

OIL & GAS



RUSSIAN EQUITY RESEARCH

16 FEBRUARY 2005

STILL GAZPROM AND LUKOIL

Bloomberg:
GAZP, LKOH,
YUKO, SIBN, SNGS,
TATN

Reuters:
GAZP, LKOH,
YUKO, SIBN, SNGS,
TATN

SECTOR UPDATE

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Exhibit 1

Metropol's ratings on Russian oil blue chip stocks

	Price USD	DCF target USD	Upside/ downside	ST rating
Gazprom OTC	2.75	3.74	36%	Buy
Gazprom ADR	34.46	37.38	8%	Hold
LUKoil	31.60	42.22	34%	Buy
YUKOS	0.81	0.01	-99%	Sell
Sibneft	3.15	3.19	1%	Hold
Surgut	0.76	0.61	-20%	Sell
Tatneft	1.56	1.08	-31%	Sell
Surgut prefs	0.62	0.38	-38%	Sell
Tatneft prefs	0.80	0.52	-35%	Sell
Transneft	905	1,015	12%	Buy

Note: Pricing as of February 15, 2005
Source: Metropol estimates

Exhibit 2

Metropol's ratings on Russian second-tier oil stocks

Ticker	Company	Price USD	Target USD	Upside/ downside	ST rating
BANE	Bashneft	5.30	9.96	88%	Spec.Buy
BANEP	Bashneft prefs	3.00	4.98	66%	Spec.Buy
RITK	RITEK	4.48	4.51	1%	Hold
MFGS	MegionNG	23	24.8	8%	Hold
MFGSP	MegionNG prefs	14.5	12.4	-15%	Sell
PFGS	Purneftegaz	21.00	16.66	-21%	Sell
PFGSP	Purneftegaz prefs	14.50	10.00	-31%	Sell
SKGZ	SakhalinMNG	6.46	3.91	-40%	Sell
SKGZP	SakhalinMNG, prefs	4.54	2.34	-48%	Sell
SONG	SakhaNG	5.8	1.27	-78%	Sell
ORNB	Orenburg	37	29.9	-19%	Sell
ORNBP	Orenburg prefs	29.25	29.9	2%	Spec.Buy
SNFG	SaratovNG	120	101	-16%	Sell
SNFGP	SaratovNG prefs	48	101	110%	Spec.Buy
UDMN	Udmurtneft	311	338	9%	Hold
UDMNP	Udmurtneft prefs	325	338	4%	Spec.Buy
VJGZ	VaryaganNG	43.0	34.8	-19%	Sell
VJGZP	VaryaganNG	33.6	34.8	4%	Spec.Buy

Note: Pricing as of February 15, 2005 Source: Metropol estimates

In a difficult environment, focus on quality

Russian oil companies are likely to suffer from softening oil prices, higher taxation and appreciation of the ruble against the dollar. We think that investors should concentrate on companies that can show improvements this year, namely Gazprom and LUKoil.

Gazprom and LUKoil are our top picks, with some 30-40% upside

Gazprom benefits from ruble appreciation, because 60% of its revenues are earned in rubles. LUKoil's management is the most transparent among the big oil stocks, and has been reducing lifting costs in dollar terms. The consolidation of TNK-BP's subsidiaries will create a new blue chip, so we recommend those investors who can buy illiquid stocks to buy the subsidiaries.

Surgut, Sibneft, and Tatneft offer less certainty

The risks and direction of the other blue chips are less clear. Sibneft is a potential target for the Tax Inspectorate and Audit Chamber. We are unlikely to hear about improvements at Surgut and Tatneft until well after the fact. In a tough environment, we think investors should bet only on the safer names.

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EXECUTIVE SUMMARY

Exhibit 3

Russian oil sector: major share price drivers in 2005

Share drivers	Our expectation	Effect on oil earnings and share prices	Estimated magnitude/effect
Oil price	Softened	Negative	4% decline to \$37/bbl Brent in 2005
Ruble appreciation	Real appreciation	Negative	10% appreciation to 27.0 RUR/\$ in 2005
Sector tax burden	Stable, risk of increase	Neutral/negative	+15% rise in Crude Production Tax
Discount rate (risk free rate)	Might increase further with US yields	Negative	+1pp from current 6% to 7% by the end of 2005
Production growth	Positive, restrained by export capacity	Positive	Varies by company
Operating efficiency	Good potential for increase at some companies	Positive	Varies by company
Russian economic outlook	Improving	Positive	Potential inflow of new funds to Russian equity market

Source: Metropal

Weaker oil price, cost inflation, and RUR appreciation likely to squeeze oil margins and earnings in 2005. We expect weaker oil prices, a further real appreciation of 10% in the ruble, 16% PPI inflation and a 15% increase in crude production tax, and a 1 percentage point increase in the Russian risk free rate to 7%. All this is set to put pressure on Russian oils' operating margins and earnings this year. However, we believe these negative drivers will be somewhat mitigated by continued production growth, improving operating efficiency, and capital inflow into the domestic equity market. We expect Russian crude production growth to slow this year from a 9% increase in 2004 to 5-7% in 2005.

Oils with larger shares of domestic and CIS sales see bigger margin squeeze. High oil prices lead to higher production tax, which is based on companies' total crude production. However, Russian oil companies sell only 50-60% of their output at world prices, receiving lower revenue realizations on CIS and domestic markets. In relative terms, therefore, oils with larger shares of domestic and CIS sales see a larger margin squeeze. We estimate that, among the Russian oils, Tatneft and Surgutneftegas will be the worst affected by higher taxes and the appreciation of the ruble, while LUKoil's and Sibneft's earnings will be the companies least affected.

Gazprom and Transneft will see earnings growth in 2005 of 24% and 15% respectively, on our estimates. Gazprom benefits from high gas export prices and from the appreciation of the ruble, which pushes up domestic gas prices in dollar terms on the two-thirds of its gas deliveries that are sold in the domestic market. Transneft's group earnings are primarily driven by higher traffic and appreciation of the ruble.

In 2005 the Russian oil industry should witness completion of the key industry trends started in 2004. We believe that Yukos will be stripped of its remaining assets to

cover its outstanding \$8 bn tax charge for 2000-03. The most likely outcome is that a new state-owned Russian oil company will be created from ex-Yukos assets. Gazprom should complete its acquisition of Rosneft assets, and carry out the planned liberalization of its equity markets. TNK-BP should complete the consolidation of its major subsidiaries, creating a new blue chip oil stock. In our view, most of the investment themes and opportunities in the coming year will be found in and around these industry developments.

The shares of Gazprom and LUKoil are our preferred exposure in Russian blue oil chips. Gazprom's 2005 earnings should benefit from the stronger ruble and rising domestic and export gas prices. The liberalization of Gazprom's equity markets (targeted for 1H05), and new dividend policy (which is most likely to put Gazprom in line with its international peers) should trigger a revaluation of its stock. LUKoil's potential for appreciation is driven primarily by its restructuring efforts, in our view, and these should finally yield efficiency gains and higher production growth. LUKoil's management is currently aiming to boost its market cap by 60% to \$40 bn (\$49/share), implying that there is the potential for new initiatives which could trigger a revaluation of the stock.

Prefs of TNK-BP subsidiaries offer a cheaper way into a new blue chip stock. The planned consolidation of TNK-BP's subsidiaries into TNK-BP Holding will create a new blue chip Russian oil stock with a \$1.3 billion free float and a 2.5% weight in the RTS index by the year-end. TNK-BP Holding will bring together more than 600 Russian and Ukrainian entities, forming the third largest Russian oil company by production. An aggressive and professional management, good corporate governance practices, and a dividend payout of at least 40% should make TNK-BP Holding a favorite stock for most institutional investors.

Exhibit 4

The Russian oil sector universe and our preferred exposure

Ticker	Security Name	Rating	Share Price	Target Price	Exp Upside	Poten-I No. Shares	MCAP US\$m	MCAP
								Weighting in Russian oil universe
OGZD LI	Gazprom ADR	Hold	34.46	37.38	8%	1,983	68,343	41.2%
GSPBEX	Gazprom OTC	Buy	2.75	3.74	36%	19,833	54,454	35.8%
Russian oil majors								
YUKO	Yukos	Sell	0.81	0.01	-99%	2,634	2,134	1.4%
SIBN	Sibneft	Hold	3.15	3.19	1%	4,741	14,939	9.8%
LKOH	LUKoil	Buy	31.60	42.22	34%	816	25,786	16.9%
SNGS	Surgut	Sell	0.76	0.61	-20%	19,087	14,449	9.5%
SNGSP	Surgut, prefs	Sell	0.62	0.38	-38%	6,761	4,158	2.7%
TATN	Tatneft	Sell	1.56	1.08	-31%	1,978	3,086	2.0%
TATNP	Tatneft, prefs	Sell	0.80	0.52	-35%	148	118	0.08%
2nd Tier Oil stocks								
TRNFP	Transneft prefs	Buy	905.0	1,015	12%	1.6	1,407	0.9%
Not-fully consolidated VIC's								
TNKO	TNK	Sell	4.22	3.28	-22%	3,163	13,349	8.77%
SDNK	Sidanko	Buy	23.5	28.96	23%	232.4	5,462	3.59%
ONAK	ONACO	Sell	2.95	2.33	-21%	93.8	277	0.18%
Semi-Independent Upstream Oils								
BANE	Bashneft	Spec.Buy	5.3	9.96	88%	170.2	902	0.59%
BANEP	Bashneft, prefs	Spec.Buy	3	4.98	66%	34.6	104	0.07%
RITK	RITEK	Hold	4.48	4.51	1%	99.8	447	0.29%
Upstream subsidiaries								
MFGS	Megionneftegaz	Hold	23.00	24.77	8%	99.5	2,288	1.50%
MFGSP	Megionneftegaz, prefs	Sell	14.50	12.38	-15%	33.1	479	0.32%
ORNB	Orenburgneft	Sell	37.00	29.93	-19%	66.1	2,444	1.61%
ORNBP	Orenburgneft, prefs	Hold	29.25	29.93	2%	21.8	637	0.42%
PFGS	Purneftegaz	Sell	21.00	16.66	-21%	83.5	1,754	1.15%
PFGSP	Purneftegaz, prefs	Sell	14.50	10.00	-31%	27.8	404	0.27%
SKGZ	Sakhalinmorneftegaz	Sell	6.46	3.91	-40%	61.0	394	0.26%
SKGZP	SakhalinmorNG, prefs	Sell	4.54	2.34	-48%	20.3	92	0.06%
SANG	Sakhaneftegaz	Sell	5.80	1.41	-78%	24.2	140	0.09%
SNFG	Saratovneftegaz	Sell	120	101	-16%	2.5	297	0.20%
SNFGP	Saratovneftegaz, prefs	Spec.Buy	48	101	110%	0.8	38	0.03%
UDMN	Udmurtneft	Hold	311	338	9%	2.7	831	0.55%
UDMNP	Udmurtneft, prefs	Spec.Buy	325	338	4%	0.9	290	0.19%
VJGZ	Varyaganneftegaz	Sell	43	35	-19%	18.1	778	0.51%
VJGZP	Varyaganneftegaz, prefs	Spec.Buy	34	35	4%	5.9	198	0.13%
Total							152,136	100%

Our Portfolio

Ticker	Security Name	Rating	Share Price	Target Price	Exp Upside	Poten-I No. Shares	MCAP US\$m	Weighting in
								Russian oil universe
GSPBEX	Gazprom OTC	Buy	2.75	3.74	36%	19,833	54,454	35.8%
LKOH	LUKoil	Buy	31.60	42.22	34%	816	25,786	16.9%
TRNFP	Transneft prefs	Buy	905	1015	12%	2	1,407	0.9%
BANE	Bashneft	Spec.Buy	5.30	9.96	88%	170	902	0.6%
BANEP	Bashneft, prefs	Spec.Buy	3.00	4.98	66%	35	104	0.1%
SDNK	Sidanko	Buy	23.50	28.96	23%	232	5,462	3.6%
SNFGP	Saratovneftegaz, prefs	Spec.Buy	48.00	101.03	110%	1	38	0.0%
UDMNP	Udmurtneft, prefs	Spec.Buy	325.00	337.72	4%	1	290	0.2%
VJGZP	Varyaganneftegaz, prefs	Spec.Buy	33.60	34.79	4%	6	198	0.1%
MFGS	Megionneftegaz	Hold	23.00	24.77	8%	99	2,288	1.5%
MFGSP	Megionneftegaz, prefs	Sell	14.50	12.38	-15%	33	479	0.3%
SNFG	Saratovneftegaz	Sell	120	101	-16%	2	297	0.2%
Total							267,783	60.3%

Note: Pricing as of February 15, 2005
Source: Bloomberg, Metropol estimates

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METROPOL
INVESTMENT FINANCIAL COMPANY

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Russian and global oil stocks: relative valuations

Company name	Price com. pref.	Disc. %	P/E			EV/EBITDA			EV/ Res	EV/ Prod	EV/ Sales	Price/ Book	Mkt. Cap.	EV	
			03E	04E	05E	03E	04E	05E							2003
Russian oil&gas companies															
Gazprom ADR	34.46		13.2	8.2	6.2	7.6	5.9	4.8	0.49	23	2.4	1.2	68,343	80,338	
Gazprom OTC	2.75		10.5	6.5	4.9	6.3	4.9	3.9	0.41	19	2.0	1.0	54,454	66,449	
YUKOS	0.81		0.4	nm	nm	2.6	nm	18.7	2.91	55	2.0	nm	1,565	13,965	
Sibneft	3.15		6.6	6.8	7.4	7.0	5.4	5.7	2.94	39	1.7	2.1	14,939	16,419	
LUKoil	31.60		7.0	6.3	6.6	5.3	4.7	4.7	1.33	43	0.8	1.5	25,786	28,155	
Surgut	0.76	0.62	19	10.9	9.0	15.8	4.9	4.2	6.6	1.55	26	1.0	1.5	18,607	13,474
Tatneft	1.56	0.80	49	7.2	10.3	nm	5.0	5.8	10.5	0.71	24	0.6	0.7	3,204	4,305
Russian Average			8.0	7.9	8.2	5.5	5.1	7.8	1.36	33	1.5	1.4			
Transneft		905	5.3	3.7	3.1	2.7	2.0	1.8			1.9	0.9	5,629	5,697	
2nd Tier Russian Upstream Oils															
Bashneft	5.30	3.0	43	8	15		2.3	3.5	0.67	11	0.8	0.6	1,006	991	
RITEK	4.48			9	20		6	5.7	1.84	25	2.7	2.6	447	648	
MegionNG	23	14.5	37	nm	nm		24	8.0	1.61	19	2.9	2.6	2,767	2,827	
Orenburg	37.0	29.3	21	48	45		28	15.4	2.09	34	5.1	6.7	3,257	3,446	
Purneftegaz	21.00	14.5	31	30	nm		83	12.8	0.80	25	3.5	22.1	2,158	2,389	
SakhalinMNG	6.46	4.54	30	40	25		9	28.0	2.86	33	2.7	1.9	486	732	
SakhaNG	5.80			nm	65		nm	nm	0.28	23	11.9	1.3	140	200	
SaratovNG	120	48		nm	nm		10.2	22.5	1.35	20	2.2	1.1	297	310	
Udmurtneft	311	325	-5	nm	32		15.1	10.6	1.08	31	2.9	1.8	1,120	1,321	
VaryaganNG	43	33.6		72	nm		6.0	nm	0.53	28	3.3	4.1	778	853	
Average for 2-tier oils			34.5	33.6		20.4	13.3		1.31	25	3.8	4.5			
Emerging Markets peers															
Petrochina	59.3		9.1	9.6	12.0	6.0	5.4	6.0	9.3	124	2.6	1.4	104,281	108,481	
Cnooc	53.7		11.3	9.9	13.9	7.9	7.0	6.8	9.7	156	4.2	3.0	22,029	20,317	
Sinopec	40.8		14.0	14.7	2.8	2.6	2.3	2.3	6.3	69	0.3	1.3	6,853	20,730	
Petrobras	44.3		7.5	6.4	8.9	5.1	4.8	4.7	5.1	54	1.7	3.5	46,569	53,123	
PTT E&P	5.0		9.9	9.3	13.4	10.1	9.5	9.6	na	33	1.3	2.4	14,035	15,654	
Perez Compac	13.0		17.1	9.2	16.0	7.0	6.4	6.9	6.3	9	2.9	1.0	2,776	5,117	
MOL	70.3		8.0	8.5	14.2	11.5	6.5	7.2	nm	110	1.2	1.4	7,637	9,471	
PKN	14.3		8.4	9.4	20.7	11.0	9.5	8.7	na	31	0.9	0.9	6,095	6,857	
Emerging Markets Average			9.5	8.6	11	6.8	5.7	5.8	6.1	65	1.7	1.7			
International Majors															
ExxonMobil	57		15.2	16.0	21.6	10.6	8.6	9.5	17.3	232	1.5	3.1	367,208	366,208	
Royal Dutch/Shell	46		13.0	14.1	10.9	5.0	4.6	5.1	11.6	116	0.7	2.2	155,528	166,565	
BP	546		13.5	14.7	21.5	8.8	8.1	8.8	13.9	206	1.1	2.7	218,098	255,569	
ChevronTexaco	58		12.0	13.4	17.8	7.3	6.2	7.3	10.9	141	1.0	2.4	123,240	130,570	
Total	132		12.2	12.3	14.7	6.3	6.1	6.4	12.6	155	1.1	3.1	136,165	143,543	
British Gas	378		16.1	15.4	17.9	10.6	7.5	7.8	12.3	166	4.0	2.9	24,569	25,907	
Int'l Majors Average			13.2	14.1	17.3	7.6	6.7	7.4	13.2	170	1.1	2.7			

Note: Pricing as of February 15, 2005
Source: Bloomberg, Metropal estimates

OUR MODEL PORTFOLIO

Exhibit 6

Metropol's oil sector model portfolio

Ticker	Security Name	Rating	Share Price	Target Price	Exp Upside Poten-I	No. Shares	MCAP US\$m	Weighting in Russian oil universe	Our preferred exposure Dec15, 2004	Our preferred exposure Feb-2005
GSPBEX	Gazprom OTC	Buy	2.75	3.74	36%	19,833	54,454	35.8%	50%	50%
LKOH	LUKoil	Buy	31.60	42.22	34%	816	25,786	16.9%	25%	30%
TRNFP	Transneft prefs	Buy	905	1015	12%	2	1,407	0.9%		5%
BANE	Bashneft	Spec.Buy	5.30	9.96	88%	170	902	0.6%	5%	3%
BANEP	Bashneft, prefs	Spec.Buy	3.00	4.98	66%	35	104	0.1%	10%	2%
SDNK	Sidanko	Buy	23.50	28.96	23%	232	5,462	3.6%		5%
SNFGP	Saratovneftegaz, prefs	Spec.Buy	48.00	101.03	110%	1	38	0.0%		3%
UDMNP	Udmurtneft, prefs	Spec.Buy	325.00	337.72	4%	1	290	0.2%		1%
VJGZP	Varyaganneftegaz, prefs	Spec.Buy	33.60	34.79	4%	6	198	0.1%		1%
MFGS	Megionneftegaz	Hold	23.00	24.77	8%	99	2,288	1.5%	5%	
MFGSP	Megionneftegaz, prefs	Sell	14.50	12.38	-15%	33	479	0.3%	2%	
SNFG	Saratovneftegaz	Sell	120	101	-16%	2	297	0.2%	3%	
Total							267,783	60.3%	100.0%	100.0%

Note: Pricing as of February 15, 2005
Source: RTS, Bloomberg, Metropol

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METROPOL
INVESTMENT FINANCIAL COMPANY

Gazprom's local shares, LUKoil, and TNK-BP's subsidiaries look set to provide best appreciation potential in 2005. We continue to allocate 50% of our portfolio to Gazprom's local shares, and are increasing LUKoil's shares from 25% to 30% of the portfolio, while locking in profits on Megionneftegas' and Bashneft's common and preference shares. We estimate that Bashneft's preferred share price rose by 51% over the month from mid December 2004, and that of Megion by 40%, while their common shares delivered somewhat lower appreciations of 17% and 10% respectively. We would also take profits on Saratovneftegas's common shares, whose price has risen by 76% over the last month.

Sidanco and the prefs of Saratovneftegaz, Udmurtneft and Varyaganneftegaz the best way into TNK-BP Holding. Among the second-tier oils we would still maintain smaller positions in Bashneft's common and preferred shares, as they still have some attractive upside potential, in our view. However, our major focus in the second tier would be on the consolidating TNK-BP subsidiaries. We would choose the common shares of Sidanco, and the preferred shares of Saratovneftegaz, Udmurtneft and Varyaganneftegaz as the cheapest way to gain exposure to TNK-BP Holding. We are allocating 5% of our model portfolio to Sidanco, 3% to Saratovneftegaz prefs, and 1% to the prefs of Udmurtneft and Varyaganneftegaz (Exhibit 6).

SECTOR UPDATE 2005

Oil & Gas

MACRO DRIVERS

Exhibit 7

Macro-economic drivers: performance in 2004

Higher oil price	+33% to \$37.00 Brent
Higher appreciation of the ruble	+15%
Higher cost inflation	28.6% RUR PPI
Stable risk free rates	6%

Source: Bloomberg, Metropal estimates

Exhibit 8

Macro-economic drivers: Metropal's expectations for 2005

Softer oil price	-4% to \$37.0 Brent
Real appreciation of the ruble	+10% to 27.0 RUR/USD
Rising interest rates	+1% to 7% *
Higher cost inflation	+16% RUR PPI (28.6% in 2004)
Higher production tax rate	+15% from \$5/bbl to \$5.70/bbl (+21% from RUR 347 to RUR 419 per ton)

*Refers to the yield to maturity on ten-year Russian Eurobonds, as a proxy for the Russian risk free rate
Source: Metropal estimates

Oil prices, real appreciation of the ruble, and PPI inflation all exceeded our expectations in 2004. To help us forecast what the major macro-economic drivers of equity prices would be in 2005, we compared our expectations for 2004's drivers with the way in which they actually performed. Oil prices exceeded our early expectations by a wide margin, with Brent soaring by 33% from \$28.87 to \$37/bbl, compared with our early target of \$27/bbl. The real appreciation of the ruble against the dollar was more than 15%, where we had expected 10%. CPI inflation ran to 12% against our target of 10%, while PPI inflation ran up to 29% against our early target of 7%. This higher-than-expected PPI inflation and ruble appreciation drove up oil companies' costs and eroded their profit margins.

Macro drivers likely to squeeze oil margins in 2005. The pressures that we forecast, as listed in Exhibit 8, are likely together to increase Russian company's costs and squeeze their margins.

Oil price to soften in 2005

There are three major drivers of oil prices:

1. Rate of growth of demand
2. Constraints on OPEC supply
3. Increases in non-OPEC production

Demand growth is very critical for the oil price. The single reason for high oil prices in 2004 was the spike in demand that year, which averaged 2.68 mbpd, the biggest growth in demand since 1978 and more than double the average annual historical growth in demand during 1998-2003 of 1.1 million barrels a day (mbpd). China and North America were the principal engines of demand growth in 2004, and are set to remain so for 2005, boosting global demand growth higher. CERA (Cambridge Energy Research Associates) forecasts that global demand

will increase by 1.8 mbpd in 2005. If demand grows as fast in 2005 as in 2004, we could see very high oil prices this year.

OPEC supply constraints. OPEC members are currently producing almost at full capacity. As non-OPEC producers increase their supply, the restrictions on OPEC's production will become even more relevant. OPEC's recent decision to restrain its members' supply in December 2004 suggests that OPEC has lifted its implied price target range for a basket of OPEC crude oils from \$22-28 to around the mid-\$30s to low \$40s for light crude WTI. OPEC has not formally adjusted its price basket range, but dollar weakness and very wide spreads between light and heavy oils have lowered realized prices on OPEC's crude sales. OPEC's crude basket is composed mostly of heavy oils, which historically have sold for \$2-3/bbl less than WTI. This spread has recently widened to \$9-10/bbl, calling for a higher implied price target range.

Non-OPEC production growth could put pressure on OPEC to cut its production quotas. SERA sees a potential for very strong non-OPEC growth over the next two years. If this materializes, it would put more pressure on OPEC to achieving its price objectives.

Oil prices likely to remain high in 2005, but softer than in 2004. Demand growth looks likely to remain strong in 2005. The world currently has very little spare production capacity, which is running at only 1.2 mbpd in early 2005. Slower but strong demand growth and very little spare production capacity could mean that oil prices remain very high in 2005. If non-OPEC supply increases by 1.3 mbpd and Iraq remains relatively stable, we would expect to see the oil price easing in 2H05, but still relatively high in an historical context.

Metropol: macro-economic assumptions, 2003E-10E

	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E
Russian GDP, % real growth	6.9%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Inflation								
RUR CPI inflation, %	12.4%	12.0%	10.0%	8.0%	6.0%	5.0%	4.0%	3.0%
RUR PPI inflation, %	13.6%	28.6%	16.0%	9.0%	5.0%	4.0%	3.0%	2.0%
USD inflation (assumed)	1.8%	3.3%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Foreign exchange								
RUR/USD, end of period	29.45	27.70	27.00	28.35	29.77	30.96	31.89	32.52
RUR/US, average for period	30.78	28.81	27.49	27.81	29.20	30.51	31.58	32.37
Nominal devaluation/ (appreciation) of the ruble	-7.9%	-6.3%	-2.6%	5.0%	5.0%	4.0%	3.0%	2.0%
Real appreciation of the ruble	19.1%	15.3%	9.6%	-0.4%	-2.2%	-2.1%	-2.1%	-2.0%
Oil price , USD/bbl								
Brent crude	28.87	38.37	37.00	32.00	28.00	26.00	26.78	27.58
Urals crude	27.18	34.57	35.00	30.00	26.50	25.50	26.28	27.08
Discount of Urals to Brent	(1.69)	(3.80)	(2.00)	(2.00)	(1.50)	(0.50)	(0.50)	(0.50)

E = estimates

Source: Bloomberg, Metropol estimates

RUBLE TO APPRECIATE 10%

High oil prices support real appreciation of the ruble, due to a strong inflow of oil export revenues to the Russian economy. The ruble appreciated 15% in real terms against the dollar in 2003. We assume the ruble will appreciate by 10% in 2005 and at a lower rate thereafter as oil prices weaken. Russian oil companies' costs are primarily ruble-denominated, while 70% of their revenues are in dollars. As a result, real appreciation of the ruble pushes up their costs and erodes their operating margins. We believe that Tatneft and Surgut are relatively highly exposed to ruble appreciation, while Gazprom and Transneft, with a larger share of ruble-denominated sales in their total revenues, are the least exposed of the Russian majors.

INFLATION OUTPACES TARGETS

Both CPI and PPI inflation have outpaced government targets and market expectations, pushing up operating costs and squeezing margins. The Russian government set CPI inflation targets of 10% for 2004, 8% for 2005, and further declines thereafter. In the event, CPI inflation was 12% in 2004. We expect actual CPI inflation to somewhat exceed the government's targets in 2005 and thereafter by a margin of 1-2 percentage points. However, the real threat to oil companies' profitability comes from high PPI inflation: fueled by high energy costs, metal prices, and tariff increases, it was close to 29% in 2004. We expect PPI inflation to average around 16% in 2005, further depressing profit margins and earnings.

PRODUCTION TAX UP 15%

Effective crude oil production tax likely to increase by 15% from \$5.00 to \$5.70 per barrel in 2005. Through December 31, 2004, the base rate for the unified production tax was set at RUR 347 per metric ton of crude oil produced (\$1.67 per barrel), then adjusted according to the market price of Urals blend and the ruble exchange rate. Under this tax formula, the tax fell to zero if the price of Urals blend fell to \$8.00 per barrel or less. From January 1, 2005, the base rate for the unified production tax was set at RUR 419 per metric ton of crude oil produced (\$2.04 per barrel), while the zero tax threshold is lifted to \$9.00 per barrel. On the face of it, the oil production tax appears to have been increased by 21% (from RUR 347 to RUR 419 per ton). However, inserting the new base rates into a complex formula (linking it with the export price of Urals oil and the average RUR/\$ exchange rate), we estimate that the effective crude oil production tax has been increased by only 15%, from \$5.00 to \$5.70 per barrel in 2005.

Tatneft and Surgutneftegas most negatively affected by high production tax. The crude oil production tax linked to export Urals blend price penalizes Russian oil companies with a larger share of domestic and CIS crude sales, where realized prices fall short of export realizations. We estimate that Tatneft and Surgutneftegas would be more adversely affected than other Russian oil companies by the rise in the production tax.

EARNINGS AND INDUSTRY OUTLOOK

Exhibit 10

Russian oil companies' earnings outlook, 2004E-05E, \$ mn

Company	EBITDA			Net profit		
	2004E	2005E	Change	2004E	2005E	Change
Gazprom	13,624	16,884	24%	8,366	11,069	32%
Sibneft	3,063	2,904	-5%	2,182	2,026	-7%
LUKoil	6,042	5,975	-1%	4,065	3,901	-4%
Surgut	3,189	2,049	-36%	2,061	1,177	-43%
Tatneft	746	411	-45%	310	37	-88%
Transneft	2,387	2,755	15%	1,267	1,493	18%

E = estimate

Source: Company reports, Metropol estimates

Exhibit 11

Industry events expected in 2005

- Yukos: remaining asset sell off in 1H
- Gazprom: Rosneft acquisition by 2Q
- Gazprom: removal of ring-fence in 1H
- TNK-BP: consolidation of subsidiaries by 3Q
- Formation of new Russian state owned oil company from ex-Yukos assets

Source: Metropol

2005 EARNINGS OUTLOOK

High cost inflation (driven by PPI inflation) and the higher production tax base rate, exaggerated in dollar terms by real appreciation of the ruble, is likely to squeeze oil company earnings in 2005 (see Exhibit 10).

Gazprom and Transneft should increase their earnings in 2005 by 24% and 15% respectively, on our estimates. Gazprom benefits from high gas export prices and appreciation of the ruble, which raises domestic gas prices in dollar terms on the two-thirds of its gas deliveries that are sold in the domestic market. Transneft's group earnings are primarily driven by higher traffic and appreciation of the ruble.

LUKoil's and Sibneft's earnings should be the least affected among Russian oils. A high oil price leads to a higher production tax, which is based on total crude production. However, Russian oils sell only 50-60% of their output at world prices, receiving lower revenue realizations on CIS and domestic markets. Hence, high oil prices squeeze Russian oil earnings through the higher production tax, which boosts operating costs, while companies see higher revenues only on part of their sales. In relative terms, oils with a larger share of domestic and CIS sales suffer a larger margin squeeze. We estimate that Tatneft and Surgutneftegas will be most negatively affected by higher tax take.

INDUSTRY DEVELOPMENTS

We think that 2005 will see the Russian oil industry completing the key industry trends initiated in 2004. In our view, most of this year's investment themes and opportunities will be found in and around these industry developments.

We believe Yukos will be stripped of its remaining assets to cover its outstanding \$8bn tax charge for 2000-03, following the sale of Yugansk in December 2004.

A new state-owned Russian oil company is likely to be created from all of the ex-Yukos assets. This is because we think the Russian government would be inclined to keep the ex-Yukos assets in a 100% state owned company, to minimize the legal risks associated with those assets.

Gazprom should complete its acquisition of Rosneft assets and its liberalization of equity markets. We think that the commitment made by the Kremlin and Gazprom's management to finalize the liberalization of Gazprom's equity markets this year will indeed be implemented by the year end. As a result, we think that the Kremlin's major decisions on raising the government's stake in Gazprom's equity to 50%+1 share, via a transfer of Rosneft assets to Gazprom, will be held to and completed, despite some current doubts and delays.

We think that TNK-BP will complete the consolidation of its major subsidiaries, creating a new blue chip oil stock. This consolidation, launched at the start of 2005 should be completed this year, creating an attractive new instrument for institutional investors in the Russian equity market.

SHARE PRICE DRIVERS

Exhibit 12

Metropol's ratings of Russian blue chip oil stocks

Ticker	Stock	Current price \$	Target price \$	Upside/downside %	Metropol rating	Our thoughts
GSPBEX	Gazprom OTC	2.75	3.74	36%	Buy	Top pick, benefits from ruble appreciation, domestic gas price, removal of ring fence
OGZD LI	Gazprom ADR	34.46	37.38	8%	Hold	As above
LKOH	LUKoil	31.60	42.22	34%	Buy	Preferred exposure in Russian oils; restructuring potential
YUKO	Yukos	0.81	0.01	-99%	Sell	Will be destroyed, as government wants to put its assets in different hands
SIBN	Sibneft	3.15	3.19	1%	Hold	risk of past tax charges; \$1.5bn charge is unclear; might benefit from acquisition of Yukos assets
SNGS	Surgutneftegas	0.76	0.61	-20%	Sell	Suffers from higher costs, production tax, appreciation of ruble; might benefit from acquisition of Yukos assets
SNGSP	Surgutneftegas prefs	0.62	0.38	-38%	Sell	As above
TATN	Tatneft	1.56	1.08	-31%	Sell	Suffers from higher costs, production tax, appreciation of ruble: delayed 2003 IAS financials expected Feb/March
TATNP	Tatneft prefs	0.80	0.52	-35%	Sell	As above
TRNFP	Transneft prefs	905	1,015	12%	Buy	Benefits from traffic growth, ruble appreciation; pref. dividends to fall, because of transfer pricing

Source: Bloomberg, Metropol estimates

Gazprom: best value in the Russian oil universe. This is, in our view, the most undervalued stock relative to its potential valuation, which on an asset basis is an implied \$500 billion. Gazprom's 2005 earnings should benefit from the stronger ruble and from improving domestic pricing – we estimate that domestic gas prices will rise by around 30% to \$37/kcm in 2005. At the same time, we estimate that the higher oil price in 2004 will boost gas export prices by around 12% to \$161/kcm in 2005, while European export sale volumes should rise by 3.6% to 158 bcm in 2005. We have been expecting the liberalization of Gazprom's equity markets (with removal of the ring fence targeted for 1H05), and a new dividend policy is currently under discussion (and would be most likely to put Gazprom in line with its international peers). These factors should trigger a revaluation of the share price, boosting Gazprom's market capitalization, in our view.

LUKoil: restructuring to yield results. In our view, LUKoil's restructuring may finally yield efficiency gains and higher production growth. LUKoil's results for the first nine months of 2004 indicated a 2.8% YoY decline in lifting costs to \$2.54/bbl in 2004, despite the 9% real appreciation of the ruble in the period. The divestment of LUKoil's drilling subsidiary at the end of 2004 should support this trend, in our view. While we estimate that LUKoil's earnings will be flat in 2005, we believe that management's focus on capex efficiency should lead to higher DCF value. LUKoil's management is currently aiming to boost its market cap by 60% to \$40 bn (\$49/share), and is hinting at potential new initiatives which might trigger the revaluation of the stock. With the demise of Yukos, LUKoil is now the Russian oil industry leader in corporate governance and transparency. We think LUKoil will become the preferred investment vehicle in the Russian oil industry for most institutional investors.

Yukos: not a going concern. Yugansk, a key Yukos upstream asset accounting for 60% of its production and 70% of its proven reserves, was sold for \$9.3 bn in December 2004 to cover Yukos's huge imputed tax charge for 2000-03. We estimate that, of the total tax charge of \$20.8 bn, around \$8 bn is still outstanding: Yukos paid \$3.5 bn in 2004, and \$9.3bn should be covered by the proceeds of the Yugansk sale. We think that Yukos's remaining assets will be sold off to pay the remaining tax charge of \$8 bn. The liquidation value of the remaining assets is most likely to be below that of its current liabilities, leading to the complete liquidation of the company. Yukos's third-largest upstream unit, Samaraneftegas (15% of production) is currently subject to a \$1 bn bill for back taxes for 1999-2003. We think that the attempt by MENATEP, Yukos's principal shareholder, to seek \$28 billion compensation from Russian government in the international courts will further irritate Russian authorities, leaving no hope of any positive outcome for Yukos's minority shareholders.

Sibneft: oligarchic risk may hold down the share price.

The threat of a back tax charge of \$1.5 bn is still hanging over Sibneft, and may hold back its share price, in our view. Sibneft's management lowered its capex and production growth targets in 2004, and is currently aiming for qualitative growth in 2005 (improved price realization and better efficiency). Management is aiming to maintain its gross debt at \$1.5 bn at both the start and the end of 2005. In our view, there is a strong chance that Sibneft's owners will prefer to cash out their earnings, because of the back taxes and the risk of expropriation). There is the possibility of a dividend for 2004 of some \$1.3 billion (a 60% earnings payout), as well as a buyback of stock from the core owners – a device that has been used in the past. The management plans to reveal its new long-term production and capex policy at the company's presentation on March 14.

Exhibit 13

Yukos: upstream subsidiaries

	Crude production		Share of total	YoY growth	Asset valuation	
	2004E	2004E			\$30/bbl	\$40/bbl
	mn tons	mn bbls	%	%	\$ bn	\$ bn
Yuganskneftegas	51.7	379	60%	16%	11.4	15.2
Samaraneftegaz	12.4	91	15%	12%	2.7	3.6
Tomskneft	17.8	130	21%	16%	3.9	5.2
Others	3.8	28	4%	61%	0.8	1.1
Total	85.8	629	100%	16%	18.9	25.1

Source: Yukos, Metropol estimates

Exhibit 14

Transneft: potential valuation range

Scenario	Target price	Upside
	US\$	
Prefs @ 0% discount to common shares	2,029	125%
Prefs @ 30% discount to common shares	1,420	58%
Prefs @ 50% discount to common shares	1,015	13%
DDM at 1.5% payout 2004-09, 5.5% after	592	-34%
DDM at 1.5% payout for ever	216	-76%
Current market price	905	

Source: Metropol estimates

TNK-BP: consolidation to create new blue chip by end of 2005. The consolidation of TNK-BP subsidiaries into the Russian based TNK-BP Holding is likely to create a new blue chip Russian oil stock. TNK-BP's management is currently budgeting for above average (around 7% per annum) organic production growth for the next five years. Aggressive and professional management, good corporate governance practices and a dividend payout of at least 40% should make TNK-BP Holding's equity a favorite stockholding for most portfolio investors. The only significant risk, in our view, is a potential for material back tax charges, as the Russian government might seek compensation from TNK's shareholders for their past aggressive tax minimization practices. However, this could be mitigated by concern on the part of the Russian authorities that it would impede the most significant multi-billion dollar foreign investment in the Russian energy sector (and which was blessed at the time by the top Russian authorities), and thus completely destroy the case for investing in Russia.

Surgutneftegas: margins under pressure. The company's management has indicated that it has no interest in increasing its market capitalization, while poor corporate governance and transparency could drive away portfolio investors. Its relatively high production costs and share of domestic and CIS sales (implying lower revenue realizations) make Surgutneftegas's earnings more sensitive – to its disadvantage – to the raised production tax and appreciation of the ruble. The company's large (\$7 bn) net cash position also makes it vulnerable to the depreciation of the dollar (to the extent that its cash reserves are invested in dollar-denominated instruments). However, Surgut is a secretive company, and does not disclose its cash allocations, leaving markets to make wild guesses about its treasury policies. While we remain generally negative on Surgut's shares, we believe there is the possibility of a positive surprise if the company reverses its corporate policies and becomes more market-friendly.

Tatneft: cost inflation to cut earnings. Delayed publication of its 2003 and 1H04 IAS financials is a significantly reduction in Tatneft's transparency. The decision in 2004 by the Turkish government to cancel the privatization of the country's largest refiner, Tupras, which had been sold to Tatneft, removes any upside potential for Tatneft's equity, in our view. The introduction of a flat production tax rate in 2004 increased the tax burden on Tatneft and squeezed its earnings. Tatneft's mature reserve base, high relative production costs and higher share of domestic and CIS sales (resulting in relatively low revenue realizations) make Tatneft's earnings very vulnerable to the rise in the production tax and the appreciation of the ruble. At the same time, mature reserves, declining production, and a conservative management all limit the company's ability to cut operating costs. According to the management, the 2003 IAS financials may be released in February, while the 1H04 results are targeted for publication in March. We believe that Tatneft's financial results may disappoint market expectations.

Transneft: some limited upside potential. An increase in Transneft's traffic and the strengthening of the ruble should lift the group's consolidated revenues and earnings in dollar terms. However, management has clearly stated that it has no interest in increasing the company's market capitalization. Management has also earlier warned of the forthcoming decline in the holding company's earnings and dividends. We estimate that the preferred dividend payout is bound to drop from 5.5% to 1.5% of IAS earnings in 2004. Our preferred shares price estimates range from \$2,029 under DCF to \$216 under DDM. Given the low valuation yielded by our DDM estimates, we think that our DCF estimate for the common equity, discounted by 50%, is a better reflection of the fair value of Transneft's preferred shares. We have therefore set a target price for Transneft's preferred shares at \$1,015, which implies some small upside potential.

THE CONSOLIDATION OF TNK-BP

Exhibit 15

TNK-BP Holding: offered swap coefficients and buy-out terms

Company	Deloitte's appraised 100% equity value		Per share \$*	Conversion ratio (shares in TNK-BP Holding)	Buy-out price per share	
	RUR bn	\$ bn*			RUR	\$*
TNK-BP Holding	517.8	18.5	1.23	na	na	na
Holding companies						
TNK	292.5	10.4	3.30	2.66	92.5	3.30
Sidanko	160.1	5.7	24.60	23.49	815.9	29.14
ONAKO	35.1	1.3	3.24	1.89	65.6	2.34
Subsidiaries	RUR mn	\$ mn				
Orenburgneft	70,392	2,514	26.79	24.28		
Udmurtneft	32,193	1,150	323.00	273.93		
Saratovneftegas	8,938	319	129.00	81.95		
Varyeganneftegas	22,345	798	44.11	28.22		
Orenburggeologia	4,050	145	na	1.64		
Saratovsky NPZ	1,327	47	na	40.32		
Neftemaslozavod	2,237	80	na	939.25		
Ryazansky Zavod Neftekhimproduktov	57	2	na	259.73		
Kaluganefteprodukt	328	12	na	97.4		
Tulanefteprodukt	137	5	na	33.62		
Ryazanefteprodukt	1,824	65	na	1.17		
Saratovnefteprodukt	1,960	70	na	22.06		
Rostovnefteprodukt	160	6	na	2.53		
Orenburgnefteprodukt	2,119	76	na	92.94		

* Dollar values based on an exchange rate of RUR/28.0/\$1.00

na = not applicable

Source: TNK-BP, Metropol estimates

CONSOLIDATION TERMS

On January 14, 2005, TNK-BP announced consolidation terms for 17 of its major Russian entities.

This consolidation will be in two stages:

1. The shares of minority shareholders of OAO TNK, ONAKO and Sidanko will be swapped for shares of the recently incorporated, Russian domiciled TNK-BP Holding company; shareholders voting against accession or not participating in the vote may request to have their shares bought out by the acceding companies.
2. The common and preferred shares of minority shareholders in 14 subsidiaries will be swapped for common and preferred shares in TNK-BP Holding.

TNK-BP has provided swap coefficients and buy-out terms for OAO TNK, ONAKO and Sidanko, as well as valuations and swap coefficients for 14 of its core subsidiaries (Exhibit 15). The consolidation should be largely complete by the end of 2005, and TNK-BP Holding's shares will then be listed on RTS or MICEX. TNK-BP intends, on the successful completion of this consolidation stage, to initiate further accessions of its large operating subsidiaries to TNK-BP Holding. No decisions have yet been taken on which of them will be next or when it will happen. In our view, TNK-BP Holding should be a more attractive investment vehicle and a higher valued entity than its subsidiaries. Thus the minority investors in the subsidiaries being consolidated should be much better off swapping their shares for TNK-BP Holding shares and holding them, rather than selling them now.

Valuation of TNK-BP Holding

Deloitte's valuation of TNK-BP Holding puts it at a premium to its Russian oil peers. The independent valuer Deloitte has set a valuation on TNK-BP Holding and its consolidated subsidiaries, as well as the share conversion terms and buyout prices. DeGolyer and MacNaughton provided production and cost profiles based on their audit of TNK-BP's end-2003 reserves. Morgan Stanley, acting as TNK-BP's international financial advisor, has confirmed that the independent valuations were consistent with international standards. The conversion ratios were based on Deloitte's valuation of TNK-BP Holding's equity at \$18.5 billion and its EV at \$21.8 billion. This values TNK-BP Holding at \$41.30 per bbl of its 2004 production, and \$2.40/bbl of its liquid reserves, or at an 8-13% premium to the valuations of Sibneft and LUKoil on the basis of their production, and at almost double the value of their reserves. However, considering that TNK-BP Holding is most likely to be priced at a premium to the other Russian majors, reflecting its fast, efficient growth and corporate governance premium, this valuation looks reasonable. Financial reporting for TNK-BP Holding is not yet available, and thus it is complicated to value by means of DCF and financial multiples.

Our target prices for the consolidated subsidiaries are based on conversion rates and Deloitte's valuation of TNK-BP Holding. We estimate the value of TNK-BP Holding at \$1.23 per share, by dividing its equity of \$18.5 bn by its total of 15 bn shares. We estimate an equity value for the consolidated subsidiaries on the basis of the number of TNK-BP Holding shares to be received by shareholders of these subsidiaries, based on the corresponding conversion terms. We assume that Deloitte's valuation of TNK-BP Holding correctly reflects its economic value, and that TNK-BP Holding's prefs will be equal in value to the common shares.

TNK-BP consolidation: investment recommendations

Company	Price per share, based on:			Premium of:		Rating
	Market price	Swap terms	Buy-out price	Swap terms to market price	Buy-out price to market price	
	\$	\$	\$			
TNK-BP Holding	na	1.23				
Holding companies						
TNK	4.21	3.28	3.30	-22%	-22%	Sell
Sidanko	23.50	28.96	29.14	23%	24%	Buy
ONAKO	2.95	2.33	2.34	-21%	-21%	Sell
Subsidiaries						
Orenburgneft	37.00	29.93		-19%		Sell
Udmurtneft	311.00	338.00		9%		Hold
Saratovneftegas	120.00	101.00		-16%		Sell
Varyeganneftegas	43.00	34.79		-19%		Sell
Prefs						
Orenburgneft prefs	29.30	29.90		2%		Spec. Buy
Udmurtneft prefs	325.00	338.00		4%		Spec. Buy
Saratovneftegas prefs	48.00	101.00		110%		Spec. Buy
Varyeganneftegas prefs	33.10	34.79		5%		Spec. Buy

Notes: Market prices as of January 19th, 2005

na = not applicable

Source: Bloomberg, TNK-BP, Metropol estimates

TNK-BP: the next blue chip

The next Russian blue chip stock, with a \$1.3 billion free float and a 2.5% weight in the RTS index by year-end.

TNK-BP Holding is earmarked to integrate more than 600 Russian and Ukrainian entities of the TNK-BP group, forming the third largest Russian oil company by production (behind LUKoil and Yukos, which is currently being overtaken by Rosneft following its acquisition of Yugansk). TNK-BP's management is aiming for above industry average organic production growth of 7% per annum for the next five years. By the end of 2005, and following the current round of consolidation, TNK-BP Holding is expected to have a 7%, or \$1.3 billion, market free float and be listed on RTS or MICEX. We estimate that TNK-BP Holding is likely to represent around 2.5% of the RTS index by the year-end. A professional management, fast and efficient production growth and good corporate governance practices (which are guaranteed by BP's equity participation) are likely to attract above average investor interest in the equity, making it another favorite Russian blue chip oil stock. We believe that investors may gain exposure to TNK-BP Holding's equity today by buying the shares of the consolidated subsidiaries. We view the preferred shares of Orenburgneft, Udmurtneft, Saratovneftegas, and Varyeganneftegas as the least expensive way to invest in what we consider will be an attractive share in a newly formed Russian oil major with good growth prospects.

Investment ideas

TNK-BP Holding's prefs value should converge with common shares. In our view, the key message from TNK-BP's management was that it expected to treat the common and preferred shareholders equally, and pay the same dividends for both classes of share. The management believes that the market value of the preferred shares in TNK-BP Holding should be equal in value to that of the common shares. We think that TNK-BP Holding will eventually convert its preferred shares into common shares at a one-to-one ratio. Thus the preferred shares, currently trading at a discount to the common shares, offer a cheaper entrance ticket to TNK-BP Holding, as their value is likely to converge with that of the common shares. We therefore base our recommendation on the assumption that the prefs' discount to the common shares will close.

Based on our analysis of TNK-BP consolidation terms, we make the following recommendations:

- **buy the common shares of Sidanko**
- **buy the preferred shares of Orenburgneft, Udmurtneft, Saratovneftegas, and Varyeganneftegas** until they reach parity with the common shares of those companies, as a cheaper way in to TNK-BP Holding.

Exhibit 17

TNK-BP Holding: estimates of the equity value of the subsidiaries, based on the offered conversion terms

Company	Number of shares			Conversion ratio to	Number of TNK-BP Holding shares (on swap terms)			Equity value*	Price per share*
	Common	Prefs	Total	TNK-BP Holding	Common	Prefs	Total	based on swap terms	based on swap terms
	mn	mn	mn	shares	mn	mn	mn	\$ bn	\$
TNK-BP Holding	14,550	450	15,000	na	14,550	450	15,000	18.5	1.23
Holding companies									
TNK	3,163		3,163	2.66	8,414	0	8,414	10.4	3.28
Sidanko	232		232	23.49	5,459	0	5,459	6.7	28.96
ONAKO	387		387	1.89	731	0	731	0.9	2.33
Subsidiaries									
Orenburgneft	66.1	27.8	93.8	24.28	1,604	674	2,278	2.8	29.93
Udmurtneft	2.7	0.9	3.6	273.93	732	244	976	1.2	338
Saratovneftegas	2.5	0.8	3.3	81.95	203	68	271	0.3	101
VaryeganNG	18.1	5.9	24.0	28.22	511	166	677	0.8	34.79

*Equity estimates for TNK-BP subsidiaries are based on TNK-BP Holding equity value of \$18.5 billion provided by D&T

na = not applicable

Source: TNK-BP, Metropol estimates

Exhibit 18

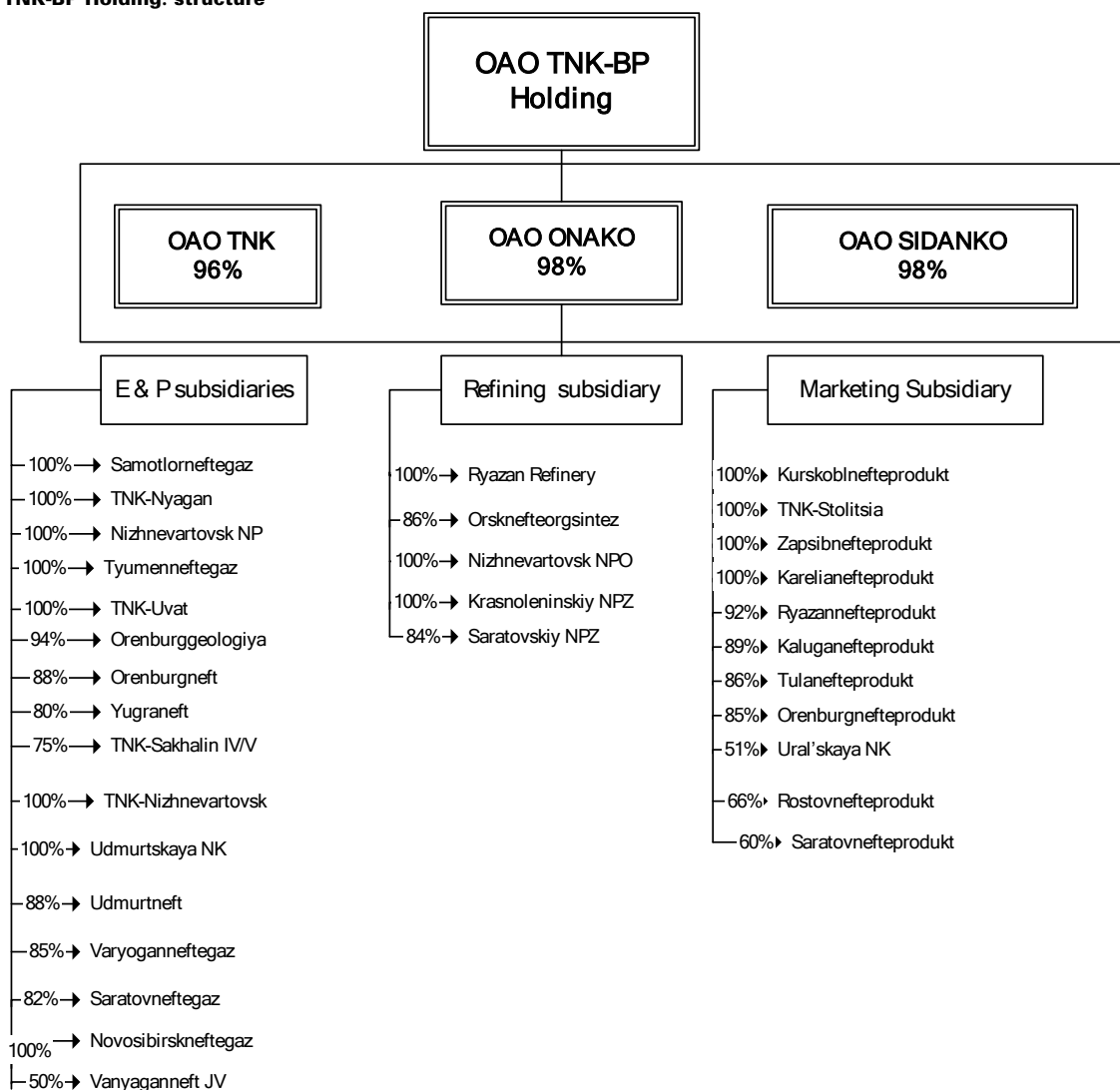
TNK-BP Holding: valuation

TNK-BP Holding	Reserves		Production		EV	Net debt	Equity	D/E	EV/reserves	EV/product'n
	bn bbls	mn tons	bn bbl	mn ton	\$ bn	\$ bn	\$ bn		\$/bbl	\$/bbl
	9.1	1,247	0.5	72.5	21.8	3.3	18.5	18%	2.4	41.3

Source: TNK-BP, Metropol estimates

Exhibit 19

TNK-BP Holding: structure



Source: TNK-BP, Metropol estimates

COMPANY PROFILES

Gazprom

BUY

Price: \$2.75
Target price: \$3.74

16

METROPOL
INVESTMENT FINANCIAL COMPANY

SECTOR UPDATE 2005

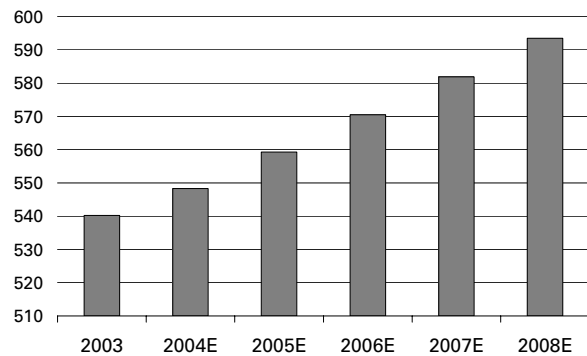
Oil & Gas

Gazprom is the world's largest gas company, with a quarter of the world's gas reserves and over 20% of global annual output. Gazprom ranks fourth in the world by oil equivalent reserves, after the national companies of Saudi Arabia, Iran and Iraq. It is the world's second-largest hydrocarbon producer, with 7.5% of total output, just after Aramco. Gazprom sells gas to three distinct markets – Russia, Europe and the CIS (respectively representing 57%, 27% and 8% of volumes). Gazprom has a 90% market share in Russia and 26% in Europe (20% in Western and 60% in Central and Eastern Europe). It derives most of its profits and cash flow from gas sales to Europe, and some profit from gas sales to CIS countries; it operates its domestic gas supply business at a loss. Management is aiming to restore the domestic business to profit and to expand its profitable export business. In 2004, Gazprom set out on a new strategic course, with the aim of transforming itself from a regional company serving Europe into a global player tapping the North American and Asian markets. Gazprom has earmarked the giant 2.5 tcm Shtokman Gas Field in the Barents Sea to provide 70 bcm/annum in LNG sales to the US market. The company plans to use production from Eastern Siberia, which holds around 20% of Russia's total gas reserves, to generate 110 bcm per annum in exports to Asia by 2020. The development of these two additional areas should increase Gazprom's total annual production by a third, or 180 bcm per annum, by 2015-20, on our estimates. The company has a truly unique position, controlling 16% of gas reserves worldwide and 58% in Russia, with dramatic economies of scale, unquestionable market strength and the strong support of the Russian government.

INVESTMENT DRIVERS

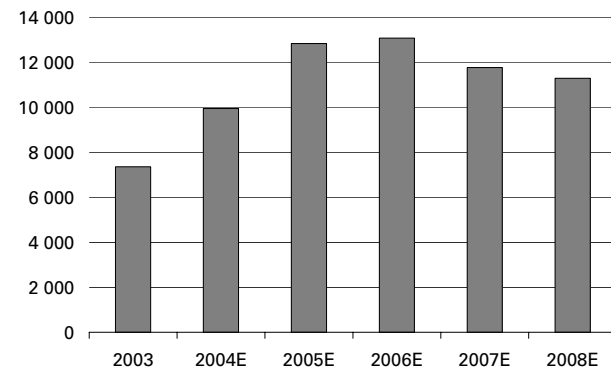
- **Gas export prices to rise by 12% to \$161/kcm** in 2005, on the back of high oil prices in 2004
- **European export volumes to rise by 3.6%** to 158 bcm in 2005, boosting export earnings
- **Should benefit from improving domestic pricing**, as it sells 60% of its gas in the domestic market
- **Domestic gas prices should rise by around 30%** to \$37/kcm in 2005, helped by rising tariffs and appreciation of the ruble
- **Domestic business set to turn profitable again**, providing an increasing share of the group's earnings
- **Internal restructuring set to release hidden value** in functional areas
- **Domestic gas distribution holds significant value potential**
- **Rosneft acquisition and liberalization of Gazprom's equity markets**, targeted for 1H05, should raise the valuation
- Gazprom's global ambitions could lead to additional expansion opportunities
- Capex outlays may exceed the company's and market expectations
- Potential for disappointment of market expectations on the timing of the removal of the ring-fence
- More expensive Central Asian gas purchases may erode the profitability of some of Gazprom's gas sales

Gazprom: gas production, 2003-08E, bcm



E = estimates
Source: Metropol

Gazprom: operating profit, 2003-08E, \$ mn



E = estimates
Source: Metropol

Gazprom: DCF equity valuation

(US\$million)	2005E	2006E	2007E	2008E	2009E	2010E
Operating cash flow	14 599	15 867	15 298	15 011	15 482	16 933
Add back: Net interest expense	-85	-381	-706	-1 037	-1 407	-1 865
Less: Tax shield on net interest expense	14	61	114	167	227	301
Adjusted Operating Cash Flow	14 528	15 548	14 705	14 141	14 302	15 369
Capital expenditures	-9 910	-10 457	-10 125	-9 707	-9 310	-8 934
Dividend	900					
Firm Free CF	5 518	5 091	4 581	4 434	4 992	6 435
Terminal value						113 896
Cash flow for discounting	5 518	5 091	4 581	4 434	4 992	120 331
Constant growth assumption	4,7%					
WACC	10,6%					
DCF (Implied EV)	84 198					
Net Debt	-9 431					
Minority interest	-608					
Implied Equity Value	74 159					
	Domestic	ADR				
Implied Price Per Share	3,74	37,39				
Current Market price	2,53	33,40				
(Discount)/Premium to Fair Price	-32%	-11%				

WACC estimate

Cost of debt	6,1%
Cost of equity	12,1%
Weight of debt	25%
Weight of equity	75%
WACC	10,6%

WACC assumptions

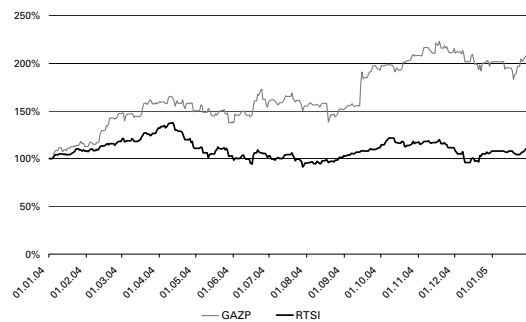
Risk-free rate (10-yr Russian Eurobonds)	7,0%
Corporate borrowing costs	1,0%
Equity risk premium	6,0%
Beta	0,85
Value of Debt	17 801

Gazprom: financial summary, 2003-10E

	2003	2004E	2005E	2006E	2007E	2010E
Key Assumptions						
Average Brent Price, USD/bbl	28,9	38,4	37,0	32,0	28,0	27,6
RUR inflation (CPI), %	12,4%	12,0%	10,0%	8,0%	6,0%	3,0%
RUR/USD, end of period	29,5	27,7	27,0	28,4	29,8	32,5
Nominal RUR devaluation	-7,9%	-6,3%	-2,6%	5,0%	5,0%	2,0%
Real RUR appreciation	18,3%	15,3%	9,6%	-0,4%	-2,2%	-2,0%
Volume Assumptions						
Gas production (bcm)	540	548	559	570	582	617
Liquids and oil production (mm bbls)	81	87	96	106	116	155
Total Production, boe	3 478	3 536	3 614	3 694	3 776	4 038
Change%	3,5%	1,7%	2,2%	2,2%	2,2%	2,3%
% of gas sales exported	38%	36%	37%	37%	38%	40%
Gas sales to Europe (bcm)	145	153	158	165	172	197
% change	12,5%	5,7%	3,2%	4,5%	4,5%	4,5%
Gas sales to Russia (bcm)	308	313	318	322	327	342
% change	3,4%	1,5%	1,5%	1,5%	1,5%	1,5%
Gas sales to FSU (bcm)	43	43	48	49	51	56
Pricing Assumptions						
Average European export price, \$/mcm	123	144	161	147	128	117
% change	22%	17%	12%	-8%	-13%	4%
Domestic gas price, \$/mcm	22	29	37	45	48	54
% change	36%	32%	29%	21%	7%	3%
Income Statement						
Revenues	26 634	33 334	40 100	42 508	42 342	48 255
Operating costs	-19 280	-23 390	-27 274	-29 440	-30 578	-35 009
Operating profit	7 354	9 944	12 827	13 067	11 764	13 246
Pretax profit	7 699	10 239	13 409	13 927	13 003	15 652
Net income before deferred tax	6 223	8 366	11 069	11 496	10 734	12 920
Net income	5 169	8 366	11 069	11 496	10 734	12 920
EBITDA	10 591	13 624	16 884	17 329	16 081	17 777
Cash Flow Statement						
Operating cash flow	7 825	11 410	14 599	15 867	15 298	16 933
Capex investment	-6 952	-8 278	-9 910	-10 457	-10 125	-8 934
Disposals/acquisitions	424	-75	-50	54	84	15
Cash used for investing	-6 527	-8 353	-9 960	-10 403	-10 041	-8 919
Debt issue/(repayment)	666	-779	-3 155	-515	-1 293	-2 216
Equity related	-386	-567	-900	-1 123	-1 124	-1 143
Cash from financing activities	280	-1 346	-4 055	-1 638	-2 417	-3 359
Balance Sheet						
Cash & Investments	5 507	8 370	9 909	13 702	16 822	30 246
Receivables (net)	7 976	9 936	11 700	11 950	11 903	13 761
Inventory	3 780	4 587	5 247	5 476	5 710	6 690
Other Current assets	3 123	3 891	4 582	4 679	4 661	5 389
Fixed assets	67 011	74 958	81 720	82 783	83 429	87 227
Other non-current assets	6 445	7 063	7 525	7 340	7 132	7 097
Total Assets	93 843	108 803	120 682	125 930	129 658	150 410
Accounts payable	4 219	5 120	5 857	6 113	6 374	7 468
Short-term debt	6 724	5 051	2 950	3 240	2 142	506
Other current liabilities	3 524	4 390	5 169	5 280	5 259	6 080
Long-term debt	10 778	12 750	12 101	10 589	9 760	6 161
Other LT liabilities	5 614	6 712	7 774	7 893	8 279	10 229
Shareholders' equity	62 983	74 780	86 831	92 815	97 844	119 967
Total Liabilities & Equity	93 843	108 803	120 682	125 930	129 658	150 410
Total Debt	17 502	17 801	15 051	13 829	11 902	6 666
Net Debt	11 995	9 431	5 142	127	-4 920	-23 579
Credit						
Net debt to equity, %	22	16	9	3	-2	-17
Total debt to total capital, %	24	20	15	13	11	5
Times interest earned	6	8	11	13	14	28
Cash coverage of fixed charges	7	9	13	15	17	31
Profitability (%)						
EBITDA margin	40	41	42	41	38	37
Operating margin	28	30	32	31	28	27
Net margin	23	25	28	27	25	27
Growth (%)						
Revenues	39	25	20	6	0	7
Operating profit	74	35	29	2	-10	12
EBITDA	51	29	24	3	-7	9
Net income	99	34	32	4	-7	13
Return						
ROE, %	8	11	13	12	11	11
per mcm of gas production						
Revenues	49	61	72	75	73	78
Operating cost	-36	-43	-49	-52	-53	-57
Operating profit	14	18	23	23	20	21
EBITDA	20	25	30	30	28	29
Net income	12	15	20	20	18	21
Operating CF	14	21	26	28	26	27
Capex	13	15	18	18	17	14
Free CF	2	6	8	9	9	13
per boe of production						
Revenues	7,7	9,4	11,1	11,5	11,2	11,9
Operating cost	-5,5	-6,6	-7,5	-8,0	-8,1	-8,7
Operating profit	2,1	2,8	3,5	3,5	3,1	3,3
EBITDA	3,0	3,9	4,7	4,7	4,3	4,4
Net income	1,8	2,4	3,1	3,1	2,8	3,2
Operating CF	2,2	3,2	4,0	4,3	4,1	4,2
Capex	1,9	2,4	2,8	2,8	2,7	2,2
Free CF	0,4	0,9	1,3	1,5	1,4	2,0

Source: Gazprom, Metropol estimates

Gazprom: share price performance versus RTS index

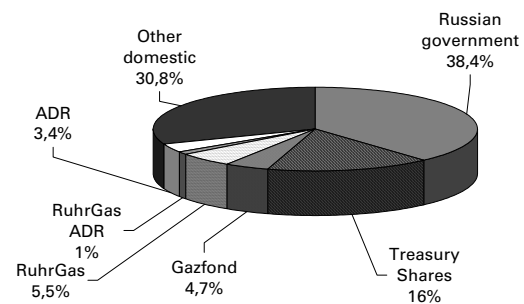


Source: Bloomberg

Gazprom: per share data

MCap (\$mn):	55 654	52 week high:	\$85,85
Daily volume (\$mn):	84,74	52 week low:	\$42,25
Shares Outst. (mn):	19 832,5	Annual Div:	\$0,02
Free float (%):	20	Div.Yield%:	0,8%
Free Float \$mn:	1,94	Pay-out (%):	10,30
GAZPROM(ADR)			
MCap (\$mn):	69 414	52 week high:	\$39,70
Daily volume (\$mn):	18,2	52 week low:	\$26,10
Shares Outst. (mn):	1 983,3	Annual Div:	\$0,24
Free float (%):	3,4	Div.Yield%:	0,7%
Free Float \$mn:	1,94	Pay-out (%):	10,30

Source: Gazprom, Metropol estimates



Source: Gazprom, Metropol estimates

Gazprom: valuation ratios and key drivers, 2003-08E

	2 003	2004E	2005E	2006E	2007E	2008E
Valuation ratios						
P/E	9	6	5	5	5	5
P/Book	1	1	1	1	1	1
EV/EBITDA	6	5	4	3	3	3
EV/Sales	2	2	1	1	1	1
EV/Production	19	18	16	15	13	11
EV/Reserves	0,4	0,4	0,4	0,3	0,3	0,3
Key drivers						
Production growth	4%	2%	2%	2%	2%	2%
Export Growth	10%	5%	5%	4%	4%	4%
Revenue growth	39%	25%	20%	6%	0%	1%
Operating margin	28%	30%	32%	31%	28%	26%
Net margin	19%	25%	28%	27%	25%	25%
EPS growth	663%	62%	32%	4%	-7%	-1%
EBITDA growth	51%	29%	24%	3%	-7%	-3%

Source: Gazprom, Metropol estimates

Gazprom: management information

Address	117997 Moscow, GSP-7, V-240, 14 Nametkina St
Tel/Fax	(095) 719-30-01/719-83-88
CEO	A.Miller
E-mail	O.Borodina@Adm.Gazprom.ru
Web	www.gazprom.ru
Auditors	PricewaterhouseCoopers

Source: Gazprom

LUKoil

BUY

Price: \$31.60
Target price: \$42.60

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Russia's leading integrated oil company produces, refines, and sells oil and oil products; it accounts for 18% of Russia's crude oil production. LUKoil has proved reserves of 20 billion barrels of oil equivalent. The company has operations in 60 regions in Russia and 25 other countries. It owns eight refineries and more than 4,700 service stations. LUKoil has also moved into the US retail market, buying Getty Petroleum Marketing, and by 2004 it owned 2,000 service stations in the US. That year the Russian government sold its remaining 7.6% stake in LUKoil to ConocoPhillips, which announced plans to increase its stake to 20% by 2008. By the end of 2004, ConocoPhillips had raised its stake in LUKoil's equity to 10%.

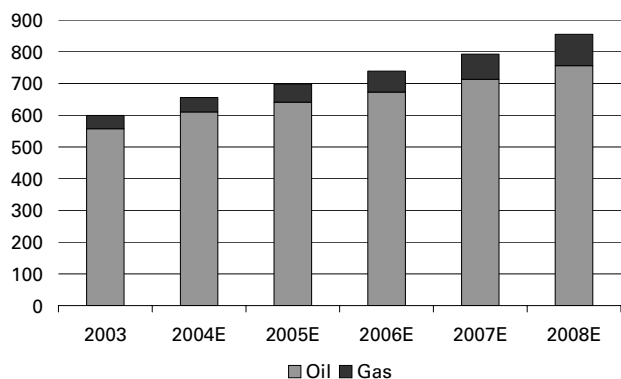
INVESTMENT DRIVERS

- **LUKoil's restructuring should yield efficiency gains and higher production growth.** The spin-off of its LUKoil-Drilling subsidiary that took place in December 2004 should lead to a more aggressive reduction in operating expenses, and raises the potential for upward production growth revisions with the wider application of new production methods
- **LUKoil reduced crude production costs 2.5% YoY to \$2.57/bbl in 3Q04**, despite the 9% real appreciation in the ruble during the period. Lower production costs reflected an increase in the average well flow rate of 10% over the first nine months of 2004, from 9.7 to 10.7 tons/day, while the average well flow rate for new wells increased by 24%, from 35.7 to 44.1 tons/day.
- **Management aims to boost market cap by 60% to \$40 bn (\$49 per share)**, and is hinting at potential new initiatives, which might trigger stock revaluation.
- **The company's focus on capex efficiency should lead to higher DCF value**, boosting market valuation.
- **LUKoil aims to become the world's largest public oil company measured by reserves.** There is potential for it to report new large discoveries of reserves in the Caspian, Egypt, Iran, and Colombia.
- **LUKoil now leads the Russian oil industry in corporate governance and transparency**, following the demise of Yukos.

SECTOR UPDATE 2005

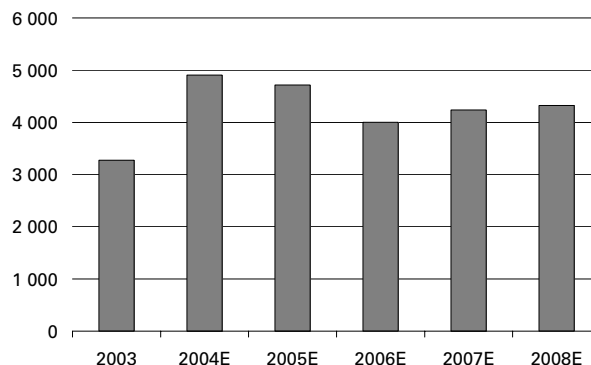
Oil & Gas

LUKoil: oil and gas production, 2003-08E, mn boe



E = estimates
Source: Metropol

LUKoil: operating profit, 2003-08E, \$mn



E = estimates
Source: Metropol

LUKoil: DCF equity valuation

(US\$million)	2005E	2006E	2007E	2008E	2009E	2010E
Operating CF	4 859	5 088	5 344	5 451	5 783	6 370
Add back: Net interest expense	80	(26)	(164)	(252)	(283)	(301)
Less: Tax shield on net interest expense	(16)	5	33	50	56	60
Adjusted Operating Cash Flow	4 923	5 068	5 212	5 248	5 556	6 129
Capex & net Investments	(3 154)	(2 540)	(2 506)	(2 506)	(2 506)	(2 506)
Dividend	710					
Firm Free CF	2 479	2 528	2 706	2 742	3 050	3 623
Terminal value						49 509
Cash flow for discounting	2 479	2 528	2 706	2 742	3 050	53 132
Constant growth assumption	3,9%					
WACC	11,50%					
DCF (Implied EV)	37 398					
Net Debt	(2 185)					
Minority interest	(601)					
Implied Equity Value	34 611					
Implied Price Per Share	42,42					
Current Market price	30,40					
Upside/(Discount) to Market Price	40%					

WACC estimate

Cost of debt	6,1%
Cost of equity	12,5%
Weight of debt	15%
Weight of equity	85%

WACC 11,5%

E = estimates
Source: Company data, Metropol research

WACC assumptions

Risk-free rate (10-yr Russian Eurobonds)	7,0%
Corporate borrowing spread	1,0%
Equity risk premium	6,0%
Beta	0,9
Value of Debt	4 375
Mkt Cap of Equity	24 806

LUKoil: financial summary, 2003-08E

	2003	2004E	2005E	2006E	2007E	2008E
Key Assumptions						
Average Brent Price, USD/bbl	28,71	38,37	37,00	32,00	28,00	26,00
RUR inflation (CPI), %	12%	12%	10%	8%	6%	5%
RUR/USD, end of period	29,45	27,70	27,00	28,35	29,77	30,96
Nominal RUR devaluation	-8%	-6%	-3%	5%	5%	4%
Real RUR appreciation	18%	15%	10%	0%	-2%	-2%

Volume Assumptions						
Oil production ('mm bbls)	558	611	641	673	714	756
Gas production (bcm)	42	45	57	66	79	99
Oil & gas production, MM boe	592	648	689	728	779	838
Refinery throughput	331	333	340	347	354	361
YoY growth, %	5%	1%	2%	2%	2%	2%
Oil production	7%	10%	5%	5%	6%	6%
Total oil & gas production	7%	9%	6%	6%	7%	8%
Throughput (own refineries)	5%	1%	2%	2%	2%	2%
Crude oil export, % of production	44%	53%	54%	55%	57%	58%
Refining, % of production	54%	50%	48%	46%	44%	41%
Product exports, % of product output	88%	100%	100%	100%	100%	100%

Income Statement						
Revenues	22 118	33 744	37 186	35 216	34 298	34 512
Operating costs	-17 044	-26 757	-29 904	-28 429	-27 249	-27 350
Operating profit	3 274	4 906	4 717	4 001	4 237	4 324
Pretax profit	4 744	5 128	4 938	4 092	4 409	4 546
Net income	3 701	4 065	3 901	3 211	3 457	3 557
EBITDA	5 337	6 042	5 975	5 374	5 684	5 841

Cash Flow Statement						
Operating cash flow	4 011	3 926	4 859	5 088	5 344	5 451
Capex investment	-2 945	-2 919	-3 000	-2 500	-2 500	-2 500
Disposals/(acquisitions)	276	-207	-154	-40	-6	-6
Cash used for investing	-2 669	-3 126	-3 154	-2 540	-2 506	-2 506
Debt issue/(repayment)	366	571	-683	-1 607	-1 845	-265
Equity related	-539	-710	-780	-749	-615	-661
Cash from financing activities	-173	-140	-1 463	-2 355	-2 461	-926
Net change in cash	1 169	660	242	193	377	2 018
Free cash flow	1 342	800	1 705	2 548	2 838	2 945

Balance Sheet						
Cash & Investments	1 686	2 507	2 780	2 665	2 607	2 623
Receivables(net)	3 790	5 782	6 372	6 034	5 877	5 914
Inventory	1 243	1 951	2 181	2 073	1 987	1 995
Other Current assets	1 204	1 837	2 024	1 917	1 867	1 879
Fixed assets	17 873	20 078	22 152	23 461	24 652	25 754
Other non-current assets	778	985	1 139	1 179	1 185	1 191
Total Assets	26 574	33 140	36 648	37 330	38 229	40 999
Accounts payable	1 564	2 455	2 744	2 609	2 500	2 510
Short-term debt	1 412	415	484	888	265	271
Other current liabilities	1 352	2 063	2 273	2 153	2 097	2 110
Long-term debt	2 392	2 179	1 700	802	-26	-297
Other LT liabilities	459	581	672	695	699	702
Shareholders' equity	17 472	20 997	24 244	26 739	29 585	32 484
Total Liabilities & Equity	26 574	33 140	36 648	37 330	38 229	40 999
Total Debt	3 804	4 375	3 691	2 085	239	-26
Net Debt	2 369	2 185	1 279	-200	-2 040	-3 909

Credit						
Net debt to equity	14	10	5	nm	nm	nm
Total debt to total capital	18	17	13	7	1	0
Times interest earned	17	15	15	17	46	504
Cash coverage of fixed charges	16	12	15	22	55	598

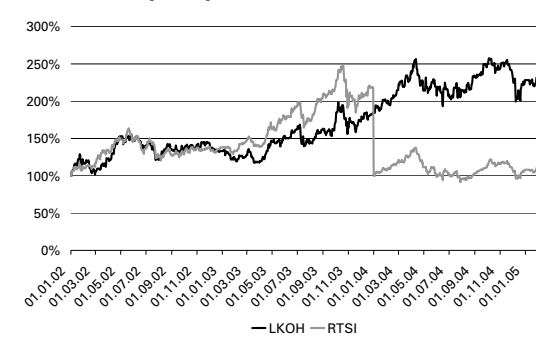
Profitability						
EBITDA margin	24	18	16	15	17	17
Operating margin	15	15	13	11	12	13
Net margin	17	12	10	9	10	10

Growth						
Revenues	44	53	10	-5	-3	1
Operating profit	29	50	-4	-15	6	2
EBITDA	58	13	-1	-10	6	3
Net income	101	10	-4	-18	8	3

Return						
ROE, %	21	19	16	12	12	11
ROIC	25	24	21	18	18	17

per barrel						
Revenues	39,7	55,3	58,0	52,3	48,1	45,6
Operating cost	30,6	43,8	46,6	42,2	38,2	36,2
Operating profit	5,9	8,0	7,4	5,9	5,9	5,7
EBITDA	9,6	9,9	9,3	8,0	8,0	7,7
Net income	6,6	6,7	6,1	4,8	4,8	4,7
Operating CF	7,2	6,4	7,6	7,6	7,5	7,2
Capex	5,3	4,8	4,7	3,7	3,5	3,3
Free CF	2,4	1,3	2,7	3,8	4,0	3,9

Source: LUKoil, Metropal estimates

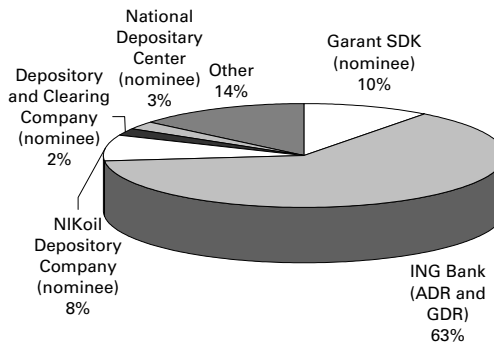
LUKoil: share price performance versus RTS Index


Source: Bloomberg

LUKoil: per share data

MCap (\$mn):	24,8	52 week high:	26,5
Daily volume (\$mn):	1,3	52 week low:	13,8
Shares Out (mn):	815,5	Annual Div:	0,5
Free float (%):	63,0	Div.Yield%:	1,6
Free Float \$mn:	15,6	Pay-out (%):	21,4

Source: LUKoil, Metropal estimates

LUKoil: shareholder structure


Source: LUKoil, Metropal estimates

LUKoil: valuation ratios and key drivers, 2003-08E

	2003	2004E	2005E	2006E	2007E	2008E
Valuation ratios						
P/E	6,5	5,9	6,1	7,5	6,9	6,7
P/Book	1,4	1,1	1,0	0,9	0,8	0,7
EV/EBITDA	4,9	4,3	4,2	4,4	3,9	3,4
EV/Sales	1,2	0,8	0,7	0,7	0,6	0,6
EV/Production	44,1	41,0	38,1	34,4	30,1	26,1
EV/Reserves	1,2	1,2	1,2	1,1	1,0	0,9
Key drivers						
Production growth	7%	9%	6%	6%	7%	8%
Export Growth	25%	32%	7%	7%	9%	8%
Revenue growth	44%	53%	10%	-5%	-3%	1%
Operating margin	15%	15%	13%	11%	12%	13%
Net margin	17%	12%	10%	9%	10%	10%
EPS growth	102%	10%	-4%	-18%	8%	3%
EBITDA	58%	13%	-1%	-10%	6%	3%

E = estimates

Source: LUKoil, Metropal estimates

LUKoil: management information

Address	101000 Moscow, 11 Sretensky Blvd
Tel/Fax	(8095) 928-98-41/927-49-99
CEO	V.Alekperov
E-mail	investor@lukoil.com
Web	www.lukoil.com
Auditors	KPMG

Source: LUKoil

Sibneft

HOLD

Price: \$3.15
Target price: \$3.19

22

 METROPOL
INVESTMENT FINANCIAL COMPANY

One of Russia's largest integrated oil companies, Siberian Oil Company (Sibneft) is engaged in exploration, production, refining, and marketing of petroleum products. Retail operations include about 1,200 service stations, primarily in Siberia. The company has proved reserves of 2.4 billion barrels of oil equivalent, and controls refineries in Omsk and Moscow that produce more than 500,000 barrels of oil products per day.

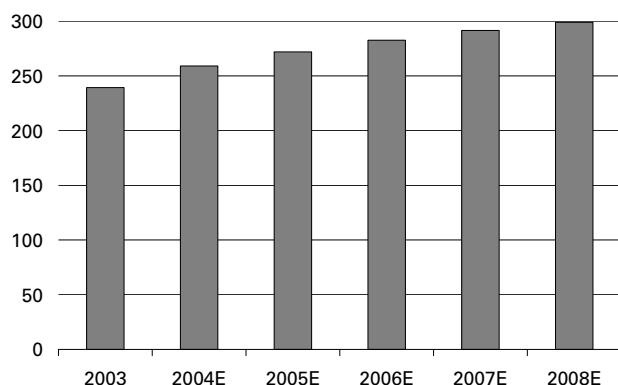
INVESTMENT DRIVERS

- **Underperformed its initial 2003 and 2004 production targets**, but still demonstrated respectable 8% output growth in 2004. Sibneft's managed and 50% owned Slavneft posted 24% production growth in 2004. Management plans to reveal its new long-term production and capex policy at the company's presentation on March 14.
- **Oligarchic risk may hold down share price.** There is a high risk of substantial back tax charges leading to expropriation of assets as happened to Yukos. Sibneft still has the threat of a back tax charge of \$1.5 bn for 2000 hanging over it, and this might hold down its share price
- **A substantial \$1.3 billion dividend for 2004** (60% earnings payout) is possible, as well as a stock buy-back from core owners (a method used by Sibneft owners in the past), as Sibneft's owners might prefer to cash out their earnings, because of the back taxes and expropriation risks.
- **Sibneft's de-merger from Yukos opens the way for a potential sale to an international major.**
- The introduction of a new, differentiated production tax system could penalize Sibneft, because of the company's higher-than-average well flow rate.

SECTOR UPDATE 2005

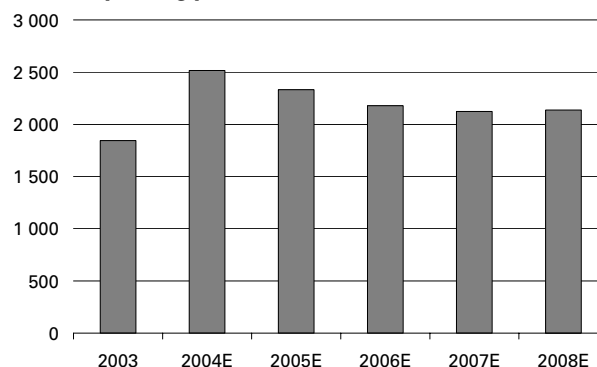
Oil & Gas

Sibneft: oil and gas production, 2003-08E, mn boe



E = estimates
Source: Metropol

Sibneft: operating profit, 2003-08E, \$ mn



E = estimates
Source: Metropol

Sibneft: DCF equity valuation

(US\$million)	2005E	2006E	2007E	2008E	2009E	2010E
Operating cash flow	2 324	2 333	2 400	2 465	2 619	2 795
Add back: Net interest expense	161	135	89	40	9	61
Less: Tax shield on net interest expense	-32	-27	-18	-8	-2	-12
Adjusted Operating Cash Flow	2 453	2 441	2 471	2 498	2 626	2 844
Capex	-950	-1 000	-903	-859	-903	-945
Dividend for 2004	1 289					
Back Tax Charges for 2000-01	-1 500					
Firm Free CF	1 292	1 441	1 568	1 638	1 723	1 899
Terminal value						21 432
Cash flow for discounting	1 292	1 441	1 568	1 638	1 723	23 330
Constant growth assumption	3,9%					
WACC	13,1%					
DCF (Implied EV)	16 428					
Net Debt	-1 367					
Minority interest	0					
Implied Valuation of Sibneft business	15 061					
Implied Price Per Share	3,18					
Current Market price	2,97					
Upside/(Discount) to Market Price	7%					

WACC estimate

Cost of debt	6,8%
Cost of equity	13,8%
Weight of debt	10%
Weight of equity	90%
WACC	13,1%

WACC assumptions

Risk-free rate (10-yr Russian Eurobonds)	7,0%
Corporate borrowing spread	2,0%
Equity risk premium	6,0%
Beta	1,13
Value of Debt	1 517
Mkt Cap of Equity	14 081

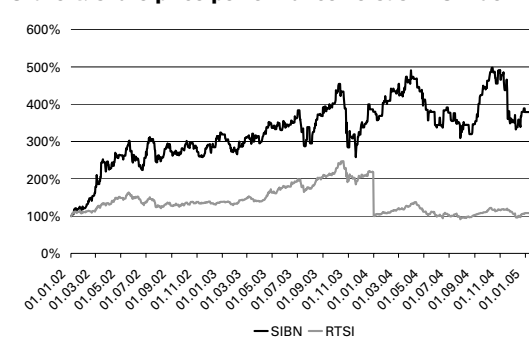
E = Metropol research estimates
Source: Company data, Metropol research

Sibneft: financial summary, 2003-10E

	2003	2004E	2005E	2006E	2007E	2010E
Key Assumptions						
Average Brent Price, USD/bbl	28,87	38,37	37,00	32,00	28,00	27,58
RUR inflation (CPI), %	12%	12%	10%	8%	6%	3%
RUR/USD, end of period	29,45	27,70	27,00	28,35	29,77	32,52
Nominal RUR devaluation	-8%	-6%	-3%	5%	5%	2%
Real RUR appreciation	18%	15%	10%	0%	-2%	-2%
Volume Assumptions						
Oil production ('mm bbls)	227	245	258	268	276	294
Gas production (bcm)	2,0	2,2	2,3	2,4	2,4	2,6
Oil & gas production, MM boe	239	259	272	283	292	310
Refinery throughput	129	131	133	134	135	139
YoY growth, %						
Oil production	19%	8%	5%	4%	3%	2%
Total oil & gas production	17%	8%	5%	4%	3%	2%
Throughput (own refineries)	5%	1%	1%	0%	0%	0%
Crude oil export, % of production	40%	45%	46%	48%	49%	51%
Refining, % of production	57%	53%	52%	50%	49%	47%
Product exports, % of product output	33%	33%	33%	33%	33%	33%
Income Statement						
Revenues	6 716	9 694	10 981	10 518	9 988	11 042
Operating costs	-3 847	-5 643	-6 694	-6 152	-5 610	-6 272
Operating profit	1 844	2 516	2 332	2 178	2 123	2 406
Pretax profit	2 462	2 727	2 533	2 398	2 405	2 919
Net income	2 278	2 182	2 026	1 918	1 924	2 335
EBITDA	2 337	3 063	2 904	2 789	2 774	3 112
Cash Flow Statement						
Operating cash flow	2 518	2 324	2 337	2 342	2 409	2 805
Capex investment	-985	-800	-950	-1 000	-903	-945
Disposals/(acquisitions)	162	-1	-1	-0	-0	-0
Cash used for investing	-822	-801	-951	-1 000	-903	-945
Debt issue/(repayment)	-647	-72	-185	-5	-529	5
Equity related	-1 339	-1 309	-304	-288	-288	-346
Cash from financing activities	-1 987	-1 381	-489	-292	-816	-341
Net change in cash	-291	142	897	1 049	690	1 519
Free cash flow	1 696	1 523	1 386	1 342	1 506	1 860
Balance Sheet						
Cash & Investments	105	151	321	979	1 247	3 599
Receivables(net)	1 321	1 907	2 161	2 069	1 965	2 173
Inventory	287	421	500	459	419	468
Other Current assets	27	38	43	42	39	44
Fixed assets	10 802	7 184	8 133	9 107	9 958	12 565
Other non-current assets	5	6	7	8	8	8
Total Assets	12 590	9 763	11 229	12 730	13 702	18 923
Accounts payable	847	1 242	1 474	1 354	1 235	1 381
Short-term debt	368	294	109	628	100	110
Other current liabilities	101	146	166	159	151	167
Long-term debt	1 221	1 223	1 223	700	700	200
Other LT liabilities	286	202	216	230	238	257
Shareholders' equity	5 138	6 010	7 732	9 363	10 998	16 499
Total Liabilities & Equity	8 150	9 391	11 229	12 730	13 702	18 923
Total Debt	1 589	1 518	1 333	1 328	800	310
Net Debt	1 485	1 367	1 012	349	-447	-3 289
Credit						
Net debt to equity	29	23	13	4	nm	nm
Total debt to total capital	24	20	15	12	7	2
Times interest earned	11	13	12	12	15	66
Cash coverage of fixed charges	14	15	15	16	20	85
Profitability						
EBITDA margin	35	32	26	27	28	28
Operating margin	27	26	21	21	21	22
Net margin	34	23	18	18	19	21
Growth						
Revenues	41	44	13	-4	-5	5
Operating profit	32	36	-7	-7	-3	6
EBITDA	30	31	-5	-4	-1	5
Net income	97	-4	-7	-5	0	8
Return						
ROE, %	44	36	26	20	17	14
per barrel						
Revenues	29,6	39,5	42,6	39,3	36,2	37,6
Operating cost	17,0	23,0	26,0	23,0	20,3	21,4
Operating profit	8,1	10,3	9,1	8,1	7,7	8,2
EBITDA	10,3	12,5	11,3	10,4	10,0	10,6
Net income	10,0	8,9	7,9	7,2	7,0	8,0
Operating CF	11,1	9,5	9,1	8,7	8,7	9,6
Capex	4,3	3,3	3,7	3,7	3,3	3,2
Free CF	7,5	6,2	5,4	5,0	5,5	6,3

E = estimates

Source: Sibneft, Metropol estimates

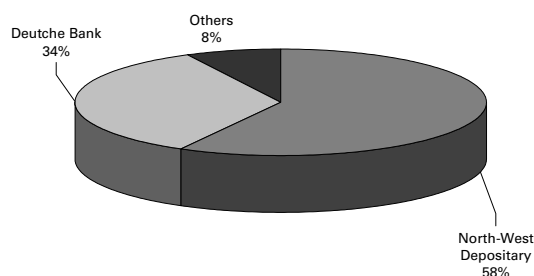
Sibneft: share price performance versus RTS Index


Source: Bloomberg

Sibneft: per share data

MCap (\$mn):	3 891	52 week high:	\$0,25
Daily volume (\$mn):	0,05	52 week low:	\$0,82
Shares Outst. (mn):	1 310,0	Annual Div:	n/a
Free float (%):	5	Div.Yield%:	n/a
Free Float \$mn:	195	Pay-out (%):	n/a
Bid/Ask price (\$)	0.75/0.77	Spread (%)	3%

Source: Sibneft, Metropol estimates

Sibneft: shareholder structure


Source: Sibneft, Metropol estimates

Sibneft: valuation ratios and key drivers, 2003-2008E

	2003	2004E	2005E	2006E	2007E	2008E
Valuation ratios						
P/E	6,5	6,7	7,3	7,7	7,6	7,4
P/Book	2,9	2,4	1,9	1,6	1,3	1,2
EV/EBITDA	6,9	5,2	5,4	5,4	5,1	4,8
EV/Sales	2,4	1,7	1,4	1,4	1,4	1,3
EV/Production	67,6	62,0	57,8	53,2	48,9	44,7
EV/Researves	3,4	3,4	3,3	3,2	3,0	2,8
Key drivers						
Production growth	8%	5%	4%	3%	3%	2%
Revenue growth	44%	13%	-4%	-5%	1%	5%
Operating margin	27%	26%	21%	21%	21%	21%
Net margin	34%	23%	18%	18%	19%	20%
EPS growth	97%	-4%	-7%	-5%	0%	3%
EBITDA growth	30%	31%	-5%	-4%	-1%	1%

E = estimates

Source: Sibneft, Metropol estimates

Sibneft: management information

Address 113035 Moscow, 4 Sadovnicheskaya St
Tel/Fax (095) 777-31-52/777-31-51
CEO E.Shvidler
E-mail alexeytug@sibneft.ru
Web www.sibneft.com
Auditors Ernst&Young

Source: Sibneft

Surgut

SELL

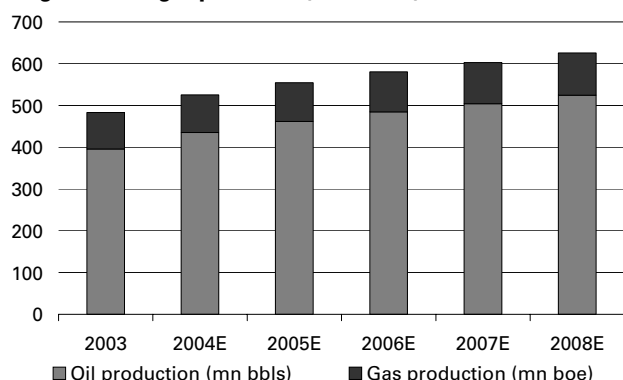
Price: \$0.76
Target price: \$0.61

Surgutneftegas has emerged as one of Russia's largest integrated oil companies. The production association Surgutneftegas became a joint stock company in 1993, as part of the privatization of Russia's oil industry. Surgutneftegas has recoverable reserves of about 2.5 billion tons of oil equivalent, and accounts for about 13% of total oil production in Russia. Although the company has a reputation for being conservatively managed (it still invests heavily in social programs in Surgut, and, unlike its peers, has not expanded internationally), Surgutneftegas is committed to new technology, drilling about 90 horizontal wells a year.

INVESTMENT DRIVERS

- **Lack of interest in increasing the company's market capitalization, poor corporate governance and lack of transparency** drive away portfolio investors.
- **Vulnerable to appreciating ruble and high production tax.** Higher relative production costs and share of domestic and CIS sales (resulting in lower revenue realizations) make Surgutneftegas's earnings more sensitive to and damaged by the higher production tax and appreciation of the ruble.
- **Significant purchasing power.** Its \$7 bn net cash position provides Surgut with substantial purchasing power, putting it in a good position to acquire the remaining Yukos assets. However, it also makes the company vulnerable to devaluation of the dollar, if its cash balance is invested in dollar-denominated instruments (which the company does not disclose).
- **An alliance with Gazprom and Rosneft** to develop Eastern Siberian resources may yield new upstream opportunities. Its license to develop the 1 bn bbl Talakan field in Eastern Siberia is an important breakthrough.
- **The 'corporate governance discount' applied to the shares could provide an investment opportunity** if the company's policy approach is reversed.

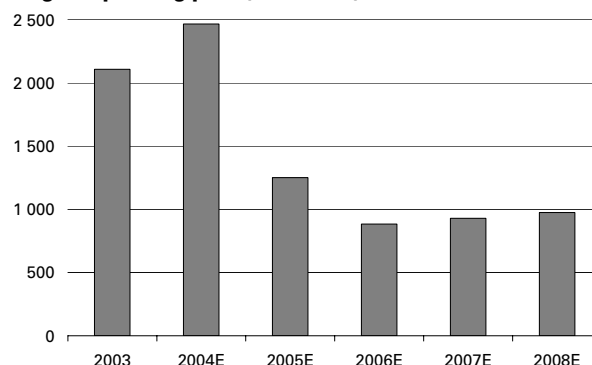
Surgut: oil and gas production, 2003-08E, mn boe



E = estimates

Source: Metropol

Surgut: Operating profit, 2003-08E, \$ mn



E = estimates

Source: Metropol

Surgut: DCF equity valuation

(US\$million)	2005E	2006E	2007E	2008E	2009E	2010E
Operating cash flow	2,570	2,497	2,554	2,622	2,836	3,114
Add back: Net interest expense	(272)	(295)	(304)	(307)	(333)	(360)
Less: Tax shield on net interest expense	65	71	73	74	80	86
Adjusted Operating Cash Flow	2,363	2,273	2,323	2,388	2,583	2,841
Capital expenditures	(1,597)	(1,692)	(1,752)	(1,826)	(1,879)	(1,936)
Dividend for 2004	234					
Firm Free CF	1,001	580	571	562	704	904
Terminal value						9,665
Cash flow for discounting	1,001	580	571	562	704	10,569
Constant growth assumption	3.9%					
WACC	13.6%					
DCF (Implied EV)	7,341					
Less: Net Debt	6,817					
Less: Minority interest	(11)					
Implied Equity Value	14,147					
Prefs discount to common	30%					

	Common	Prefs
Number of shares outstanding, million	19,087	6,761
Equity value, USD million	11,557	2,590
Implied Price Per Share	0.61	0.38
Current Market price	0.75	0.54
Upside/(Discount) to Market Price	-19%	-29%

WACC estimate

Cost of debt	6.1%
Cost of equity	13.8%
Weight of debt	2%
Weight of equity	98%
WACC	13.6%

WACC assumptions

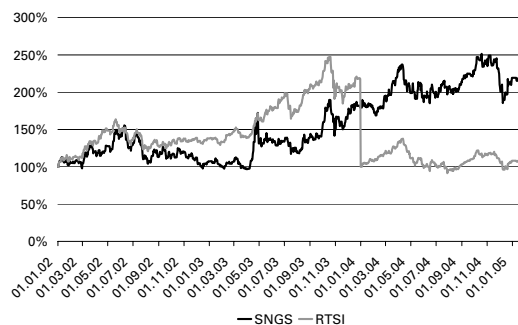
Risk-free rate (10-yr Russian Eurobonds)	7.0%
Corporate borrowing spread	1.0%
Beta	1.13
Equity risk premium	6.0%
Value of Debt	374
Mkt Cap of Equity	17,878

E = Metropol research estimates
Source: Company data, Metropol research

Surgut: financial summary, 2003-08E

	2003	2004E	2005E	2006E	2007E	2008E
Key Assumptions						
Average Brent Price, USD/bbl	28,87	38,37	37,00	32,00	28,00	26,00
RUR inflation (CPI), %	12,4%	12,0%	10,0%	8,0%	6,0%	5,0%
RUR/USD, end of period	29,45	27,70	27,00	28,35	29,77	30,96
Nominal RUR devaluation	-7,9%	-6,3%	-2,6%	5,0%	5,0%	4,0%
Real RUR appreciation	18,3%	15,3%	9,6%	-0,4%	-2,2%	-2,1%
Volume Assumptions						
Oil production (mn bbls)	396	435	462	485	504	524
Gas production (mn boe)	87	90	93	95	98	101
Oil & gas production, MM boe	483	525	554	580	603	626
Refinery throughput	111	112	113	113	114	114
YoY growth, %						
Oil production	10%	10%	6%	5%	4%	4%
Total oil & gas production	9%	9%	6%	5%	4%	4%
Throughput (own refineries)	0,0%	0,5%	0,5%	0,5%	0,5%	0,5%
Crude oil export, % of production	57%	61%	63%	65%	66%	67%
Refining, % of production	28%	26%	24%	23%	23%	22%
Product exports, % of product output	79%	79%	79%	79%	79%	79%
Income Statement						
Revenues	9 045	13 046	14 463	13 366	12 492	12 699
Operating costs	-5 059	-6 738	-8 238	-8 337	-8 123	-8 394
Operating profit	2 108	2 467	1 251	884	929	975
Pretax profit	2 244	2 712	1 549	1 210	1 259	1 329
Net income	1 705	2 061	1 177	919	957	1 010
EBITDA	2 768	3 189	2 049	1 754	1 875	1 995
Cash Flow Statement						
Operating cash flow	2 796	3 405	2 663	2 426	2 498	2 635
Capex investment	-1 343	-1 534	-1 597	-1 692	-1 752	-1 826
Disposals/(acquisitions)	-1 243	-1 331	-987	-256	-38	-38
Cash used for investing	-2 585	-2 865	-2 583	-1 948	-1 790	-1 864
Debt issue/(repayment)	73	137	-86	-22	-17	4
Equity related	-60	-83	-234	-249	-148	-120
Cash from financing activities	13	54	-320	-271	-165	-116
Net change in cash	71	333	-333	278	600	641
Free cash flow	58	279	-13	549	765	757
Balance Sheet						
Cash & Investments	1 236	865	723	668	625	635
Receivables(net)	762	1 100	1 219	1 127	1 053	1 070
Inventory	882	1 174	1 436	1 453	1 415	1 463
Other Current assets	320	461	511	473	442	449
Fixed assets	9 969	11 611	13 424	14 966	15 980	16 814
Other non-current assets	0	0	0	0	0	0
Total Assets	16 046	18 589	20 664	21 573	22 230	23 156
Accounts payable	878	1 169	1 429	1 446	1 409	1 456
Short-term debt	180	295	288	266	249	253
Other current liabilities	372	536	594	549	513	522
Long-term debt	56	79	0	0	0	0
Other LT liabilities						
Shareholders' equity	13 897	15 733	16 638	17 402	18 238	19 122
Total Liabilities & Equity	16 046	18 589	19 801	20 556	21 344	22 345
Total Debt	237	374	288	266	249	253
Net Debt	-5 995	-6 817	-7 748	-7 971	-7 983	-8 027
Credit						
Net debt to equity	-0,43	-0,43	-0,47	-0,46	-0,44	-0,42
Total debt to total capital	0,02	0,02	0,02	0,02	0,01	0,01
Times interest earned	122	97	52	49	55	nm
Cash coverage of fixed charges	143	113	86	101	111	nm
Profitability						
EBITDA margin	31	24	14	13	15	16
Operating margin	23	19	9	7	7	8
Net margin	19	16	8	7	8	8
Growth						
Revenues	35	44	11	-8	-7	2
Operating profit	8	17	-49	-29	5	5
EBITDA	9	15	-36	-14	7	6
Net income	6	21	-43	-22	4	6
Return						
ROE, %	12	13	7	5	5	5
per barrel						
Revenues	22,8	30,0	31,3	27,6	24,8	24,2
Operating cost	12,8	15,5	17,8	17,2	16,1	16,0
Operating profit	5,3	5,7	2,7	1,8	1,8	1,9
EBITDA	7,0	7,3	4,4	3,6	3,7	3,8
Net income	4,3	4,7	2,5	1,9	1,9	1,9
Operating CF	6,7	7,2	5,6	5,2	5,1	5,0
Capex	3,7	3,4	3,5	3,5	3,5	3,5
Free CF	0,1	0,6	0,0	1,1	1,5	1,4

Source: Surgut, Metropol estimates

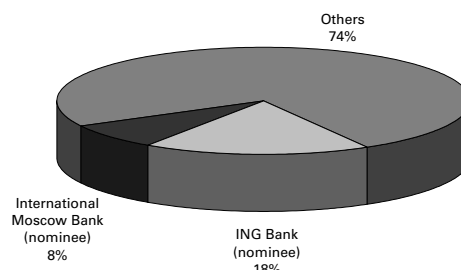
Surgut: share price performance versus RTS Index


Source: Bloomberg

Surgut: per share data

MCap (\$mn):	26 616	52 week high:	\$0,53
Daily volume (\$mn):	1,25	52 week low:	\$0,29
Shares Outst. (mn):	35 726	Annual Div:	\$0,00
Free float (%):	55	Div.Yield%:	0,14
Free Float \$mn:	14 639	Pay-out (%)	2,30

Source: Surgut, Metropol estimates

Surgut: shareholder structure


Source: Surgut, Metropol estimates

Surgut: valuation ratios and key drivers, 2003-08E

	2003	2004E	2005E	2006E	2007E	2008E
Valuation ratios						
P/E	10,2	8,5	14,8	19,0	18,2	17,3
P/Book	1,3	1,1	1,0	1,0	1,0	0,9
ROCE	14%	15%	7%	5%	5%	5%
EV/EBITDA	4,1	3,3	4,7	5,4	5,0	4,7
EV/Sales	1,3	0,8	0,7	0,7	0,8	0,7
EV/Production	23,7	20,2	17,5	16,3	15,7	15,0
EV/Reserves	1,3	1,2	1,1	1,1	1,1	1,1
Key drivers						
Production growth	10%	10%	6%	5%	4%	4%
Revenue growth	35%	44%	11%	-8%	-7%	2%
Operating margin	23%	19%	9%	7%	7%	8%
Net margin	19%	16%	8%	7%	8%	8%
EPS growth	6%	21%	-43%	-22%	4%	6%
EBITDA growth	9%	15%	-36%	-14%	7%	6%

E = estimates

Source: Surgut, Metropol estimates

Surgut: management information

Address	628400 Tyumen Region, Surgut, 1 Kukuyevitskoj
Tel/Fax	(3462)42-6133/(3462)42-6495
CEO	Vladimir Bogdanov
E-mail	Dzhdanovich@msk.surgutneftegas.ru
Web	www.surgutneftegas.ru
Auditors	Arthut Andersen

Source: Surgut

Tatneft

SELL

Price: \$1.62
Target price: \$1.08

28

 METROPOL
INVESTMENT FINANCIAL COMPANY

One of Russia's largest integrated oil companies, Tatneft explores for, produces, refines, and markets oil and gas. Tatneft is sitting on 6 bn barrels of proved crude oil reserves, and accounts for about 8% of Russia's total oil production. It also has proved reserves of 1.5 trillion cu. ft. of natural gas. The company has formed joint ventures and strategic alliances with Russian and Western oil and gas companies. The Tatar government owns a third of Tatneft, which has formed its first joint venture to develop fields outside Tatarstan (in the southern Russian republic of Kalmykia).

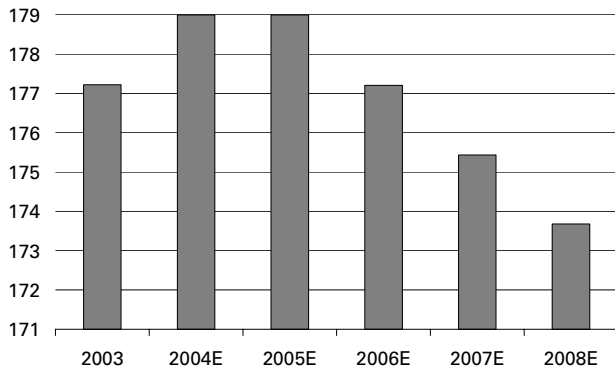
INVESTMENT DRIVERS

- **The introduction of a flat production tax rate in 2004 has materially increased the tax burden** on Tatneft, squeezing its earnings.
- **It is vulnerable to the appreciating ruble and the high production tax.** Its mature reserve base, high relative production costs and higher share of domestic and CIS sales (resulting in lower revenue realizations) make Tatneft's earnings very vulnerable to higher production tax and the appreciation of the ruble. Declining production and a conservative management limit the company's ability to cut operating costs.
- **Delayed financial results could disappoint.** The delay in publication of the 2003 and 1H04 IAS financials has significantly lowered Tatneft's transparency. According to management, the 2003 IAS financials may be released in February 2005, while the 1H04 results are targeted for publication in March. We believe that Tatneft's financial results could disappoint market expectations.
- **The reversal of the sale of Tupras to Tatneft removes the upside potential.** Turkey's decision to cancel the privatization of the country's largest refiner, Tupras, which Tatneft has bought, removes any upside potential for Tatneft's equity, in our view.
- Diversification should benefit the bottom line, supporting earnings in a falling oil price environment.

SECTOR UPDATE 2005

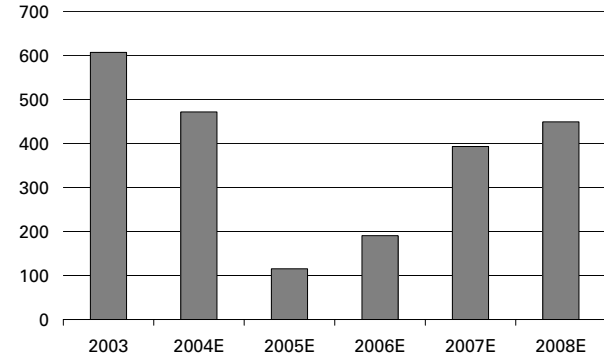
Oil & Gas

Tatneft: oil and gas production, 2003-08E, mn boe



E = estimates
Source: Metropol

Tatneft: Operating profit, 2003-08E, \$ mn



E = estimates
Source: Metropol

Tatneft: DCF equity valuation

(US\$million)	2005E	2006E	2007E	2008E	2009E	2010E
Operating cash flow	358	554	680	681	680	716
Add back: Net interest expense	75	74	43	17	4	(1)
Less: Tax shield on net interest expense	(15)	(15)	(8)	(3)	(1)	0
Adjusted Operating Cash Flow	418	614	715	695	683	715
Investments	-427	-422	-418	-414	-410	-406
Expected Dividends	4					
Firm Free CF	(8)	191	296	281	273	309
Terminal value						4,208
Cash flow for discounting	(8)	191	296	281	273	4,517

Constant growth assumption	3.0%
WACC	10.5%
DCF (Implied EV)	3,203
Less: Net Debt	(722)
Less: Minority interest	(263)
Implied Equity Value	2,219

Prefs discount to common 50%

	Common	Prefs
Number of outstanding shares, million	1,990	148
Equity value, USD million	2,142	77
Implied Price Per Share	1.08	0.52
Current Market price	1.55	0.80
(Discount)/Premium to Fair Price	44%	54%

WACC estimate

Cost of debt	7.6%
Cost of equity	11.4%
Weight of debt	24%
Weight of equity	76%
WACC	10.5%

WACC assumptions

Risk-free rate (10-yr Russian Eurobonds)	7.0%
Corporate borrowing spread	3.0%
Equity risk premium	6.0%
Beta	0.74
Value of Debt	1,018
Mkt Cap of Equity	3,185

E = estimates
Source: Company data, Metropol research

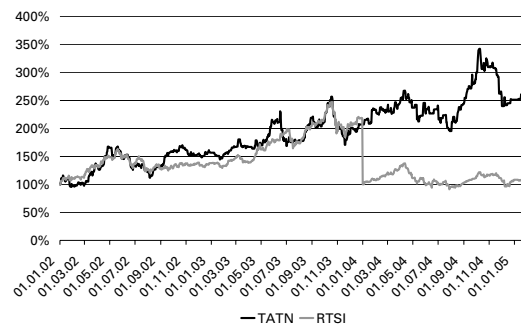
Tatneft: financial summary, 2003-08E

	2003	2004E	2005E	2006E	2007E	2008E
Key Assumptions						
Average Brent Price, USD/bbl	28,87	38,37	37,00	32,00	28,00	26,00
RUR inflation (CPI), %	12,4%	12%	10%	8%	6%	5%
RUR/USD, end of period	29,45	27,70	27,00	28,35	29,77	30,96
Nominal RUR devaluation	-7,9%	-6,3%	-2,6%	5,0%	5,0%	4,0%
Real RUR appreciation	18,3%	15,3%	9,6%	-0,4%	-2,2%	-2,1%
Volume Assumptions						
Oil production ('mm bbls)	177	179	179	177	175	174
Gas production (bcm)	0	0	0	0	0	0
Oil & gas production, MM boe	177	179	179	177	175	174
Refinery throughput	78,9	79,7	80,2	80,4	80,6	80,8
YoY growth, %						
Oil production	0%	1%	0%	-1%	-1%	-1%
Total oil & gas production	0%	1%	0%	-1%	-1%	-1%
Throughput (own refineries)	37%	1%	1%	1%	1%	1%
Crude oil export, % of production	44%	44%	44%	44%	44%	44%
Refining, % of production	45%	45%	45%	45%	46%	47%
Product exports, % of product output	41%	41%	41%	41%	41%	41%
Income Statement						
Revenues	5 187	7 112	7 815	7 299	6 763	6 601
Operating costs	-4 580	-6 641	-7 700	-7 108	-6 370	-6 152
Operating profit	607	472	115	190	393	449
Pretax profit	591	405	47	166	406	490
Net income	447	310	37	129	315	381
EBITDA	855	746	411	488	683	733
Cash Flow Statement						
Operating cash flow	589	382	358	554	680	681
Capex investment	422	427	427	422	418	414
Disposals/(acquisitions)	422	427	427	422	418	414
Cash used for investing	431	452	415	394	399	403
Debt issue/(repayment)	-189	-179	-228	-110	-95	11
Equity related	0	58	335	-96	-268	-13
Cash from financing activities	-189	-121	107	-206	-363	-1
Net change in cash	-40	-199	46	-47	-86	270
Free cash flow	157	-71	-57	160	281	278
Balance Sheet						
Cash & Investments	553	437	407	334	318	687
Receivables(net)	604	824	887	798	739	725
Inventory	402	590	669	586	518	501
Other Current assets	1 188	1 622	1 744	1 570	1 455	1 426
Fixed assets	5 412	5 914	6 201	6 027	5 866	5 769
Other non-current assets	163	200	193	157	131	115
Total Assets	8 471	9 753	10 289	9 670	9 236	9 449
Accounts payable	489	717	814	713	630	610
Short-term debt	665	681	567	490	394	386
Other current liabilities	480	656	705	635	588	577
Long-term debt	410	276	183	117	90	90
Other LT liabilities	1 120	1 359	1 413	1 404	1 485	1 609
Shareholders' equity	5 157	5 799	5 983	5 823	5 851	5 995
Total Liabilities & Equity	8 471	9 753	10 289	9 670	9 236	9 449
Total Debt						
Net Debt						
Credit						
Net debt to equity	0,13	0,12	0,15	0,12	0,06	-0,01
Total debt to total capital	0,21	0,18	0,19	0,15	0,08	0,08
Times interest earned	7	5	1	2	7	11
Cash coverage of fixed charges	8	5	4	6	12	17
Profitability						
EBITDA margin	16	10	5	7	10	11
Operating margin	12	7	1	3	6	7
Net margin	9	4	0	2	5	6
Growth						
Operating profit	18	-22	-76	65	107	14
EBITDA	14	-13	-45	19	40	7
Net income	-5	-31	-88	249	144	21
Return						
ROE, %	9	5	1	2	5	6
per barrel						
Revenues	29,3	39,7	43,7	41,2	38,6	38,0
Operating cost	(25,8)	(37,1)	(43,0)	(40,1)	(36,3)	(35,4)
Operating profit	3,4	2,6	0,6	1,1	2,2	2,6
EBITDA	3,4	2,6	0,6	1,1	2,2	2,6
Net income	2,5	1,7	0,2	0,7	1,8	2,2
Operating CF	3,3	2,1	2,0	3,1	3,9	3,9
Capex	2,4	2,4	2,4	2,4	2,4	2,4
Free CF	0,9	(0,4)	(0,3)	0,9	1,6	1,6

E = estimates

Source: Tatneft, Metropol estimates

Tatneft: share price performance versus RTS Index



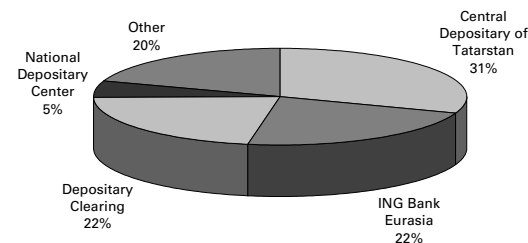
Source: Bloomberg

Tatneft: per share data

MCap (\$mn):	3 377	52 week high:	\$1,20
Daily volume (\$mn):	0,85	52 week low:	\$0,56
Shares Outst. (mn):	2 178,7	Annual Div:	\$0,00
Free Float (%):	33,5	Div. Yield%:	0,21
Free Float \$mn:	1 131	Pay-out (%):	1,52

Source: Tatneft, Metropol estimates

Tatneft: shareholder structure



Tatneft: valuation ratios and key drivers, 2003-08E

	2003	2004E	2005E	2006E	2007E	2008E
Valuation ratios						
P/E	7,1	10,3	86,3	24,7	10,1	8,4
P/Book	0,6	0,5	0,5	0,5	0,5	0,5
EV/EBITDA	3,7	4,3	7,8	6,5	4,7	4,3
EV/Sales	0,6	0,4	0,4	0,4	0,5	0,5
EV/Production	18,0	17,8	17,8	18,0	18,2	18,3
EV/Reserves	0,5	0,5	0,5	0,5	0,5	0,5

Key drivers

Production growth	0%	1%	0%	-1%	-1%	-1%
Revenue growth	19%	37%	10%	-7%	-7%	-2%
Operating margin	18%	-22%	-76%	65%	107%	14%
Net margin	-5%	-31%	-88%	249%	144%	21%
EPS growth	6%	-31%	-88%	249%	144%	21%
EBITDA growth	14%	-13%	-45%	19%	40%	7%

E = estimates

Source: Tatneft, Metropol estimates

Tatneft: Management information

Address	423450 Tatarstan, Almet'yevsk, 75 Lenina St
Tel/Fax	(8553) 31-97-41/25-07-00
CEO	S.Takhautdinov
E-mail	ocb@almet.ru
Web	www.tatneftjsc.ru
Auditors	PricewaterhouseCoopers

Source: Tatneft

Transneft

BUY

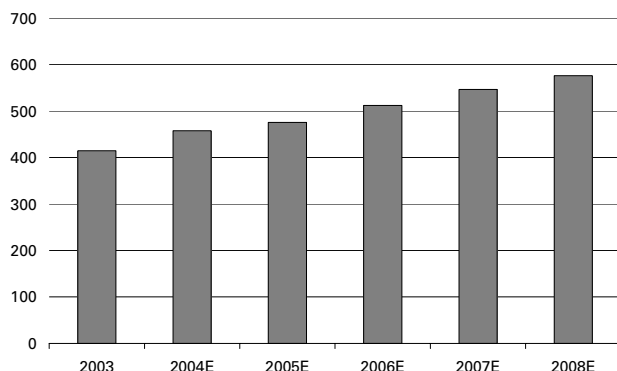
Price: \$905
Target price: \$1,015

Transneft is the owner and monopoly operator of the Russian oil pipeline system responsible for transporting 93% of Russia's crude production to both export and domestic destinations. Transneft operates one of the largest networks of oil pipelines in the world, and transports around 10% of global oil output. The company moves crude oil through more than 30,000 miles of pipeline stretching across Eastern Europe and Asia. In 2004, Transneft transported 458 mn metric tons of crude, of which 50% was destined for export. Most of the oil exported came from Russia, with some 10% of exported volumes transited from Kazakhstan, Azerbaijan, and Turkmenistan. Ninety-one percent of Transneft's revenues are derived from transportation activities, while the remaining 9% are transportation-related services such as reloading. Transneft is owned and controlled by the Russian government, which holds 100% of its voting common equity, representing 75% of Transneft's total capital. The remaining 25% stake represents nonvoting preferred shares held by a wide private investor base. There is no plan to change the shareholding structure in the foreseeable future.

INVESTMENT DRIVERS

- **Prefs pricing dilemma: as a derivative of company's DCF or based on DDM?** We believe Transneft's preferred share price should reflect and discount its common share price, as well as the preferred dividends.
- **Our price estimates for Transneft range from \$2,029 under DCF to \$216 under DDM.** Given the low valuation yielded by our DDM estimates, we think that a DCF estimate discounted 50% from our estimate of fair value for the common stock is a better reflection of a mid-range for Transneft's fair value. We set our target price midway between our DCF and DDM valuations for the stock.
- **Traffic growth and the stronger ruble** should lift the group's consolidated revenues and earnings in dollar terms.
- **Transneft's 2005 IAS earnings should rise 18% YoY to \$1.5 billion**, while earnings of its non-consolidated holding company, RAS, which serve as the basis for the preferred dividends, are likely to fall by 60% YoY from \$0.5 to \$0.2 billion
- **Transneft's preferred dividends are therefore likely to fall 60% in 2004, yielding only 1.5%.** The preferred dividend payout seems set to drop from 5.5% to 1.5% of IAS earnings in 2004.
- **Transneft's dividend policy is unsustainable over the long-term**, and hence could provide upside potential if there is any policy change.

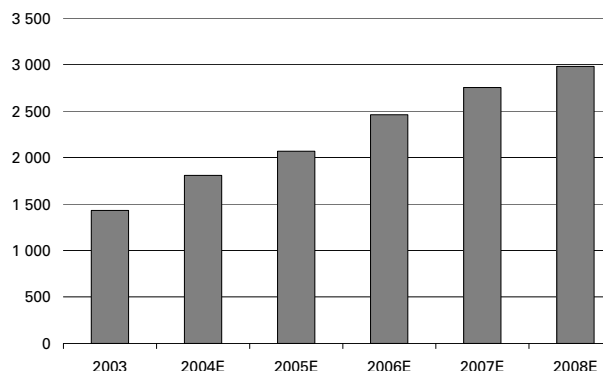
Transneft: throughput, 2003-08E, mn tons



E = estimates

Source: Metropol

Transneft: operating profit, 2003-08E, \$ mn



E = estimates

Source: Metropol

Transneft: DCF equity valuation

(US\$million)	2005E	2006E	2007E	2008E	2009E	2010E
Operating cash flow	2,016	2,312	2,576	2,816	3,001	3,115
Add back: Net interest expense	57	27	2	-22	-32	-50
Less: Tax shield on net interest expense	-13	-6	0	5	7	11
Adjusted Operating Cash Flow	2,060	2,333	2,578	2,799	2,976	3,076
Capital expenditures	-1,905	-2,071	-2,228	-2,361	-2,454	-1,471
Firm Free CF	155	262	350	438	522	1,606
Terminal value						21,458
Cash flow for discounting	155	262	350	438	522	23,064
Constant growth assumption	3.9%					
WACC	11.7%					
DCF (Implied EV)	13,072					
Net Debt	-34					
Minority interest	-417					
Implied Equity Value	12,621					

Assumed prefs discount to common	50%		30%		0%	
	Common	Prefs	Common	Prefs	Common	Prefs
Number of shares outstanding, million	4.7	1.6	4.7	1.6	4.7	1.6
Equity value, USD million	11,043	1,578	10,412	2,209	9,466	3,155
Implied Price Per Share, USD	2,367	1,015	2,232	1,420	2,029	2,029
Current Market price	na	901	na	901	na	901
Upside/(Discount) to Market Price	na	13%	na	58%	na	125%

WACC estimate

Cost of debt	6.1%
Cost of equity	12.3%
Weight of debt	10%
Weight of equity	90%
WACC	11.7%

WACC assumptions

Risk-free rate (10-yr Russian Eurobonds)	7.0%
Corporate borrowing costs	1.0%
Equity risk premium	6.0%
Beta	0.88
Value of Debt	619
Mkt Cap of Equity	5,722

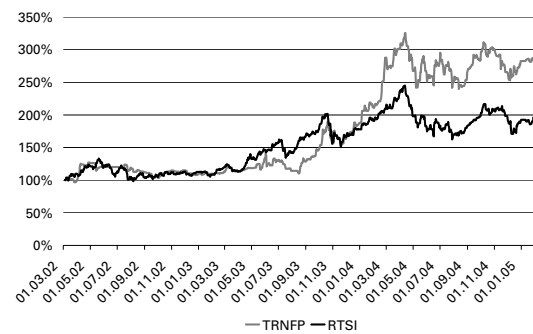
E = estimates
Source: Company data, Metropol research

Transneft: financial summary 2003-08E

	2003	2004E	2005E	2006E	2007E	2008E
Key assumptions						
CPI inflation in period, %	12%	12%	10%	8%	6%	5%
Exchange rate, RUR/US\$ end of period	29,45	27,70	27,00	28,35	29,77	30,96
Real RUR appreciation	18,3%	15,3%	9,6%	-0,4%	-2,2%	-2,1%
Volume assumptions						
Throughput, mn tons	415	458	476	512	547	576
Traffic, bn.ton/km	960	1 080	1 127	1 225	1 318	1 397
change%						
Transneft throughput	11%	10%	4%	8%	7%	5%
Traffic growth	12%	13%	4%	9%	8%	6%
Average traffic, RUR/100 km	11,1	12,4	13,6	14,7	15,6	16,4
% change	15%	12%	10%	8%	6%	5%
Average traffic, USD/100 km	\$ 0,36	\$ 0,43	\$ 0,50	\$ 0,53	\$ 0,53	\$ 0,54
% change	16%	20%	15%	7%	1%	0%
Income Statement						
Revenues	3 709	5 000	6 020	7 004	7 622	8 130
Operating costs	-2 278	-3 193	-3 952	-4 543	-4 868	-5 151
Operating profit	1 431	1 807	2 068	2 461	2 754	2 979
Pretax profit	1 327	1 751	2 030	2 450	2 772	3 025
Net income before deferred tax	945	1 267	1 493	1 801	2 038	2 224
Net income	938	1 267	1 493	1 801	2 038	2 224
EBITDA	1 895	2 387	2 755	3 212	3 545	3 819
Cash Flow Statement						
Operating cash flow	1 421	1 681	2 016	2 312	2 576	2 816
Capex investment	-1 623	-1 826	-1 905	-2 071	-2 228	-2 361
Disposals/(acquisitions)	5	-3	-1	-1	-1	0
Cash used for investing	-1 618	-1 829	-1 906	-2 072	-2 228	-2 362
Free cash flow	-197	-148	110	239	347	455
Debt issue/(repayment)	192	-43	-167	-132	-134	-158
Equity related	-129	-57	-67	-81	-92	-100
Cash from financing activities	63	-100	-234	-213	-226	-100
Net change in cash	-134	-248	-124	26	122	197
Balance Sheet						
Cash & Investments	608	653	832	1 103	1 525	2 038
Receivables (net)	233	312	368	412	449	481
Inventory	254	355	430	476	510	542
Other Current assets	778	1 044	1 231	1 380	1 501	1 609
Fixed assets	8 787	10 566	11 994	12 626	13 339	14 225
Other non-current assets	59	66	68	66	64	61
Total Assets	10 719	12 996	14 923	16 064	17 388	18 956
Accounts payable	895	1 250	1 516	1 677	1 795	1 907
Short-term debt	83	163	137	137	137	5
Other current liabilities	25	34	40	45	49	52
Long-term debt	542	455	328	176	30	0
Other LT liabilities	1 457	1 627	1 740	1 710	1 736	1 782
Shareholders' equity	7 718	9 466	11 163	12 318	13 641	15 209
Total Liabilities & Equity	10 719	12 996	14 923	16 064	17 388	18 956
Total Debt	624	619	465	313	167	5
Net Debt	16	-34	-368	-790	-1 358	-2 034
Credit						
Net debt to equity, %	0	0	-3	-6	-10	-13
Total debt to total capital, %	7	6	4	2	1	0
Times interest earned	13	22	31	60	138	nm
Cash coverage of fixed charges	14	21	31	57	129	nm
Profitability (%)						
EBITDA margin	51	48	46	46	47	47
Operating margin	39	36	34	35	36	37
Net margin	25	25	25	26	27	27
Growth (%)						
Revenues	26,7	34,8	20,4	16,3	8,8	6,7
Operating profit	24,2	26,2	14,4	19,0	11,9	8,2
EBITDA	21,5	25,9	15,4	16,6	10,4	7,7
Net income	21,2	35,1	17,8	20,7	13,1	9,1
Return						
ROE, %	12,2	13,4	13,4	14,6	14,9	14,6

E = estimates

Source: Transneft, Metropol estimates

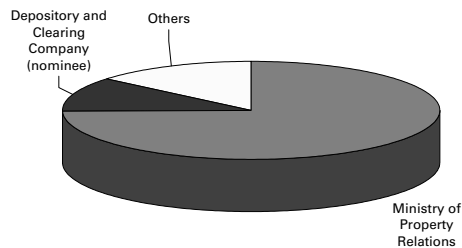
Transneft: share price performance versus RTS Index


Source: Bloomberg

Transneft: per share data

MCap (\$mn):	1434	52 week high:	\$1040
Daily volume (\$mn):	1,46	52 week low:	\$688
Shares Outst. (mn):	1,6	Annual Div:	\$35,76
Free float (%):	25	Div.Yield%:	3,87
Free Float \$mn:	1,94	Pay-out (%):	2,01

Source: Transneft, Metropol estimates

Transneft: shareholder structure


Source: Transneft

Transneft: valuation ratios and key drivers, 2003-08E

	2003	2004E	2005E	2006E	2007E	2008E
Valuation ratios						
P/E	6,1	4,5	3,8	3,2	2,8	2,6
P/Book	0,74	0,60	0,51	0,46	0,42	0,38
EV/EBITDA	3,0	2,4	1,9	1,5	1,2	1,0
EV/Sales	1,5	1,1	0,9	0,7	0,6	0,5
EV/Production	1,9	1,7	1,5	1,3	1,1	0,9
Key drivers						
Production growth	11%	10%	4%	8%	7%	5%
Revenue growth	27%	35%	20%	16%	9%	7%
Operating margin	39%	36%	34%	35%	36%	37%
Net margin	25%	25%	25%	26%	27%	27%
EPS growth	21%	35%	18%	21%	13%	9%
EBITDA growth	21%	26%	15%	17%	10%	8%

E = estimates

Source: Transneft, Metropol estimates

Transneft: management and headquarters

Adress	109180 Moscow, Bolshaya Polyanka St, 57
Tel/Fax	(095)953-86-94/950-89-00
CEO	S.M. Vainshtock
E-mail	transneft@ak.oilnet.ru
Web	www.transneft.ru
Auditors	CJSC KPMG

Source: Transneft



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