

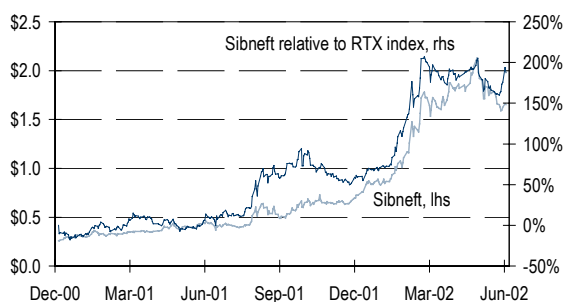
Sibneft [Strong Buy] – Strong 2001 US GAAP resultsOrdinary/ADR price: **\$1.65/\$16.5**, price target **\$2.4/\$24**, implied upside **45%**

Company snapshot, \$ m (US GAAP)

	Revenues	EBITDA	Operating profit	Net profit	P/S	EV/S	EV/EBITDA	P/E	EPS	CEPS
2000	2,398	1,027	727	675	3.26	3.42	8.0	11.6	0.14	0.18
2001	3,576	1,719	1,405	1,305	2.19	2.39	5.0	6.0	0.28	0.35
% chg. y-o-y	49%	67%	93%	93%					93%	92%
2002E	3,797	1,733	1,260	1,058	2.06	2.26	5.0	7.4	0.22	0.32
2003E	4,596	2,232	1,739	1,443	1.70	1.81	3.7	5.4	0.31	0.41

Source: Company data; Brunswick UBS Warburg estimates

- Yesterday Sibneft released preliminary US GAAP results for 2001. Net profit was 15% above our expectations and 20% above consensus, while revenues were 5% above our forecasts and EBITDA 3% below. The strong numbers were primarily driven by the low effective tax rate and better than expected contribution from Sibneft's minority stake in Onako. Given that our projections were at the top of the consensus range, we are highly encouraged that the company is living up to demanding expectations. The full version of the accounts is to be published tomorrow.
- Revenues rose 49% year-on-year to \$3,576 m, while operating profit came in at \$1,405 m, mainly due to the company's robust production growth and tight control over operating costs—Sibneft produced 408,000 bbl/d in 2001, up 20% year-on-year, while direct production costs fell from \$1.75/bbl in 2000 to \$1.70/bbl. Sibneft's production costs are thus among the most competitive in the world and we believe the full financials will reveal our cost assumptions are conservative.
- Sibneft also announced that together with TNK and two other unnamed parties it had purchased 25% of a trust that controls an unspecified stake in Slavneft and its subsidiaries for \$76 m. Separately, TNK has stated that its affiliates own roughly 12% of Slavneft along with minority stakes in Slavneft's subsidiaries. Sibneft claimed its share in this trust may rise, and we believe the development bodes well for increased cooperation with TNK, possibly involving not only Onako but also Slavneft.
- We reiterate our **Strong Buy** rating and price target of \$2.4, based on a target 2004E EV/DACF of 5.0. In anticipation of the full financials tomorrow, we place our earnings forecasts under review.



Ordinary share price:	\$1.65 (\$0.37–\$2.13)
No. of shares:	\$4,714 m
% of preferred:	0%
ADR ratio:	1:10
Market Cap:	\$7,823 m
Freefloat:	13%

Paul Collison
+7 (501) 258 5244
Paul.Collison@ubsw.com

Andrei Matchanskis
+7 (501) 725 4100
Andrei.Matchanskis@ubsw.com

US GAAP operating results exceed our expectations

Revenues were 5% above our expectations and 6% above consensus, while operating profit was 1% above our expectations and 4% above consensus. Sibneft increased exports to 34.7% of output on average, while exports made up 54% of total revenues. EBITDA was 3% below our expectation, and 6% above consensus, as our depreciation charge of \$370 m was ahead of the actual figure of \$314 m; however, this was compensated for by higher SG&A costs, and net profit was 15% above our expectations and 20% above consensus.

Sibneft financials, \$ m (US GAAP)

	2001	2001E	Difference, %	Consensus	Difference, %
Revenues	3,576.0	3,392.5	5%	3,388.0	6%
EBITDA	1,719.0	1,765.9	-3%	1,629.0	6%
Operating profit	1,405.2	1,395.8	1%	1,356.0	4%
Net profit	1,305.0	1,134.2	15%	1,090.3	20%

Source: Company data; Brunswick UBS Warburg estimates

Sibneft financials, \$ m (US GAAP)

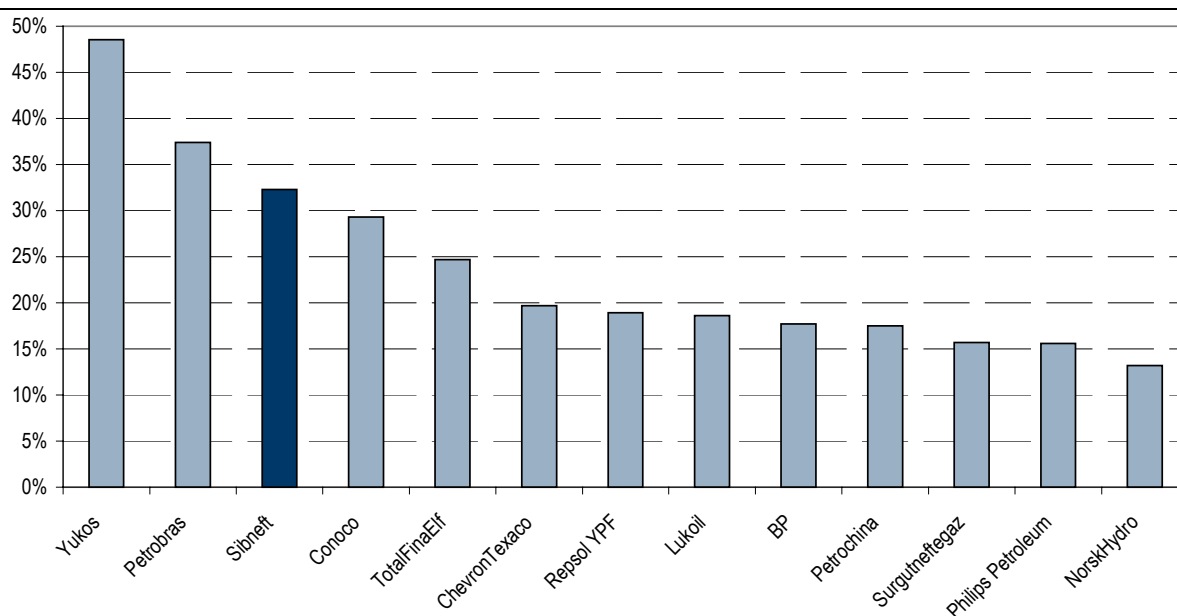
	2000	2001	% chg y-o-y	2002E (under review)	2003E (under review)
Revenues	2,398	3,576	49%	3,797	4,596
EBITDA	1,027	1,719	67%	1,733	2,232
Operating profit	727	1,405	93%	1,260	1,739
Pretax profit	753	1,439	91%	1,298	1,771
Net profit	675	1,305	93%	1,058	1,443
<i>EBITDA margin</i>	43%	48%		46%	49%
<i>Operating margin</i>	30%	39%		33%	38%
<i>Net margin</i>	28%	37%		28%	31%
<i>Effective tax rate</i>	10%	9%		19%	19%

Source: Company data; Brunswick UBS Warburg estimates

Sibneft is exceeding its ROE targets

The US GAAP accounts reveal that Sibneft's ROE was a healthy 32%, putting it second in Russia on this measure. Management reiterated that it would only invest in projects that are projected to earn an ROE of at least 20%, with the excess returned to shareholders as dividends.

ROE comparison



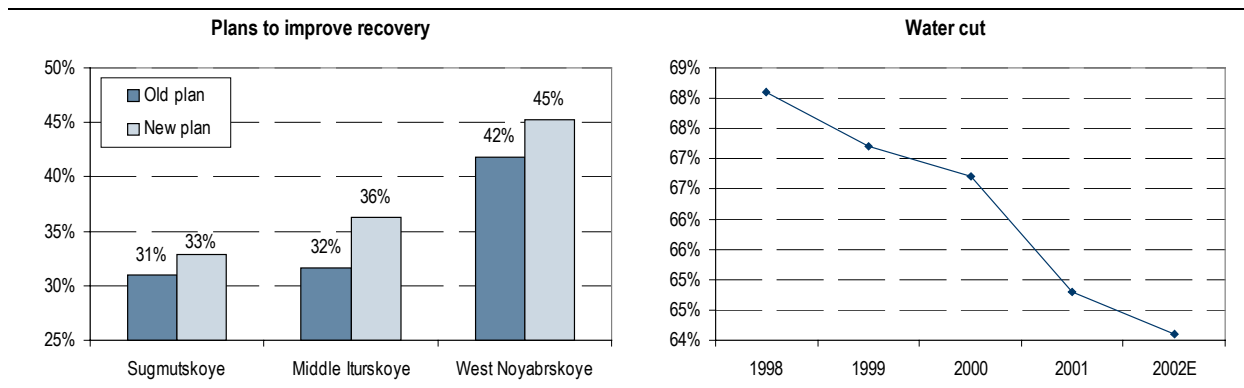
Source: Company data; UBS Warburg; Brunswick UBS Warburg estimates

Recovery rates are expected to increase

Management outlined upstream development plans for the company's reserve base out as far as 2020. As highlighted in our Sibneft report of June 19, we believe the company's organic production growth is set to remain strong as recovery rates rise. In fact, the production plan for 2002–06, which envisages output hitting 830,000 bbl/d, is based on a conservative 29% recovery rate. We believe the company's accelerating projected recovery rates, rising to 40% out towards 2020, are entirely credible. Given the major technological advances in the oil industry in the past 20 years, particularly in the area of seismic surveys and hydrodynamic simulations, we believe these recovery rates could even tend to err on the conservative side.

For example, North Sea producers are beginning to experience recovery rates approaching 60%, and sometimes 70%. In Alaska's Prudhoe Bay, initial recovery factors 20 years ago of 30% are now being pushed up to nearly twice those levels. We believe the market is only beginning to understand the magnitude of the impact on improved efficiency and productivity gains at Sibneft of contemporary foreign and local technology, outsourcing and a tight focus on costs. Moreover, we believe this process is only just starting to become visible in the company's financial and operational results, as a number of upstream plans are only to be launched in several months' time. Sibneft stated that it hopes to leapfrog a 15-year technology gap in the space of roughly three years, which we find credible given the reorientation of the company's upstream operations. The company has also revised its projected recovery factors and reserve estimates to reflect the ongoing reorientation of its reservoir management and field development program.

The benefits of advanced technologies



Source: Company data

Refining and downstream developments—the Moscow Refinery

As reported on June 21, the Moscow Refinery has halted throughput of Sibneft crude for July. Sibneft holds a 36% stake in the refinery and has been using its capacity pro-rata. We do not believe a one-month delay is critical at this juncture, but should Sibneft be unable to resolve the situation over the longer term it could cast doubt on whether it would be able to realize the full potential of its investment.

On the other hand, if Sibneft is successful in integrating its ownership stake in the Moscow Refinery, together with plans to develop its retail network in the lucrative Moscow market, we believe its \$254 m investment in these downstream assets on a standalone basis could be very attractive, let alone in conjunction with economics of integrated well-head production to final product sales.

Notwithstanding the ongoing dispute, we believe Sibneft's investment in the Moscow Refinery pales in comparison to the \$2 bn that Surgutneftegaz [\$0.381, **Hold**, PT 0.45] and state-owned Rosneft plan to spend on a greenfield refinery in the Leningrad region. In our view investments of this magnitude require extremely close analyst scrutiny to assess the possible shareholder value it may add.

Risks

In addition to the above concerns about the Moscow refinery, we believe investing in Sibneft is subject to the following risks: global and domestic oil prices, a short corporate governance track record, execution risk on its production growth and distribution plans, and whether it will find investment projects that meet its 20% hurdle rate.

UBS AG, acting through its business group UBS Warburg, acted as placement agent in connection with the placement of approximately 1.26% of Sibneft shares to institutional investors outside the US completed on May 21, 2002.

UBS Warburg LLC and/or one of its affiliates makes a market in the securities and/or ADRs of this company.

International valuation comparison

	Price 25-Jun	Curr.	M. Cap, \$ bn	EV/DACF					P/CEPS				P/E			
				01E	02E	03E	04E	05E	02E	03E	04E	05E	02E	03E	04E	05E
BP	546	GBP	177.0	12.3	10.5	10.4	10.3	9.9	9.1	8.5	8.6	8.3	19.5	17.2	17.3	16.4
ExxonMobil	39.6	USD	263.3	11.2	12.3	11.1	10.9	10.6	12.3	11.0	10.9	10.5	20.9	17.6	17.5	16.9
Royal Dutch	54.9	EUR	111.3	10.5	10.2	9.5	9.6	9.5	9.5	9.0	9.0	8.8	18.9	16.9	17.2	17.1
Shell	485	GBP	70.2	10.5	9.7	9.1	9.1	9.1	8.6	8.2	8.1	8.0	17.2	15.4	15.7	15.5
TotalFinaElf	156	EUR	101.7	9.6	8.9	8.3	8.2	8.2	8.4	7.8	7.6	7.5	16.4	15.5	15.9	15.9
ChevronTexaco	85.8	USD	91.0	9.6	9.6	9.0	9.1	9.1	8.6	8.0	8.1	8.0	18.9	17.2	17.3	16.5
Conoco	26.4	USD	16.5	6.9	7.2	6.3	6.1	5.7	4.7	4.1	4.1	3.9	14.6	11.3	11.5	10.7
Eni	15.9	EUR	57.6	6.2	7.4	7.0	6.9	6.4	6.7	6.0	5.9	5.6	13.1	11.0	11.3	10.6
Repsol YPF	11.7	EUR	12.8	7.2	5.6	5.6	5.2	5.2	3.3	3.4	3.3	3.2	10.6	8.0	7.3	7.3
Phillips	56.4	USD	21.8	6.0	8.0	7.0	6.9	6.8	5.7	4.9	4.9	4.8	18.8	11.8	11.7	11.4
Norsk Hydro	366	NKR	10.7	6.3	5.0	5.1	4.7	4.2	3.6	3.5	3.3	3.1	10.4	9.2	8.3	7.1
Amerada Hess	79.6	USD	7.0	5.0	5.0	5.2	4.9	4.8	3.2	3.4	3.2	3.2	11.2	12.2	13.7	13.1
Occidental	29.9	USD	8.5	4.9	5.4	5.4	5.2	5.0	3.7	3.7	3.6	3.4	10.1	10.2	10.5	9.5
Murphy	84.6	USD	3.8	5.8	6.8	5.7	5.3	5.0	6.1	5.0	4.5	4.3	23.4	17.0	15.2	14.1
Imperial Oil	46.0	CAD	10.9	7.7	10.8	9.2	9.6	8.4	10.5	8.9	9.2	7.9	16.7	13.9	15.6	13.3
Petro-Canada	42.7	CAD	7.2	6.2	6.2	5.9	5.9	5.7	5.2	4.6	4.9	4.7	13.3	13.3	14.5	13.8
Shell Canada	56.0	CAD	9.9	7.4	15.7	10.0	9.0	8.5	14.7	9.6	9.1	8.9	24.9	16.7	15.8	14.9
Suncor	27.0	CAD	7.7	18.6	10.8	8.4	8.1	6.8	8.8	6.8	6.9	6.1	17.4	13.2	13.8	12.0
CEPSA	17.2	EUR	4.5	5.9	8.8	6.8	6.2	6.0	8.1	6.2	5.7	5.7	14.2	10.1	9.5	9.3
OMV	101	EUR	2.5	3.4	3.9	3.6	3.6	3.6	2.9	2.6	2.5	2.5	9.8	7.5	7.5	7.6
MOL	4,765	HUF	1.8	7.8	5.1	4.4	4.0	3.7	4.4	3.4	3.1	2.6	0.0	6.1	5.4	5.2
Global integrated average				9.2	9.4	8.7	8.6	8.4	9.3	8.5	8.5	6.7	18.3	16.0	16.1	15.5
Emerging markets																
Perez Companc	1.99	ARS	1.1	7.3	7.7	7.3	6.5	6.4	2.2	1.9	1.5	1.4	neg.	2.5	4.0	3.3
Petrobras	45.7	BRL	17.6	4.7	4.3	3.5	3.5	3.2	4.1	3.1	2.9	2.6	5.4	3.8	3.7	3.3
Petrochina	1.62	HKD	36.5	3.9x	4.7	5.0	5.2	5.2	3.9	4.0	4.2	4.2	8.5	9.8	11.5	11.7
Sasol	10,842	ZAR	6.3	7.7	5.0	4.5	4.3	3.8	4.8	4.8	4.9	4.7	6.4	6.3	6.6	6.3
Sinopec Corp	1.39	HKD	15.5	5.1	5.7	5.0	4.6	4.1	3.5	3.1	2.9	2.7	14.2	9.6	8.3	0.2
CNOOC	10.5	HKD	11.0	5.2	6.1	6.3	5.6	4.6	6.6	6.9	6.3	5.6	10.4	11.4	10.9	9.8
PTT E&P	120	THB	1.9	5.9	6.2	6.7	5.7	5.1	6.9	7.8	7.8	8.0	8.6	10.0	9.8	9.5
Tupras	6,600	TRL	1.4	15.4	5.9	4.6	5.2	4.8	4.6	3.6	4.1	3.7	n/m	6.3	7.5	6.2
GEM universe				7.3	5.7	5.4	5.1	4.7	4.6	4.4	4.4	4.1	8.9	7.5	7.8	6.3
Russia, US GAAP																
Lukoil	15.8	USD	13.4	3.4	5.4	4.2	3.9	3.4	5.1	4.0	3.9	3.3	8.2	6.0	5.8	4.8
Surgutneftegaz	0.38	USD	10.4	1.7	3.2	2.7	2.3	1.8	4.7	4.2	4.2	3.7	7.1	6.3	6.3	5.4
Sibneft	1.66	USD	7.9	1.8	5.4	4.2	3.5	2.7	5.1	4.1	3.5	2.9	7.4	5.5	4.8	3.9
Tatneft	0.65	USD	1.5	3.3	2.8	2.0	1.9	2.1	2.3	1.9	2.0	2.3	3.8	2.7	3.0	3.7
Yukos	8.80	USD	19.7	1.2	4.6	3.8	3.2	2.4	5.6	5.0	4.8	3.9	6.9	6.2	5.9	4.7
Russian average				2.3	4.3	3.4	3.0	2.5	4.6	3.8	3.7	3.2	6.7	5.3	5.2	4.5
Sibneft premium/(discount) to emerging market average				-76%	-6%	-21%	-31%	-41%	12%	-7%	-19%	-29%	-17%	-27%	-39%	-39%
Sibneft premium/(discount) to integrated average				-81%	-43%	-52%	-59%	-68%	-45%	-52%	-58%	-57%	-59%	-66%	-70%	-75%

Source: UBS Warburg; Brunswick UBS Warburg estimates

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