



NEW HORIZONS

SALYM PETROLEUM DEVELOPMENT N.V.

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SALYM PETROLEUM



OPEN PUBLIC FORUM IN SALYM
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DYNAMIC DEVELOPMENT

September has become a good news month for Salym Petroleum Development (SPD) for three years running. This September's good news comes from Khanty-Mansiysk when every year they summarise and announce the results of the contest "Black Gold of Yugra". The contest is held among the oil and gas producing companies operating in Khanty-Mansi Autonomous Okrug.

One of the nominations in the contest is named "The Most Dynamic Enterprise". SPD has been a consistent winner in this nomination for the past three years. Twice SPD was recognised as the most fast developing company (according to the results in 2004 and 2005) among the oil producing companies with a cumulative oil production up to one million tons per year, and in 2006 the company was a winner as the most dynamically developing enterprise with a cumulative oil production up to five million tons per year.

Dynamic development has probably been the most distinctive feature of SPD activities from the very start of operations in the Salym group of oilfields. Started with the production rate of 36,4 thousand tons of crude in the Upper Salym and West Salym fields in 2004, SPD made a great breakthrough. In 2006 the cumulative oil production in all three fields of the Salym group passed two million tons.

The year 2007 has become yet another year of dynamic development of the Salym project. SPD produced approximately three million tons of crude in the period January to September. According to the achieved

production growth the cumulative oil production from the Salym group of fields will exceed four million tons which is almost double the production compared with the results of the previous year.

West Salym field provides the greatest contribution to the production growth, as the main volume of drilling operations is concentrated there. Since the beginning of the year 56 new wells have been drilled there, and 21 wells have been drilled at the Vadelyp field. In August a new record of drilling time was achieved when a well of 2,600 meters depth was drilled in 6.7 days.

A new mobile drilling rig «Uralmash 3200/200 DER-M» was installed at the Upper Salym field. It is designed for drilling exploration wells and for development drilling of small well clusters. One more remarkable event was that in Upper Salym in the third quarter of this year the first "smart well", equipped with special devices

to monitor and control oil production and water injection processes during commingled production from several pay zones, was put on stream. SPD is the first company in Russia to introduce and to use "smart well" technology. Earlier two similar smart wells were built in Vadelyp field.

In addition to drilling and the build-up of the well sites, the construction of other field infrastructure facilities is ongoing. In particular, the preparatory work for bringing on line, the first of the three units of the gas turbine power plant, planned for the end of 2007, is nearing completion. The power plant will generate electrical power by utilising associated gas. The second phase of the Central Processing Facility has been completed and commissioned in West Salym field. Now the aggregate CPF capacity is 6 million tons per year, which is enough to cope with the increasing volumes of crude oil.



OUTSTANDING SAFETY PERFORMANCE

Outstanding safety performance was achieved by SPD at the end of September when they recorded 3 million man-hours without an LTI (Lost Time Injury). It is the result of the joint effort between SPD and their Contractor organisations involved in the Salym project. Both the Company personnel and the Contractors' personnel are equally obliged to observe and comply with SPD requirements and rules on industrial and occupational safety. The Company's aim is to promote a conscientious personal attitude towards these rules and engrain a culture of safe operations for all those working at SPD sites.



GIFTS FOR FIRST-GRADERS

On September 1st there were celebrations in the schools in Saly, Samsonovka and Sivykh-Yakh on the occasion of the start of a new school year. 120 children stepped across the school threshold for the first time in their life. It was the day when they first met their teachers and classmates, and became acquainted with the company Saly Petroleum Development. The Company representatives greeted the children on their first day to school, wished them success in their study and gave everybody as a gift a new bright-coloured schoolbag, complete with a set of stationery. Schoolbags as gifts for first-graders on 1st of September has become an annual tradition for Saly Petroleum Development since 2004.



SOCIAL PLANNING & DESIGN WORKSHOP

"Area development: from idea to project" was the name of a workshop on social planning & design which took place in September 2007 in Saly village. The workshop was organised by SPD Sustainable Development Department in cooperation with Inter-regional Public Foundation "Sibir Regional Center for Public Initiatives Support". The workshop was attended by the representatives of non-commercial state and municipal organisations and local authorities. The aim of the workshop was to develop skills necessary for dealing with the social problems on a local level and to improve the quality of the materials submitted to the contest of social programmes that is held by SPD each year. The workshop programme included practical work in the form of a "homework" presentation, based on the task assigned at the previous workshop and up to the joint development of the programmes and their further review. Individual consultations were also held with the participants during the workshop with regard to the coming contest of social programmes for 2008 announced by SPD.



OPEN PUBLIC FORUM IN SALYM

OPENNESS IS ONE OF THE KEY ELEMENTS OF SPD CORPORATE CULTURE. THE COMPANY IS COMMITTED TO INFORMING THE PUBLIC ABOUT VARIOUS ASPECTS OF ITS ACTIVITIES, FIRST OF ALL IN THE AREA OF ITS OPERATIONS.

An Open Public Forum in which local people and SPD management take part is held annually in Saly village, a large community closest to the Saly group of oil fields. The latest Forum was already the forth in succession and took place on September 3, 2007. In spite of bad weather the people of Saly responded willingly to the invitation to take part in this event and the large hall of the local cultural and recreational centre "Northern Lights" was crammed full.

"I'm happy to see so many people showing their interest in our Company activities," - addressed the audience SPD CEO Harry Brekelmans.

For many Saly residents it was the first time that they had met with the new SPD leader, who took over the role of Company Chief Executive Officer last January.



Harry Brekelmans described in detail the latest achievements by SPD and the current priorities for the Company.

"As we are completing the main bulk of construction work, SPD activities enter into a new phase,"- the CEO said, "and production issues and cost optimisation come forth".

The CEO of SPD noted the significant role of local businesses in the Saly project delivery. The companies located in Saly and Nefteyugansk District supply SPD with steel work and timber; provide services for construction, cargo transportation, and public utilities maintenance. Since the beginning of the project SPD has spent more than \$170 million for purchasing of goods and services from local suppliers and contractors.

The development of the Saly group of fields not only gives new opportunities for local businesses but also creates new jobs for local residents. The Human Resources Manager, Olga Rigovanova, in her presentation about SPD HR Policies, reported that 40 residents from Saly, Nefteyugansk and Surgut districts, were selected out of more than 140 candidates, and are now employed by SPD since April last year. Moreover, many of Saly residents were employed by SPD contractors.

Those who work at the Saly project with SPD or its contractors know very well how much attention the Company



pays to the issues of health, safety and environment protection. SPD also strives to become a recognised leader in this field among other oil and gas producing companies in Russia," - Yury Bashara, Occupational Safety Manager, noted in his speech. Quoting from the current yearly statistics he noted that the total number of Lost Time Injury free man-hours worked at the Saly group of fields exceeded 2 million. This was achieved through strict adherence to standards of occupational safety and defensive driving. In particular, the consumption of alcohol and narcotics is prohibited at the territory of SPD fields, the speed limit is 40 kilometers per hour and the use of safety belts is a mandatory requirement.

SPD oil fields and facilities may be located tens of kilometers away from Saly village, but the Company doesn't stay away from the social life of the village, and contributes to the local community development through participation in various social, educational and charity programmes, as Lyubov Maximova, Sustainable Development Manager, noted in her presentation.



Each year SPD allocates money for funding various programmes aimed at socio-economic development of Saly village. Among the major projects are, construction of the "Smile" kindergarten for 210 children; provision of the recreation and rehabilitation programme for children in the summer camp "Raduga"; purchase of the musical and multimedia equipment for Saly schools; sports and play facilities for kindergartens; and, sponsorship of cultural, sports and entertainment events carried out in "Northern Lights" Sports and Recreational Centre. Only last year the Company provided financial support for more than 30 events of this kind.

In cooperation with the Saly administration and local organizations SPD takes part in a landscaping programme in Saly that has been started recently. Under this programme, many new bright colored children's playgrounds will appear in the yards of the village through SPD financial support.

In 2006, SPD started a new educational project of awarding grants to the best Saly school graduates, on a competitive basis, to provide for their further education in the higher education institutions of the Urals Federal District. Ten graduates have already been awarded the grants.

Health care is one more priority for SPD social investment. The Company is going to buy up-to-date medical equipment and computers for Saly Village Hospital. The laboratory, dental office and Emergency Medical Service will be equipped with cutting-edge technologies. It is planned to organise refresher courses on rescue emergency care for training medical personnel from the Hospital.

Local authorities as well as ordinary people are very appreciative of SPD's contribution to the development of social infrastructure in Saly.

"Every resident in the village sees that the Company takes active part in all social, cultural and sporting events,"- said Vitaly Sapunov, Head of the Saly Administration, addressing the participants of the Forum.

The Deputy Head of Nefteyugansk District on Social Issues, Vladlen Mikhalev, stressed the importance of the Company support in the field of culture, education, health care and strengthening the material base of the social facilities. On behalf of the Head of the District Administration, Vladimir Semenov, he handed an official letter of thanks to the SPD CEO Harry Brekelmans.

The social content of SPD activities is also recognised at the regional level. The ceremony to award the winners of the contest "Black Gold of Yugra" was held in Khanty-Mansiysk a few days after the Open Public Forum. The contest is held among the oil and gas producing companies operating in Khanty-Mansi Autonomous Okrug. According to its performance and results in 2006 SPD received a laureate's certificate in the category "For Social and Economic Partnership".



NEW APPROACHES TO PETROPHYSICAL DATA INTERPRETATION

IT IS COMMON KNOWLEDGE THAT OIL AND GAS FIELD DEVELOPMENT DEPENDS LARGELY ON RELIABLE AND TIMELY INTERPRETATION OF LOGGING DATA PROVIDING UNIQUE INITIAL INFORMATION ON DEPOSITS BEING PENETRATED.

It should be noted that accurate interpretation of log data is primarily based on the acquisition and in-depth analysis of core data without which fine-tuning of log interpretation methods is impossible.

According to the data acquisition and study policy of SPD, core is recovered at each well pad in the fields being developed. Each well should be characterised by favourable geological and core sampling conditions. Such strategy provides a uniform core data coverage of the field and the most thorough description of the different lithologies and facies.

Application of SibBurMash coring technologies combined with Shell recommendations ensured 100% core recovery while maintaining the structure and, especially important, natural saturation of rock samples.

For a detailed study of petrophysical properties, in-depth core analysis is performed and includes:

- macro- and micro-description of the core;
- estimation of porosity, permeability and water saturation;
- specific measurements such as relative permeability, capillary data and electrical core analysis;
- mineral composition and grain-size analysis.

Assessment of spatial distribution of reservoir pressure during production is a separate objective. This information is valuable for field development optimisation and, in the long term, for oil production enhancement. For this purpose, the reservoir pressure profile is determined in three to four wells at each pad using formation pressure testing. SPD is using Schlumberger's state-of-the-art technology, the XPT sampler.

Log interpretation techniques for thin and laminated reservoirs have been elaborated. For this purpose, a special

technique was employed to improve the vertical resolution of the density log, which is the basic data for determining of reservoir porosity. In addition, a technique for assessing the amount of sand in laminated sand-shale intervals was developed and applied. As a result of using the above techniques, the quality of assessing porosity and net thickness in thin and heterogeneous reservoirs was improved significantly.

Another important task is predicting the water content in wells being put on stream. For this purpose, a water-cut forecast method was developed which is based on the variation of rock porosity and oil saturation. The introduction of new petrophysical software has formed the basis for effective development and implementation of these technologies. "Logic" software package used for several decades was replaced in SPD by "TechLog" state-of-the-art software.

NEW SUCCESS OF SPD IN BLACK GOLD OF YUGRA COMPETITION

On September 7, 2007 the Black Gold of Yugra Competition was concluded in Khanty-Mansiysk. This annual competition judges the performance of oil and gas companies in the Khanty-Mansi Autonomous Okrug and is timed to coincide with the national Oilman's Day festivities.

This is the third time that Salym Petroleum Development NV (SPD) has taken part in the competition and achieved yet another major success. Based on its performance in 2006, SPD won in the category "The most dynamic enterprise with oil production volume of under 5 million tons" and became a laureate in the category "For social and economic partnership". "Winning in the competition is the result of great performance of the SPD team, including our staff and contractors in 2006, a proof of the Company's dynamic development and our commitment to social responsibility and partnership", commented SPD CEO Harry Brekelmans. "In 2006, only three years after the start of Salym development, SPD has entered the elite group of Russian producers who measure their production in millions of tons."



SUPPORT FOR CULTURE AND SPORTS

In the period September to October 2007, large-scale cultural and sporting events at international and at all-Russian levels took place in Khanty-Mansiysk. SPD was one of the sponsors of these events that included the VII International Music Festival "Yugra". During the Festival the traditional ceremony to award the best oil and gas producing companies was held for the winners of the regional contest "Black Gold of Yugra". SPD also acted as a general sponsor of XI International TV Program and Film Festival "Golden Tambourine" and provided financial support in the organisation of all-Russian "Yugra Cup Archery Competition".



TAKING THE ROUTE

IN 2006 THE TEACHERS AND STUDENTS OF THE SECONDARY SCHOOL №1 IN SALYM VILLAGE PUT FORWARD AN INTERESTING IDEA: THEY SUGGESTED A PROJECT NAMED "TRAFFIC ABC" AIMED AT THE PREVENTION OF INCIDENTS TO CHILDREN ON THE ROADS AND IMPROVEMENT OF PERSONAL SAFETY SKILLS.

SPD decided to support the idea and allocated money for funding this socially important project in which two secondary Salym schools №1 and №2 took part. Under the project the necessary equipment and training aids were purchased and placed in classrooms and on the safety training grounds where theatrical, learning and simulation games were conducted for the school children. The names of the games are "You Should Know Traffic Regulations Like Multiplication Table", "We Hurry To School", "The Road", "Road and Street Laws", "Watch Outs Lotto", "Pedestrian's ABC". In addition, they organised a puppet theatre "Forest School" for the secondary school №2 in order to teach the road safety rules to junior grade pupils and pre-school children from the "Svetlyachok" kindergarten.

At the beginning of September this year the campaign "Go Slow: Children Are Here!" was started. The entire school community, i.e. pupils, teachers and parents took part in the campaign. The youngest inhabitants of the school planet – first-grade pupils were officially initiated and became "pedestrians" during the children's matinee "First-graders' Initiation", but only after they had participated in a number of contests and question-and-answer tests on their knowledge of road safety rules. Junior grade pupils took part in the online game "Everyone Should Know Traffic Regulations". Using all their experience and knowledge the children were required

to answer to challenging questions, which were asked by the senior school students and an SPD Safety Specialist who acted as an anchor person.

On September 15, the schoolchildren from the fifth to the tenth forms competed in a contest "Safe Wheel", during which they were able to demonstrate their bicycling skills. But even most elaborate tricks and, sometimes, acrobatic tricks performed could not guarantee a win. The finalists were to participate in a series of three tests: to show their knowledge at the station "Traffic Regulations"; to evince intelligence and knowledge in the game "Road Mosaics"; and finally, to use their skills in "Let's Simulate Real Life".



The winners received their certificates of honour and a moment of glory. All other contestants got a fit of energy. The main thing is that they discovered some new road safety knowledge that they can put to use in real life. Parents also took part in the campaign. Together with their children they were mapping the safe route for their child, indicating all dangerous points on the route from home to school and back.

Given that all necessary conditions are in place, systematic work on the prevention of incidents to children on the roads will be carried out throughout the school year. The cooperation between SPD and Salym schools will continue contributing to road safety.

SAIL REGATTA IN SALYM

In August 2007 an Open Nefteyugansk District Cup Sail Regatta took place on the Syrkovy Sor Lake close to Salym Village. The sail regatta was organised by Salym Village Administration and Physical Culture and Sports Committee of the Nefteyugansk District, and SPD acted as a general sponsor of the event. The sailing crews from Salym, Poykovsky, as well as from the cities Nefteyugansk, Surgut, Yekaterinburg and Khanty-Mansiysk took part in the competition. Salym amateur sportsmen have trained in the yacht class sponsored by SPD. The Company has allocated funds for purchasing tutorials and training aids, life vests, sails and other yacht equipment. This year the Salym yacht fleet will expand with the purchase of two new yachts financed by SPD.



POETRY COMPETITION

A contest for best poem about the Company and people was held in SPD. The results of the contest were announced on 27th of September, the anniversary of SPD's inauguration. Yury Sidelnikov, HSE Engineer, won first prize and second prize was taken by Artem Vertyakov, Procurement Planning Specialist. Both prize winners work at Salym site. Third place went to Ruslan Rakhimzyanov, Planning Engineer in SPD Tyumen office. The People's Choice Award went to Vincent Hugonet, a French specialist who works as a production engineer at Subsurface Department in Salym. His poem was written in English. The winners received generous gifts. All other competitors received souvenirs with the corporate logo. The poems will be printed on posters and displayed in SPD offices and accommodation camps.



COMPANY AND PEOPLE

THE COMMERCIAL OIL PRODUCTION IN WESTERN SIBERIA DATES BACK TO THE SIXTIES OF THE LAST CENTURY. SINCE THEN THE LIVES OF MANY PEOPLE IN THE REGION HAVE, IN ONE WAY OR ANOTHER, BEEN ASSOCIATED WITH OIL. IN MANY FAMILIES THE PROFESSION OF OILMAN BECAME ALMOST HEREDITARY. ALEXEY KHABAROV, LEADING GEOPHYSICAL ENGINEER OF THE SUBSURFACE DEPARTMENT IN SPD TYUMEN OFFICE, WHOM WE ARE GOING TO INTRODUCE TO OUR READERS TODAY, HAS FOLLOWED IN THE HEELS OF HIS FATHER IN CHOOSING THE PROFESSION.



YEAR OF BIRTH: 1974
EDUCATION: graduated from Tyumen Oil & Gas Institute as a specialist in well logging
MARITAL STATUS: married, the father of two children (the eldest son is 8, the youngest is 4 months old)
HOBBIES: fishing, football, tourism, reading

Q.: You joined SPD in the spring of 2006. Where did you work before?

Before joining SPD I worked at TNK-BP Tyumen office for about two years. Prior to that I had worked in a Tyumen Branch of "Khanty-Mansiyskgeophysica" (Geological and Geophysical Data Analysis Center).

Q.: What does your work consist of?

Logging in the drilled well bores is performed by means of wire line equipment. The wire line data is recorded in form of curves. The responsibility of a well log analyst, a Petrophysicist according to Western qualification or Geophysical engineer according to Russian qualification, is to interpret this data and assess the rock characteristics, i.e. porosity, permeability, hydrocarbon saturation, the width of permeable layers, and the mode of their saturation.

Q.: Are you satisfied with your work results?

Though I haven't discovered any major oil fields, some minor achievements have taken place. I have satisfaction in my work mainly because it is my conviction that we ensure a steady accumulation of knowledge and understanding of the studied geologic features, enhancing precision and accuracy of data interpretation. Probably this is the aim I'm striving for.

Q.: Did you manage to introduce anything new in the methods of research?

For SPD we have developed a new method of permeability assessment, which helped to enhance the reliability of forecasts for producing ability of well. I personally took part in this work. Due to this recent innovation, in particular, the selection of ESP (Electrical Submersible Pump) for production wells has been significantly improved. If the capacity of a pump is not enough the well wouldn't reach its potential efficiency, and if the capacity of a pump is too big for this well it will lead to its premature failure. In this way, we have managed to extend ESP service life and deliver the entire well operation process closer to optimal.

Q.: Do you find anything new and instructive when working together with foreign experts?

Working together with foreign experts means a close contact with advanced western technology, mastering of new techniques and thus the extension of one's personal expertise. The style in SPD is more democratic and free than in other companies, and I like it. SPD specialists have many opportunities for showing their creativity. Much depends on an individual's input.

Q.: Do you remember any cases when foreigners adopted some of Russian experience?

Of course, I do. Nowadays, most wells are characterized by Western type of logging. But we have also got quite a number of old exploration wells where a Russian well logging was performed. The Russian experience proved to be very useful in this respect. And foreign experts try to adopt this experience where possible.

Q.: What is your opinion of the situation within the Company?

The situation within the Company is without any doubt favorable for an individual's professional and career development. To my mind, SPD has a well-integrated structure based on cooperation with specialists in various disciplines and businesses. This contributes to the extension of professional knowledge and better understanding of the goals and objectives of one's work.

In Russian companies various specialists are often distanced from each other

and work separately. The job is broken down into "blocks", and once it gets done it goes over to next department, and they carry on working their "block". However, the internal communication between departments is often questionable.

The way we work in SPD is based on a close interaction and that makes it more efficient. Various specialists are reviewing the outcome of the job and if it does not represent the entire picture, they send us a message asking us to review it once again and to develop new approaches that will allow us to fix the inconsistency.

It is also important that there is always a chance to get an immediate confirmation of the data authenticity and the job's outcome on the basis of feedback, direct from the oilfield. As a rule, after considering the results of petrophysical forecast we perform a number of geological and engineering operations, and if the forecast was incorrect, it is immediately made known. This is very useful for a specialist, as it provides quality feedback. This achievement can be attributed primarily to SPD management, and provides the message that this is the style of work accepted in the Company.

Q.: Suppose you are asked to speak to the audience of SPD newcomers, what would you tell them?

Colleagues, you are lucky to get a new job with our Company. Here you'll have the opportunity to unlock your creativity and talent, get an excellent hands-on experience, touch the cutting-edge technologies in oil and gas industry, become a part of multicultural team and earn good money and moral reward. You should be conscientious about maintaining high quality work. Finally, you must be serious about the Company HSSE policy.

Q.: What are your hobbies?

My hobbies are fishing, football, tourism and, whenever possible, reading books. I prefer fiction, historical books, modern drama, science fiction, books about wild life and popular-science literature.

As regards tourism I can say that two years ago some of my friends and myself went on an expedition to the Polar Urals. We drifted in rubber boats down the Harbey river and covered a distance of 100 kilometers. This wonderful journey took us two weeks. I play football once or twice a week, just with my friends.

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Salym Petroleum Development N.V.

Moscow representative office:
 31, Novinsky Bldv., Moscow
 123242, Russian Federation,
 tel. (+7 495) 518 9720, fax (+7 495) 518 9722

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