

Ireland

£0.66

£0.77

PetroNeft

Oil & Gas

Looking beyond initial production

- Mix of 'good and bad' in Operations Update... While significant detail was devoted in the PetroNeft update yesterday to forthcoming drilling activity, the market, not surprisingly, took its cue from the production shortfall, as reflected in the 10% decline in the share price. At face value, a year-end rate of 2,750 bopd, compared to a target of 4,000 bopd, represents a wide margin, but needs to reflect the fact that production only commenced at the end of August. Rationalising the outcome, management pointed to: (i) formation damage, as a result of production drilling last year; and (ii) the fact that two of the planned eleven wells failed to contribute for technical reasons. Had those additional wells been included management estimates that the year-end rate would have exceeded 3,000 bopd and in spite of the production shortfall, guidance for 2011 and 2012 has been maintained. That, along with the pending start of the 'fraccing' programme (from mid-January to early March) provides a degree of confidence, albeit that the lower base entering the year places greater emphasis on a successful 'fraccing' campaign.
- ...leads us to pull-back FY11 production, but maintain NAV... Taking our cue from production entering the year, we have tempered FY11 production from 8.0 kbopd to 7.1 kbopd, but maintained our profile beyond 2011 to reflect the potential to emerge from further exploration activity in Licence 61 and indeed the start of drilling on Licence 67. In total, 20 wells are planned for the coming year in Licence 61 (17 production and 3 exploration), with a further two exploration wells scheduled for the more recently acquired Licence 67. With an additional prospect (North Varyakhskaya), targeting 6 mmbbls net to PetroNeft, added to the 2011 campaign, the adjustment to our Total NAV (76.9p v 78.0 previously) and our revised price target of 77p is at the margin.
- ...amid ample potential catalysts in FY11 Despite the apparent 'teething' issues, associated with production, we see no reason, as yet, to alter our positive view. That takes its cue as much from the ability of management to boost reserves, organically though exploration, and through future acquisitions, as it does from the trend in production, which, to date, is limited. With no apparent shortage of opportunities to enhance reserves amid a five well exploration campaign in 2011, we maintain our Buy recommendation.

			Mkt Can	\$425m
Financial Summa	rv (Sta \$m	1)	Mkt Cap	ψ4Z3III
Year Ending	Dec-09	Dec-10f	Dec-11f	Dec-12f
Sales	0.5	13.6	154.4	297.5
Operating Profit	-3.8	-8.3	43.1	94.7
Goodwill	0.0	0.0	0.0	0.0
Other Income	-0.9	-1.4	0.0	0.0
Associates / JV	0.0	0.0	0.0	0.0
Exceptionals	-1.6	-1.2	0.0	0.0
EBIT	-6.3	-10.9	43.1	94.7
Net Interest	0.2	-0.2	1.2	2.1
PBT	-6.2	-11.0	44.3	96.9
Tax	-0.3	2.0	-8.9	-19.4
Attributable Profit	-6.5	-9.1	35.5	77.5
EBITDAe	-4.5	-2.5	52.7	107.6
Net Debt	-15.7	-26.1	-34.7	-67.9
Per share Analysis (p)				
Adjusted EPS	-1.9	-2.2	8.4	18.3
Operating Cashflow	-1.0	-2.2	13.2	25.5
DPS	0.0	0.0	0.0	0.0
Profitability (%)				
Operating Margin	0.0	-61.2	27.9	31.8
ROAE	-7.7	-8.2	26.9	37.0
Momentum (%)				
Sales	0.0	2574.0	1032.5	92.8
EBITDA	-42.1	-45.6	-2233.4	104.3
Adjusted EPS	-49.6	12.5	-487.1	118.5
Financing	0.0	07.4	05.0	10.0
Debt/Equity (%)	0.0	-37.1	-35.6	-48.0
Interest Cover (x)	0.0	0.0	0.0	0.0
Valuation (x)	,	,	10.0	5.0
P/E	n/m	n/m	12.3	5.6
Dividend Yield (X)	0.0	0.0	0.0	0.0
EV/EBITDA P/NAV	n/m 4.1	n/m 3.8	4.3 3.2	1.8 2.0
Price Performance	4.1	3.0	3.2	2.0
52 Week	-	Tickers		
High 73		Reuters		PTR.L
-		Bloomberg		PTR LN
	(0/)			

Closing Price:

Price Target:

BUY

PetroNeft Vs FTSE AIM Oil & Gas

-6.1

-6.1

Absolute Price Change(%)

QTD

YTD



QTD

YTD

Analyst: **Gerry Hennigan T** +353-1-641-9274

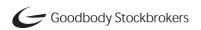
E gerry.f.hennigan@goodbody.ie

6 January 2011

FTSE Oil&Gas Rel. Price Change(%

-9.4

-9.4



PetroNeft - Forecast Changes

Year Ending (Dec)	201	2011			2012		
\$m	Old	New	% Change	Old	New	% Change	
Group Sales	173.3	154.4	-11%	301.2	297.5	-1%	
Operating Costs	-107.5	-96.0	-11%	-186.2	-183.9	-1%	
DD&A	-9.6	-9.6	0%	-12.9	-12.9	0%	
Over/under-lift	0.0	0.0		0.0	0.0		
Administration	-5.7	-5.7	0%	-6.0	-6.0	0%	
Other Income	0.0	0.0		0.0	0.0		
Operating Profit	50.5	43.1	-15%	96.1	94.7	-1%	
Exceptional Gain	0.0	0.0		0.0	0.0		
EBITDA	60.1	52.7	-12%	109.0	107.6	-1%	
Net Interest	1.7	1.2	-30%	2.8	2.1	-24%	
Hedge Loss	0.0	0.0		0.0	0.0		
PBT	52.2	44.3	-15%	99.0	96.9	-2%	
Tax	-10.4	-8.9	-15%	-19.8	-19.4	-2%	
Attributable Profit	41.8	35.5	-15%	79.2	77.5	-2%	
Per share Analysis (p)							
FRS3 EPS	10.1	8.6	-15%	19.2	18.7	-2%	
FD EPS	9.9	8.4	-15%	18.7	18.3	-2%	
Adjusted EPS	9.9	8.4	-15%	18.7	18.3	-2%	

Source: Goodbody Stockbrokers

PetroNeft Price/Forex Assumptions

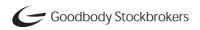
	2010	2011	2012
New Oil Price - (\$/barrel)	79.20	85.00	85.00
Old Oil Price - (\$/barrel)	76.36	80.00	80.00
New \$/£ Exchange Rate	1.54	1.55	1.55
Old \$/£ Exchange Rate	1.52	1.42	1.60

Source: Goodbody Stockbrokers

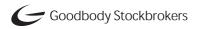
PetroNeft NAV Calculation

	W.I. Reserves	Risk	NAV	NAV/Share	Unrisked	Unrisked
	mmboe	Weighting	\$m	р	\$m	р
Risked Development						
Licence 61						
Lineynoye	23.9	70%	116.2	17.3	166.0	29.1
West Lineynoye	23.3	70%	113.5	16.9	162.1	28.4
Tungolskoye	15.5	70%	75.5	11.2	107.8	18.9
Kondrashevskoye	8.1	70%	39.5	5.9	56.5	9.9
(Licence 61) Total			344.7			
Risked Dev NAV	70.8		344.7	51.2	492.4	86.4
Less Net Debt			26.1	3.9		3.9
Total Core NAV (pence)			370.8	55.1		90.3
		Diek			Unrighted	
Total Core NAV (pence) High Risk Exploration	W.I. Reserves	Risk	Risked	Risked	Unrisked	Unrisked
High Risk Exploration		Risk Weighting			Unrisked \$m	
High Risk Exploration Licence 61	W.I. Reserves mmboe	Weighting	Risked \$m	Risked p	\$m	Unrisked p
High Risk Exploration Licence 61 Upper Jurassic	W.I. Reserves mmboe	Weighting 30%	Risked \$m	Risked p	\$m 355.0	Unrisked p
High Risk Exploration Licence 61	W.I. Reserves mmboe	Weighting 30%	Risked \$m	Risked p	\$m	Unrisked p
High Risk Exploration Licence 61 Upper Jurassic	W.I. Reserves mmboe	Weighting 30%	Risked \$m	Risked p	\$m 355.0	Unrisked p 62.3 24.5
High Risk Exploration Licence 61 Upper Jurassic Cretaceous	W.I. Reserves mmboe	30% 10%	Risked \$m 106.5 14.0	Risked p 15.8 2.1	\$m 355.0 139.7	Unrisked p 62.3 24.5
High Risk Exploration Licence 61 Upper Jurassic Cretaceous Lower - Middle Jurassic	W.I. Reserves mmboe	30% 10%	Risked \$m 106.5 14.0	Risked p 15.8 2.1	\$m 355.0 139.7	Unrisked p 62.3 24.5 8.2
High Risk Exploration Licence 61 Upper Jurassic Cretaceous Lower - Middle Jurassic Licence 67	W.I. Reserves mmboe 74.5 31.2 12.6	30% 10% 10%	Risked \$m 106.5 14.0 4.7	Risked p 15.8 2.1 0.7	\$m 355.0 139.7 46.9	

2



Mkt Cap (\$m) 262.60 **PetroNeft** Mkt Cap (£m) 169.42 Financial Overview (\$m Year Ending Dec-09 Dec10f Dec11f Dec12f Dec13f Dec-08 **Group Sales** 297.5 0.0 0.5 13.6 154.4 390.6 -0.4 -17.0 -105.5 -196.8 -257.1 Cost of Sales 0.0 **Gross Profit** 100.7 0.0 0.1 -3.4 48.8 133.5 Administration Expenses -3.6 -3.9 -5.0 -5.7 -6.0 -6.3 **Exploration Write Off** 0.0 0.0 0.0 0.0 0.0 0.0 **EBITDA** -7.8 -4.5 -2.5 52.7 107.6 143.0 Operating Profit (ex Goodwil -3.6 -3.8 -8.3 43.1 94.7 127.2 Goodwill Write-off 0.0 0.0 0.0 0.0 0.0 0.0 -4.2 -0.9 0.0 Other Income -1.4 0.0 0.0 Associates / Joint Ventures 0.0 0.0 0.0 0.0 0.0 0.0 Exceptional Gain / (Loss) 0.0 -1.6 -1.2 0.0 0.0 0.0 **EBIT** -10.9 43.1 94.7 127.2 -7.8 -6.3 0.1 0.2 2.1 Interest Income / (Expense) -0.2 1.2 4.3 131.5 PBT -7.7 -6.2 -11.0 44.3 96.9 Tax -0.2 -0.3 2.0 -8.9 -19.4 -26.3 Minorities 0.0 0.0 0.0 0.0 0.0 0.0 Preference Dividends 0.0 0.0 0.0 0.0 0.0 0.0 77.5 105.2 **Attributable Profit** -7.9 -6.5 -9.1 35.5 -2.2 -15.7 -26.1 Net Debt (Cash) -34.7-67.9-130.8 Shareholders' Funds 45.0 64.2 96.6 132.0 209.5 314.7 Enterprise Value 260.4 246.9 236.5 227.9 194.7 131.8 355.6 Weighted Av Shares (basic) 207.5 255.7 413.5 413.5 413.5 255.7 Weighted Av Shares (fully dil.) 207.5 365.6 423.5 423.5 423.5 Year end Shares 207.5 255.7 355.6 413.5 413.5 413.5 Per share Analysis (c) 25.4 FRS3 EPS -3.8 -2.5 -2.5 8.6 18.7 FD EPS -3.8 -2.5 -2.5 8.4 18.3 24.8 **Adjusted EPS** -3.8 -1.9 -2.2 8.4 18.3 24.8 DPS 0.0 0.0 0.0 0.0 0.0 0.0 Dividend Cover (x) n/a n/a n/a n/a n/a n/a **Operating Cashflow** 13.2 25.5 -1.7 -1.0 -2.4 34.6 Free Cashflow -9.3 -11.0 -4.9 2.1 8.0 15.2 NAV 21.7 25.1 27.2 31.9 50.7 76.1 **Profitability EBITDA Margin** -18.1% n/m n/m 34.1% 36.2% 36.6% -79.9% 31.8% **EBIT Margin** n/m n/m 27.9% 32.6% Effective Tax Rate -2.7% -5.2% 17.9% 20.0% 20.0% 20.0% Momentum Sales n/m n/m 1032.5% 92.8% 31.3% n/m **EBITDA** n/m n/m n/m -2233.4% 104.3% 32.9% Adjusted EPS n/m n/m n/m n/m 118.5% 35.8% DPS n/a n/a n/a n/a n/a n/a Financing Debt/Equity (%) -5.1% -32.4% -37.1% -35.6% -48.0% -71.1% -15.5 -50.2 -33.2 Interest Cover (x) 61.0 29.7 -43.7Valuation (x) £r 66 P/E -26.9 -53.4 -47.5 12.3 5.6 4.1 P/OpCF -61.2 -107.0 -43.1 7.8 4.0 3.0 Dividend Yield (%) 0.0 0.0 0.0 0.0 0.0 0.0 EV/Sales 484.3 17.3 1.5 0.7 0.3 n/m **EV/EBITDA** -33.2 -54.4 -95.8 4.3 1.8 0.9 EV/EBIT -33.2 -39.2-21.75.3 2.1 1.0 P/Book 3.2 4.7 3.8 2.0 4.1 1.3



PetroNeft

Balance Sheet (\$m)						
As at	Dec-08	Dec-09	Dec-10f	Dec-11f	Dec-12f	Dec-13f
Tangible Assets	25.6	28.9	52.3	80.9	122.2	165.8
Intangible Assets	18.7	18.2	15.8	15.8	16.6	15.4
Goodwill	0	0	0	0	0	0
Financial Assets	0	0	0	0	0	0
Fixed Assets	44.5	47.3	68.2	96.8	139.0	181.4
Debtors	3.1	4.9	0.8	10.6	24.5	32.1
Stock	0.0	0.0	4.2	4.2	4.2	4.2
Creditors	-3.9	-2.7	-1.1	-12.7	-24.5	-32.1
Non-Cash Working Capita	-0.8	2.2	3.8	2.1	4.2	4.2
Other Liabilities	8.0	1.1	1.6	1.6	1.6	1.6
Net Debt	-2.2	-15.7	-26.1	-34.7	-67.9	-130.8
Preference Shares	0.0	0.0	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' Funds	45.0	64.2	96.6	132.0	209.5	314.7
Total	43.7	49.6	72.0	98.9	143.2	185.6

Cashflow Statement (\$m)							
Year End	Dec-08	Dec-09	Dec-10f	Dec-11f	Dec-12f	Dec-13f	
Operating Profit	-7.8	-4.8	-9.7	43.1	94.7	127.2	
DD&A	0.2	0.2	7.4	9.6	12.9	15.8	
Chg in Working Capital	3.4	1.6	-7.5	1.7	-2.1	0.0	
Other	0.7	0.5	2.2	0.0	0.0	0.0	
Operating Cashflow	-3.5	-2.5	-7.7	54.4	105.5	143.0	
Net Interest Payable	0.1	0.2	-0.1	1.2	2.1	4.3	
Dividends Received	0.0	0.0	0.0	0.0	0.0	0.0	
Dividends Paid	0.0	0.0	0.0	0.0	0.0	0.0	
Taxation	0.0	0.0	2.0	-8.9	-19.4	-26.3	
Net Capex	-22.8	-10.3	-26.6	-38.2	-55.0	-58.2	
Other	3.3	0.0	0.0	0.0	0.0	0.0	
Free Cashflow	-22.8	-12.6	-32.4	8.6	33.2	62.8	
Acquisitions/Dev Capex	0.0	0.0	0.0	0.0	0.0	0.0	
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	
Issue / Buyback of Shares	17.5	25.9	42.8	0.0	0.0	0.0	
Currency Translation	0.0	0.0	0.0	0.0	0.0	0.0	
Other	-0.8	0.3	0.0	0.0	0.0	0.0	
(Inc)/Dec in Net Debt	-6.1	13.6	10.4	8.6	33.2	62.8	

Petroneft - Schedule of Exploration Activity

Licence	Well	Target 2P Reserves (mmbbls-net to PTR)	Timing (all 2011)
61	Kondrashevskoye No. 2	12	Spud late Q1, result early/mid Q2
61	North Varyakhskaya No. 1	6	Spud early/mid Q2, result late Q2
61	Sibkrayevskaya No. 373	44	Spud late Q2, result early Q3
67	Cheremshanskaya No. 3 Ledovaya No.11 (to prove Lower	30	Spud mid Q3, result late Q3/early Q4
67	Cretaceous reserves)	15	Spud early Q4, result Q4

Source: Petroneft

ISSUER & ANALYST DISCLOSURES

Analyst Certification

The named Research Analyst certifies that: (1) All of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities and issuers. (2) No part of my remuneration was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this report.

Regulatory Information

Goodbody Stockbrokers is the stockbroking arm of the AIB Group. Goodbody Stockbrokers is regulated by the Central Bank of Ireland and is a member firm of the Irish Stock Exchange and the London Stock Exchange. This publication has been approved by Goodbody Stockbrokers. The information has been taken from sources we believe to be reliable, we do not guarantee their accuracy or completeness and any such information may be incomplete or condensed. All opinions and estimates constitute best judgement at the time of publication and are subject to change without notice. The information, tools and material presented in this document are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities.

Conflicts of Interest

Goodbody Stockbrokers has procedures and policies in place to identify and manage any potential conflicts of interest that arise in connection with its research business. Goodbody Stockbrokers' analysts and other staff who are involved in the preparation and dissemination of research operate and have a management reporting line that is independent to its Corporate Finance business. Information barriers are in place between the Corporate Finance arm and the Research arm to ensure that any confidential and or price sensitive information is handled in an appropriate manner.

Our Investment Research Conflicts of Interest Policy is available at http://www.goodbody.ie/research_disclosures/conflictsofinterest

Investors should be aware, that, where appropriate, research may be disclosed to the issuer(s) in advance of publication in order to correct factual inaccuracies only and not to materially amend the research in any way. Goodbody Stockbrokers is satisfied that it has operational procedures in place, which ensure that such disclosures will not compromise the report's objectivity.

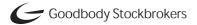
Goodbody Stockbrokers and its associated companies may from time to time perform investment banking or corporate finance services, including underwriting, managing or advising on a public offering for, or solicit business from any company recommended in this report.

Goodbody Stockbrokers may have acted, in the past 12 months, as lead manager / co-lead manager in the securities of any company named in this report.

Goodbody Stockbrokers acts as corporate broker to Aer Lingus, Allied Irish Banks, Datalex, Diageo, DCC, FBD Holdings, First Derivatives, Grafton Group, Greencore, Independent News & Media, Kingspan, Merrion Pharmaceuticals, Norkom, NTR, Origin Enterprises, Prime Active Capital, Paddy Power, Real Estate Opportunities, United Drug and UTV Media

Goodbody Stockbrokers is a registered market maker in the majority of companies listed on the Irish Stock Exchange and their equivalent on the London Stock Exchange and may hold positions in any of the companies mentioned in this report from time to time. A complete list of the companies that Goodbody Stockbrokers makes a market in is available at http://www.goodbody.ie/research_disclosures/regulatorydisclosures

We would like to inform you that the PetroNeft Analyst holds shares in PetroNeft



Other disclosures

A description of this company is available at www.goodbody.ie/research

All prices used in this report are as at close of business of the previous working day unless otherwise indicated.

A summary of our standard valuation methods are available at http://www.goodbody.ie/research disclosures/valuationmethodologies

A summary of share price recommendations and whether material investment banking services have been provided to these companies is available at http://www.goodbody.ie/research disclosures/regulatorydisclosures

Other important disclosures are available at http://www.goodbody.ie/research_disclosures/regulatorydisclosures

Goodbody Stockbrokers updates its recommendations on a regular basis. A breakdown of all recommendations provided by Goodbody Stockbrokers is available at http://www.goodbody.ie/research_disclosures/regulatorydisclosures. Where Goodbody Stockbrokers has provided investment banking services to an issuer, details of the proportion of buys, adds, reduces and sells attributed to that issuer will also be included. This is updated on a quarterly basis.

Recommendation Definitions

Goodbody Stockbrokers uses the terms "buy", "add", "reduce" and "sell". The term "buy" means that the analyst expects the security to appreciate in excess of 15% over a twelve month period. The term "add" means that the analyst expects the security to appreciate by up to 15% over a twelve month period. The term "reduce" means that the analyst expects the security to decline by up to 15% over the next twelve months. The term "sell" means that the security is expected to decline in excess of 15% over the next twelve months. In the event that a stock is delisted, the firm will automatically cease coverage. If, however, the firm ceases to cover a stock for any other reason, the firm will disclose this fact.

For US Persons Only

This publication is only intended for use in the United States by Major Institutional Investors. A Major Institutional Investor is defined under Rule 15a-6 of the Securities Exchange Act 1934 as amended and interpreted by the SEC from time-to-time as having total assets in its own account or under management in excess of \$100 million.

Disclaimer

While all reasonable care has been taken in the production and dissemination of this report it is not to be relied upon in substitution for the exercise of independent judgement. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you.

Private customers having access, should not act upon it in anyway but should consult with their independent professional advisors. The price, value and income of certain investments may rise or may be subject to sudden and large falls in value. You may not recover the total amount originally invested. Past performance should not be taken as an indication or guarantee of future performance; neither should simulated performance. The value of securities may be subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities.

All material presented in this report, unless specifically indicated otherwise is copyright to Goodbody Stockbrokers. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of Goodbody Stockbrokers.