



# NEW HORIZONS

SALYM PETROLEUM DEVELOPMENT N.V.

№9

April 2008

SALYM PETROLEUM

## DRIVING SAFELY (see page 2)



## SPD ROAD MAP – THE JOURNEY CONTINUES

In 2008, it has been five years since SPD Shareholders took the decision to proceed with implementation of the Salym Project – the largest new project in the energy sector in Western Siberia for many years. Since then:

- A new oil company – Salym Petroleum Development (SPD) – was established practically from scratch,
- Major modern oil production facilities were built, on time and on budget,
- First oil was delivered ahead of plan and production has grown rapidly to an annual volume of about 4,3 million tonnes in 2007,
- SPD is externally benchmarked as the best global onshore driller,
- SPD is widely recognised in the region as a good corporate citizen contributing to the development of the local and regional community.

SPD is proud of these and many other achievements, which represent a strong basis for moving forward and which are a reflection of the motto that characterized SPD during the main construction phase: Best Team – Best Project. With the field facilities complete and oil production growing, the Company has successfully made the transition into the operational phase. We have ambitious goals for this next part of our journey, which are best expressed using our new motto: Best

Team – Best Operator. That is our goal, to become recognized as the best operator in Siberia. The route of moving to this goal is defined in what we call the 'SPD Road Map', which covers where we are today and where we want to be in the future. It defines the key business priorities for the company and also which key activities we must 'win' in order to be successful.

According to the roadmap, the period of 2008 through 2012 is identified as the 'harvesting' time and will be a period of production ramp up and significant surplus cash generation. The key business priorities for this period are:

- Further production ramp up – increase production,
- Operating without significant harm to people and the environment,
- Cost optimisation & control – to maintain operating cost between \$3 –4\$/bbl,
- Mature new oil opportunities to extend the production plateau,
- Recognized as a responsible corporation - as a great neighbour,
- Offer a great place to work for our staff and for contractors.

To deliver against these priorities there are 15 key short-term activities that we must achieve. We will call these our "Must Win" activities.

First and foremost, we must 'win' the HSSE challenge. Here SPD has set

itself a very ambitious goal: no harm to people and the environment. Both SPD and our contractors think we can achieve this goal, but it will take a big effort to get there. Our focus will be on improving (sub)-contractor HSE management, Road Safety, Worksite Hazard Management and Asset Integrity, with HSSE Competence Development and Incident Reporting and Learning as important enabling tools. We will also put in the place the necessary measures to eliminate continuous flaring by 2010 latest.

We aim to maximize production volumes, by scaling up our hydraulic fracturing campaign, and by increasing drill well density in certain areas of our fields.

We will introduce novel ways of working that will allow us to monitor and manage our production and injection volumes in a far more efficient and effective way. This project is called "Well-Reservoir-Management" and should not only result in increased production volumes, but also allow us to control operating costs more effectively.

We will reduce our office footprint through the Tyumen relocation project and we will make organizational changes in areas such as Logistics, Business Planning, SAP/IM&T, Engineering support and Civil/Pad construction

### MEMORANDUM OF UNDERSTANDING

On March 14, 2008 Salym Petroleum Development N.V. (SPD), OAO NK RussNeft and OOO Monolit signed a Memorandum of Understanding in Khanty-Mansiysk. The Parties agreed upon the main principles of interaction on the utilisation of the associated petroleum gas from the Salym and Shapshinskoe fields in the Khanty-Mansi Autonomous Okrug. According to the Memorandum the associated petroleum gas from these fields will be processed at the Gas Processing Plant (GPP), which be built within the territory of the West Salym field. The dry gas will be used to generate power.

OOO Monolit will handle the construction of the GPP and associated infrastructure as well as their operation. The Parties agreed to enter into discussions to prepare and sign bilateral legally binding agreements.

For SPD engagement in this project will open additional opportunities for associated gas utilisation. A gas turbine power plant built by SPD to generate power using associated gas is already in operation in the West Salym field.



## INTERNATIONAL PRESS VISITS SALYM

Leading international media visited the SalyM group of fields on April 1-3, 2008. Sponsored by Shell, one of the SPD shareholders, the visit involved representatives from eight media companies, including ZDF (German public TV channel 2), The New York Times, Swiss Neue Zürcher Zeitung and Dutch De Telegraaf. The press visited the SPD base camp, the field operations base, the central processing facility, the power generation plant and a drilling rig. The journalists also saw the Ulybka (Smile) kindergarten financed by SPD, and met with the head of the SalyM village administration Vitaly Sapunov who discussed cooperation between the village administration and SPD. Back in Moscow, the media people met with Chris Finlayson, the head of Shell in Russia.

In their coverage of the visit, the media stressed the attention that SPD attaches to industrial and labor safety and social investment in the region.



## SPD DRILLERS ARE AMONG THE BEST AGAIN

Shell E&P division has announced the results of its regular Global Performance Awards for Well Delivery and Completions and Well Interventions. The awards went to winners in six categories based on their performance in 2007. The well construction department of SalyM Petroleum Development scored another success in this contest, winning in the Most Enterprising Team category. This is not the first success for the SPD drilling team: in 2005 and 2006, the well construction team won in the Most Improved Team category.



in order to increase organizational effectiveness and make better use of our human capital. We will also unlock value from our inventory with the stock optimization project that is currently underway.

We invest not only in the near and short term, but very much also in the long term as we work hard to identify and realize opportunities to develop 'new oil' from our fields. In view of that we are currently studying enhanced oil recovery methods, which may allow us to recover significant additional oil volumes.

Over the past years SPD has gained recognition as a good corporate citizen, contributing to the social development in the region. We are committed to continue

this and are therefore going to extend cooperation with the district and KHMAO authorities through a new long term Social Investment Agreement between SPD and the Okrug Government, which will be developed and agreed in 2008.

We can of course only achieve our goals through our people, who are the company's principal asset. Therefore SPD attaches great importance to personnel motivation, further improvement in work conditions, expanding opportunities for learning and development, and professional progression. With this in mind a detailed succession plan for the key positions is being prepared, as is a new learning and development plan. We want to be the best in the area of career

opportunities, learning and development, performance management and supportive environment.

We believe strongly that within SPD we already have the ingredients that make for a world-class delivery culture, where innovation and team work and a focus on value and cost result in consistent delivery of the promises we make. Our company scorecard promise for 2008 is fully consistent with the SPD roadmap and it is expected that your role in delivering both the Roadmap and the 2008 scorecard is clearly documented in your Goals and Performance Agreement. Assuming that is the case, then the promise is made – so now it is all about delivering!

# DRIVING SAFELY

Oil field development projects always involve a lot of road transportation. During 2004-2007, transportation vehicles used in the SalyM group of oil fields covered a distance of more than 92 million kilometers.



The more intensive the traffic, the more risks to the health and safety of the people. Therefore, road safety is a source of constant concern for oil companies, contractors, subcontractors and the authorities.

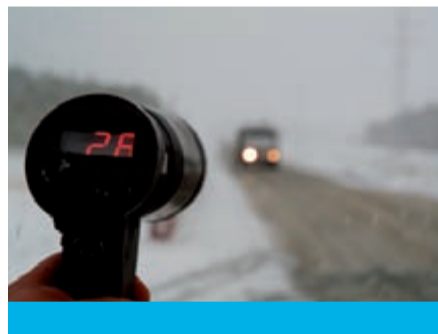
At the end of March this year, SalyM Petroleum Development organized a road safety forum in SalyM village. The event brought together more than 130 people, including representatives from more than 40 contractor companies working at the SalyM project, administration of the Nefteyugansk district and SalyM village, the traffic police, and SPD personnel.

SPD CEO Harry Brekkelmans opened the event with a presentation setting the tone for the discussion with the Goal Zero concept, an ambitious target set by SPD of performing its operations with no harm to the people or the environment. The company believes that the goal of having absolutely no incidents or serious accidents is realistic but would require concerted efforts from SPD and its contractors and subcontractors. The same goal fully applies to road safety.

Head of SPD's industrial and labor safety department Yuri Bashara presented an overview of the status of road safety in SalyM project. Statistics for road traffic incidents on SPD field roads and federal road show that most commonly in road accidents vehicles run off the road, collide and/or overturn. The accidents were mainly caused by inadequate driving culture and failure to comply with traffic rules, lack of driving experience, and gaps in the motor vehicle management and control system within contractor and subcontractor companies.

In his other presentation, Yuri

Bashara spoke about SPD priorities in road safety for 2008. The new program will, in particular, involve equipping SPD and partially contractor and subcontractor vehicles with monitoring systems that would register speed, frequency of braking and other parameters. World experience shows that the use of such a system disciplines the drivers and improves driving behavior considerably. It is also planned to raise the professional skills of the drivers by holding defensive driving courses, implement a more efficient journey registration system and have better vehicle inspections.



ZAO Kompaniya Bezopasnost made a presentation devoted to road risk reduction measures. In December 2007, employees of that company got into a serious road accident when they drove on a Niva vehicle on an access road to the Tyumen – Khanty-Mansiysk federal road. The company made a thorough analysis of the tragic event and worked out measures to prevent such accidents from happening in the future. In particular, the company decided to no longer use Russian-made vehicles, added a professional driver to the maintenance team, held training for the drivers and imposed an obligation on the drivers to report to an operator the time they start on a trip and the number of passengers. The company also developed and approved a procedure for actions in emergency situations, and introduced obligatory safety briefings for the drivers.

Next came an interesting presentation from the Active Security training center devoted to their defensive driving training courses. The course includes a theoretical

part that describes the main principles of such a driving technique, the rules for interaction with other drivers and pedestrians, compliance with speed limit, the influence of fatigue on the behavior of the driver, and practical part where drivers can try new skills on a test course with an experienced instructor.

The human factor is a very important dimension for road safety. Driver behavior and actions are the most frequent causes of road accidents and incidents. Videos were shown to illustrate the grave consequences of speeding, failure to use safety belts and talking over a mobile phone when driving.

In winter time roads require special attention and skills as driving is impaired by cold weather, snow and other climatic factors that increase driving risks. Slavko Pastor, a manager from Schlumberger, shared the experience of his company in managing road traffic organization in winter conditions, emphasizing the need for strict control over compliance with speed limits. He also described the system used by his company to report road accidents and the system of vehicle-based driving monitors.

Ensuring road safety is a common task that may be successfully solved only if all companies operating on the territory of Nefteyugansk district and all local authorities pool their efforts to achieve that goal. That was the main thrust of the presentation from Vladimir Chebotayev, deputy head of the administration of Nefteyugansk district, and chief inspector of local road control department Capt. Alexander Nikolaev. They described the recent road safety initiatives in the district and asked the participants in the forum to actively participate and contribute to road safety.

Scheduled presentations were followed by an open discussion where the participants broke into groups to discuss existing barriers to achieve road safety and ways to overcome such barriers. The exchange of opinions during the forum was an important step towards a common goal of ensuring safety on the roads.

# ESPS BECOME MORE RELIABLE AND EFFICIENT

Electrical Submersible Pumps (ESPs) continue to be the main artificial lift system in Russia, with more than 50% of oil in the country produced with the use of ESPs.

Some companies rely even more on ESPs. In particular, Salyum Petroleum Development has all its production wells equipped with ESPs. The average Mean Time Between Failure (MTBF) for SPDs ESP well stock is around 650 days.

Since ESPs are the main artificial lift system used in Salyum, serious attention is paid to installation and maintenance of the pumps and best practices are used to increase the life of ESPs. Application of Permanent Magnet Motors (PMM) is one of the attempts to improve ESP performance from the standpoint of reliability and lifetime and to increase economic effectiveness.

There are several drivers that make PMM attractive to use in comparison with conventional asynchronous motors: lower power consumption, much less harmonic effects in electric systems and a wider operational range. In addition PMMs have a more robust construction that promises to further increase MTBF. There are no sliding electric contacts in the motor, which should provide higher reliability and lifetime. PMM do not

create shock loads on the shaft because the PMM system also acts as a "soft start" providing higher system mechanic reliability.

Currently, the average Salyum field power usage is over 30 megawatts, of which more than 40% is ESP consumption. Both overall power usage and ESP share will double after finishing the current drilling



operations. PMM has a demonstrated 20-30% lower power intake with the same mechanic power against asynchronous motors in Salyum. The PMM ESP is more expensive than a standard ESP system but similar in price to an ESP fitted with a Variable Speed Drive (VSD) system. The PMM does not require a VSD as it is already variable by design and will give significant life cycle power savings with the same capital expenditures.

Since March 2007, SPD has been conducting pilot testing of ESP systems with PMM supplied by "Borets", an ESP vendor. Nine completions have been tested, two pumps were retrieved alive (i.e. before failure) due to conversion to water injection, two installations failed due to scale deposition in the pump and five PMM-ESP units are still in operation. None PMM failure has been observed during >200 days after the first installation. Observed power consumption has been reduced on average by 30% compared to standard ESP installation. Seven more sets of PMM are planned for installation in the first half of 2008.

## NEW RECORD IN RECOVERY

On January 18, 2008, a 100% core run of 48.5 meters was recovered from well No 1453 in West Salyum. Despite harsh conditions (the ambient temperature was below -25°C), the operation went smoothly thanks to good planning and compliance with all safety precautions.

A 48.5-meter core is the longest sample of rock extracted from the Salyum fields and a new record born out of the cooperation between SPD and contractor Research and Production Company SibBurMash from Tyumen. The company has been with the Salyum project since its very start and worked continuously to improve core recovery technologies in close interaction with SPD specialists.



## 8<sup>TH</sup> CONFERENCE OF YOUNG TALENT IN OIL AND GAS

The 8<sup>th</sup> conference of young specialists in the oil and gas sector of the Khanty-Mansiysk Autonomous Okrug took place in Khanty-Mansiysk in early April, 2008. The conference is intended to help young people discover and use their creative and innovative potential in such areas as geology, technology and others. The conference brought together 266 young specialists representing 48 companies and organizations, and 194 young engineers presented their reports. Young talent from SPD participated in the conference for the second time. Vyacheslav Baranov was awarded a prize for his presentation on the experience of using swellable elastomers in West Salyum, and Andrei Cherepanov delivered a report on the use of a Y-tool and ESP bypass system in Salyum. The organizing committee of the conference sent a letter of gratitude to Harry Brekelmans, the CEO of Salyum Petroleum Development N.V., for SPD's financial assistance to the conference.



# USEFUL TRAINING AND MUCH FUN

*An ambulance rushing down the streets means there is trouble somewhere: an attack of a disease, an injury or a traffic accident. When we are in trouble, we hope that the ambulance will come soon and that the doctors and paramedics are well-trained and experienced specialists.*



Ambulance staff needs more than just modern vehicles and medical equipment to be able to satisfy the needs of the patients and comply with the requirements of the day. They also have to improve their skills and professional knowledge on a continuous basis, especially in dealing with the latest medical equipment.

Salyum Petroleum Development helps train the staff of the Salyum district hospital that provides service to 10,000 people. The company financed refresher courses for the medical personnel of the hospital with a particular emphasis on pre-hospital emergency care procedures. More than 30 personnel passed the training, including paramedics from

the ambulance service, physicians, child doctors, surgeons, and other specialists.

Lectures, seminars and practical training were delivered by the teaching staff from the Refresher Training Institute of the Federal Medical and Biological Agency. The instructors were highly qualified specialists that had passed their own training in emergency care in specialized centers in Russia and abroad. The training schedule for Salyum doctors included several stages. Theoretical and practical training in October and November last year focused on first aid and emergency care techniques applied to patients with life-endangering disruptions of heartbeat and cardiac arrests, and with injuries.

Another training cycle was done at the end of April with deeper insights in the same areas of care plus emergency care techniques when dealing with small children and other new aspects. That new cycle helped doctors and paramedics refresh earlier knowledge and receive new information and skills. As an important part of the programme, theoretical knowledge was supported by practical

training using modern man-simulators that imitated the vital functions of the body. Those simulators allowed the instructors and trainees check their command of first aid and emergency care techniques for specific conditions.

The next training cycle was devoted to infectious disease and infection control. The lecturer gave an overview of the infection safety in Russia and the world, including bioterrorism, prevention methods and the most dangerous infectious disease of today. He also alerted the medics to such dangerous infections as viral hepatitis and HIV infections.

The refresher courses were informative and useful, say the students. "It is always interesting to study, says senior paramedic of the emergency care department of the Salyum district hospital Irina Masyutina. "With a professionally-built training programme, thorough and easy-to-understand presentation of training material, learning becomes a real treat. All students have received a lot of useful information, mastered new methods and techniques of first aid, and we are already using them in our jobs."

## PUBLIC COMMITTEE MEETS AGAIN

The Salym village public committee that includes SPD representatives, local administration and members of the public met again at the end of March, 2008 in Salym village. The participants discussed the implementation of the Salym project and SPD's sustainable development programs. SPD field manager Oleg Myakinin described the company's production plans, the status of the gas turbine power plant and measures to increase oil recovery from SPD license areas. SPD presented the results of its social projects in 2007. This year, SPD advanced new initiatives in this area, implementing a comprehensive road safety program and offering competitive grants for secondary professional training to high school children in Salym and Sentabrskiy villages.



## SPD SPONSORS BIATHLON

The 8th stage of the World Cup in biathlon, one of the most spectacular sports, took place in Khanty-Mansiysk in March, 2008. The event brought together 170 athletes from 25 countries, including five athletes from Khanty-Mansiysk Autonomous Okrug in the Russian team. A group of SPD employees visited this exciting event as part of their tour to Khanty-Mansiysk offered by the company as a reward for their excellent performance in 2007. SPD has been sponsoring the biathlon world cup for several years now. SPD also provides financial support to the Spirit of Fire festival of film debuts. The sixth such festival took place in Khanty-Mansiysk in February this year.



# COMPANY AND PEOPLE

People of many different professions work in the Russian oil industry, but they all call themselves oilmen. In that sense construction engineer **Sergey Ginkulov** is also an oilman, because he manages the construction of field facilities at SPD. So, meet Sergey:

**Year of birth:** 1961

**Education:** graduated from the Novosibirsk Construction Engineering Institute in 1990 as a construction engineer of industrial and residential facilities.

**Family:** married with a 23-year-old daughter

**Hobbies:** fishing and hunting



**– What did you do before joining SPD?**

– Before coming to the oil industry I worked in the residential housing sector. For several years, I worked for Novosibirskzhilstroj-2 and Yuganskzhilstroj companies as a manager of construction division and chief engineer. Then I moved to Yuganskneftegaz as a senior specialist of field facilities and joined SPD in the autumn of 2004.

**– What do you do at SPD?**

– I perform the function of company representative, supervising the construction of infrastructure and process facilities at the Salym fields. The main facilities completed during the past few years are the central processing facility, custody transfer facility, pumping station, ops base, rotational village and gas turbine plant. We will continue this year with an ambitious construction program.

**– What is the most difficult thing in your work?**

– Dealing with people is probably the most difficult thing. To be more specific, my task is to make sure all contractors at the Salym project comply with all rules and standards during construction, and meet all labor, health, environmental and safety requirements. SPD attaches exceptional importance to these things. To be honest,

some Russian contractors had not been prepared to embrace such requirements, so it took a lot of patience and effort to explain the company policies to them. With time, situation improved considerably. We now see much lower injury rates and fewer instances where people fail to comply with labor and industrial safety rules.

**– What did you find as the most unusual thing in SPD as a joint venture with foreign capital?**

– It was democratic relations between managers and subordinates. I believe this is a major advantage of the company, because such relations make a person believe in his or her importance and create a favorable atmosphere which helps overcome the challenges in our work. People share common aspirations and goals, and that helps them meet their targets in time and to good quality standards.

**– What are your impressions from working with foreign specialists?**

– Working side by side with foreigners is not new for me, as I had to deal with foreign people in my previous job. As for joint work with expatriates at SPD, we usually manage to find common language and try to learn from each other. We do not always take the same approaches to problems. But what I like about their style of work is that they prefer discussing complex issues in a group, which makes it easier to find optimum solutions. On the other hand, such approach sometimes creates delays that may create additional problems in our work.

**– What makes the Salym project different from the other projects where you were involved?**

– When in Yuganskneftegaz, I participated in the development of the Priobskoye oil and gas field. It is a unique field in West Siberia, some people call it the Second Samotlor. In terms of size, the Salym project is of course smaller. What makes Salym different is a great team. When we started the construction at the Salym group of fields, we already had a great team. All technical issues were resolved quickly and efficiently, and the design group provided detailed drawings to the construction site in time, and that was good quality work that required very few adjustments on site. Good management of design, construction and commissioning work allowed us to meet tight construction schedules and start production. In Salym, I was impressed with the attention the management of the company gave to the people. People were recognized for their work, they were rewarded and lived in excellent conditions. These are the things

that make the Salym project different from the other projects where I worked.

**– Would it be fair to say that SPD has its own style of work? And if so, what makes it so special?**

– I would put it like this: SPD has a very special style of relationships between people: they are free, democratic and respectful. This is true of all parties involved: SPD employees at all levels and contractors. This style is undoubtedly something that makes SPD stronger and sets a good example for other companies.

**– You work on a rotational basis in Salym. Do you find the rotational method useful or hard?**

– I live in Nefteyugansk, the city of oilmen, who are accustomed to live on rotations away from home, families and friends for long periods of time. I am no exception: I worked the same method before joining SPD, so I am used to it. It has its disadvantages, because you have to live away from your family for a long time, but you also have a lot of free time between rotations, which is a great plus.

**– If you were asked to give advice to young people coming to work for SPD, what would it be?**

– Try to reveal your potential, knowledge and capabilities. New recruits must also learn to work in a team and respect their colleagues no matter what their ranking or position is. Generally, they have to be prepared to learn a lot at SPD: they'll have to learn new technologies, new skills and work methods, and responsible attitudes to such things as industrial safety, labor safety and the environment. It is always interesting and exciting to learn new things, especially if you want to achieve a lot in your professional and personal life.

**– Do you have hobbies you go for in your free time?**

– My hobbies are connected with nature: in my free time I like to fish, hunt or simply walk around the taiga collecting mushrooms, nuts and berries. Siberia can offer a lot in this respect.

**– Where do you prefer to spend your vacation – in Russia or abroad?**

– During the past few years we went abroad to see the world. My wife and I were especially impressed with a visit to the Seychelles we made in 2006. Its diversity of tropical nature and wildlife is amazing, the Indian ocean is great, and the people are so nice and hospitable!

Salym Petroleum New Horizons  
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  
Registration Number 019450

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