



NEW HORIZONS

SALYM PETROLEUM DEVELOPMENT N.V.
QUARTERLY

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SALYM PETROLEUM



PRIORITIES OF 2007

SALYM PETROLEUM DEVELOPMENT (SPD) HAVE BEEN OPERATING IN THE KHANTY-MANSI AUTONOMOUS OKRUG (KMAO) SINCE 2003, AND IN 2005 SPD WAS INVITED TO PARTICIPATE IN THE ANNUAL BLACK GOLD OF YUGRA CONTEST. THE CONTEST IS HELD FOR COMPANIES IN THE OIL AND GAS SECTOR IN THE KMAO AND IS AWARDED FOR THE PERFORMANCE IN THE PREVIOUS YEAR. AS A RESULT OF SPD'S PERFORMANCE IN 2004 AND 2005 THE COMPANY HAS TWICE RECEIVED RECOGNITION IN THE CATEGORY FOR THE MOST DYNAMIC GROWTH, AMONG ENTERPRISES WITH AN ANNUAL OIL PRODUCTION OF LESS THAN ONE MILLION TONS.

Based on the results of 2006, SPD will be placed in another category of the Black Gold of Yugra contest this year, as its oil production exceeded two million tons. This is almost ten times SPD's oil production in 2005.

This growth in production was made possible thanks to the short time period, just two and a half years, which was used to build and commission the key infrastructure facilities at the Salym Group of oil fields. These include the facilities without which a large-scale oil production would be unthinkable: the Central Processing Facility (CPF) and the oil export pipeline to transport Salym oil to the Transneft system. This has allowed SPD to focus on drilling and bringing on stream new wells, thereby ramping up oil production.

Maintaining oil production growth will remain a priority for SPD in 2007. The Company target is to produce about four million tons of oil, in other words to double the previous year's result. To achieve this target, an extensive drilling program has been established requiring 320,000 meters to be drilled this year, and a total of 116 development wells will be drilled in the three oil fields: West Salym, Upper Salym and Vadelyp.

As in previous years, the bulk of drilling activity will be in the West Salym oil field, the largest in the Salym Group, where 75 wells are scheduled. The role of the Vadelyp field, which was brought on stream last autumn, will grow considerably and this year 31 new wells will be added to the Vadelyp well stock. Some of the wells will be equipped with special oil production and water injection monitoring and control equipment in order to enable simultaneous production from oil reservoirs. The practical implementation of this technology known as "smart wells" began in the end of last year in Vadelyp field – for the first time in Russia. Two such smart wells are already producing.

The Q1 2007 production profile demonstrates that the Company has gained and maintained a good pace. By the end of March, the total crude oil production from all three Salym fields amounted to almost 900,000 tons.

As far as the field infrastructure is concerned, a number of additional facilities have and will be added this year. Construction of the operations base and two new accommodation blocks in West Salym was completed in Q1. Two 20,000 cubic meter

oil storage tanks were built at the Custody Transfer Facility (CTF). A modular water injection pump station has been prepared for commissioning at the Upper Salym field to provide reservoir pressure maintenance.

One of the key activities in the SPD 2007 Work Program for West Salym is the construction and commissioning of a 45-MW Gas Turbine Power Plant that will generate electricity by utilising associated gas. This will ensure a stable supply of power to the Salym Project field infrastructure facilities, reduce future operational costs, and realise efficient use of associated gas and thereby improve environmental performance in the area of operations.

At the start of every workday, when SPD employees turn on their computers, their monitors automatically start up with an operations report for the previous day. It shows the oil production profile and drilling activities, HSSE compliance status, and other performance indicators. SPD is entering a maturing and stable growth phase with safe and efficient operation of the field facilities and further increase in oil production as the top priorities.

VISIT TO KHANTY-MANSIYSK

On March 18-19, 2007, the Chairman of Shell Russia Christopher Finlayson and Chief Executive Officer of Salym Petroleum Development N.V. (SPD) Harry Brekelmans visited Khanty-Mansiysk where they had a meeting with Alexander Filipenko, the Governor of Khanty-Mansi Autonomous Okrug. The SPD CEO updated the Yugra Governor on the current status of SPD operations. The Company continues the development of the Salym group of oil fields in accordance with the license agreements and is ramping up oil production. In addition, SPD is actively involved in the implementation of the social partnership agreement with the Yugra government. "I am very happy with our good partner relations, and I am pleased with your successes," said Alexander Filipenko at the meeting. "I am confident that the Company will continue to increase hydrocarbon production from the Salym group of oil fields, and will, as before, efficiently address the issues associated with the improvement of the quality of life of the region's population and environmental protection."



NEW NEFTEYUGANSK DISTRICT HEAD

In Nefteyugansk, an official ceremony was held dedicated to the inauguration of Vladimir Semenoff, the new Nefteyugansk District Head elected on March 11, 2007. Salym Petroleum Development N.V. (SPD) representatives attended the ceremony.

The Company Finance and Commercial Manager Rob van Velden extended Vladimir Semenoff good wishes of major success in his new challenging job for the benefit of Nefteyugansk District community and delivered a congratulation message from SPD CEO Harry Brekelmans. "From the very start of Salym oil fields development our Company has attached great importance to being involved in the life of the region," the message said. "We have established good business relationship with the Nefteyugansk District Administration and look forward to continuing our fruitful and mutually beneficial cooperation."



CONFERENCE OF YOUNG SPECIALISTS

The 7th Conference of young specialists who work for the oil and gas sector companies in the Khanty-Mansi Autonomous Okrug was held in Khanty-Mansiysk. The Conference was attended by young SPD specialists, who submitted three reports: two of them were noted among the best. Geologist Vyacheslav Baranov was awarded the second degree Diploma for the report "Upper Salym Field Development Outlook" by the Oil & Gas Field Development and Enhanced Oil Recovery panel. Production Technologist Eugenia Kiseleva was awarded the third degree Diploma for the report "Underbalanced TCP – ESP in One Go" by the Oil & Gas Production, Treatment and Transportation panel. SPD was also awarded a diploma for sponsoring the conference.



DIALOGUE TO CONTINUE

ONE OF THE MOST IMPORTANT EVENTS FOR SPD IN 2006 WAS THE EMPLOYEE OPINION SURVEY. SET UP WITHIN THE FRAMEWORK OF THE SHELL PEOPLE SURVEY, IT IS CONDUCTED BY SHELL EVERY TWO YEARS. SHELL, WHICH IS ONE OF THE SPD SHAREHOLDERS, HAS BEEN CONDUCTING THESE SURVEYS SINCE 1998, AND SPD HAS PARTICIPATED IN IT SINCE 2004.

Why and how is the Shell People Survey conducted? "The survey provides an opportunity for the employees to express their opinions with respect to the various aspects of company activities," says Natalia Turkulets, the HR Manager. "Evaluation of information gathered in the course of the survey allows us to determine what aspects are in need of attention and identify areas for improvement. Based on that, a specific action plan will be prepared to improve labour conditions and company performance. It is important to mention that in order to ensure objectivity, the analysis of survey data is carried out by an independent external organisation, Sirota Consulting, while the survey itself is anonymous."

During the first survey conducted by SPD in 2004 the Company was growing rapidly. Large-scale development of the oil fields and operations were under way, oil field infrastructure facilities being constructed, wells drilled and put on stream, new employees hired and trained. It was therefore not surprising that the results of the first survey reflected a tide of enthusiasm typical of all new undertakings. So, what was the key

results of a similar survey conducted two years later, in 2006? "Considering that SPD is entering a maturing and stable growth phase, it would be quite reasonable to expect a certain decline in opinions," says Natalia Turkulets. "However, that was not the case! Of the nine areas that were surveyed, only two showed signs of deterioration, and they were: Diversity & Inclusiveness, and Performance and Reward."

The analysis showed that about 40% of survey participants are reluctant to openly express their opinion, apparently fearing negative consequences. Action is needed to counter this behaviour in order to build a corporate culture that encourages employees to take an active and open position. Employees' zeal and creative approach to their duties are of vital importance to the Company, and the Company management will undoubtedly pay close attention to it.

Taking into account the 2006 survey results, it is envisaged that a number of measures associated with the compensation package will be prepared. Already today we can say that information about how the labour market is researched, how the salary structure is formed, the social security

package, etc., will be better communicated to our employees. Among other measures, an idea is being considered that will let employees take an active part in the formulation of their own social security packages. What this means is that the employer should ensure compliance with mandatory requirements only, leaving the right to make decisions on specific requirements to the employee. It is believed that this approach will ensure more efficient use of funds allocated to employee benefits.

A package of all measures is currently being prepared for implementation in the near future, that accounts for the 2006 survey results. It is aimed at further improving SPD performance through the combined efforts of the Company employees and management".



FOR PEOPLE'S WELLBEING

One of major aspects of SPD activities in developing the Salym oil fields is healthcare. Managing healthcare begins as early as at the design stage of field facilities by identifying and assessing potential hazards to health from operations and the climate, e.g. noise, vibration, heat, cold etc. To minimise the risk of harmful consequences on the human body solutions are chosen that are aimed at all aspects of Health, Safety, Security and Environment (HSSE) and personnel protection, including the provision of Personal Protective Equipment (PPE) to employees.

Working on remote sites under adverse weather conditions is an extreme challenge to the workers and their access to proper medical facilities and medical emergency response. SPD operates two permanent and 6 mobile clinics. The base camp clinic offers a wide range of medical services including prevention, non-emergency, and medical emergency response. Three ambulances ensure that medical support is available at all times.

The SPD medical emergency strategy is based on the Shell standards and has four levels:

Level 1 – access to first-aid services within four minutes of an incident.

Level 2 – access to a doctor in a company-operated clinic within one hour of an incident.

Level 3 – brings the patient to the

nearest hospital within four hours, and

Level 4 – transfers the patient to a specialist hospital either within Russia or abroad.

Regular drills and exercises are conducted to ensure the robustness of the response.

In addition to the health risk associated with operations, personal habits such as smoking, alcohol addiction, improper diet, and lack of exercise represent potential health hazards. These behavioural risk factors have become topics of awareness programs. Arrangements are in place to promote balanced diet, sports and fitness exercises, and other healthy habits among

the workforce. Accommodation facilities in SPD major field camps have gymnasiums with the latest equipment for use by the staff.

Health performance is monitored to provide data for tracking progress made through health programs. Work-related illnesses are identified and investigated to provide proper treatment as well as to identify preventive measures and to ensure that the risk of future illnesses is minimised. This information is contained in the Total Reportable Occupational Illness Frequency (TROIF) monitoring, which is a part of the overall HSSE statistics.



THE ABC OF LIFE THEATRICAL PROJECT

SVETLANA SABIROVA BROUGHT HER LITTLE DAUGHTER POLINA TO THE YERALASH THEATRICAL STUDIO AT THE POLAR LIGHTS CULTURAL AND ATHLETICS COMPLEX OF SALYM VILLAGE WHEN THE GIRL WAS SLIGHTLY OVER FIVE YEARS OLD. HER THOUGHTS WERE SO MUCH LIKE ANY OTHER LOVING MOTHER: "THEATRE IS SO GREAT! MY GIRL WILL LEARN TO COMPORT HERSELF BEFORE THE AUDIENCE, TO PLAY, HER SPEECH WILL BE CORRECT AND ELOQUENT. AFTER ALL, SHE WILL BE BUSY WITH INTERESTING THINGS".

Mother was right. Polina did like the theatre, and so did her mother who could not resist the temptation of the stage and started performing with the troupe. A similar situation happened in another Salym family. The mother, Olga Kostiuk, and her two daughters, Liuda and Galia, also came to the theatrical studio. That is how the first "theatrical dynasties" have appeared in the village.

The amateur theatre in Salym has already been functioning for more than six years and during these years it has been headed by Svetlana Khatova. Today the playbill of the Yeralash theatrical studio includes the plays by well-known children's writers, such as Samuil Marshak, Grigory Oster, Arkady Khait. The repertoire of the studio also includes a play based on the stories by Anna Konkova, a folk tales narrator of the Mansi people, a variety of sketches, and musical compositions.

When the Yeralash studio celebrated its fifth anniversary, the Salym performers realised that they were mature

enough, and needed more extensive and creative knowledge. They wanted to learn something new and further expand their professional skills. Looking for material support, the studio has prepared a project called The ABC of Life, and in 2006 they submitted it to the contest of social projects held annually by SPD in Salym. The project was based on joint creative efforts of the Yeralash studio and the Directors Department of the Students' Theatre at the Surgut State University.

SPD decided to support the project financially. The Students' Theatre of the Surgut University is well known for its original plays for teenagers and youth in which they raise burning issues. Now the students and teachers of the University come to Salym twice a year to bring their own plays and provide master-classes for the young performers.

An important part of the ABC of Life project is Yeralash's patronage over an orphanage in Tobolsk. The Salym actors visited it last year,

and they brought gifts for the children and performed one of their plays. They are going to visit Tobolsk again this year. The visit of the Salym actors is a great joy for the children of the orphanage: children deprived of parental love and care due to circumstances of life.

These visits are important for the young actors too, as they open their eyes to problems that exist in life, evoke their feelings of mercy and empathy. This is the principal purpose of the ABC of Life theatrical project, not only to help the young actors from Salym to master theatrical and stage skills but also to encourage their moral development.



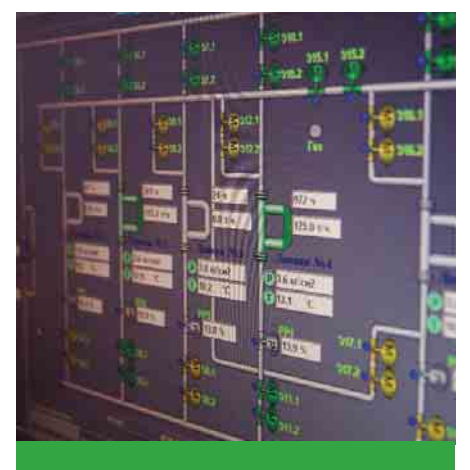
CONTEST OF SOCIAL PROJECTS

A community board meeting was held in the Salym village attended by the representatives of the local community, the Head of Salym Administration Vitaly Sapunov and the SPD CEO Harry Brekelmans. The results of the 2007 social projects contest were announced at the meeting. SPD holds these contests each year, inviting various organizations in Salym and adjacent communities to submit their requests for financing of social projects by the Company. Based on the results of the competitive selection, this year SPD will finance the summer camp for the children of underprivileged families; the activities of school forests; the development of the ABC of Life theatrical studio set up in the Polar Lights cultural and athletic complex; the archeological expedition to study the history of the region; and, a number of other projects of significant importance to the public life in Salym.



ADVANCED OIL AND GAS SECTOR TECHNOLOGIES

March 2007 was Technology Month for the Exploration and Production units of Shell, one of SPD Shareholders. Using the corporate computer network, Shell employees had the opportunity to familiarise themselves with Shell's achievements in the development and application of advanced technologies on projects in various regions. Over 40 presentations were made during the month. Presenting the Salym Project, Tom Hooft, SPD Technical Manager in 2003-2006, spoke about the experience of development of the Salym Group of oil fields. The Salym Project was also mentioned in a presentation on the "Smart Field" concept, which is a package of oil production optimisation methods implemented through the use of high technology approach. SPD is also planning to use this concept.



PRESERVING BIODIVERSITY

APART FROM ENVIRONMENTAL EXPERTS, THERE ARE PERHAPS, VERY FEW PEOPLE WHO KNOW THAT LOBARIA PULMONARIA, THAT GROWS IN THE AREA OF THE SALYM OIL FIELDS, CAN SERVE AS AN INDICATOR OF ENVIRONMENTAL CONDITIONS. LOBARIA PULMONARIA IS A RARE SPECIES OF LICHEN THAT IS EXTREMELY SENSITIVE TO AIR POLLUTION AND IS LISTED IN THE RED DATA BOOK OF RARE SPECIES IN THE TYUMEN REGION AND RUSSIA.

Surgut University scientists told this and other interesting environmental facts during a presentation for SPD employees last February. The presentation was based on the results of a comprehensive study of the biota of the area of West Salym and Upper Salym oil fields. The study was conducted in 2006 by Surgut State University specialists upon a request from SPD, within the framework of the Shell biodiversity preservation standards.

Biodiversity is the most important feature of any natural system. It allows reproducing, backing up, or replacing one of the links with another; it controls the level of reliability of for example food chains. Biodiversity is the foundation for stability of any system and the global biosphere. Biodiversity analysis provides an efficient means of monitoring and assessing environmental conditions and the acceptability of the level of man-made interventions. This is especially relevant to locations of industrial activity, and in particular commercial oil production.

Based on the study of the plant life in the area of Upper Salym and West Salym oil fields, the researchers from the Surgut University determined that it includes 276 species of higher

plants. In addition, about 70 species of mosses and lichens were identified within the studied area, and habitats of rare plant species that are protected in the Khanty-Mansi Autonomous Okrug were determined. Some of them are also listed in Red Data Books of the Tyumen Region and the Russian Federation. A total of 18 rare plant species were found.

According to the researchers' assessment, the vegetation within the SPD license blocks is in its natural condition, and rare plant species habitats are well preserved. As a rule, rare species have a narrow environmental amplitude, i.e. they can exist only in special conditions, therefore their presence can serve as an indicator of the environmental well-being of an area.



SUPPORTING CULTURE AND SPORTS

In February and March 2007 SPD sponsored several large international cultural and athletic events in the Khanty-Mansi Autonomous Okrug. These included the 5th International Cinema Debuts Festival called The Spirit of Fire, where 76 feature films from 15 countries of the world were presented. SPD also sponsored the biathlon World Cup finals in Khanty-Mansiysk. This is one of the most spectacular winter sports competitions and it was the third time that it has been held in Khanty-Mansiysk. Another event sponsored by SPD was the 8th International Chess Tournament named after Anatoly Karpov, held in the township of Poykovsky in the Nefteyugansk District. This year the tournament was classified as a FIDE category 17 event.



HEALTHY LIFE ATHLETIC GAMES IN SALYM

SPD teams, including Company employees who work in the Salyem oil fields, continue to participate successfully in competitions of the Healthy Life athletic games held in the Salyem Village. This February, a team representing SPD was the winner of a mini football tournament in which 11 teams competed. The SPD football team played in five matches and won them all. The volleyball team has also achieved a good result when they finished second among ten participating teams, losing only once. SPD chess players brought another victory when in March a 3-player team from the Company (a lady and two men) won the chess tournament. Thanks to that victory, SPD is now among the first three leading the Healthy Life athletic games.



COMPANY AND PEOPLE

IN MODERN-DAY RUSSIA, ESPECIALLY IN BIG CITIES, A SMALL FAMILY IS THE PREVAILING MODEL. MATERIAL PROBLEMS, INSUFFICIENT ATTENTION OF THE GOVERNMENT TO THIS ISSUE AND MANY OTHER FACTORS ARE LISTED AMONG THE REASONS OF THIS SOCIAL PHENOMENON. HOWEVER ACCORDING TO IGOR KOLTSOV, THE FATHER OF FOUR CHILDREN AND SPD ENVIRONMENTAL GROUP LEADER WHOM WE ARE GOING TO INTRODUCE TO OUR READERS TODAY, THE REASONS SHOULD BE SOUGHT FIRST OF ALL IN PERSON'S VALUES, HIS OR HER PRIORITIES IN LIFE.



YEAR OF BIRTH: 1968

EDUCATION: First Diploma – the Moscow M.V. Lomonosov State University, Soil Science Faculty, soil scientist, agrochemist; Second Diploma – the Central European University, Environmental Science and Policy.

MARITAL STATUS: Married, the father of four children (the eldest son is 15, the youngest daughter is 3 months old)

HOBBIES: cross-country skiing, tourism, classical music and bardic (poetical) songs.

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

A.: I started with a job at Solvalub Technologies joint venture that was engaged in the production, maintenance and marketing of analytical chemistry equipment. In 2001, I began my career in the oil and gas sector when I joined the environmental protection and industrial safety department of YUKOS, and then worked in the Internal Audit department of that company.

Q.: How come you have chosen the career of an environmental expert? What was behind your decision?

A.: I was interested in ecological and environmental protection issues back in my school years, when the word 'ecology' was known primarily to specialists in biology. In this sense, the selection of my career was natural, though my road to it was not straightforward. After graduation from the Moscow State University in 1992, I had to work in different fields and not always in my major specialty. I am very grateful to my Alma Mater for the fundamental knowledge in related sciences such as chemistry, physics, geology, and statistics.

Q.: In your opinion, can one say that recently there has been a radical**change in society's attitude towards environmental protection issues?**

A.: Society has experienced several tides of interest in these issues, and with it a gradual change in priorities. In the 80s, when we had "perestroika", the green movement was very strong and they often demanded to shut down immediately any enterprise that was polluting the environment. In the 90s there was an industrial depression and the issues of environmental protection had lost their importance. But beginning from the year 2000, these are again in the focus of public attention, governmental agencies and natural resource management companies. In my opinion, the attention by society to these issues will grow further, since a clean environment is an essential component of the quality of our life. More and more people from all walks of life are beginning to realise this.

Q.: Is there sufficient understanding of the importance of environmental protection issues among SPD employees and the local communities in the region where the Company is operating?

A.: In my opinion, SPD employees are aware of the importance of environmental protection. As a proof of that, I can say that we learn about environmental compliance failures not only from the environmental experts, but from other employees, since the people are not indifferent to environmental conditions and they respond if something is wrong.

As for the local communities, many people who live there observe the oil industry with caution. The reasons for that are well known: oil spills occur too often in the region, and it is the spills that inflict the heaviest damage to the environment. One of the challenges that our Company is facing, as I see it, is to change the public's perception of the oil sector as an industry that is ruining the environment.

Q.: What is in your opinion the most unusual or interesting about SPD, a joint venture with a Western interest?

A.: This is the second joint venture in my career, but the influence of the Western management culture feels much stronger in SPD. It was quite unusual and gratifying to note that the Company supports not only its employees but their families as well, providing insurance cover for the children and the spouse.

Q.: What do you think: can one say that SPD has its own special style of work?

A.: I like the dynamic and democratic style of mutual relationships between the people. The "Open Doors" philosophy exists in the Company: if one has an important issue, then it can be dis-

cussed immediately with any manager. This approach allows finding a solution quickly, even if the opinions of various parties differ.

Q.: You impressions from working together with foreign specialists?

A.: SPD has built a highly professional team and I think this is a big plus that it has people from different countries with different life and professional experience. I like to work in such environment: it expands the professional horizons. In addition to that, I have noticed that interesting people come to work to the "far away snowy Siberia". And it is interesting to work together with such people.

Q.: On what project (in what country) would you like to work, if you had a chance?

A.: I am not planning to leave SPD in the near future, therefore I have not thought about it. But if I look ahead, then it would be interesting to work, for instance, in China.

Q.: By modern standards, you have a big family: four children. What do you think is the key reason that a family with few children is the prevailing model in the developed countries, including Russia?

A.: If we speak about the developed countries, then it is obvious the reason does not lie in any material difficulties, since the birth rate is declining in countries with high standards of living. My fair half thinks, and I fully agree with her that, the matter is first of all in a person's values and their priorities in life. A family is always "we and us" but if a person is interested only in "I and myself", then his or her family will hardly have many children. In this sense, the primary orientation towards professional success and career definitely decreases the number of children in the family.

Q.: Do you manage to find time for any hobby?

A.: I try to exercise regularly to be in shape. I love to walk with my children, and in Tyumen where I now work, I manage to go to the theatre even more frequently than I did in Moscow.

Q.: Where do you prefer to spend your vacation: in Russia or abroad?

A.: It is not a principal issue for me. The main thing is to be with my family. There are many amazingly beautiful places in Russia, though the service sector leaves much to be desired. When I was still a student, I visited the Kamchatka peninsula and the Far East: these places are amazing; and I would like to visit the Altay Mountains as well. It is interesting to get a touch of foreign culture and history while abroad, in this sense I did like the trip my wife and myself made to Prague last year.

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