

# Rosneft 2012 Net Profit Up 7%, While Cash Flow Halved

By [The Moscow Times](#)

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Rosneft came in slightly below forecasts Friday with a 7 percent increase in 2012 net profit, while free cash flow was reduced by half ahead of its \$55 billion takeover of TNK-BP.

That news sent shares in the country's top oil producer lower.

Rosneft's shares fell 2.2 percent to lag behind a 0.1 percent increase in the Moscow market, as the oil firm joined Gazprom in delivering weak cash-flow numbers, which are symptomatic of heavy investment.

"The results were bad," UralSib energy analyst Alexei Kokin said. "I'm surprised. Everything that could have missed expectations did miss expectations."

Rosneft also announced several deals to supply customers in Europe directly via the Druzhba pipeline, as it aims to reduce the influence of traders and cut costs.

Rising costs have prompted chief executive Igor Sechin, a close ally of President Vladimir Putin, to seek more control over trading operations by removing intermediaries.

Rosneft said it had inked several deals to supply European customers such as Total and Shell directly via the Druzhba inland pipeline. Rosneft expects to negotiate a similar deal with Eni.

Trading sources say that after taking the helm at Rosneft in May, Sechin ordered a purge of the trading department and began revamping sales of oil and products to boost operational efficiency.

"It is a political move just to show that we [Rosneft] have direct contracts at no-matter-what price," one trader said.

Rosneft reported a 54.5 percent drop in free cash flow to 45 billion rubles (\$1.5 billion) in 2012, although its forthcoming takeover of cash-generative TNK-BP will bolster its ability to repay \$30 billion in loans to pay for Russia's largest takeover.

The deal to buy TNK-BP from BP and the AAR consortium of billionaires is expected to close in the first half of the year.

Rosneft's 2012 net income increased to 342 billion rubles (\$11.4 billion) thanks to a boost in production and oil prices, but the company missed analyst's forecasts.

Analysts polled by Reuters expected full-year net income of 347 billion rubles.

Revenues increased 13 percent to 3.1 trillion rubles, the company said in a statement, which was in line with expectations. Capital expenditure rose almost 20 percent to 466 billion rubles.

Last year, Brent crude hit a record average price of \$112 per barrel. But some global majors reported a decline in core earnings because oil has become harder to find and more expensive to extract.

Rosneft's EBITDA in 2012 fell 8 percent to 609 billion rubles but topped a Reuters forecast of 596 billion rubles.

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