



NEW HORIZONS

SALYM PETROLEUM DEVELOPMENT N.V.
QUARTERLY

№4

January 2007

SALYM PETROLEUM



MEETING IN KHANTY-MANSIYSK

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A YEAR OF DYNAMIC GROWTH

ANOTHER YEAR IS OVER IN SPD'S DEVELOPMENT OF THE SALYM OILFIELDS (UPPER SALYM, WEST SALYM AND VADELYP) DEVELOPMENT PROJECT IN THE KHANTY-MANSI AUTONOMOUS OKRUG.

Dynamism is a distinctive trademark of the Salym project. Rapid advancements were made during the early stage of development in 2003–2005, in the construction of the key field infrastructure facilities, and in 2006 when the task of increasing production was given top priority.

The past year was marked with a high pace of construction and commissioning of new wells. SPD's Well Engineering team and the Company's drilling contractors, Siberian Service Company and KCA Deutag, exceeded their targets. Total well penetration on the Salym oilfields in 2006 amounted to 300,000 metres compared with the target of 240,000 metres. 108 new wells were drilled during the year, which was twenty five more than expected.

An important factor of this success was acceleration of well drilling and completion programme. In Western Siberia the average drilling time for similar wells under similar geotechnical conditions is 18–20 days, and SPD has reduced this time to 11–12 days. The record well penetration rate achieved by the Company in 2006 was 7 days. SPD's achievements in the drilling operations

were given recognition by Shell, one of SPD shareholders and SPD Well Engineering team was selected as Shell's "Most Improved Team 2006" in Wells.

One of the key items in SPD's production program for 2006 was bringing on stream the Vadelyp field. The Company successfully completed this task. Ahead of schedule SPD fulfilled its major licensing obligation on Vadelyp field, which provided for commercial oil production to start in December 2006. With Vadelyp brought on stream, all the three fields of the Salym group are now in commercial operation.

Vadelyp field plays a special role in the Salym project as the first field in Russia to implement "smart well" technology. "Smart wells" are wells equipped to monitor and control production or water injection when multiple zones are completed. Installation of such equipment started at the first wells of Vadelyp in late 2006.

Besides the development of the Salym fields, further construction and development of infrastructure continued in 2006. At West Salym, the formation pressure maintenance system was

completed and the second train of the CPF (Central Processing Facility) was prepared for commissioning. Construction of a 45-megawatt gas turbine power plant has begun and when in operation will generate electric power by utilising the associated gas.

Major work has been completed on the second train of CTF (Custody Transfer Facility). A 40-km infield oil pipeline was commissioned to allow the oil produced at Upper Salym and Vadelyp to be transported to West Salym for processing and further delivery into the Transneft system.

2006 has become yet another year of growth of the Salym project during which SPD increased its annual oil production almost tenfold. In comparison with the 208,000 tons produced in 2005, more than 2 million tons of oil was produced in 2006. Thus, within only three years upon inception of large-scale development operations at the Salym group of oilfields, SPD has joined the ranks of Russian oil producers with annual oil production exceeding one million tons. The SPD team can start the New Year 2007 with this impressive achievement in their portfolio. ■

MOST IMPROVED TEAM 2006

Salym Petroleum Development N.V. (SPD) Well Engineering team has been selected as Shell's "Most Improved Team 2006" in Wells. This award is part of the new Wells Global Performance Awards scheme and is presented to the Wells team that has best displayed a relentless pursuit of improved performance beyond their project's business plan and AFE promises. Malcolm Brinded, Executive Director, Exploration and Production, and Don Jacobsen, Vice President, Wells, sent a congratulatory message to the SPD Well Engineering team, which says: "Over the past year the Salym team has continued to meet and beat its own aggressive plans in the face of a tightening external market. This relentless focus, totally dedicated to bottom line results represents an achievement that you should be proud of, and one that we want to recognise globally. In delivering this performance, your willingness to adapt to the Russian environment and widely adopt Russian practices and procedures – provided they at least equal in terms of safety and efficiency to the practices and procedures in the West – has been commendable".



NEW SPD CHIEF
EXECUTIVE OFFICER

Harry Brekelmans was born on June 11, 1965 in Holland. Graduated from Delft University of Technology, Faculty of Mining and Petroleum Engineering, in 1989. 1990 – assigned to Shell Exploration and Production Research as Junior Production Geoscientist. 1994–1998: Senior Reservoir Geologist with Badr el Din Company (joint venture between Shell and Egyptian National Petroleum Company), Cairo, Egypt. 1998–2003 held development leader positions in Shell operational units engaged in development of hydrocarbons in the Northern Sea. 2003–2005: Head of Internal Audit EP in Europe. 2005–2006: Head of Internal Audit Shell EP and GP, Acting Chief Internal Auditor Royal Dutch Shell.

Member of Society of Petroleum Engineers (SPE). Married, two children.

AGREEMENT WITH NEFTEYUGANSK
DISTRICT ADMINISTRATION

In late October 2006, Salyum Petroleum Development N.V. and the administration of the Nefteyugansk district signed an agreement affirming the fundamental principles of relations between the parties established in the course of development of the Salyum group of oilfields. The agreement has a term of three years. It is intended to provide for further enhancement of the mutually profitable fruitful collaboration in the interests of sustainable socio-economic development of the Nefteyugansk district. Special attention is given to the issues of environment protection and environmental safety of industrial facilities, rights and interests of the owners of clan lands situated within Upper Salyum, West Salyum, and Vadelyp license areas.

MEETING
IN KHANTY-MANSIYSK

ON THE 15TH OF JANUARY 2007 HARRY BREKELMANS WILL TAKE OVER AS THE NEW CHIEF EXECUTIVE OFFICER OF SALYM PETROLEUM DEVELOPMENT. DALE ROLLINS, THE FORMER HEAD OF THE COMPANY, IS LEAVING RUSSIA AND GOING TO HIS NEW ASSIGNMENT ON A SHELL PROJECT IN NIGERIA.



Both SPD leaders visited Khanty-Mansiysk on the 20 November 2006 to meet Alexander Filipenko, the Governor and Chairman of the Khanty-Mansi Autonomous Okrug Government. The Governor extended his thanks to Dale Rollins for his activity in the Autonomous Okrug: "Within a pretty short time you have managed to build an oil company, which is dynamic in development and has promising outlook for the future. The Company has applied state-of-the-art technologies to produce and transport hydrocarbons and put a strong focus on the environmental safety. Salyum Petroleum Development is

our reliable social partner. Owing to the Company's engagement, the village of Salyum has undergone major changes: community infrastructure facilities are being improved; new jobs have been created. The Company participates in sponsoring the activities that are of major social importance for the region."

Alexander Filipenko expressed hope that Dale Rollins would remember Yugra deep in his heart while working in his new capacity in the far-off Africa.

In reply, Mr. Rollins expressed gratitude to the Governor for the support which the Yugra Government gave to Salyum Petroleum

Development at a challenging time when the Company started its operations, and said "I can definitely say that I am leaving this country with good feelings, and I am leaving many friends behind with whom we have achieved so much."

The new SPD Chief Executive Officer Harry Brekelmans stressed that he was taking over a great team created by Dale Rollins. He also assured Alexander Filipenko that the social partnership, which became an integral part of the Company's activities, would be further continued and developed. ■

GOLDEN RULES

As suggested by Shell, one of the SPD Shareholders, the Company has adopted the Group Health, Safety, Security and Environment (HSSE) Golden Rules and Exploration and Production House Rules. These are designed to help avoid preventable accidents, reduce our environmental impact and improve relationships with our neighbours. The rules apply to everyone in SPD, in every operation and activity.

SPD Golden Rules are: You and I

- Comply with the law, standards, and procedures,
- Intervene in unsafe or non-compliant actions,
- Respect our neighbours,
- SPD HSSE House Rules:
- I stop any job that feels unsafe,

- I understand the rules for a job or I find them out,
- I wear the correct Personal Protective Equipment for the task,
- I use the right tools for the job and use them correctly,
- I keep my workplace clean, tidy, and free of obstruction,
- I hold the handrail when using the stairs,
- I do use a seatbelt and do not use a mobile phone whilst driving,
- I reduce sources of waste.

It should be noted that these rules are not just for those working "in the field". Incidents and accidents happen in the office and not just on operating sites. Office incidents include slips, trips and falls at floor level and in stair-

ways, back injuries from improper lifting, and wounds caused by sharp objects. In addition, it is common knowledge that driving is an area of high risk exposure impacting all of us, and one of the major causes of fatalities is road accidents. We know that speeding, fatigue and distractions (such as using a mobile phone while driving) increase the level of risk.

SPD HSSE Golden Rules represent a logical basis for a behaviour model, which is instrumental in improving HSSE performance. If each and every Company employee, irrespective of whether he or she is in the field operations site, in the office or in a vehicle on the road, comply with the rules and encourage their colleagues to follow suit, the overall Company HSSE performance would improve. ■

THE CORPS OF MERCY



Our life experience tells us that kids growing up in small towns are often kinder and more considerate to others than their peers from big cities. One example is an initiative of the girls from the eighth grade of the high school no.1 in the Salym village, who proposed a social project under the title "Mercy". The project is intended to organize help and support to older people for whom circumstances have left them alone to their own devices. These people often lack someone to go to a pharmacy, clean the house or take the garbage out.

This is where the young girls of Salym have come in to help. By the appeal of their soul and heart, they are ready to spend time with lonely and aging people, showing their interest, caring for them, or simply making small talk. Svetlana Chukavina, a school teacher and counsellor, helps them with their difficult initiative. It is from her class that the girls formed the Corps of Mercy to give a sun-like warmth to those in need of social life.

Every mini-team provides real help to those under their care, and the

free time is devoted to heart-to-heart talks about life and work of the older generation, and the interesting things that happened in the Salym village in the past. To remember everything is important, and the girls have started their own chronicles where they record the stories and interesting facts in the lives of those they care for. These chronicles are soon expected to become an exhibit at the school museum.

Before the national holidays, the girls are having an especially busy time as they resolved to present the seniors with souvenirs made with their own hands. So far so good, the girls are not running out of time or creativity. Older people quite welcomed their idea – they no longer feel lonely at home, and they have someone to talk to.

SPD provided the Corps of Mercy with money for stationery and t-shirts with the Corps of Mercy logo. No other financing was necessary, they told us at the school. This is a deed of volunteers, which does not involve large costs. The most important is to have a pure soul, an open heart, and the desire to do good. The girls from the Corps of Mercy have these qualities aplenty. The project is not limited by any timeframe. As long as there are people in the village who need help, the Corps of Mercy will continue their volunteer work. ■

SOCIAL PROJECT CONTEST

The 2007 contest on social projects was recently held in Salym. SPD conducts this contest annually in order to ensure better consideration of community's opinion when selecting the targets for social investment. The number of applications from different organisations and persons for financing of various projects in the areas defined by SPD as top-priority has grown year after year. More than 30 projects have been submitted to the 2007 contest. Before the contest, SPD employees organised a workshop for potential participants to present SPD's requirements for the social projects to be submitted, to give recommendations and to answer questions. After presentation the social projects were discussed at a meeting of the community board of the Salym village, which includes representatives of SPD, local administration and the public. The results of the contest will be announced in early February 2007.



DEVELOPING SMALL BUSINESS IN SALYM

SPD and the Nefteyugansk branch of the Yugra Entrepreneurship Support Fund have signed a special-purpose loan contract. Under the contract, SPD extends to the Fund a loan for providing credit facilities to small business owners in the Salym village. Prior to signing, a great deal of work has been done by the SPD staff together with the experts from the New Eurasia fund to study the current status and the development perspectives of the small business in Salym. This study was organised in the context of SPD's program of small business development and creation of conducive business environment in the Salym village. In late 2006, SPD held a round table on the program, which was attended by small business owners of Salym and the representatives of Yugra Entrepreneurship Support Fund, local administration and the media.



ON ROTATIONAL SCHEDULE

AT THE END OF 2006 SALYM PETROLEUM DEVELOPMENT HAD APPROXIMATELY 850 EMPLOYEES, OF WHICH 500 WORKED IN THE SALYM FIELD, MAINLY ON A ROTATIONAL SCHEDULE.

The rotational staff come to work in SPD Salym field from various regions of Siberia, the Far East, from Moscow and other cities of the European part of Russia as well as from abroad (foreign specialists). The duration of a shift is 2 to 4 weeks. Working in a remote location, in a harsh climate, a long way from home, especially for those with families, creates additional stress and can have an impact on people's health.

For Sergei Tendit, an infrastructure coordinator with SPD, this is not second-hand knowledge. He has been working at the West Salym field on a rotational schedule for almost two years. "SPD pays considerable attention to improving the living conditions for their personnel on shift rotation," Sergei Tendit says. "Early 2005 a new two-storey accommodation building for 80 residents was completed, in addition to the already installed accommodation modules in the Upper Salym (East) base camp. The new accommodation has 32 double rooms and 16 single. Each pair of rooms is equipped with a shower, toilet and a washbasin. All rooms are connected to Shell's corporate Intranet and Internet, which enables people to know what is going on in Russia and elsewhere in the world.

On the ground floor of the building, there is a gym, two recreation rooms, one of them has equipment to watch satellite TV, and the other one serves as a home cinema. Also on the ground floor, there is a room fit-



ted with personal lockers to store and dry coveralls and jackets. Laundry services are provided for the employees to wash their clothes that are returned on the same day. A warm corridor connects the accommodation building with a cafeteria for 160 persons. All rooms are air-conditioned.

A similar project is underway to erect a big accommodation camp with appropriate utility infrastructure on the CPF site in West Salym. In the summer of 2005, the

first stage was completed – two new accommodation buildings, where double and single rooms can accommodate up to 178 people. At the start of 2007 the second stage is planned completed. The two buildings will provide accommodation buildings for 100 persons each. Upon completion, all SPD rotational personnel will live in new and comfortable accommodation, though still away from their loved ones, but, in an environment closer to that of home." ■

ATHLETIC DIARY

A volleyball tournament involving nine teams was held in Salym as part of the Healthy Life athletic games. The SPD corporate team, composed of Company employees working at the field achieved great success. SPD players defeated their opponents in all four games and occupied the well-deserved top position in the tournament.

The staff of SPD's Tyumen office participated for the first time in the Tyumen Marathon over a distances of 42.195 km and 10 km. In 2006, the Marathon was held for the 19th time, gathering some 4,500 road runners from Tyumen and other cities of Russia. SPD's international team of five people, including two expatriate specialists, participated in the 10 km run and successfully made it.



BEST PHOTOS JUDGED

"The world. Nature. Travels" was the title of the SPD employee photo contest held in the autumn of 2006. The contest drew a great deal of interest and the judges received over 300 photos, which were placed on a special page of SPD's corporate web site for everyone to see. The first prize, a digital SLR camera, was awarded to Tatiana Zhilyayeva, an accountant, for her photo entitled "Montenegro". The second prize went to "The Winter Fairy Tale" by Natalia Turkulets, HR Manager, the third one – to "An Evening in Tundra" by Vladimir Feoktistov, QA/QC Manager. The public sympathy prize was awarded to the "Red Sea Turtle" by Pavel Smolitsky, well test supervisor. These and other interesting photos will be printed on posters to be placed in SPD accommodation camps at the Salym fields.



COMPANY AND PEOPLE

"DEAR COLLEAGUES, ON THE OCCASION OF MY TRANSFER TO A NEW POSITION AT SHELL, PLEASE COME TO MY CAKE AND COFFEE PARTY." E-MAIL MESSAGES OF THIS SORT ARE FREQUENT IN SPD INTEROFFICE MAIL. COMPANY EMPLOYEES PROVING THEMSELVES IN THE SALYM PROJECT ARE GIVEN THE OPPORTUNITY TO WORK FOR SHELL IN PROJECTS IN RUSSIA AND ABROAD, AS SHELL ARE ONE OF THE SPD SHAREHOLDERS. IN THIS ISSUE, WE INTRODUCE DMITRY GUREVICH, WHO WORKED FOR SPD FOR OVER THREE YEARS AS THE CHIEF OF THE IT DEPARTMENT, AND HAS RECENTLY MOVED TO LONDON FOR A NEW JOB.



BORN IN: 1977

EDUCATION:

Graduate of N. E. Baumann Moscow Higher Technical School with the specialisation in optoelectronic instrument engineering

MARRIED,

with a 1-year-old daughter

HOBBY:

modern creative design and architecture, collecting movies and music

Q.: Where did you work before coming to SPD?

A.: I worked for five years at the Moscow office of Siemens, the last three years of these – as a technical manager of the CPC (Caspian Pipeline Consortium) project, where Siemens participated as the lead contractor for the telecommunication infrastructure.

Q.: What are major projects at SPD successfully completed with your participation?

A.: I think my major contribution to the success of SPD was the creation of a capable and motivated IT department, where people are really willing to work as a team to achieve their goals.

I coordinated the development and implementation of SPD IT infrastructure, which is currently one of the most advanced within Shell and meets the most stringent information safety requirements. Furthermore, we have built and commissioned the

geological data processing and storage center in the Tyumen office of SPD. By Shell standards that was accomplished within a very short period of time. Both projects had dedicated project managers who played a key role in their successful completion.

Q.: What do you remember most from your years with SPD?

A.: Though difficult, it was a remarkable period of time, mostly due to the wonderful working atmosphere and human relations within our department. Remembering SPD, I most of all miss the people who have become my close friends. I also remember SPD as a company with many bright and dissimilar people.

Q.: What would you recommend to a novice coming to SPD?

A.: First of all, look around quietly, set your work priorities right, and don't try to solve all the problems at once. Actually, I think, this approach is valid for any new job.

Q.: In London, you are a Senior Project Engineer at SIEP/EP Projects. What is the scope of your responsibilities?

A.: I do manage five concurrent projects related to the construction of the Onshore Processing Facility (OPF), a key production infrastructure facility at Sakhalin Energy. My responsibilities at this stage include the coordination of development and approval of the work scope and engineering solutions, aligning the implementation schedule, and calculating the budget. The next stage will involve actual construction of the OPF infrastructure facilities, which are to be commissioned by the end of 2007. I anticipate being involved in this project until mid-2008.

Q.: What are the most interesting aspects of work at your present position?

A.: The most fascinating thing in my current job is that it has very little relation to what I was doing for the last eight years. Leaving IT for the technical engineering field was a conscious choice for me. I did clearly realise that I would have to learn a lot on the fly to succeed in the new field, as I have no specialised degree in the oil and gas. However, I

have always liked to work in a project-driven atmosphere, when the tasks have clearly defined timeframes, and my current job gives me an opportunity to do what I like, even if it is in a different area, which is largely new to me.

Q.: What is the most important for you about work?

A.: To respect the people working side by side with you, and try to see things positively even at the most difficult times. I am convinced that positive behavior helps find the way out of the most challenging situations. Yet another important maxim for me – I do not accept people willing to tread on others to achieve their personal goals.

Q.: What are your hobbies, what do you like to do in your free time?

A.: I like everything related to the modern creative design and architecture, especially the so-called "organic" one, based on harmony between a person and the surrounding world, most vividly represented by Antonio Gaudi and Frank Lloyd Wright, as well as landscape architecture. I also keep a small collection of good movies and music, which I am gradually expanding.

Q.: You have only been working in England for a few months. Do you already have any favorite places in London, places you like to visit?

A.: On weekends, one can usually find us in one of the numerous parks of London. We live close to the Thames and go to the river every day to feed wild geese and seagulls, to the delight of our daughter.

Q.: By the way, what is your favorite city on the planet?

A.: Of the countries we have visited so far, most fondly I remember Spain – Barcelona first of all – and Switzerland, especially Luzern and Zermatt. Lugano also left especially vivid impressions. We'd like to return there over and over again.

We like to travel by car and visit different cities. This gives us the chance to appreciate the country for real. On the other hand, if you simply need a couple of weeks to get the everyday problems out of your system, I think there is no better place than Maldives. ■

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Registration Number 019451

Print run 2000 copies
Design and layout: to group
Print: VIM Division
Signed to print: 11.01.07

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