ATON CAPITAL GROUP

UPDATE

Tuesday 30 October 2001

Sibneft

Downgraded to Speculative Buy

Confirming our hopes expressed in today's Morning Focus, Sibneft announced this morning that on 12 November the BoD will consider paying an interim dividend of $330mn - $370mn to shareholders of record as of 2 November 2001. This would amount to $0.07 - $0.08 a share, or a 10% - 12% yield on today's share price of $0.69 (based on 4,714mn shares outstanding).

If approved, the interim dividend will raise the total amount of dividends paid to shareholders this year to close to $1bn. Of that amount, approximately $120mn went to minority investors. If the best proof of corporate governance is sharing profits with minority shareholders, Sibneft must thus rank as one of the top companies in Russia.

Sibneft has also provided investors with the highest total return among major Russian stocks this year. Assuming a total dividend payment of $0.20 per share ($0.13 paid already and $0.07 under consideration), Sibneft has delivered a total return of 218% year-to-date versus a 40% gain for the RTS Index and a 122% return for Yukos, the second-best performing oil stock.

At the same time, the recent insider sale of treasury shares has resurrected Sibneft's troublesome reputation for intransparency and self-dealing. Sibneft remains in effect a private company. While in terms of operating performance it remains an exciting stock, its core owners' unpredictability has become a severe liability. Indeed, we expect the shares to go out of favor with institutional investors for the foreseeable future, as they vote with their feet in response to recent events.

However, it would be wrong to forget Sibneft's investment story, which originally prompted us to recommend it in April 2001. Fundamentally, Sibneft remains the best Russian oil company due to its high quality of assets, strong growth outlook (production growth is estimated at 20% in 2001 and 25% in 2002) and high exposure to the domestic market, which helps insulate the company from weaker global oil prices.

Sibneft also remains a potential strategic acquisition target (although we now believe that Yukos represents a more logical partner than Surgutneftegaz). If such a transaction were to occur, we would expect it to take place at $4bn - $5bn range, which would imply a value of $0.85 - $1.06 a share, ie a 20% - 50% premium to recent price levels.

At the end of the day minority investors may well emerge unscathed from the current confusion. Core shareholders already own 88% - 90% of Sibneft and have no need to compromise with minorities, yet the company is supporting its share price through active intervention now and is mulling a handsome dividend payment. Nevertheless, we cannot in good conscience recommend Sibneft shares for fundamental purchase when material events remain nearly impossible to understand.

We recognize that many institutional investors may abandon the stock, disappointed by recent corporate events. More speculative investors may ultimately realize good returns on their Sibneft shares as our valuation work indicates per share value of $1.20 - $1.40. The question is whether or not specific events will occur (sale of the company, continued high dividend payouts, etc) to allow investors to realize that value and/or to serve as a share price catalyst. Based on these considerations, we are changing our recommendation on Sibneft from Buy to Speculative Buy.

Steven Dashevsky, CFA
steven@aton.ru

Telephone:	**(7 095) 777 88 77**
New-York line:	**(212) 803 0107**
Fax:	**(7 095) 777 88 76**
E-mail:	**atonres@aton.ru**

Aton Capital Group

27 Pokrovka Street, Bldg. 6
Moscow, Russia 103062

7 (095) 777-8877
7 (095) 777-8876, fax

www.aton.ru
aton@aton.ru

ATON <GO> (Bloomberg)

Aton Securities, Inc.

12 East 41st St., Suite 700
New York, NY 10017
(212) 481-5240/70
(212) 481-5427, fax

Sales
Bobby Lowe
robert_lowe@aton.ru

NASD/SIPC member

Trading
saltrad@aton.ru
7 (095) 777-8872

International Sales
istrd@aton.ru
7 (095) 777-8845

Nick Betsky
Ryan Dodd
Kevin Dougherty
Richard Stevenson

Domestic Sales
sales@aton.ru
7 (095) 777-8873

Albert Gavrikov, Department Head
Alexei Kaminski
Konstantin Khaydukow
Denis Piskunov
Alexei Primak
Valery Tolkachev

Research
atonres@aton.ru

Jim Nail, Department Head

Economics
Peter Westin
westin@aton.ru
7 (095) 777-8877, x3117

Telecoms/Technology
Nadezhda Goloubeva, CFA
nadia@aton.ru
7 (095) 777-8834

Oil/Gas
Steven Dashevsky, CFA
steven@aton.ru
7 (095) 777-8832

Industrials/Transport
Brian Chipman
chipman@aton.ru
7 (095) 777-8837

Helen Sakhnova
sakhnova@aton.ru
7 (095) 777-8835

Utilities
Derek Weaving
weaving@aton.ru
44 (0) 207 655-0890
7 (095) 777-8836

Yana Dlugy
dlugy@aton.ru
7 (095) 777-8838

Editor
Vadim Kotikov
kotikov@aton.ru
7 (095) 777-8877, x3121