%	53.55%	51.48%	39.65%
x Organisational efficiency (EBIT/Gr.p)	18.91%	31.20%	47.29%	47.62%	59.79%
ROA (EBIT /TA)	4.17%	5.31%	8.59%	8.54%	11.44%
x Leverage effect ((1+d/EBIT)x(1+TD/Eq))	122.18%	96.56%	118.77%	118.00%	120.88%
x Fiscal Efficiency (NP/EBT)	86.66%	73.56%	84.49%	84.00%	84.00%
ROE	4.41%	3.77%	8.62%	8.47%	11.61%

*includes minority interests

** net profit attributable to common shareholders excl. extraordinary items

Source: Reuters Knowledge, own estimates and calculations

Concerning leverage, we see a low use of borrowed capital (on 31.12.2010, total debts accounted for less than 27% of total balance sheet assets) which puts the company in a rather prudent financial position. For the analyzed period, we have placed the utilization rate within the 23-26% interval, in line with values of the past 3 financial years. Regarding liquidity, measured by the „Acid Test” ratio, the company seems to have a far more aggressive approach than in the case of leverage, reason why we decreased the value of this ratio in the first 2 estimated years towards the 2007 value. However, we do believe that, even without changing the financing of fixed assets by long term debts, throughout 2015 – 2018 the company's accounting liquidity will improve significantly following the results of investment projects planned in the medium term.

For the next 6 – 12 months, the macroeconomic environment will most likely be a rather adverse one for the company. However, based on the issuer's capacity to implement investment programs and on the success of future explorations, long and medium term prospects look rather promising.

Evaluation

To compute a series of theoretical prices we have employed, alongside the multiples approach, the Discounted Free Cash Flow to Equity approach. For the valuation using multiples we have taken into account 5 multiples: P/BV, P/S, P/E, EV/EBITDA and EV/EBIT computed for 13 similar public companies selected based on Reuters data according to criteria described in the „Activity Sector” chapter. As for DFCFE, this refers to updating annual FCFE (free cash-flow to equity) values estimated until 2018 (including) and a residual value that represents bringing up to date the FCFE sum estimated for the period after 2018. To make the updates, we have employed the expected return ratio (k) calculated using CAPM where Beta is 1 (according to Reuters data), the risk-free rate of return stands at 7% p.a., while the market’s average rate of return (E(P)) stands at 12.5% p.a.

Sales in the oil industry’s refining and marketing segment are distorted by the fact that they usually include taxes that vary from country to country, nonetheless, it has the advantage of being less distorted by accounting policies. However, P/E is the most tracked ratio by investors worldwide, despite the fact that net profit could contain major distortions. As assets depreciated at a slower pace compared to other industries, the EV/EBITDA ratio has an advantage over EV/EBIT. Finally, although the material basis is rather important, the P/BV multiple doesn’t necessarily consider its market price. Therefore, we believe that the theoretical prices derived based on P/S, P/E and EV/EBITDA are quite representative and, because there are potential distortions in all three cases (hypothesis backed by the different values obtained in the below-displayed table) we’ve preferred to take into consideration the target price resulted from the multiples approach- the mean of the 3 values.

We’ve calculated the theoretical prices for each multiple by employing the aggregated ratios (capitalization, sales, profit, etc.) at peer group level based on which we have derived the relevant sector’s multiples. After having obtained said multiples, we were able to compute theoretical prices for the issuer’s shares (in RON-terms) at which its multiples would have been equal to those of the peer group. As each of the multiples considered representative had both advantages and disadvantages, we have selected as target price computed via the multiples method the arithmetic mean of these prices, i.e. 0.4045 RON/share. To convert financial and market data in LEI we have used the reference exchange rate valid on 7.10.2011 provided by Reuters Xtra3000. Further details about the calculation of theoretical prices can be found in the below table.

Company	Country	Capitalization (7.10.11)*	Equity* (lst.rep.)	Sales* (LTM)	Net profit* (LTM)	P/BV (historical basis)	P/S (historical basis)	P/E (historical basis)	EBITDA* (LTM)	EBIT* (LTM)	EV* (Reuters est, RON, mil.equiv.)	EV / EBITDA (historical basis)	EV / EBIT (historical basis)	Beta (5Y, monthly)	g (Reuters consensus)
Essar Energy	GB	17,227.36	22,973.40	57,597.32	1,436.50	0.75	0.30	11.99	4,543.80	3,884.01	29,616.80	6.52	7.63	N/A	77.65%
OMV Petrom	RO	16,993.23	19,110.74	20,543.58	2,423.84	0.89	0.83	7.01	6,905.52	3,725.98	18,317.46	2.65	4.92	1.00	22.30%
Polski Koncern	PL	14,743.26	23,456.42	91,905.17	3,727.97	0.63	0.16	3.95	6,128.09	3,823.56	25,532.65	4.17	6.68	0.86	-2.90%
Gazprom Salavat**	RU	8,749.03	2,188.46	12,124.63	319.42	4.00	0.72	27.39	927.31	486.09	11,145.58	12.02	22.93	N/A	N/A
Hellenic Petroleum	GR	7,704.01	10,519.19	38,224.65	1,295.28	0.73	0.20	5.95	2,058.90	1,388.79	17,136.33	8.32	12.34	0.58	17.00%
Neste Oil	FI	7,462.48	10,817.00	59,247.68	1,712.26	0.69	0.13	4.36	3,635.86	2,454.10	16,704.59	4.59	6.81	0.82	26.90%
Statoil Fuel	NO	7,188.98	4,069.06	38,880.74	743.50	1.77	0.18	9.67	1,811.48	1,154.77	9,611.84	5.31	8.32	N/A	7.40%
DCC**	IE	6,699.43	4,009.54	37,439.30	625.86	1.67	0.18	10.70	1,156.96	881.53	7,310.15	6.32	8.29	0.67	N/A
Alliance Oil	SE	6,350.49	1,001.74	1,221.05	135.72	6.34	5.20	46.79	251.01	180.70	11,051.48	44.03	61.16	1.11	53.10%
UNIPETROL	CZ	5,497.12	6,804.00	16,224.36	98.89	0.81	0.34	55.59	907.57	200.21	5,489.75	6.05	27.42	N/A	N/A
ERG	IT	5,689.11	7,759.43	26,091.80	95.75	0.73	0.22	59.42	425.74	-57.10	9,140.71	21.47	N/A	0.58	18.00%
Rubis	FR	4,850.49	3,346.72	7,418.49	248.69	1.45	0.65	19.50	841.60	398.00	6,015.94	7.15	15.12	0.52	9.20%
Ufaneftkhim	RU	4,580.14	3,169.46	1,537.84	585.96	1.45	2.98	7.82	656.58	656.58	3,918.84	5.97	5.97	0.42	N/A
Saras	IT	4,228.81	5,625.10	42,211.24	262.53	0.75	0.10	16.11	1,919.07	1,009.20	6,697.79	3.49	6.64	0.94	108.50%
SECTOR (excl. SNP)	-	100,970.69	105,739.51	430,124.25	11,288.32	0.95	0.23	8.94	25,263.97	16,460.43	159,372.45	6.31	9.68	0.75	22.16%
SNP theoretical prices (RON)	-	-	-	-	-	0.3222	0.0851	0.3828	-	-	-	0.7457	0.6135	-	-
SNP market price (RON, 9.10.11)	-	-	-	-	-	0.3000	0.3000	0.3000	-	-	-	0.3000	0.3000	-	-
(EURRON = 4.3130, EURUSD = 1.3378, EURGBP = 0.8596, EURPLN = 4.3837, EURRUB = 43.3437, EURNOK = 7.8023, EURSEK = 9.1015, EURCZK = 24.8700)															

*RON, mil.equiv; ** data valid on 31.12.2010 for Gazprom and on 31.03.2011 for DCC

Evaluation

October 10, 2011

For the DCFE calculation we've chosen a 2-step pattern. First, we drew up SNP's provisional Profit and Loss Statement, Balance Sheet and Cash Flow Statement for each year throughout 2011 – 2018. Based on this data (which you can examine in the Schedule hereto appended) we calculated the FCFE ratio for each year based on the following formula:

$$FCFE = \text{Net profit} + \text{Amortization} + \text{New debt} - \text{Gross Capex} - \text{Net chng. in fin. ass.} - \text{Change in Net Working Capital}$$

For the years subsequent to 2018 we supposed that FCFE will grow at a steady pace for an indefinite time and therefore we have computed a global sum updated at the level of 2018 and known as „residual value“ (RV) using the formula:

$$RV = FCFE_{2018} * \frac{(1 + g)}{(k - g)} \quad \text{where} \quad g = ROE_{2018} * \left(1 - \frac{FCFE_{2018}}{\text{Net_profit}_{2018}} \right)$$

Both the annual values of FCFE from yearly estimates and RV were updated until 31.12.2012 using „k“, i.e. the above mentioned average return expected by shareholders. Once updated, we added these values and divided them by the actual number of SNP shares. It resulted a price of approximately 0.4943 RON/share (significantly above Reuters' consensus of 0.43). However, in Petrom's case FCFE is controlled by the majority shareholder, reason why, in relation to each shareholder, we have to apply an average discount of 24.34%, based on Mergerstat data for 2006-2009 (taking into account the industry and the current economic environment). Grounded on the above and on the considerable oscillations between prices resulted from the valuation using multiples, we believe that the appropriate target price for a 15 month time horizon stands at 0.3739 RON/share as derived from applying the above mentioned discount to the theoretical price generated by the DCFE analysis.

(RON, mil.)	2008	2009	2010	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e
Sales	20,127.36	16,089.73	18,615.69	19,000.00	16,894.21	18,161.28	19,069.34	20,976.28	23,073.90	25,381.29	27,919.42
(yoy %)	-	-20.06%	15.70%	2.06%	-11.08%	7.50%	5.00%	10.00%	10.00%	10.00%	10.00%
COGS	14,120.84	11,256.27	12,790.98	12,803.91	11,384.84	11,752.05	11,828.66	12,449.43	13,076.07	13,703.55	15,073.90
(% of S)	70.16%	69.96%	68.71%	67.39%	67.39%	64.71%	62.03%	59.35%	56.67%	53.99%	53.99%
Net Profit	978.30	860.24	2,201.22	2,337.01	1,427.57	1,750.12	2,247.24	2,886.30	3,824.59	5,094.47	6,271.30
(% of S)	4.86%	5.35%	11.82%	12.30%	8.45%	9.64%	11.78%	13.76%	16.58%	20.07%	22.46%
Amortization	1,484.49	1,854.87	2,124.74	2,209.81	2,436.23	2,753.10	3,046.70	3,318.74	3,570.80	3,804.35	3,874.20
CAPEX in intangible asst.	-	3,703.54	4,555.63	4,999.73	5,230.89	6,773.83	6,756.48	6,739.73	6,756.68	6,750.97	4,753.56
Net change in wrk.capital	-	-26.88	543.86	-1,040.91	-42.89	359.05	311.16	473.62	540.23	619.91	313.65
New debt	-	1,181.43	245.16	163.81	840.09	937.65	1,067.48	1,105.76	860.85	856.87	786.83
FCFE	-	219.88	-528.37	751.81	-484.10	-1,692.01	-706.22	97.44	959.32	2,384.82	5,865.11
Update factor	-	0.0000	0.0000	1.1250	1.0000	0.8889	0.7901	0.7023	0.6243	0.5549	0.4933
Updated FCFE	-	0.00	0.00	845.78	-484.10	-1,504.01	-558.00	68.44	598.90	1,323.40	2,893.08
Residual value (RV)	-	-	-	-	-	-	-	-	-	-	50,300.45
Updated RV	-	-	-	-	-	-	-	-	-	-	24,811.71
Estimated no of shares (mil.)	-	-	-	-	56,644.11	-	-	-	-	-	-
Trgt.price without discount(ROn)	-	-	-	-	0.4942	-	-	-	-	-	-
Minority sh. discount (%)	-	-	-	-	24.34%	-	-	-	-	-	-
Target price (ROn)	-	-	-	-	0.3739	-	-	-	-	-	-

Data source: Thomson Reuters

Evaluation

In conclusion, we think it's adequate to mention the main risks for the employed analysis approaches and for the company itself. The multiples approach starts from the hypothesis that the issuer's multiples tend towards those of the relevant sector. However, this is the greatest risk entailed by valuations of this kind because the company's prospects might be entirely different from those of its sector. Furthermore, there is also the risk of the company's or the sector's financials to be distorted to such an extent that those multiples are no longer relevant.

As for the inherent risks carried by the DFCFE approach, we believe that the most important are the choices made regarding certain key ratios. Among these it stands out the average return expected by shareholders (k) and its components, performance of sales, investments in fixed capital, cost of goods sold, depreciation expense and the FCFE rate of growth after 2018 (g). Moreover, we believe that the discount value is also important for minority shareholders. In the below table you can see a brief sensitivity analysis showing how an adverse or a favourable 1% change would influence the theoretical price obtained via DFCFE.

Variable	Basic scenario	Adverse change	Favorable change	Eval.modification with adverse chng	Eval.modification with favorable chng
Beta	1.00	1.01	0.99	-0.71%	0.72%
RFR	7.00%	7.07%	6.93%	0.00%	0.00%
E(P)	12.50%	12.63%	12.38%	-1.61%	1.64%
g	0.75%	0.74%	0.76%	-0.06%	0.06%
Avg.growth rate in S/year	5.20%	5.15%	5.25%	-1.14%	1.16%
COGS/S (2017)	53.99%	54.53%	53.45%	-3.37%	3.37%
Amortization /fixed assets	7.34%	7.42%	7.27%	-0.26%	0.27%
Avg. gross non-fin.inv/yr (mil RON)	6,093.43	6,154.36	6,032.50	-3.14%	3.13%
Discount	24.34%	24.58%	24.10%	-0.32%	0.32%

Independently of the elements of the used method, there is the insignificant risk of a mass depreciation in stocks at the level of the entire local market (or even European or global) if market conditions worsen.

We believe that the most important cluster of risks that the issuer might encounter in its activity involves the macroeconomic risk (by the influence on demand for SNP products), fiscal risk (relative to rising taxes and royalties), political risk (relative to the relation with regulatory authorities), market risk (shifting oil prices), exploration risk (specific to the exploration and production activity), currency risk (currency shifts influencing RON-denominated prices and oil prices as well as taxes) and operating risk (by means of product quality and the safety level of operations and the environment).

There is also a second cluster of risks, which we consider to be less relevant for Petrom at the moment: liquidity risk (the acid test ratio stands at rather low values, however, there are no financing issues looming on the horizon at the moment), credit risk (commercial), interest rate risk (referring to financing risk), reputational risk and natural disaster risk (considering the nature of oil-based activities).

Research Author

Ovidiu-George Dumitrescu, CFA

LTM = last twelve months;
 ROA = return on asset;
 ROE = return on equity;
 P/E = price / net profit per share;
 P/BV = price /equity per share;
 P/S = price/ sales;

EV = market cap + debt - cash and cash equivalents;
 EBT = profit before tax;
 EBIT(DA) = operating profit (+ amort.);
 Beta = price sensitivity to market changes;
 g = profit growth rate;

Capex = acquisitions - sale of assets (non-financial);
 Net change = price change;
 Working capital = inventory + accounts receivable + prepaid expense - commercial debts - unearned revenues;

Magda Sirghe

magda.sirghe@tradeville.eu

Dragos Darabut

dragos.darabut@tradeville.eu

Ovidiu-George Dumitrescu, CFA

ovidiu.dumitrescu@tradeville.eu

Tradeville Services:

Startrade RO

Online trading of any stock/bond listed on the Bucharest Stock Exchange

Smart

Line of credit intended for investments in stocks traded on BSE

Derivgate

Trade futures and options on the Sibiu Monetary Financial and Commodities Exchange and the Bucharest Stock Exchange

Startrade BG

Online trading of over 50 major ticker symbols listed on the Sofia Stock Exchange

Startrade AT

Online trading of over 150 stocks listed on the Vienna Stock Exchange

Startrade 360

17 international markets, over 2000 financial instruments, 24h/day online access, margin trading from 1%

SSIF Tradeville S.A.

Address: Unirii Blvd No. 19, Bl. 4B,
 ground floor, Sector 5,
 Bcharest.
 Zip Code: 040103.
 Romania

Telephone: 0040 21 336 93 25
 0040 21 336 93 26

Tradeville is the new Vanguard level. Our brokerage house underwent this transformation after 14 years of expertise in financial markets, technological innovation, transparency and after being constantly in touch with our clients, thus managing to achieve the leadership position in on-line trading in Romania. An integrated trading platform and regional expansion in Eastern Europe represents the offer made by Tradeville to investors. You can access our website using the www.tradeville.eu or www.vanguard.ro links.

SSIF Tradeville SA is authorized by the Romanian National Securities Commission Decision No. 398/15.02.2005

The content of this research belongs to Tradeville and it is protected by the applicable copyrights, trademarks and all other intellectual property rights. It is forbidden to republish or re-distribute it without the prior written consent of Tradeville. The reproduction, retransmission, storage, transfer, public disclosure, rental or any such use of this content without Tradeville or the author's prior written consent represents an infringement of the applicable copyrights and shall be punished in compliance with the applicable law.

SSIF Tradeville SA does not provide investment advice or recommendations. The research reports released by the company are informative materials comprising of utterly objective information about financial markets, issuers and market sectors. Our company disclaims all responsibility for transactions carried out based on said Research Reports. SSIF Tradeville SA does not have any particular interest and it is not involved (the company, relevant individuals within the company or any other involved person) in a conflict of interest with the issuers mentioned in our Research Reports. SSIF Tradeville SA developed and implemented an Internal Procedure to avoid and handle conflicts of interest: if a conflict of interest cannot be avoided, it will be made public on the release date of the Research Report at the latest. The information used in our research reports is gathered from sources considered to be trustworthy, nonetheless, there is no guarantee regarding the accuracy of said information. The investment in financial instruments entails peculiar risks including but not confining to: market price fluctuation, dividend, return and/ or profit uncertainty, exchange rate fluctuation. Furthermore, the past performance of financial instruments is not a guarantee of a similar future performance.

Schedule — OMV Petrom SA Financials (2/3)

Balance sheet

mil. RON, IFRS

	31/12/08	31/12/09	31/12/10	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e
Total liquid assets	572.50	384.00	1,588.60	1,115.76	598.04	2,010.18	1,418.22	1,760.38	3,004.91	5,694.03	11,722.04
Total receivables, net	1,021.59	1,047.74	1,397.98	1,426.84	1,268.70	1,363.86	1,432.05	1,575.25	1,732.78	1,906.06	2,096.66
Inventories	2,758.91	2,582.69	2,500.12	2,551.73	2,268.92	2,439.09	2,561.05	2,817.15	3,098.87	3,408.75	3,749.63
Prepaid expense	245.68	344.91	680.37	423.65	482.98	529.00	478.54	496.84	501.46	492.28	496.86
Other current assets	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total current assets	4,598.68	4,359.34	6,167.07	5,517.99	4,618.64	6,342.13	5,889.86	6,649.63	8,338.01	11,501.12	18,065.19
Tangible and intangible assets - net	20,625.01	22,790.64	25,146.64	27,880.83	30,737.60	34,735.49	38,439.79	41,872.05	45,052.25	47,998.90	48,880.14
Total financial assets	3,693.62	3,376.66	3,451.55	3,507.28	3,445.16	3,468.00	3,473.48	3,462.21	3,467.90	3,467.86	3,465.99
Total assets	28,917.31	30,526.64	34,765.26	36,906.10	38,801.40	44,545.62	47,803.13	51,983.89	56,858.16	62,967.88	70,411.32
Trade and other payables	2,627.99	2,417.51	3,546.41	3,550.00	3,156.55	3,258.36	3,279.60	3,451.71	3,625.45	3,799.43	4,179.37
Other operating liabilities	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Short term debts	1,304.81	1,167.22	774.70	542.29	968.40	1,326.71	1,857.39	2,465.78	2,865.78	3,295.64	3,954.77
Current long term debts	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Unearned revenue	1,124.20	1,122.22	1,257.19	1,167.87	1,182.43	1,202.50	1,184.26	1,189.73	1,192.16	1,188.72	1,190.20
Other short term debts	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total current debts	5,057.00	4,706.95	5,578.30	5,260.16	5,307.37	5,787.56	6,321.25	7,107.22	7,683.39	8,283.79	9,324.35
Long term financial debts	1,687.35	3,006.37	3,644.05	4,040.27	4,454.25	5,033.59	5,570.39	6,067.76	6,528.61	6,955.62	7,083.32
Other long term debts	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total long term debts	1,687.35	3,006.37	3,644.05	4,040.27	4,454.25	5,033.59	5,570.39	6,067.76	6,528.61	6,955.62	7,083.32
Total debts	6,744.35	7,713.32	9,222.35	9,300.42	9,761.62	10,821.15	11,891.64	13,174.98	14,212.01	15,239.41	16,407.67
Share capital	18,983.37	18,983.37	18,983.37	18,983.37	18,983.37	21,830.88	21,830.88	21,830.88	21,830.88	21,830.88	21,830.88
Share premium	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reserves and provisions	6,825.72	6,590.71	7,119.59	6,845.34	6,851.88	6,938.94	6,878.72	6,889.85	6,902.50	6,890.35	6,894.23
Revaluation reserves	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Retained earnings	-3,636.13	-2,760.76	-560.05	1,776.96	3,204.53	4,954.65	7,201.89	10,088.19	13,912.77	19,007.25	25,278.54
Total equity	22,172.96	22,813.32	25,542.91	27,605.67	29,039.78	33,724.46	35,911.49	38,808.91	42,646.15	47,728.48	54,003.65
Total liabilities	28,917.31	30,526.64	34,765.26	36,906.10	38,801.40	44,545.62	47,803.13	51,983.89	56,858.16	62,967.88	70,411.32
"Profit distribution"	978.30	860.24	2,201.22	2,337.01	1,427.57	1,750.12	2,247.24	2,886.30	3,824.59	5,094.47	6,271.30

Sources: Reuters Knowledge, own estimates and calculations

Notes regarding estimates:

Cash at hand and in bank – we kept a cash balance equivalent with the difference between receivables and inventory, on the one hand, and debts to suppliers on the other hand, to which we added an amount equal to 2/12 of the year's payroll expenses. When there was a cash surplus (resulted from equilibrating the balance) we added it as well.

Inventory, Total receivables, Commercial debts – we kept the proportion between the ratio and sales throughout 2010.

Tangible and intangible assets – the amount between gross capital expenditures estimated for each year and depreciation expenses. For the sum of 2011 investments (CAPEX) we used the amount budgeted by the company. For 2012, we supposed that the company will invest the average value from 2007 – 2011. Throughout 2013 – 2017, we supposed that it will invest the minimum amount from 2007 – 2012 and RON 15 billion (split equally over five years) accounting for 50% of the maximum value estimated in August 2011 by Exxon for the investment in the Neptun perimeter. In 2018, we supposed that net investments will be equal to 25% of the depreciation.

Financial expenses; Prepaid expenses, Unearned revenues, Reserves and provisions – moving average of the value from the previous 3 financial years.

Long term debts (>1 year) – we kept the ratio between long term debts and nonfinancial assets from 2010.

Short term debts (<1 year) – used to counterbalance the balance in the case of a financing deficit considering the restriction to keep the total debt/ total asset ratio within the 24% – 26% range throughout 2011 – 2017, 23% in 2018 respectively.

Share capital – we estimated 15% growth in 2013 (required to keep the total debt / total asset ratio within 24% – 26% throughout 2011 - 2017).

Accumulated profit – sum of previous year's value and current year's profit

Profit distribution – technical account equal to the amount of a financial year that was allocated to various uses (capitalization, covering losses, dividends, etc).

Schedule — OMV Petrom SA Financials (1/3)

Profit and Loss Statement

mil. RON, IFRS

	31/12/08	31/12/09	31/12/10	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e
Net Sales	20,127.36	16,089.73	18,615.69	19,000.00	16,894.21	18,161.28	19,069.34	20,976.28	23,073.90	25,381.29	27,919.42
Other operating income	367.03	360.95	487.98	423.59	376.64	404.89	425.14	467.65	514.41	565.86	622.44
Operating income	20,494.39	16,450.68	19,103.67	19,423.59	17,270.85	18,566.17	19,494.48	21,443.93	23,588.32	25,947.15	28,541.86
Cost of Goods Sold	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Taxes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total C.O.G.S.	14,120.84	11,256.27	12,790.98	12,803.91	11,384.84	11,752.05	11,828.66	12,449.43	13,076.07	13,703.55	15,073.90
Gross operating profit	6,373.55	5,194.41	6,312.69	6,619.68	5,886.01	6,814.12	7,665.82	8,994.50	10,512.25	12,243.60	13,467.96
Payroll and admin. expenses	3,684.14	1,719.07	1,202.44	1,257.75	1,301.77	1,338.22	1,371.68	1,410.09	1,452.39	1,495.96	1,540.84
Amortization costs	1,484.49	1,854.87	2,124.74	2,209.81	2,436.23	2,753.10	3,046.70	3,318.74	3,570.80	3,804.35	3,874.20
Other operating expenses	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total operating expenses	5,168.63	3,573.94	3,327.18	3,467.56	3,738.01	4,091.33	4,418.38	4,728.83	5,023.19	5,300.31	5,415.03
Operating profit (EBIT)	1,204.93	1,620.48	2,985.51	3,152.11	2,148.00	2,722.79	3,247.44	4,265.67	5,489.06	6,943.29	8,052.93
Income derived from interests (stakes)	4.02	6.07	6.72	5.60	6.13	6.15	5.96	6.08	6.06	6.03	6.06
Income from other financial inv.	355.11	178.76	367.40	300.42	282.19	316.67	299.76	299.54	305.33	301.54	302.14
Interest income	77.18	94.22	58.28	251.27	172.91	93.63	313.13	221.48	274.57	468.98	888.38
Other financial revenues	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total financial revenue	436.31	279.04	432.40	557.29	461.23	416.46	618.85	527.11	585.96	776.55	1,196.58
Adjustments to investment value	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest expense	243.43	510.23	595.28	691.87	685.56	830.15	962.61	1,130.64	1,295.24	1,427.95	1,557.07
Other financial expenses	268.96	219.87	217.31	235.38	224.18	225.62	228.40	226.07	226.70	227.05	226.61
Total financial expenses	512.39	730.10	812.59	927.25	909.75	1,055.77	1,191.00	1,356.71	1,521.93	1,655.00	1,783.68
Financial result	-76.08	-451.06	-380.19	-369.96	-448.52	-639.32	-572.15	-829.60	-935.98	-878.45	-587.10
Profit before tax (EBT)	1,128.84	1,169.42	2,605.32	2,782.16	1,699.49	2,083.48	2,675.28	3,436.07	4,553.08	6,064.85	7,465.83
Income tax expense	233.28	336.14	415.67	445.15	271.92	333.36	428.05	549.77	728.49	970.38	1,194.53
Accounting changes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Excluded operations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other extraordinary items	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Effect of extr. items on income tax	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Exceptional result (+/-)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Minority interests (+/-)	82.73	26.96	11.57	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Preferred dividends (-/+)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net profit adjustments (+/-)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net pr attributable to ord sh., incl. extra.	978.30	860.24	2,201.22	2,337.01	1,427.57	1,750.12	2,247.24	2,886.30	3,824.59	5,094.47	6,271.30
Net pr attributable to ord sh., ex.-extra.	978.30	860.24	2,201.22	2,337.01	1,427.57	1,750.12	2,247.24	2,886.30	3,824.59	5,094.47	6,271.30
Weighted average no. of shares (undil., mil)	56,644.11	56,644.11	56,644.11	56,644.11	56,644.11	56,644.11	56,644.11	56,644.11	56,644.11	56,644.11	56,644.11
Weighted average no. of shares (diluted, mil)	56,644.11	56,644.11	56,644.11	56,644.11	56,644.11	56,644.11	56,644.11	56,644.11	56,644.11	56,644.11	56,644.11
Gross dividend per share (RON)	0.0191	0.00	0.00	0.0177	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Sources: Reuters Knowledge, own estimates and calculations

Notes regarding estimates:

Sales (S) – for H2/2011, based on previous years' performances we estimated 90% of sales made in H1/2011. In 2012, we estimated sales higher by mere 5% set against 2009, for 2013 vs. 2012 forecasting growth of 7.5% (at half compared to 2010 vs. 2009). In 2014, we anticipated a 1/3 slowdown in the pace of growth shown in the previous year. Throughout 2015 – 2018, we anticipate 10% increase on an annual basis as investments in exploration and production and, partly, in gas and energy are starting to show notable effects.

COGS – for 2011 and 2012 we estimated a COGS/S rate of 67.39% (the arithmetic mean of similar rates in 2008 – 2010 and H1/2011). For the upcoming years, we took into account the press statements made by SNP's management, according to which the weight of refinery and marketing margins would drop to 25% from the current level of 53%. Furthermore, we considered that: the percentage of income derived from the oil-based activity will contract from 84.5% (in 2010) to 70% (in 2017 and 2018), the weight of refining and marketing revenues in total sales will decrease in line with lower assets and the COGS/S ratio of the refining and energy divisions will stay at the level estimated for 2012. Moreover, we monitored the COGS weight in the revenue of some exploration and production companies in the European area with market capitalizations of up to two times lower or higher than 115% * SNP's current capitalization (we estimate the necessity of a capital rise by 15% in 2013) resulting an aggregate value of 25%. Thus, we established that in 2017 and 2018 the COGS/S ratio will stand at 53.99%. Throughout 2013 – 2016, we anticipated a linear decrease thus reaching 2017 values.

Amortization – we kept an average proportion between amortization and non-financial assets throughout 2008-2010.

Payroll and administrative expenses – we forecasted growth equal to the inflation rate posted by the National Bank of Romania and by the Romanian Government for 2011 – 2014, estimating that the inflation rate will subsequently surge from 2.8% in 2015 to 3% in 2016 – 2018.

Other operating income – we kept the average proportion between this ratio and sales throughout 2008-2010.

Interest income – we kept the average of the 2 previous years of the ratio between income and interest in year n and the existing cash at bank and in hand in year n-1.

Interest expenses – we kept the past two years' average of the ratio between interest expenses in year n and the financial debts in year n-1.

Income from interests; income from other financial investments; Other financial expenses – moving average of the past 3 financial years' value.

Income tax – we supposed it will stay at 16% until 2018 (including).

Minority interests – showing a positive effect throughout the past 3 years we considered them nil in the future.

Schedule — OMV Petrom SA Financials (3/3)

Cash Flow Statement

mil. RON, IFRS

	31/12/08	31/12/09	31/12/10	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e
Net Profit	-	860.24	2,201.22	2,337.01	1,427.57	1,750.12	2,247.24	2,886.30	3,824.59	5,094.47	6,271.30
Depreciation	-	1,854.87	2,124.74	2,209.81	2,436.23	2,753.10	3,046.70	3,318.74	3,570.80	3,804.35	3,874.20
Other non-cash items (+/-)	-	-60.41	861.23	-76.89	47.50	-163.51	-168.91	-227.19	-265.50	-309.19	-151.54
Increase in working capital (-/+)	-	-101.21	-200.49	167.40	-44.77	-25.95	32.23	-12.83	-2.19	5.74	-3.09
Operating cash flow	-	2,553.48	4,986.70	4,637.33	3,866.53	4,313.76	5,157.26	5,965.01	7,127.70	8,595.37	9,990.86
Net Capex (incl.intangibles) (-/+)	-	-4,020.50	-4,480.74	-4,944.00	-5,293.00	-6,751.00	-6,751.00	-6,751.00	-6,751.00	-6,751.00	-4,755.44
New financial investments (-/+)	-	316.96	-74.89	-55.73	62.11	-22.83	-5.48	11.27	-5.68	0.03	1.87
Other investment flows (-/+)	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Investment Cash Flow (ICF)	-	-3,703.54	-4,555.63	-4,999.73	-5,230.89	-6,773.83	-6,756.48	-6,739.73	-6,756.68	-6,750.97	-4,753.56
Share Capital Change	-	0.00	0.00	0.00	0.00	2,847.51	0.00	0.00	0.00	0.00	0.00
"Profit distribution" (-/+)	-	-860.24	-2,201.22	-2,337.01	-1,427.57	-1,750.12	-2,247.24	-2,886.30	-3,824.59	-5,094.47	-6,271.30
New debts, net of reimbursement	-	1,181.43	245.16	163.81	840.09	937.65	1,067.48	1,105.76	860.85	856.87	786.83
Other financial flows	-	640.36	2,729.59	2,062.76	1,434.11	1,837.18	2,187.02	2,897.42	3,837.24	5,082.33	6,275.17
Financial Cash Flow	-	961.55	773.53	-110.44	846.63	3,872.21	1,007.26	1,116.89	873.50	844.73	790.71
Foreign Currency Effect (+/-)	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Cash Flow	-	-188.50	1,204.60	-472.84	-517.72	1,412.14	-591.96	342.16	1,244.52	2,689.13	6,028.00
Cash at the beginning of the period	-	572.50	384.00	1,588.60	1,115.76	598.04	2,010.18	1,418.22	1,760.38	3,004.91	5,694.03
Cash at the end of the period	572.50	384.00	1,588.60	1,115.76	598.04	2,010.18	1,418.22	1,760.38	3,004.91	5,694.03	11,722.04

Source: Tradeville calculations based on the Balance Sheet and the Profit and Loss Statement