SIBNEFT

URALSIB FINANCIAL CORPORATION

A GOOD PERFORMANCE

1H05 US GAAP RESULTS

SPEC BUY

Net Income Exceeds Expectations. Sibneft reported better than expected 1H05 US GAAP results yesterday. Sales rose by 43% YoY to $5.7 bln (almost in line with our estimates), EBITDA increased by 29% YoY to $1.9 bln (only somewhat lower than our expectations) and net income increased by 44% YoY to $1.4 bln, surpassing our estimates by 6%.

Fundamentally Sound, Gazprom = Opportunity, Or Risk – Spec Buy. The strong 1H05 results confirm our positive view on the company, and reafirm our view that fundamentally the stock is undervalued. Despite of our hopes that Gazprom ownership will not impair the fundamental value of the company, and may even result in a Western strategic investors, we are aware that Gazprom as an owner may deter investors and consequently we maintain our Speculative buy recommendation.

STEADY OPERATIONAL ACHIEVEMENTS

Output, Throughput Flat, YoY. Crude and refined product output posted essentially flat YoY at 16.6 mln tons and 8.7 mln tons, respectively.

Crude Export Volumes Rise. Crude export volumes rose 12% YoY to 7.3 mln tons and refined products export volumes rose 14% YoY to 3 mln tons.

REVENUES UP ON HIGHER EXPORTS …

Better Prices In 2005. Higher international crude oil prices contributed to the company's 43% top line growth.

Revenues Higher Exports, Domestic Crude Sales. Export revenues surged 56% YoY to $2.3 bln on higher export sales volumes and oil prices.

… BUT COSTS TRACK REVENUES

Costs – In Line With Our Estimates. Sibneft's total costs rose by 47% YoY to $4.12 bln, in line with our expectation of $4.10 bln.

Operating Expenses – Nominally Higher Than Expected. Operating expenses rose 31% YoY to $1.2 bln, exceeding our estimates of $1.1 bln.

SG&A Pleasantly Surprised. SG&A expenses increased by 22% YoY to $0.7 bln, less than we had forecasted.

Taxes – A Big Bite. Taxes other than income tax surged 91% YoY to $1.8 bln due to a boost in the mineral extraction tax and export tariffs.

STILL, STEADILY PROFITABLE

EBITDA Margin Deteriorated EBITDA increased 29% YoY to $1.9 bln, while EBITDA margin declined to 34% from 37% in 1H04.

Strong Bottom Line Growth. Net income rose by 44% YoY to $1.4 bln benefiting from the top line growth and non-operating items.

Price, $	3.60	Target Price, $	4.10
52 Wk Hi	4.00	52 Wk Lo	2.60
MC, $ mln	17,069	sh, mln	4,741.30
P/S	1.9	P/B	2.4
Reuters	SIBN.RTS	Bloomberg	SIBN RU

	03	*04*	*05E*	*06E*
EPS, $/sh	0.48	0.43	0.49	0.43
P/E	7.5	8.3	7.4	8.3
EV/EBITDA	6.1	4.4	4.0	4.4

Source: RTS, URALSIB estimates

Net Income Above Expectations

1H05 US GAAP Results, $ Mln

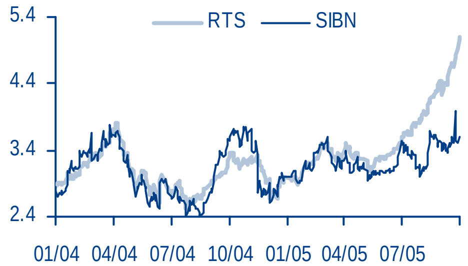
	1H04	1H05	% YoY	1H05E	% Diff	Cons.	% Diff to Cons.
Sales	4,014	5,728	43	5,758	(1)	5,304	8
EBITDA*	1,505	1,944	29	2,010	(3)	1,839	6
EBITDA margin	*35*	*34*		*35*		*35*	
Net income	988	1,422	44	1,346	6	1,230	16
Net margin	*34*	*25*		*24*		*23*	

** Excl. Slavneft*

Source: Sibneft, Bloomberg, URALSIB

Riding Gazprom

Sibneft Vs RTS, $



Source: RTS

Note: Market data as of 4 October 2005

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5 October 2005

STEADY OPERATIONAL ACHIEVEMENTS

Production, Throughput Growth Flat, YoY. Sibneft struggled to prevent production from declining. Partially successful, production posted flat YoY at 16.6 mln tons in 1H05. Additionally, refined product output also came in essentially flat YoY at 8.74 mln tons.

Crude Export Volumes Rise ... On the back of high international oil prices, Sibneft continued to export a large portion of its crude output, exporting 44% in 1H05. Crude export volumes rose by 12% YoY to 7.3 mln tons and oil product export volumes rose by 14% YoY to 3 mln tons.

... Expecting 2005 Production To Stay Flat. The 1H05 production results confirm the comments made earlier this year by company officials who said that the company's production would stay flat this year. After 2005, output growth will return to mid-single digits, due to exploration of Priobskoe field, according to the company's representatives. This is in line with our current estimates.

Strong Exports Drive Revenues

Sales Breakdown, 1H05

	1H04	1H05	% Chg YoY
Operations, mln. tons			
Crude production	16.6	16.6	-
Crude exports	6.5	7.3	12
Distillate exports	2.6	3.0	14
Domestic distillate sales	5.5	5.7	5
Revenues, $ mln			
Crude Exports	1,456	2,268	56
Distillates exports	753	1,120	49
Crude (domestic+CIS)	303	279	(8)
Distillates Domestic	1,040	1,369	32
Total oil and distillates sales	3,950	5,643	43

Source: Sibneft, URALSIB estimates

REVENUES UP ON HIGHER EXPORTS ...

Better Prices In 2005. The average price for Urals blend increased by 50% YoY in 1H05, which contributed to the healthy top line growth. The average realized price for crude oil exports rose by 39% YoY to $43/bbl, while the average realized price for export oil products rose by 30% YoY to $51/bbl.

Revenues Increase On Higher Crude Exports, Domestic Sales. Crude oil export revenues surged by 56% YoY to roughly $2.3 bln on the back of higher export sales volumes and oil prices. Revenues from refined product exports increased by 49% YoY to $1.12 bln, also contributing to top line growth. Additionally, oil products domestic revenues rose by 32% YoY as the average realized price for domestic refined product rose by 26% YoY to $33/bbl. Total company's revenues increased by 43% YoY to $5.7 bln, matching our estimates.

... BUT COSTS TRACK REVENUES

Costs – In Line With Our Estimates. Sibneft's total costs rose by 47% YoY to $4.12 bln, almost in line with our estimates of $4.10 bln. The main cost drivers have been growth in the taxes other than income tax that rose by 91% YoY.

Total costs rose by 47% YoY to $4.1 bln, almost in line with our expectations

Operating Expenses – Nominally Higher Than Expected. Operating expenses increased by 31% YoY to $1.2 bln in 2004, slightly higher than our estimates of $1.1 bln, driven primarily by higher utility costs and growth in workover operations. The lifting costs of Noyabrskneftegas, Sibneft's core production subsidiary, rose by 1.24% YoY to $2.44 bbl in 1H05.

Exploratory Drilling 100% 'Wet'. Sibneft reported zero exploratory expenses in 1H05 against the $54 mln in 1H04. Having virtually no exploratory expenses in 2004 implies that Sibneft drilling activities were 100% efficient in that it did not drill any dry wells in the period, as exploratory costs are expensed only when the company drills a dry well, otherwise exploratory expenses are capitalized through capex.

SG&A Pleasantly Surprised. SG&A expenses increased by 22% YoY to $0.7 bln – lower than our estimates – largely due to the absence of growth in social expenses.

Taxes – A Big Bite. Taxes other than income tax increased by 91% YoY to $1.8 bln. The increase in production volumes and exports as well as higher oil prices combined to boost the mineral extraction tax. The total income tax increased by 32% YoY to $457 mln, reducing the effective tax rate to 24% in 1H05 comparing with 26% in 1H04, anyway much higher than previous 7%, those the company used with offshore tax paying schemes. Although Russian tax authorities are currently reviewing the operations of the company for 2002-03, the management expressed an opinion in the disclosures to the 2004 financials that the ultimate resolution of this matter will not have a material impact on the company's financials.

STILL, STEADILY PROFITABLE

Margins Slightly Decline. EBITDA (excluding Slavneft) increased by 29% YoY to $1.9 bln in the period, somewhat lower than we estimated, while EBITDA margin fell to 34% compared with 37% in 1H04. Including effect from Slavneft operations EBITDA increased by 30% YoY to $2.3 bln, EBITDA margin also declined from 44% to 40% in the previous period.

Bottom Line Rising. Sibneft's net income rose by 44% YoY in 1H05 to $1.4 bln. The increase primarily stemmed from top line growth and non-operating income growth. The net income margin was flat at 25%.

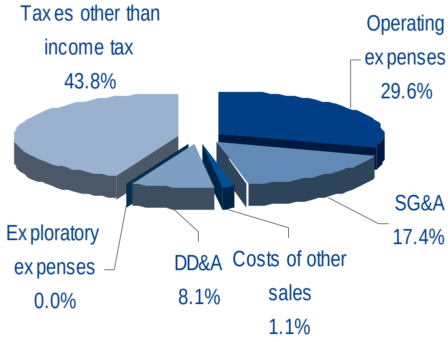
HIGHER CAPEX, STRONG CASH FLOW

Capital Investments Up 43% YoY. Total capex increased by 43% YoY to $480 mln, as the company invested more in exploration and production to improve production at existing wells. Sibneft expects capex to be about $0.9-1 bln in 2005.

High Oil Price Boosts Cash Flow. Operating cash flow increased by 28% YoY to $765 mln, while the total cash position of the company was $1.5 bln.

High Taxes, Operating Expenses

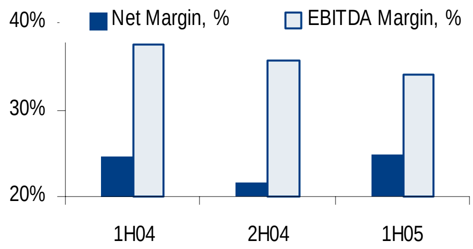
1H05 Cost Breakdown



Source: Sibneft, URALSIB estimates

EBITDA Margin Declines

Net, EBITDA Margins



Source: Sibneft, URALSIB estimates

Taxes Other Than Income Raise Costs

1H05 US GAAP Results, $ Mln

	1H04	1H05	% Chg YoY
Total Revenues	4,014	5,728	43
Costs and other deductions			
Operating expenses	935	1,220	31
SG&A	587	717	22
Costs of other sales	42	46	8
DD&A	282	332	18
Exploratory expenses	-	-	nm
Taxes other than income tax	946	1,802	91
Total	2,792	4,116	47
Operating Income	1,222	1,612	32
Operating margin, %	30	28	(8)
Interest received and other income	4	11	165
Income from sale of equity investees	(0.1)	(15)	
Interest paid and other expense	(67)	(65)	(3)
Non-operating income	271	366	35
Other non-operating items, net	(98)	(17)	(83)
Minority interest	-	-	
Currency transaction gain (loss)	2	(14)	nm
Income before income taxes	1,333	1,879	41
Income tax	345	457	32
Net inc.(excl. comp. Losses) $ mln	988	1,422	44
Comprehensive income (loss)	4	-	
Net income	988	1,422	44
Net margin, %	25	25	
EBITDA (Including Slavneft)	1,776	2,310	30
EBITDA margin, %	44	40	
Reported EBITDA	1,505	1,944	29
Reported EBITDA margin, %	37	34	

Source: Sibneft, URALSIB estimates

No Surprises

Balance Sheet, $ Mln

	1H04	1H05	% Chg YoY
ASSETS			
Current assets			
Cash and cash equivalents	1,140	1,483	30
Loans receivable	31	25	(18)
Accounts receivables, net	1,752	2,131	22
Inventories, net	292	391	34
Prepaid expenses	19	58	208
Total current assets	3,234	4,089	26
LT financial investments	2,220	2,568	16
Oil & gas properties, net	3,927	4,001	2
Property, Plant and Equip., net	691	748	8
Construction in progress	181	203	12
Other non current assets	10	9	(7)
TOTAL ASSETS	10,263	11,616	13
LIA., SH.HOLDERS EQUITY			
Current liabilities			
ST loans	35	34	(3)
Acc'ts payable, accrued liabilities	537	481	(10)
Related party payable	164	297	81
Income and other taxes payable	578	394	(32)
Other current liabiliites	65	46	(30)
Current part of LT liabilities	345	344	(0)
Total current liabiliites	1,724	1,596	(7)
Dividends payable	1	1	(22)
Assets retirement obligation	284	295	4
LT debt	1,068	1,118	5
Total LT liabilities	1,353	1,414	4
TOTAL LIABILITIES	3,077	3,009	(2)
Shareholders equity			
Common stock	2	2	-
Additional paid-in capital	859	859	-
Reserves	1,867	1,867	-
Retained earnings	4,457	5,879	32
Accum. other comprehensive loss	-	-	
Total shareholders equity	7,185	8,607	20
TOTAL LIABILITIES & SE	10,263	11,616	13

Source: Sibneft, URALSIB estimates

Strong Operating Cash Flow

Cash Flow, $ Mln

	1H04	1H05
Cash flow from operating activities		
Net income	988	1,422
DD&A	282	332
Effect of change on acc't principle	-	
Asset retirement oblig. Accret'n exp.	8	11
Accrued equity acc'ting income	(263)	(366)
Interest expenses	-	
Loss on disposal or impair't of assets	8	(5)
Loss (Profit) from sale of LT fin. Invest's	0	15
Impairment of goodwill	-	-
Minority interest	-	-
Change in current assets and liabilites		
(Increase) accounts receivables	(381)	(374)
Increase on bad debts reseves	12	(6)
Inventories	10	(98)
Future periods exp. (prepaid exp.)	(8)	(39)
Other non current assets	(0)	1
Acc'ts payable, accrued liabilities	(72)	77
Income and other taxes	17	(185)
Other current liabilites	(2)	(19)
Net cash flow from op. activies	598	765
Cash flow from invest. activities		
Financial investments expenses	(67)	(18)
Loans receivable redemption	24	6
Purchase of shares in subsidiaries	-	-
Proceeds: sale of LT investments	-	-
Proceeds from sales of assets	1	23
Capital expenditures	(337)	(480)
Net cash flow from invest. activities	(379)	(470)
Cash flow from financial activities		
Net ST loans	(92)	201
Net LT loans	(60)	(153)
Dividends paid	(92)	(0.2)
Net cash flow from fin.l activities	(244)	48
Net change in cash flow	(24)	343
Cash, cash equiv. at year beginning	105	1,140
Cash, cash equiv. at year end	81	1,483

Source: Sibneft, URALSIB estimates

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