



New Projects

New Approach

New Technology

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1999 US GAAP Interim Results for the  
Six Months ending 30th June 1999

# Our Mission

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- To fully realise and enhance the potential of our resource base, our people and the markets we serve
- To provide a world class financial return on a high quality asset base
- To create a simple and transparent corporate structure:
  - one company, one common share



## HI 1999 Financials & Outlook

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# Introduction

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- Net Income \$63.8m (H1 1998 Net Loss \$60.4m)
- Strong balance sheet - low debt
- Crude production costs cut by 70.6% per barrel
- Refining production costs cut by 66.8% per barrel

- Driving through change programme - cutting cost
- New development projects - New Investment
  - Drilling programme increased by 115% in H2
  - Hydro frac programme doubled in H2
- Successful launch of ADR Level I in April 1999

# Introduction

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- New Board with 3 independent non executive directors
- Full Implementation of Corporate Governance Charter
- Commitment to open up share register in 2000



## HI 1999 Financials & Outlook

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# Income Statement



Thousands of US Dollars	IH 1998	IH 1999
Oil and gas revenues	1,012,607	<b>604,291</b>
Total revenues	1,121,138	<b>621,588</b>
Operating expenses	970,769	<b>430,611</b>
<b>EBITDA</b>	<b>150,369</b>	<b>190,977</b>
DD&A	238,212	<b>148,031</b>
EBIT	(87,843)	<b>42,946</b>
Minority	6,139	<b>37,700</b>
Other Income and Expenses	35,947	<b>(14,019)</b>
Profit before tax	(45,757)	<b>66,627</b>
<b>Net income / (loss)</b>	<b>(60,388)</b>	<b>63,887</b>

*Abbreviated accounts*



# P&L Highlights - cont'd

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- \$63.8m Net Income, (H1 1998 Net Loss \$60.4m)
- EBITDA \$190.9m up 27.0%
- Using DD&A calculation under RAS (\$141.5 decrease in DD&A expenses) gives Net Income of \$205.3m

# Margin Analysis, H1 1999



M USD

**Sibneft**

**US GAAP**

**US GAAP\***

DD&A under RAS

**EBITDA**

\$190.9

**\$190.9**

**EBIT**

\$42.9

**\$184.4**

**Net Income**

\$63.9

**\$205.3**

\* For comparison purposes only the US GAAP accounts for Sibneft were restated using RAS DD&A

# Balance Sheet



Thousands of US Dollars	June 30 1998	June 30 1999
Cash and equivalents	211,914	21,289
Accounts receivable	744,829	389,569
Net oil and gas properties / PP&E	5,301,783	3,814,582
<b>Total assets</b>	<b>6,898,926</b>	<b>4,544,563</b>
Short-term debt	610,732	74,818
Long-term debt	150,000	162,290
Accounts payable and accrued liabilities	570,564	438,892
Estimated income and other taxes	656,054	98,048
Minority interest	2,392,945	962,745
Shareholders' capital	2,348,779	2,707,070
<b>Total liabilities and shareholders' capital</b>	<b>6,898,926</b>	<b>4,544,563</b>

*Abbreviated accounts*

# Capitalisation



000' USD	30/06 1998	30/06 1999
Short-term liabilities	610,732	74,818
Long-term liabilities	150,000	162,290
Shareholders' capital	2,348,779	2,707,070
Total liabilities / Shareholders' capital	32,39%	8,7%
Weighted average interest rate at end of period	29%	11%
Weighted average interest rate for period	19%	13%

# Cashflow Statement



Thousands of US Dollars	IH 1998	IH 1999
Net profit / (loss)	(60,388)	<b>63,887</b>
Change in net accounts receivable	(322,042)	<b>(4,979)</b>
Change in accounts payable	162,955	<b>120,670</b>
Change in estimated income and other taxes	(84,571)	<b>(44,633)</b>
<b>Net cash from operating activities</b>	<b>(22,812)</b>	<b>265,109</b>
Net additions to capital assets	(221,656)	<b>(31,506)</b>
Change in short-term loans	286,555	<b>(245,553)</b>
Increase in long-term debt	(19,570)	<b>12,290</b>
<b>Change in cash and equivalents</b>	<b>103,220</b>	<b>(12,798)</b>
<b>Cash and equivalents at end of year</b>	<b>211,914</b>	<b>21,289</b>



Upstream



# HI 1999 Upstream Highlights



## New approach to oil field planning

- In HI production decreased by 4.4%
- Sugmut drilling stopped to adjust the development program
- Production costs cut by 70.6% per barrel
  - Utilities down by 77.0%
  - Headcount down by 7.0%
  - Transfer of social assets in Noyabrsk completed
  - Strategy of spinning of non-core businesses implemented
  - Water cut reduced down to 67.4% (average water cut in Russia - 76%)

# Miller and Lents January 1, 1999

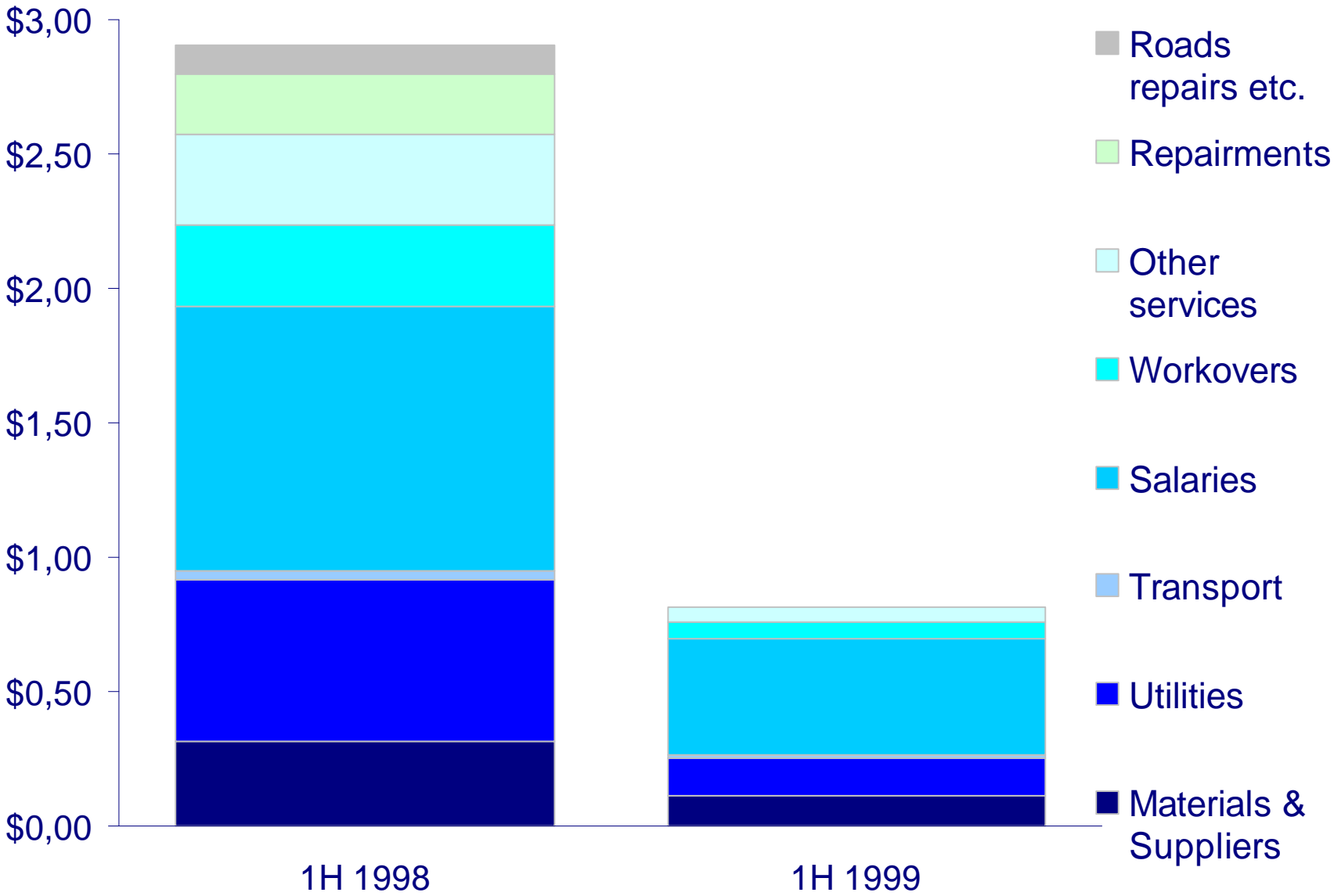


Total proved reserves up 3% and total reserves up 21%

Million Barrels	January 1, 1998	January 1, 1999
Proved	4,009	4,129
Probable	1,083	1,594
Possible	462	1,013
<b>TOTAL:</b>	<b>5,555</b>	<b>6,736</b>

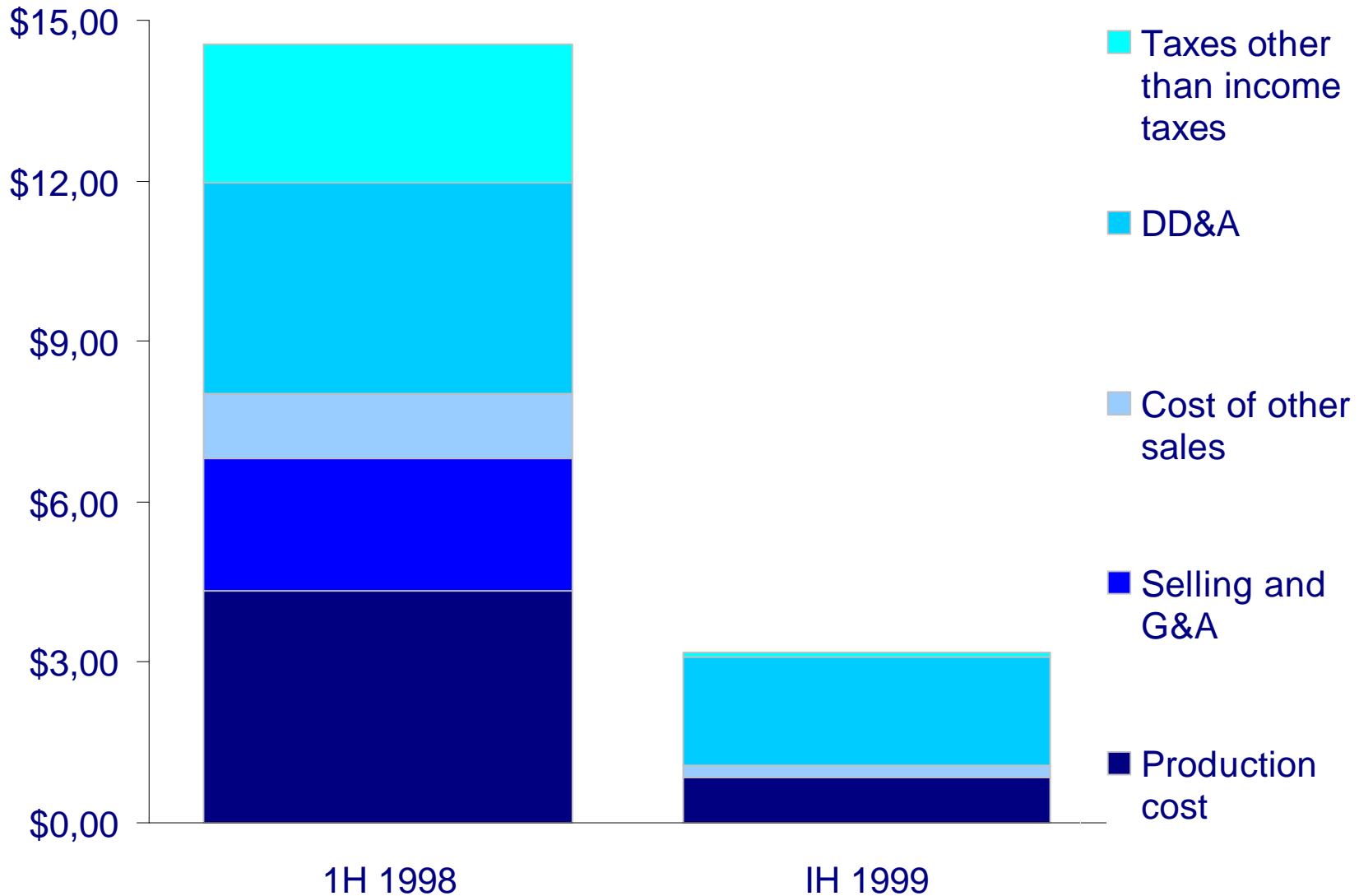


# NNG Direct Production Costs per Barrel



# NNG Production Costs per Barrel

## DD&A Accounts for 64% of Cost in H1 1999



# Highlights of New Program for H2 1999



H2 production program adjusted to increase oil production

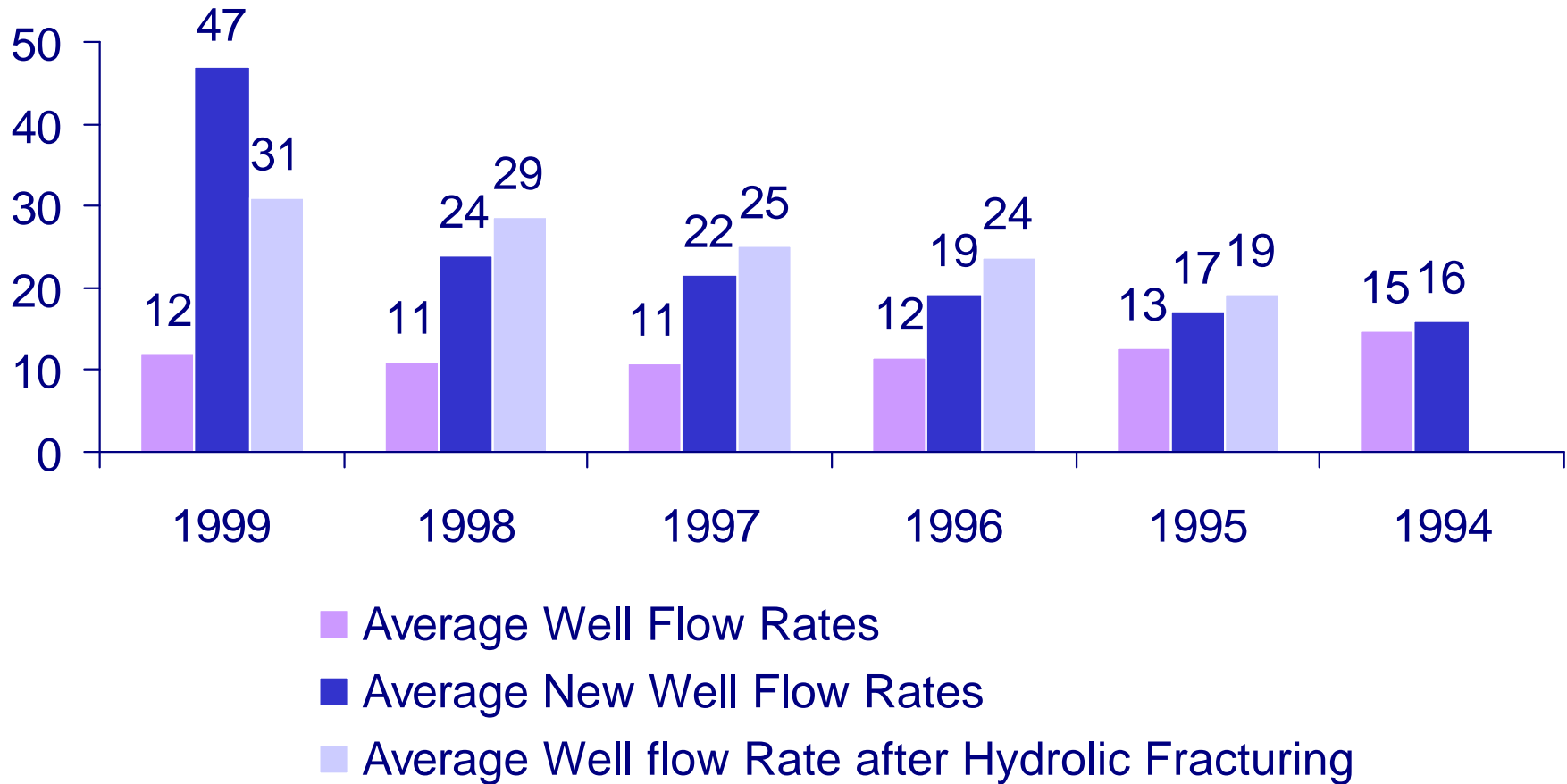
- Drilling volumes increased by 115%
  - 6.5 drilling teams worked in H1
  - 14 drilling teams working in H2
  - new drilling plan for H2 215.3 thousand meters
- Number of frac operations substantially increased
  - in H1 - 65 operations
  - in HII - 119 operations
- New projects, new technologies

# New projects, New approach, New technology



- New programs to produce oil at 2 new oil fields
  - Yarainerskoye (proved reserves of 51.8m bbl)
  - Romanovskoye (proved reserves of 14.9m bbl)
- Evaluation of new oil production projects for Sugmut and Novogodneye (Jurassic reservoirs) oil fields
- Old well restorations
  - Hydraulic Fracturing with new technologies (PROP-NET, TSO)
  - Application of equipment with a flexible tube (coil-tubing)
  - New equipment for workovers
  - New investment evaluation of operations of recompletions and isolation works

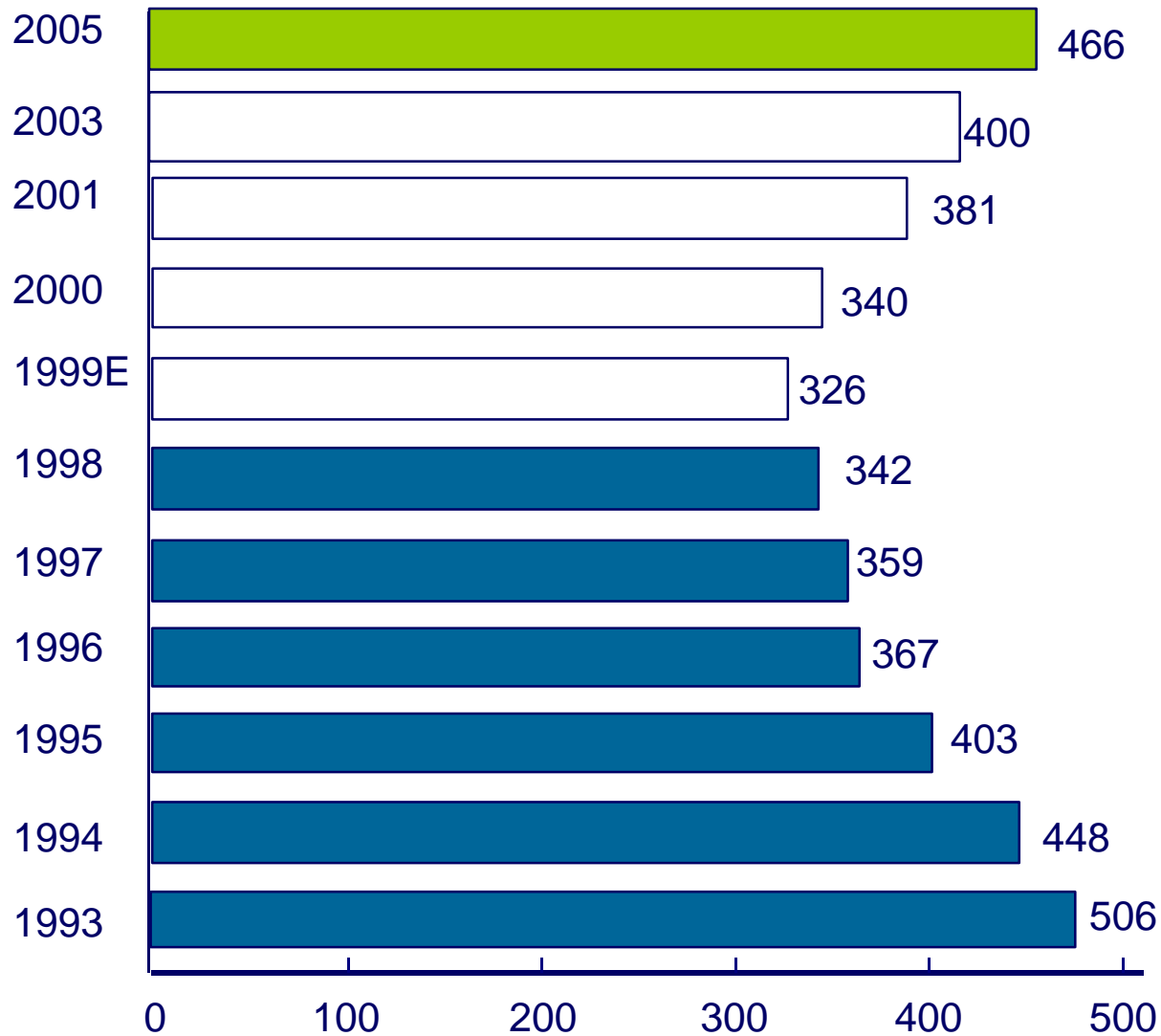
# Average Well Flow Rates Increase



# Target Oil Production



Thousand barrels per day





## Refining and Marketing

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# Downstream - H1 1999 Operational Highlights



- Focus on value added products
- Throughput down by 7.6% at 6.3 mm tons, 250,400 barrels per day
- Export sales of refined products down to 18.2% of total production of refined products from 27.1% in 1998
- Domestic prices increased over 50% from January 1st to June 30th
- Production costs cut by 66.8% per barrel



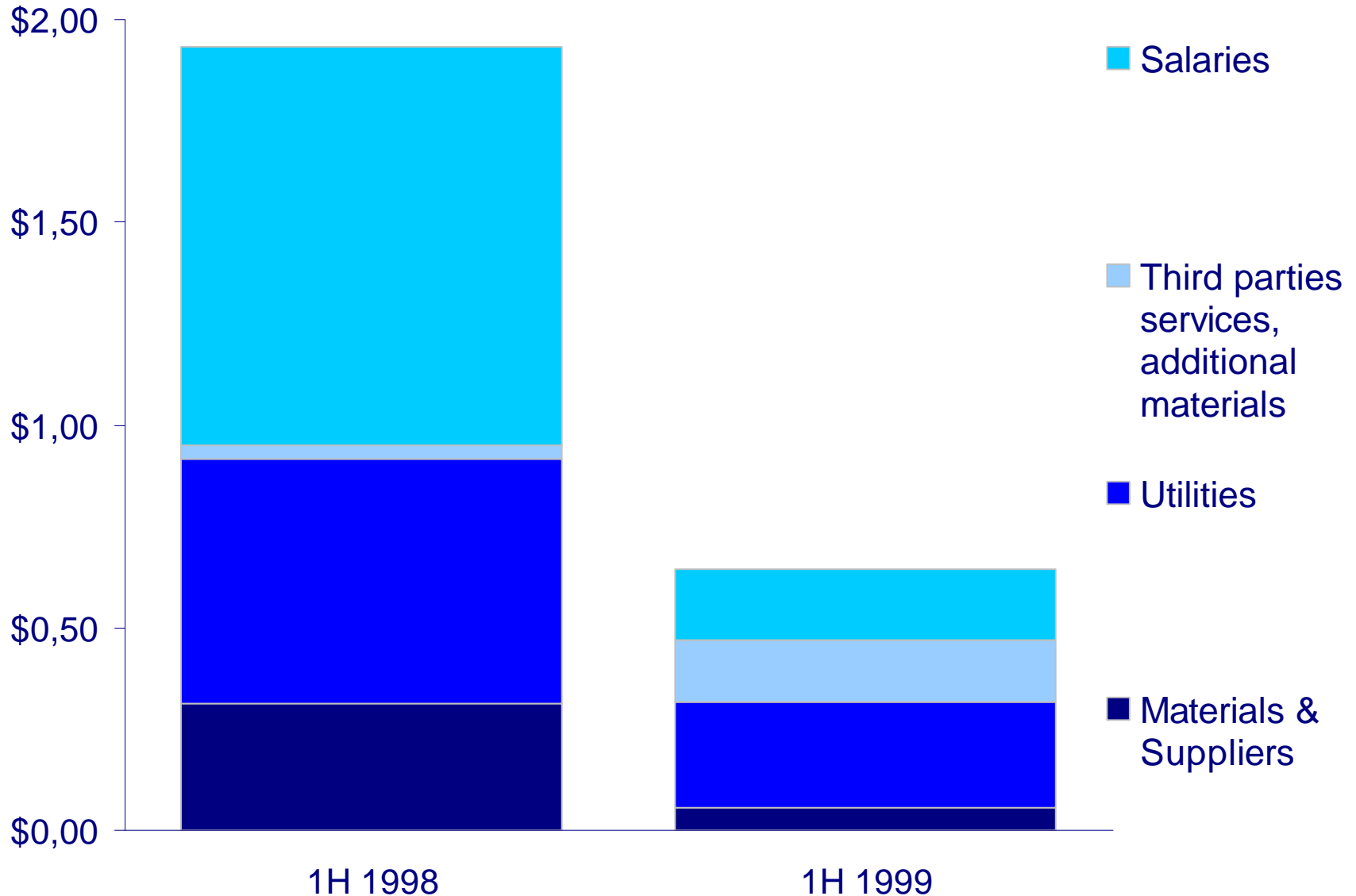
# Downstream - 1998 Operational Highlights

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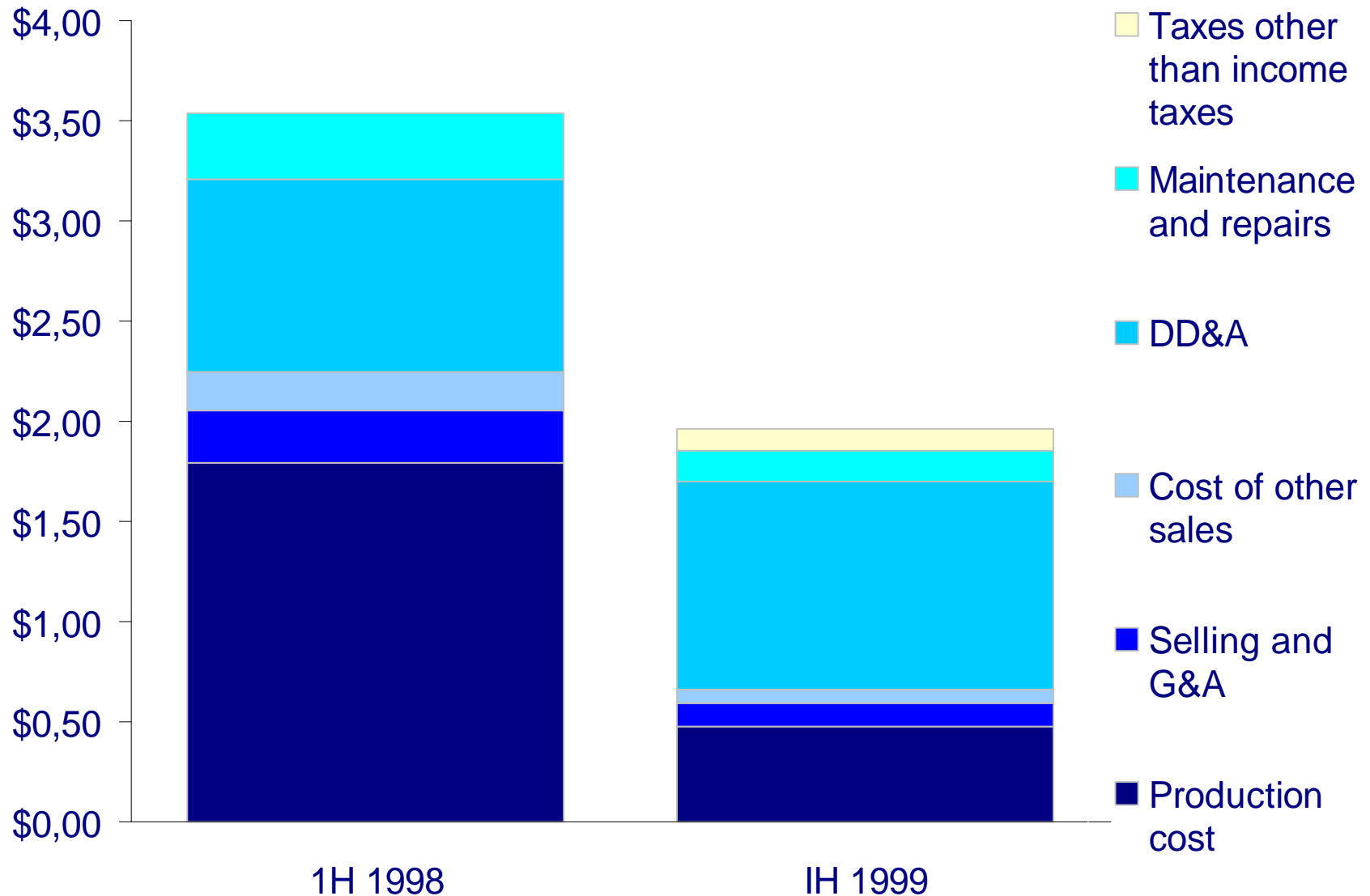
- Price rises coming through in H2
- Aggressive penetration of new markets in H1 1999
- New cracking unit at Omsk completed
- 150 retail sites added through franchise and exclusive supply agreements

# ONPZ Direct Production Costs per Barrel



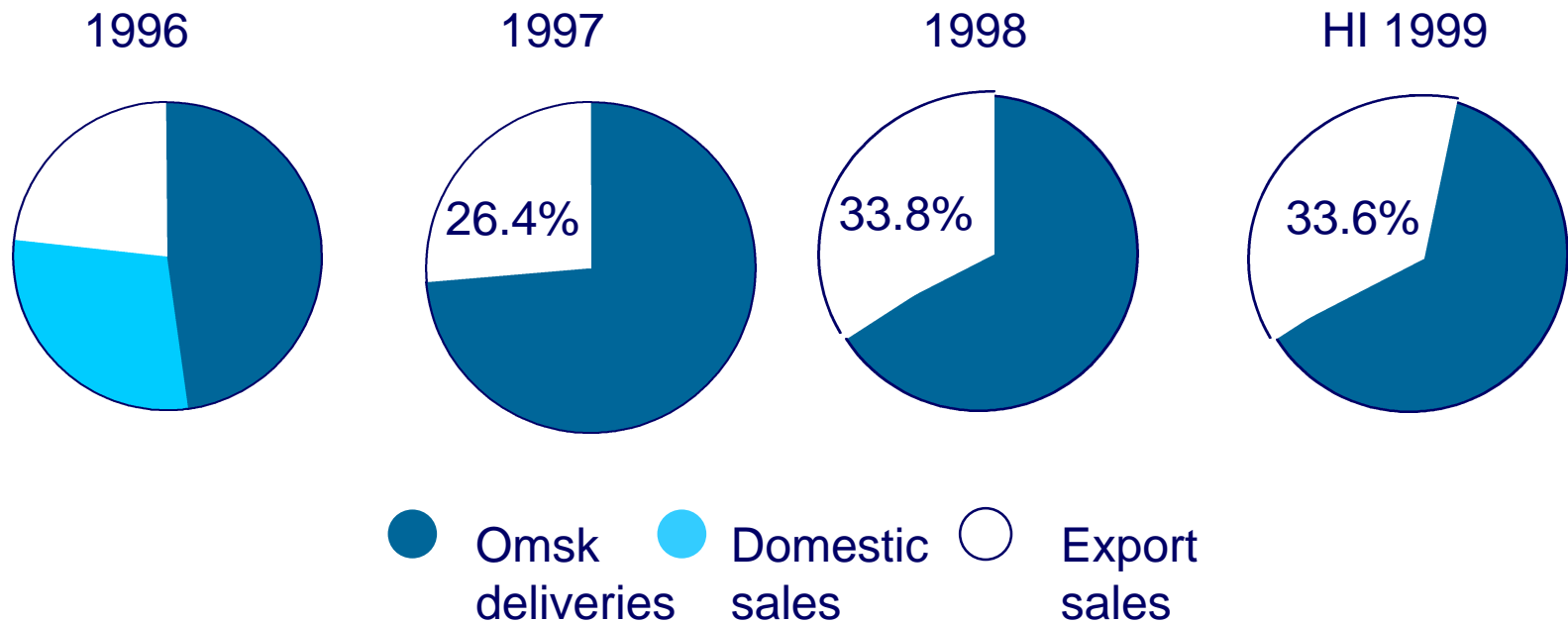
# ONPZ Production Costs per Barrel

## DD&A Accounts for 53% of Cost in H1 1999



# Crude Oil Marketing

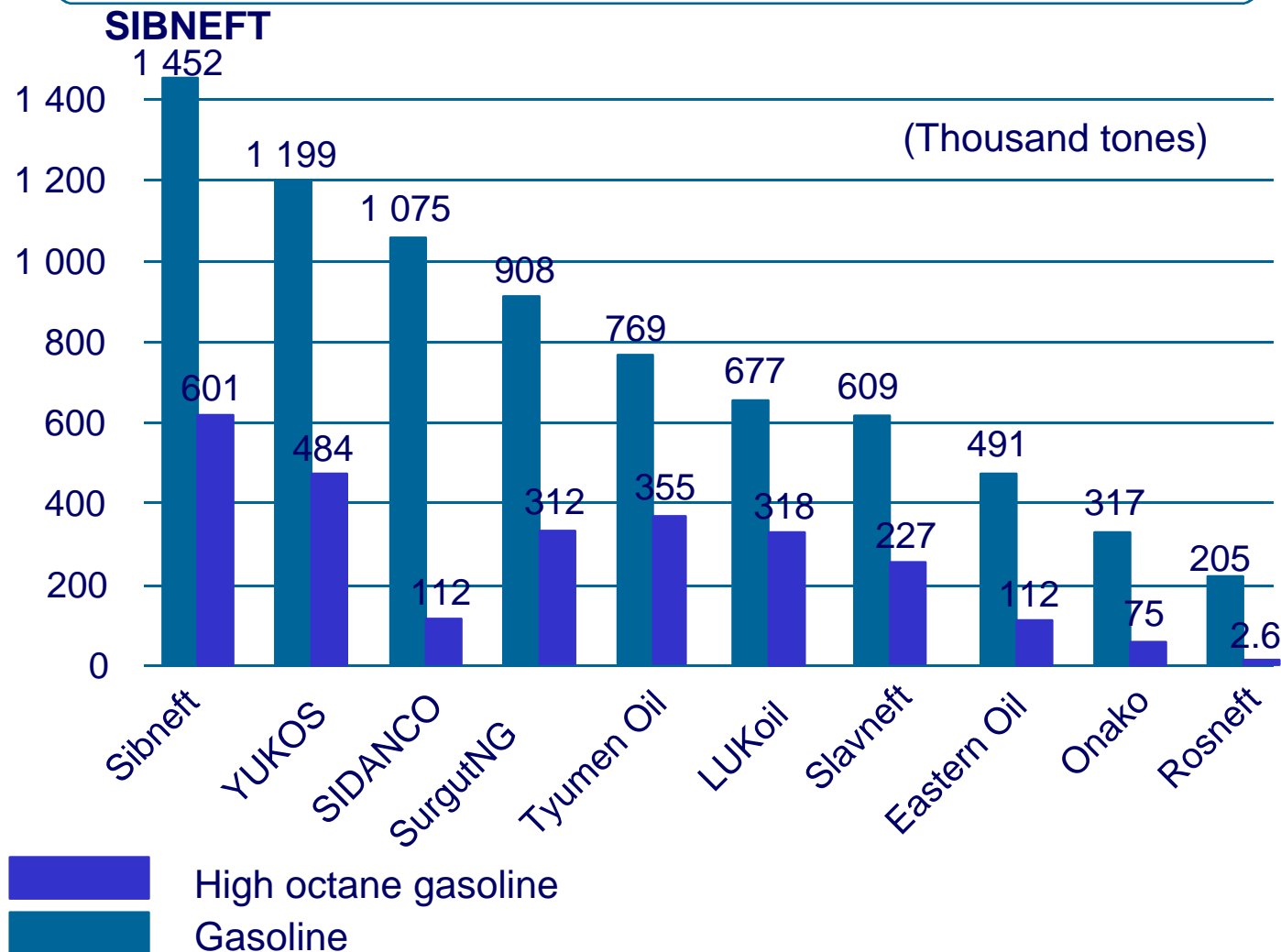
Export sales of crude (2.8m tons) up to 33.6% of production from 32.4% in HI 1998

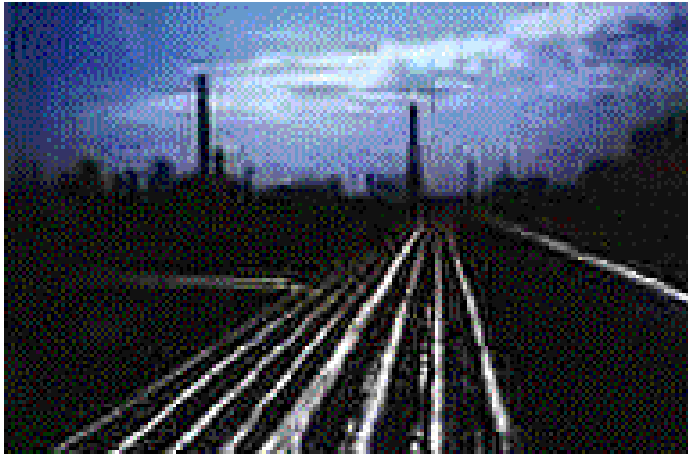


# Gasoline and High Octane Products Share in H1 1999 Throughput



In H1 1999 Sibneft was Russia's largest gasoline producer





## Corporate Developments

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# Winning in a Changing Environment

- Quick adjustment of production targets reflects responsive and market oriented management
- Driving through culture change
- New technologies, i.e. horizontal drilling
- Revising oil prices forecast
- High investment hurdles
- Refinery modernization
  - Market demand
  - International standards

# Adding Value with Schlumberger

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- Signing alliance with Schlumberger in third quarter 1999
- Increase assortment and volume of services outsourced through Schlumberger
- Joint identification of new forms of cooperation including 'turn-key' basis services from geological modeling to production drilling



# Adding Value with Schlumberger



- 150 Hydraulic Fracturing operations performed since September 1998
- First time in Russia the following technologies applied to oil production
  - TSO (Tip Screen Out) - method to increase productivity of fractures
  - PropNet - consolidation of propane in wells
  - Selective Fracturing - for excluding development of fractures in lower reservoirs with water

# Y2K - Be Prepared!

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- Task force formed in February 1999
- Led by COO Alexander Korsik
- Detailed plan
  - SAR R/3 at Omsk
  - INFIN (Sibneft accounting system)
  - Telemetrical control over oil production system in Noyabrsk
  - Corporate telecommunications
  - Sales management system
- Complete by November 1st 1999