



Rising to the challenge

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1999 US GAAP Results for the Year ending  
December 31, 1999

[www.sibneft.ru](http://www.sibneft.ru)



## **1999 Highlights**

**EUGENE  
SHVIDLER  
President**

## Our Mission



- ✍ To focus on *long term* profitable growth
- ✍ 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
- ✍ To set a new Russian benchmark for efficiency and competitiveness in the oil industry

## 1999 Highlights



- ✍ Increase of Net income from \$36.1 ml in 1998 to \$315.1 ml in 1999
- ✍ Expansion of retail stations network from 150 to 523
- ✍ Development of strong brand name
- ✍ Co-operation with Western partners (Schlumberger, BJ Services)
- ✍ Short-term debt of USD 282 mln re-paid
- ✍ Foundation laid for production growth in 2000
- ✍ Successful launch of the ADR program in April 1999

## Year 2000 Targets



- ✍ Launch of the new field development program (Yarainerskoye, Romanovskoye, Vostochno-Pyakutinskoe, Vostochno-Vingaiahinskoe)
- ✍ Excelleration of the downstream facilities modernisation (construction of alkylation unit, installed machinery to produce packaging for lubricants)
- ✍ Extension of the ADR program up to 40 mln
- ✍ Introduction of a dividend policy
- ✍ Sibneft takes part in development of an electronic market place for trading of crude and oil products

# Sibneft Operations



Omsk Refinery



Noyabrskneftegas



Omsknefteproduct

Kuzbassnefteproduct

Barnaulnefteproduct

Novosibirsknefteproduct

Sibneft-Urals

Sibneft-Siberia

Noyabrskneftegas

geophysica

## ***Sibneft Managers***



**Matevossov A., General Director of Sibneft-NNG**



**Pasechnik M., General Director of Sibneft-NNGPH**



**Fomichev V., General Director of Sibneft-ONPZ**



**Pokoev A., General Director of Sibneft-Omsknefteproduct**



**1999 Financials & Outlook**  
**EUGENE TENENBAUM**  
**Head of Corporate Finance**

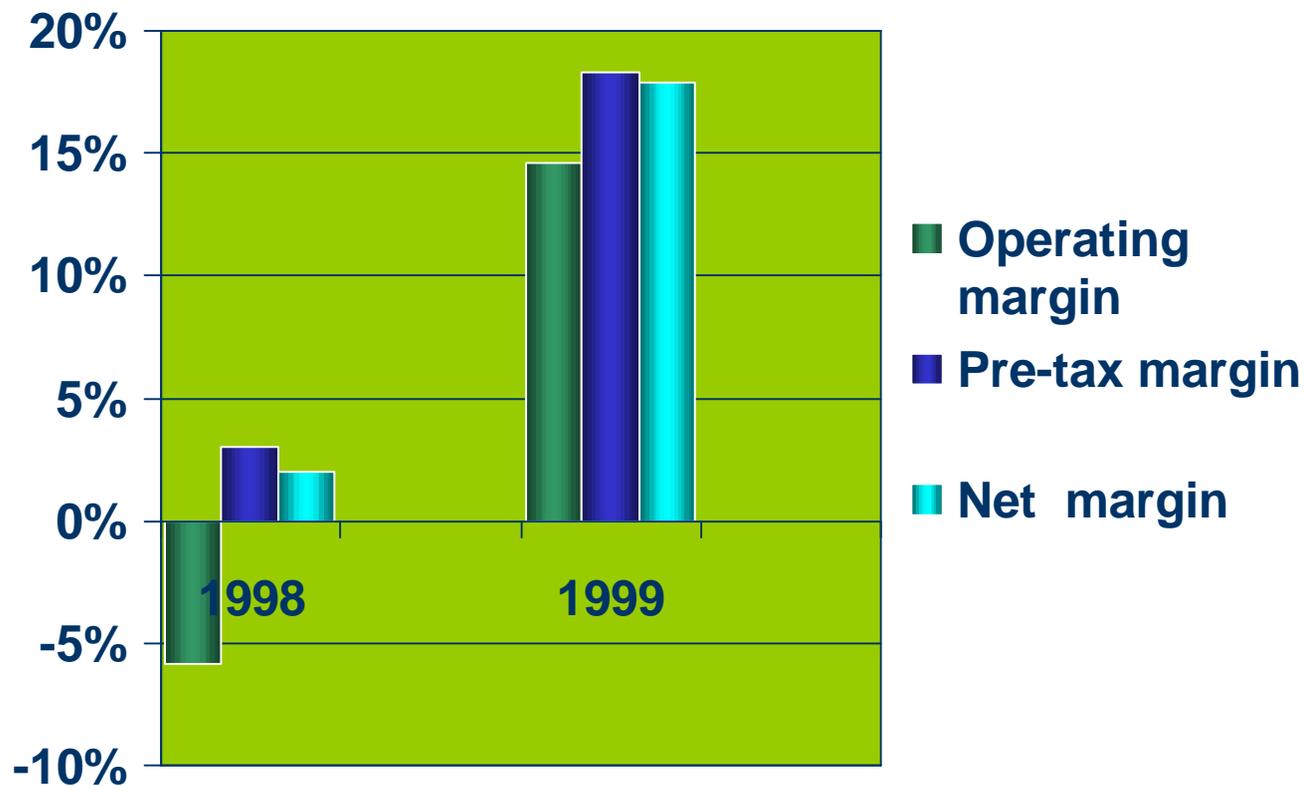
# Income Statement



Thousands of US Dollars	1998	1999
<b>Refined products and oil and gas sales</b>	1,644,059	<b>1,694,478</b>
<b>Total revenues</b>	1,781,023	<b>1,746,448</b>
<b>Operating expenses</b>	1,569,637	<b>1,199,299</b>
<b>EBITDA</b>	<b>211,386</b>	<b>547,149</b>
DD&A	316,634	<b>289,805</b>
EBIT	99,967	257,344
Minority	(81,511)	89,666
Other Income and Expenses	6,832	488
<b>Profit before tax</b>	<b>53,490</b>	<b>323,603</b>
<b>Net income</b>	<b>36,145</b>	<b>315,106</b>

*Abbreviated accounts*

## Profit margins



## ***Financial performance***



- ✍ Net Income is up 8.7 times from last year to USD 315.1 mln
- ✍ Export revenues account for 48.1% of total sales
- ✍ Operating expenses down by 24% compared to 1998
- ✍ Group SG&A cut by 48.7%
- ✍ The amount of income and other taxes payable decreased from USD 142.7 mln to USD 49.9 mln in 1999
- ✍ Net cash provided by operating activities increased from USD 83.1 mln to USD 369.4 mln in 1999
- ✍ Substantially decreased minority interest
- ✍ Repaid loans of USD 282 mln

# Financial Ratios



	1998	1999
<b>Liquidity Ratios</b>		
Quick ratio	0.53	0.77
<b>Activity Ratios</b>		
Total asset turnover	0.36	0.41
<b>Financial Leverage Ratios</b>		
Debt ratio	0.19	0.11
Debt-to-Equity	0.5	0.15
<b>Profitability Ratios</b>		
Return on assets	0.01	0.07
Return on shareholders' equity	0.02	0.1
<b>P/E Ratio</b>	<b>28.44</b>	<b>3.42</b>

# Revenue Analysis



Export Dollar earnings accounted for 48.1% of total revenue in 1999

Sales	Export		Domestic		Total	
	000' USD	%	000' USD	%	000' USD	%
Crude oil	564.5	69.3	-	0.0	<b>564.5</b>	<b>33.3</b>
Refined products	250.6	30.7	877.7	99.8	<b>1,128.3</b>	<b>66.7</b>
Others	-	-	1.6	0.2	<b>1.6</b>	<b>0.0</b>
Total revenues	815.1	100	879.3	100	<b>1,694.4</b>	<b>100</b>

# Balance Sheet



000 US\$	1998	1999
Cash and equivalents	34,987	15,731
Accounts receivable	384,590	326,405
Net oil and gas properties / PP&E	4,213,052	3,610,053
<b>Total assets</b>	<b>4,994,096</b>	<b>4,279,952</b>
Short-term debt	320,371	61,741
Current portion of long-term debt	0	150,000
Long-term debt	150,000	0
Accounts payable and accrued liabilities	318,222	177,148
Estimated income and other taxes	142,681	49,953
Minority interest	2,015,331	704,857
Shareholders' capital	1,926,557	3,049,970
<b>Total liabilities and shareholders' capital</b>	<b>4,994,096</b>	<b>4,279,952</b>

*Abbreviated accounts*

# Capitalisation



000' USD	1998	1999
Short-term liabilities	320,371	61,741
Current portion of long-term debt	0	150,000
Long-term liabilities	150,000	0
Shareholders' capital	1,926,557	3,049,970
Net debt / Shareholders' capital	24 %	7 %
Weighted average interest rate at end of period	12 %	11 %
Weighted average interest rate for period	11 %	14 %

# Sibneft's Tax Liabilities



*Thousand USD*

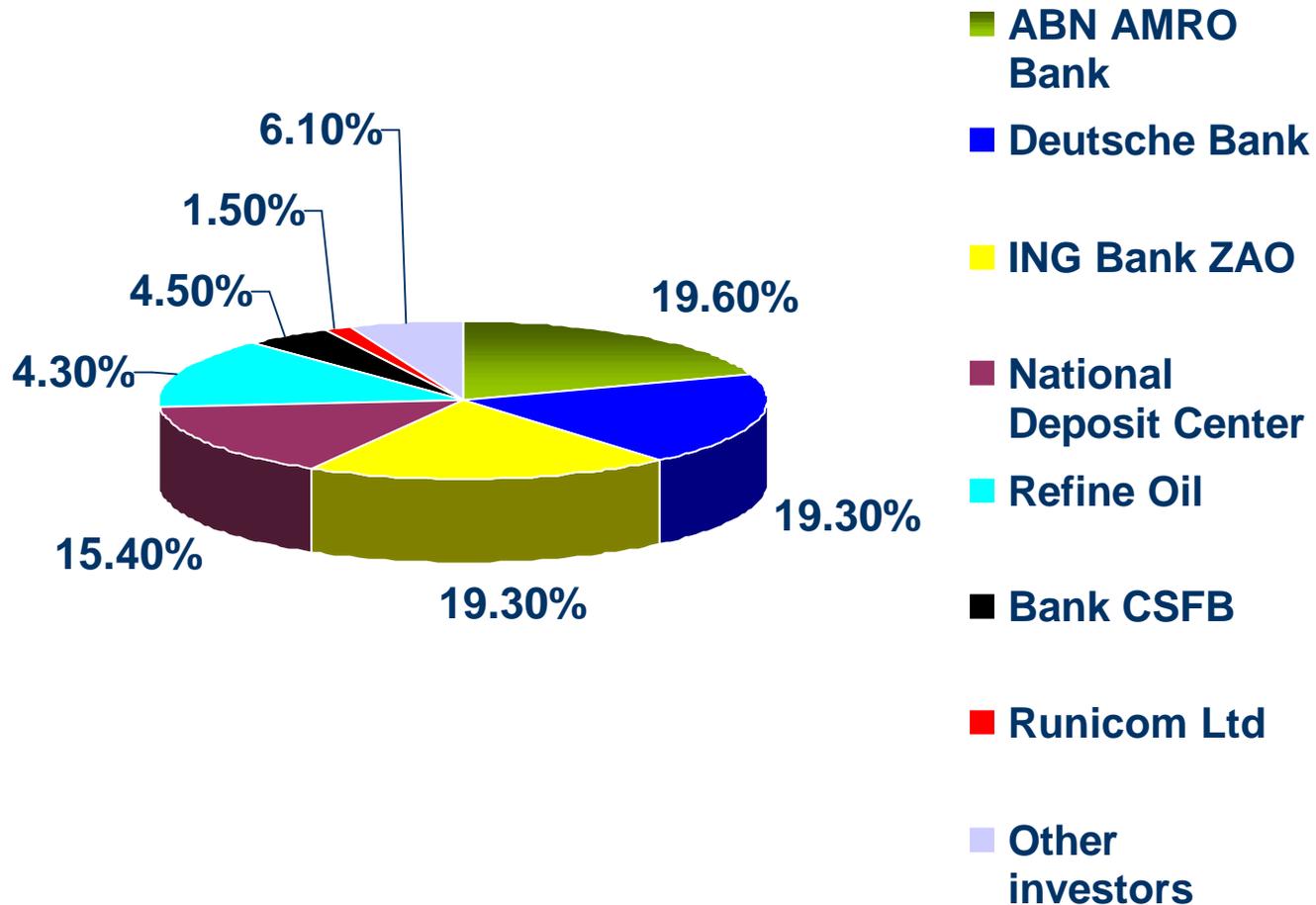
As of	1998	1999
<b>Sibneft</b>	<b>208,427</b>	<b>31,790</b>
<b>Noyabrskneftegas</b>	<b>372,788</b>	<b>7,275</b>
<b>Omsk Refinery</b>	<b>60,722</b>	<b>7,049</b>
<b>Other</b>	<b>14,117</b>	<b>3,839</b>
<b>Total</b>	<b>142,681</b>	<b>49,953</b>

# Cashflow Statement



Thousands of US Dollars	1998	1999
Net profit / (loss)	36,145	<b>315,106</b>
Change in net accounts receivable	117,216	<b>79,344</b>
Change in accounts payable	(157,887)	<b>(167,409)</b>
Change in estimated income and other taxes	(597,944)	<b>(92,728)</b>
Net cash from operating activities	83,068	<b>369,377</b>
Net additions to capital assets	(184,589)	<b>(120,403)</b>
Change in short-term loans	3,806	<b>(258,630)</b>
Increase in long-term debt	0	<b>0</b>
<b>Change in cash and equivalents</b>	<b>(74,607)</b>	<b>(18,356)</b>
<b>Cash and equivalents at end of year</b>	<b>34,087</b>	<b>15,731</b>

# Shareholders Structure

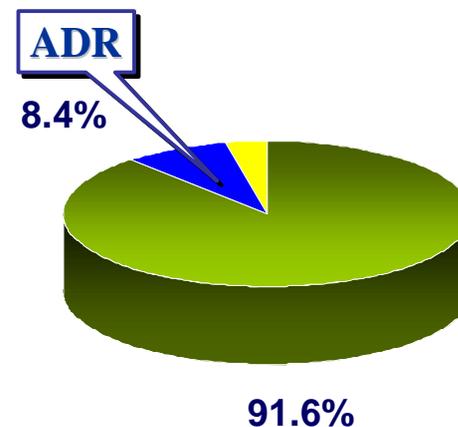
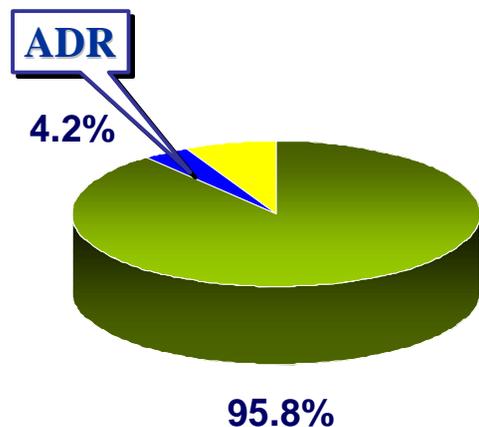


# Program of American Depositary Receipts Level-One



20 April 1999, launch of ADR program

20 May 2000, issue of additional 20 ml of Level-One ADR





**1999 Upstream**  
**ALEXANDER KORSIK**  
**Chief Operating Officer**

# 1999 Upstream Highlights



## Revamping upstream operations

- ✍ All operations fully revised and re-evaluated
- ✍ Investment projects with negative NPV stopped or revamped
- ✍ In 1999 production amounted to 322,000 b/d
- ✍ Social infrastructure transferred to local authorities
- ✍ Non-core businesses sold
- ✍ Service subsidiaries spun off
- ✍ Development based on sophisticated technologies
- ✍ Highly efficient cooperation with Schlumberger: 172 hydraulic operations performed. Increase of well flow rate from 131 b/d in 1998 to 182 b/d in 1999
- ✍ Flow rate of new wells reached 290 b/d, double level in 1998
- ✍ Advanced reservoir simulation methods used for creation of development projects for new fields, including Sugmut
- ✍ Development of Yrainerskoye and Romanovskoye oil fields started

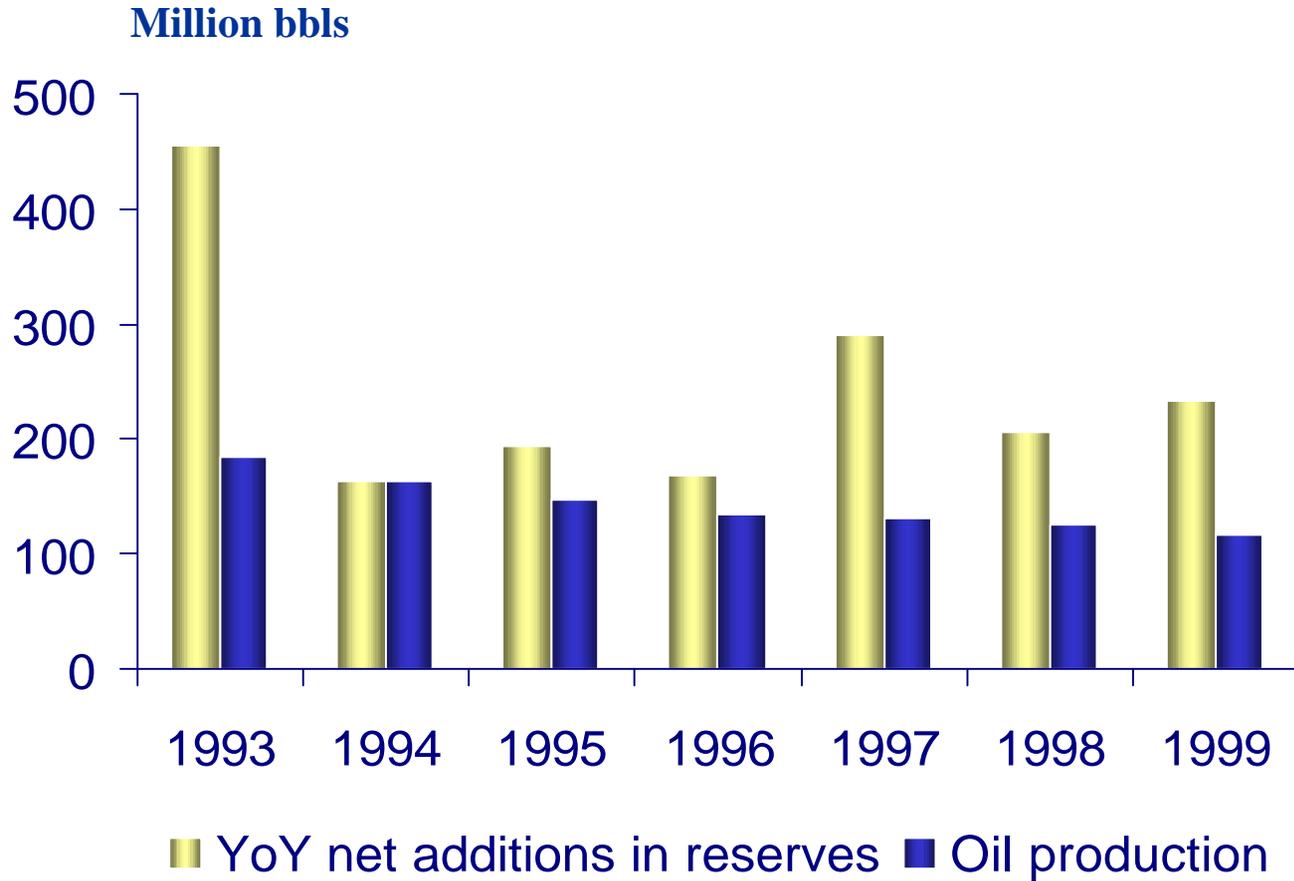
## Miller and Lents 1 January 2000



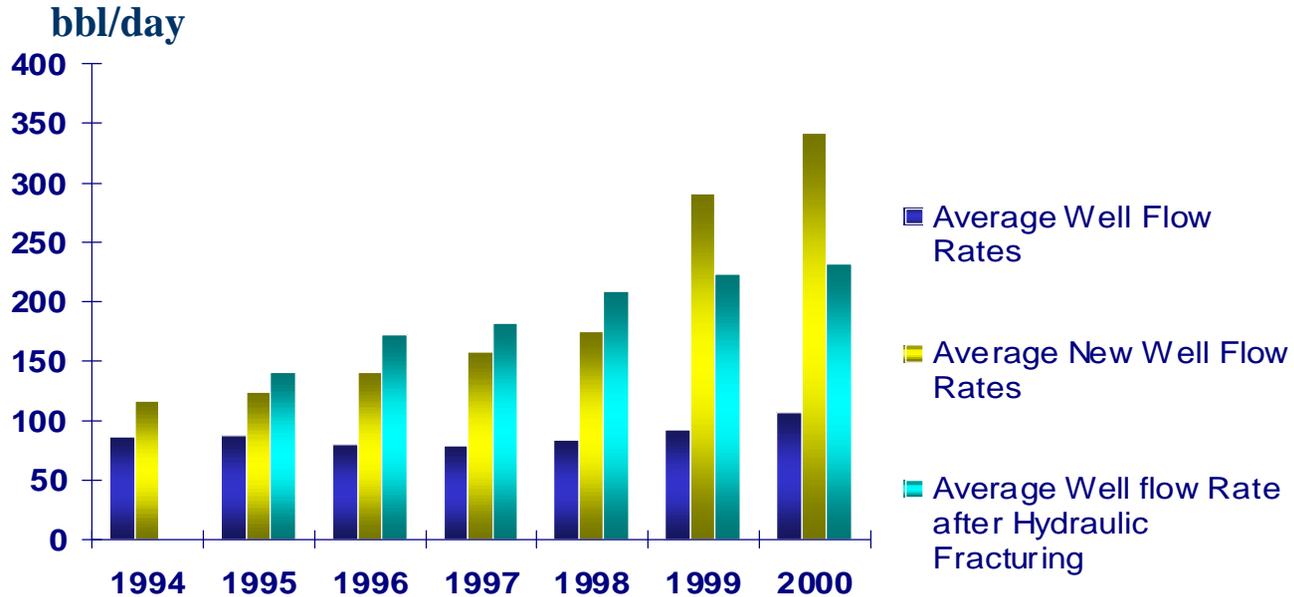
Total proven reserves up 11%

Million Barrels	1 January 1999	1 January 2000
Proven	4,129	4,599
Probable	1,594	2,784
Possible	1,013	1,934
<b>TOTAL</b>	<b>6,736</b>	<b>9,317</b>

# Increase in Reserves



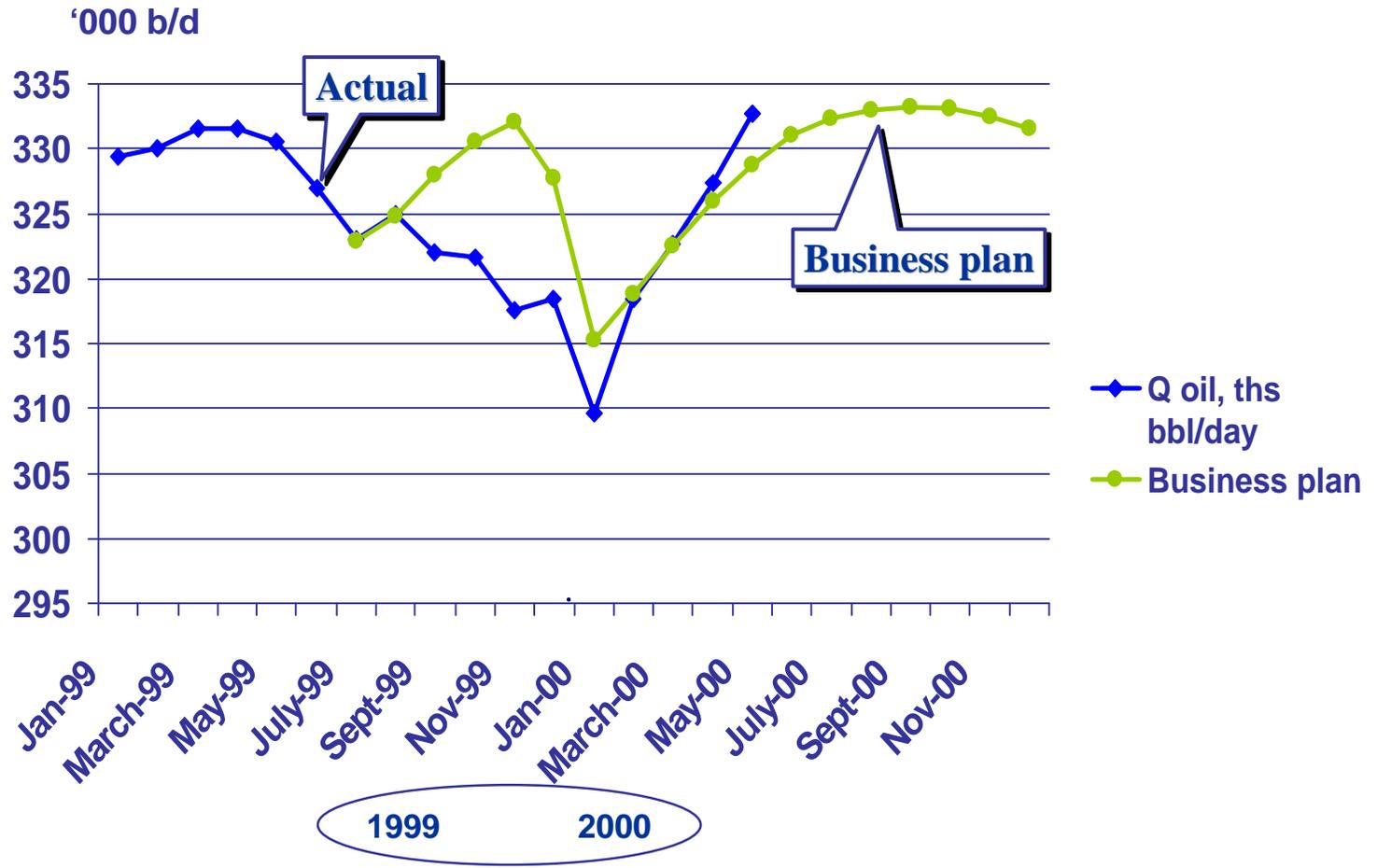
# Flow Rates Increase



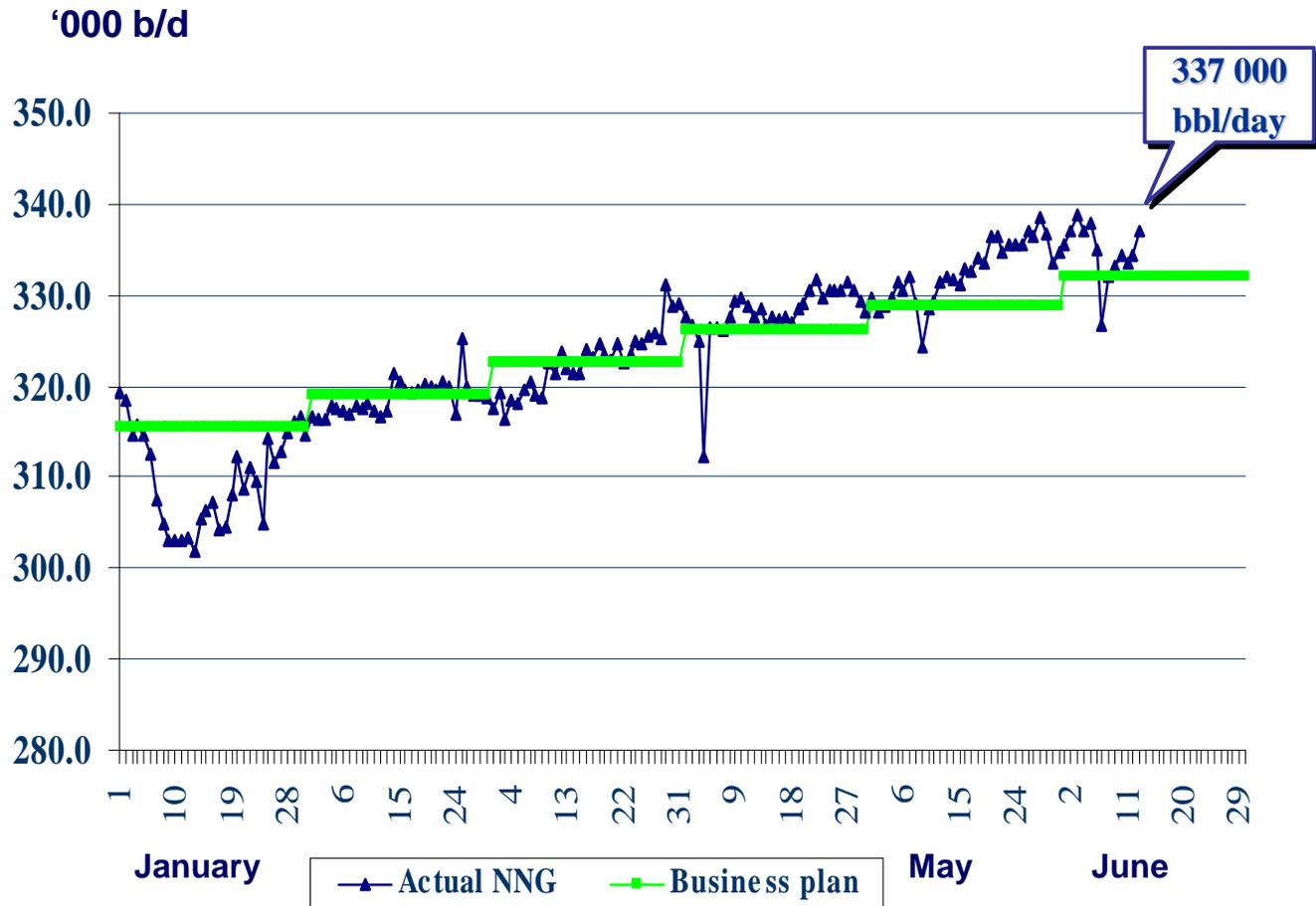
## Old wells restorations

- New Hydrofracturing technologies (PROP-NET, TSO)
- New equipment for workovers, including coil tubing
- New approach to workovers based on rate of return criteria

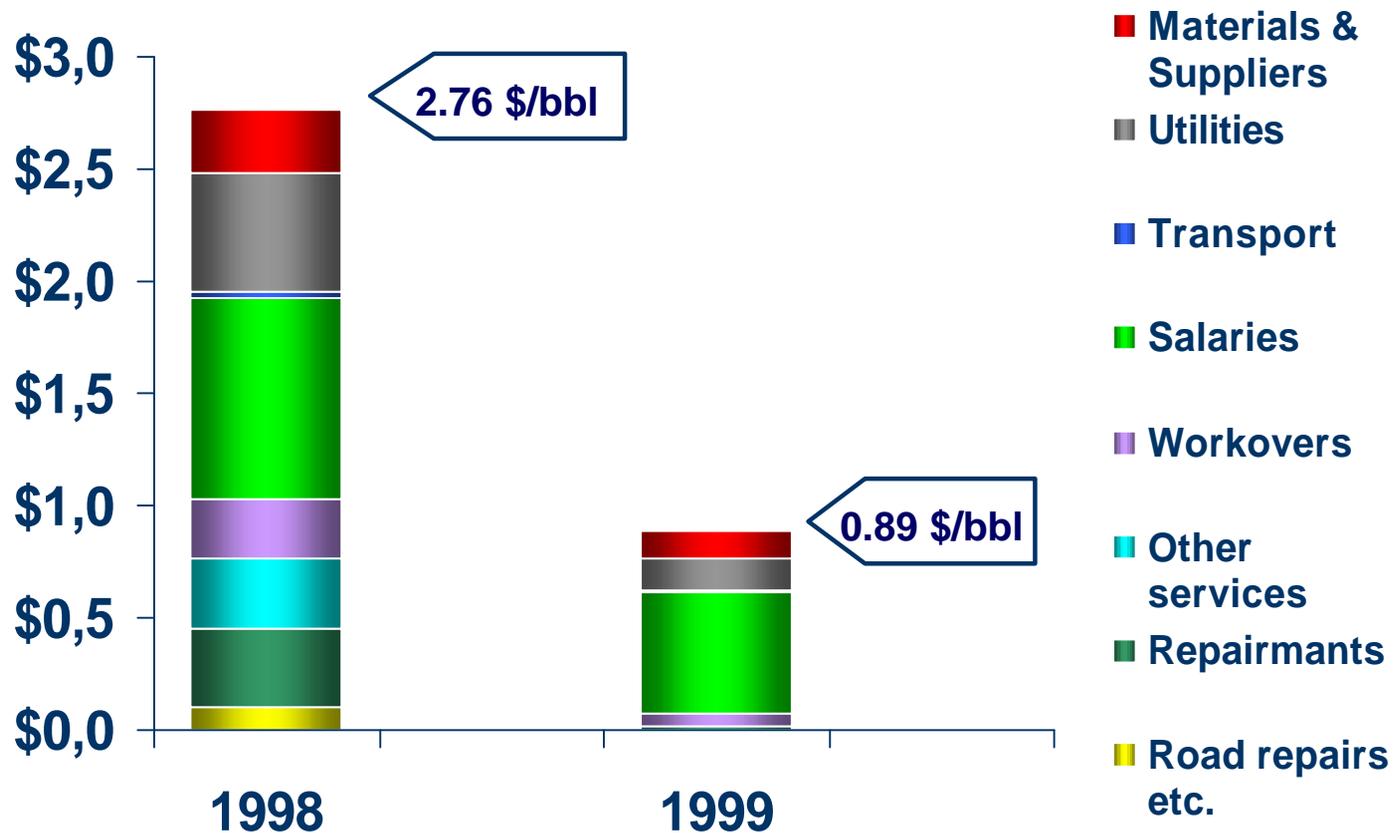
# Oil production per day



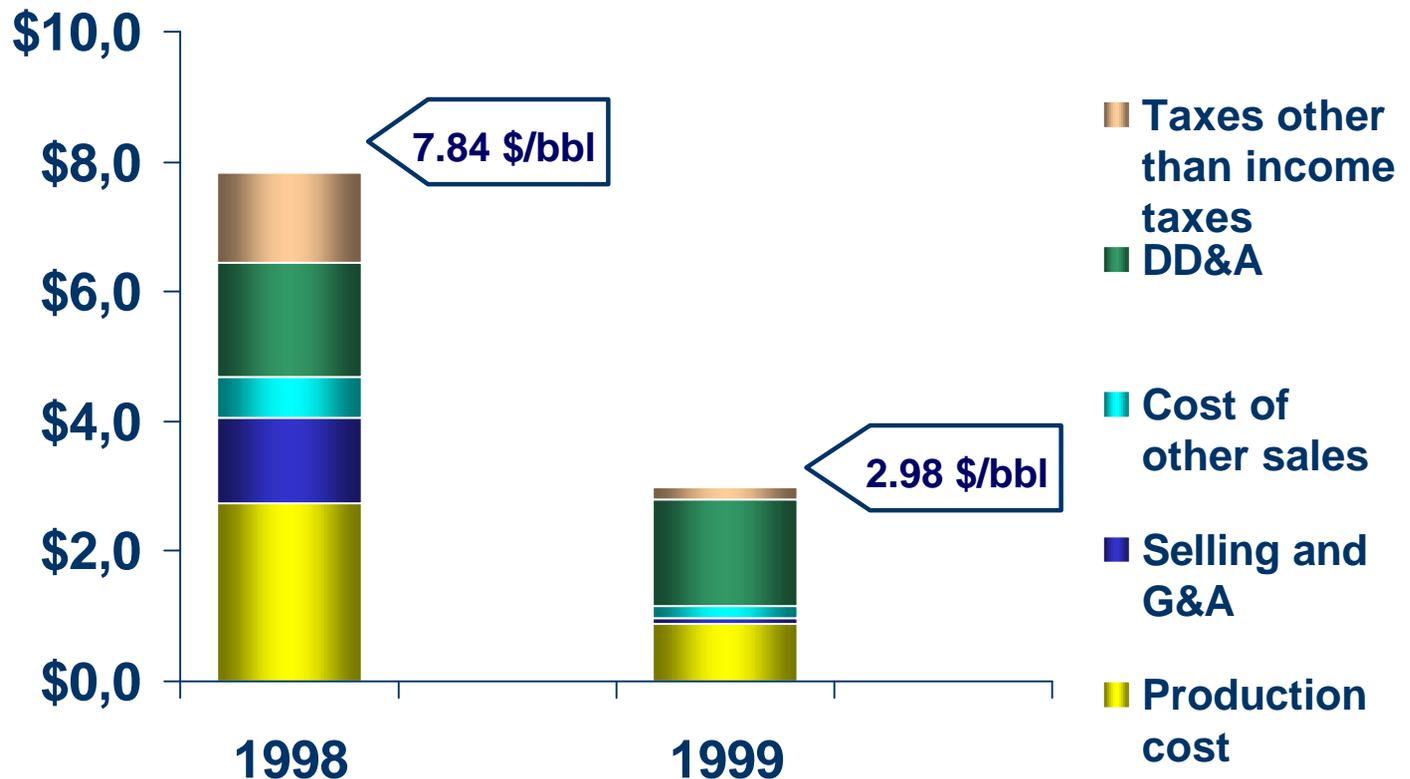
# Oil production per day in 2000



# NNG Direct Production Costs



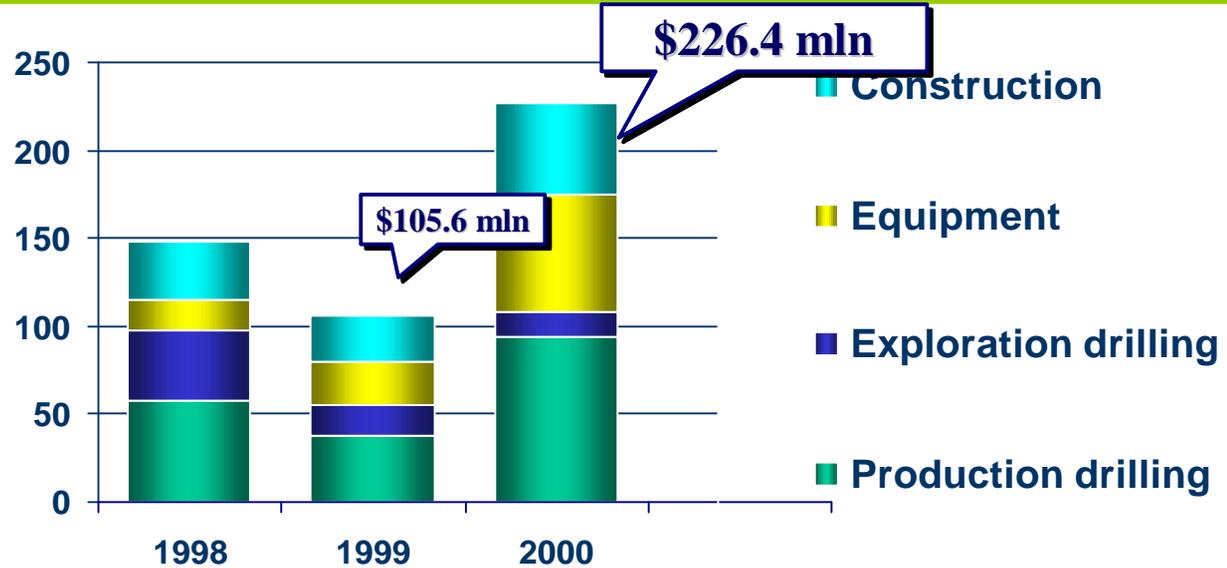
# NNG Production Costs per Barrel



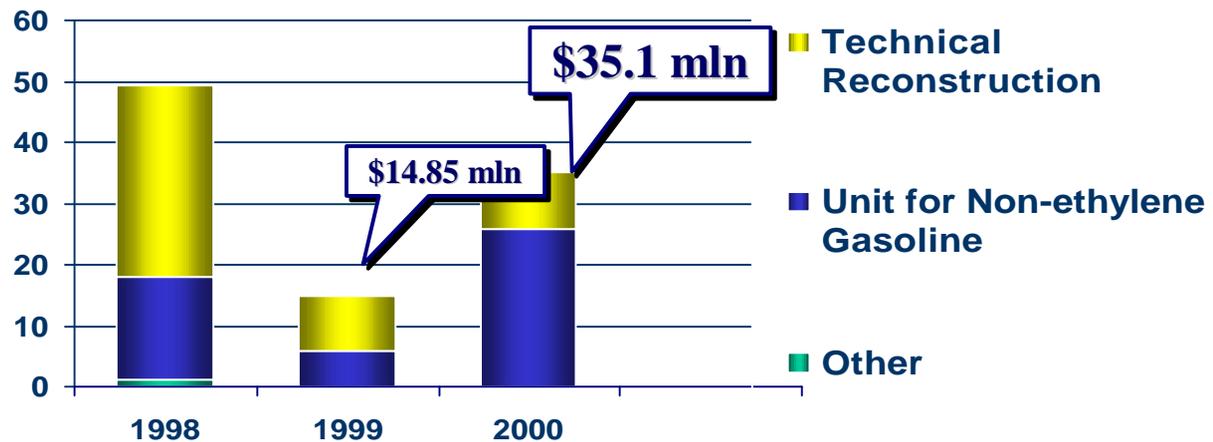
# Capital Expenditure 1999



**NNG**



**Omsk**



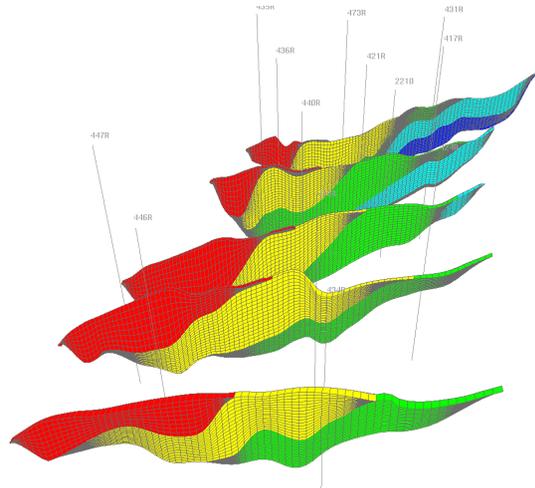
# Highlights of New Program for 2000



## 2000 production targets revised upward

- ✍ Production volume - 330,000 b/d
- ✍ First year of oil production growth since 1990
- ✍ Flow rate of new wells up to 786 b/d
- ✍ Drilling volumes increased 3 times
  - 18 drilling teams employed in 1999
  - 24 drilling teams employed in 2000
  - New drilling plan for 2000 - 750,000 meters
- ✍ Number of frac operations substantially increased
  - 180 operations in 1999
  - 224 operations in 2000
- ✍ New development projects. New technologies

# New projects, New approach, New technology



- ✍ Start production from four new fields:
  - Yarainerskoye (proven reserves of 54.4 million bbl)
  - Romanovskoye (proven reserves of 32.6 million bbl)
  - East-Pykutinskoye
  - East-Vyngayakhinskoye
- ✍ Development of Sugmut field resumed under new development blueprint
- ✍ Development under production sharing agreements: Sugmut, Romanovskoye, Yarainerskoye, Novogodneye
- ✍ Well restorations using cutting-edge technologies
- ✍ New development project for each of 24 oil fields based on reservoir simulation

# Sugmut Pilot Project

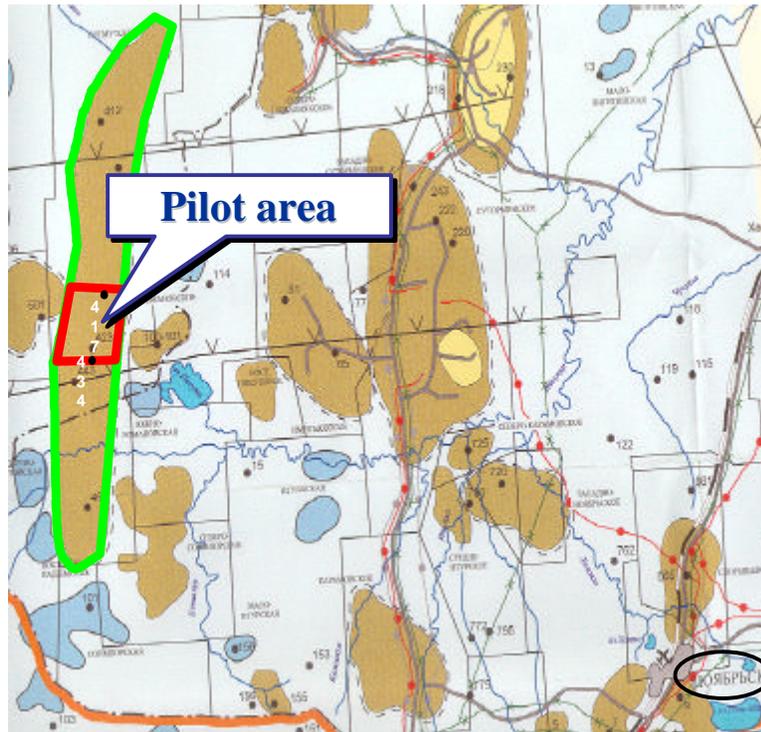


NPV \$121 million

Profitability index 3.18

Payback 1.8 years

Total Capex \$63.7 million



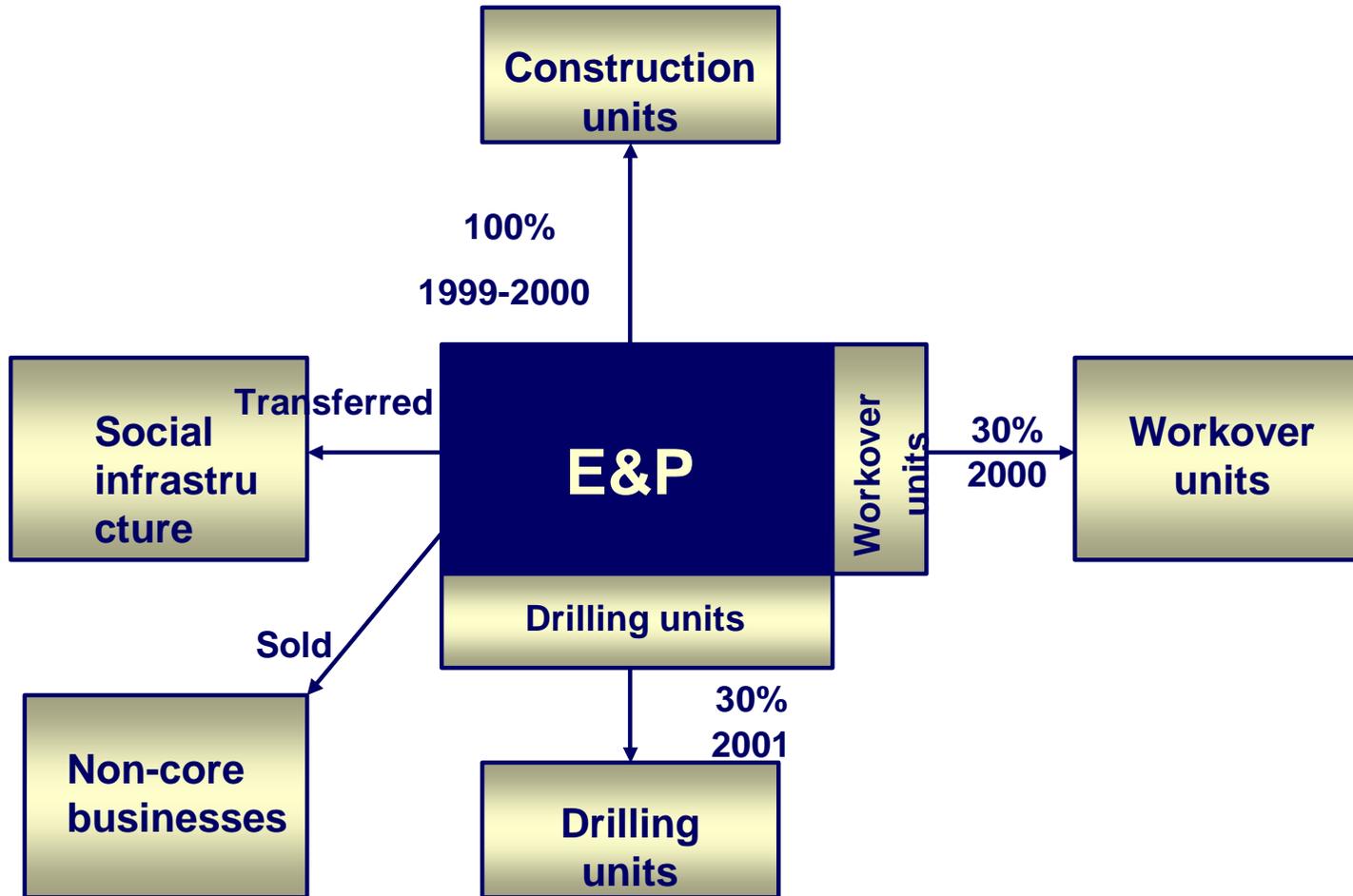
- Proper reservoir simulation
- Power Jet perforation technology.
- New drilling mud Flo Pro (Schlumberger)
- Tip Screen Out technology (Schlumberger)
- June 2000 - Test of ClearFrac technology
- Schlumberger providing services

## ***Alliance with Schlumberger***

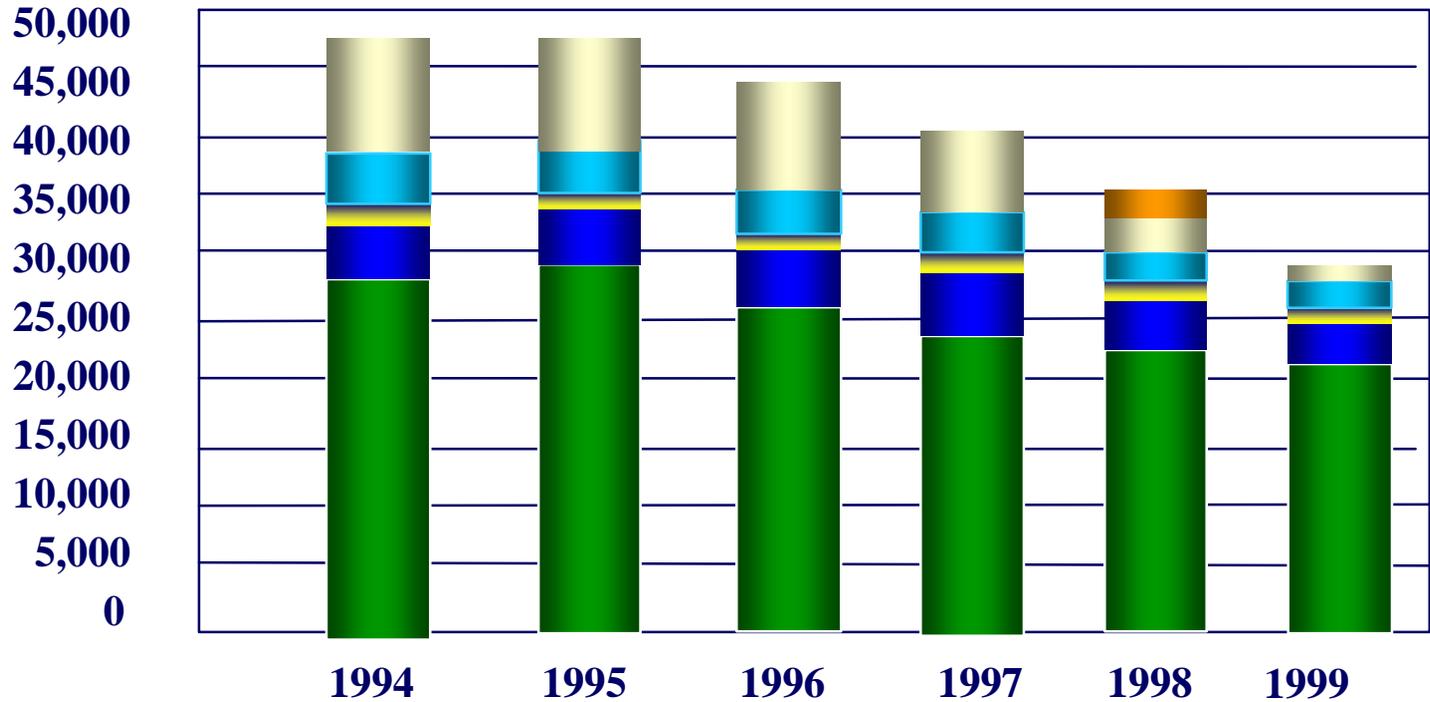


- ✍ Working on opportunities where Schlumberger technology can enhance production and optimize recovery
- ✍ 172 hydrofracturing operations completed in 1999
- ✍ 3.9 million barrels extra extracted in 1999
- ✍ Coil tubing and nitrogen pumping services
- ✍ Sibneft-Schlumberger Integrated Reservoir and Drilling Team to provide well construction design for new wells, selection of wells for hydrofracturing
- ✍ Training of Sibneft staff in Schlumberger centers in the US and UK

# 1999-2000 Structural Changes



# 1999 Headcount Down 14%



- Field Workers
- Drilling
- Geology
- Construction
- Social assets
- Subsidiaries

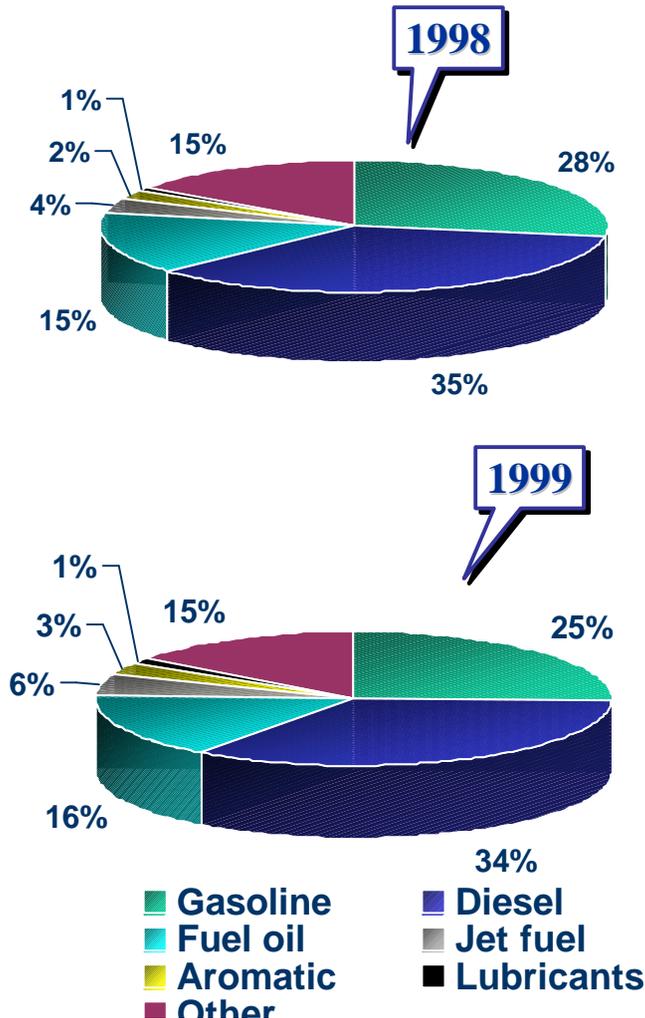


**Refining and marketing**

**VALERY OIF**

**Vice-President**

# Downstream - 1999 Operational Highlights



- ✍ Throughput at 91 mln bbl in 1999
- ✍ Refining depth was 80.6%.
- ✍ Focus on value added products
- ✍ Alkylation unit under construction - to be finished by April 2001
- ✍ New approach to branding and retail packaging of lubricants

# Omsk refinery ranks among the other Russian refineries

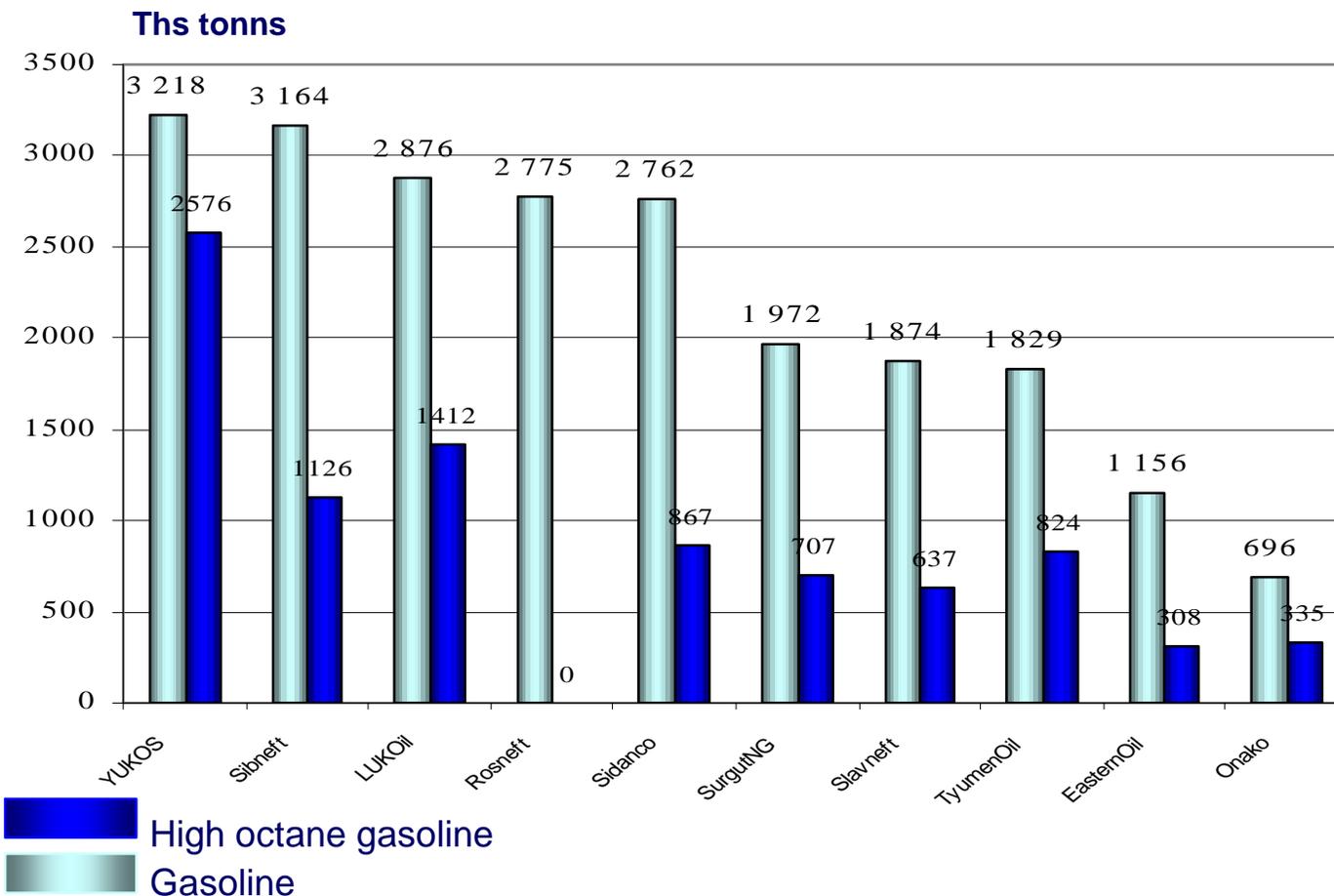


Criteria	Actual	Rank
Refining capacity, ml bbl	142	2
Refining throughput, ml bbl	90.7	2
Refining depth, %	80.6	1
Share of light products, %	66	1

# Gasoline and High Octane Products Share in 1999 Throughput



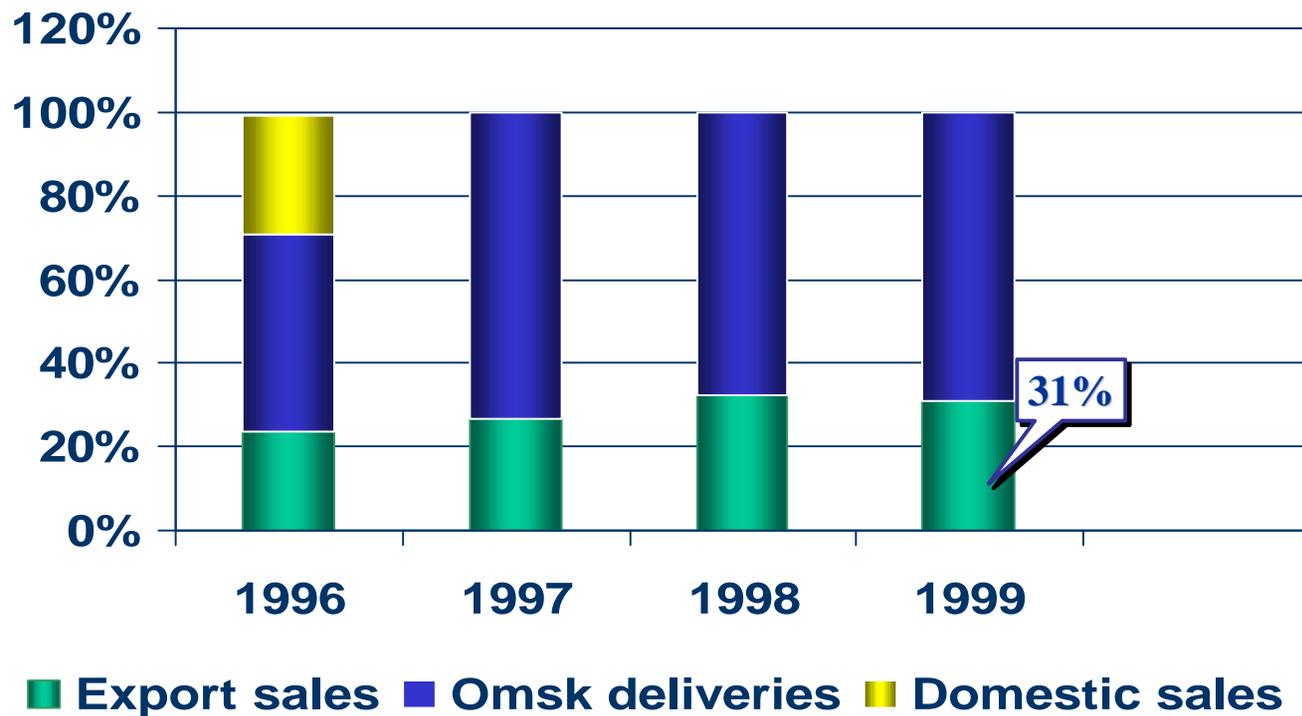
In 1999 Sibneft was the second largest gasoline producer in Russia



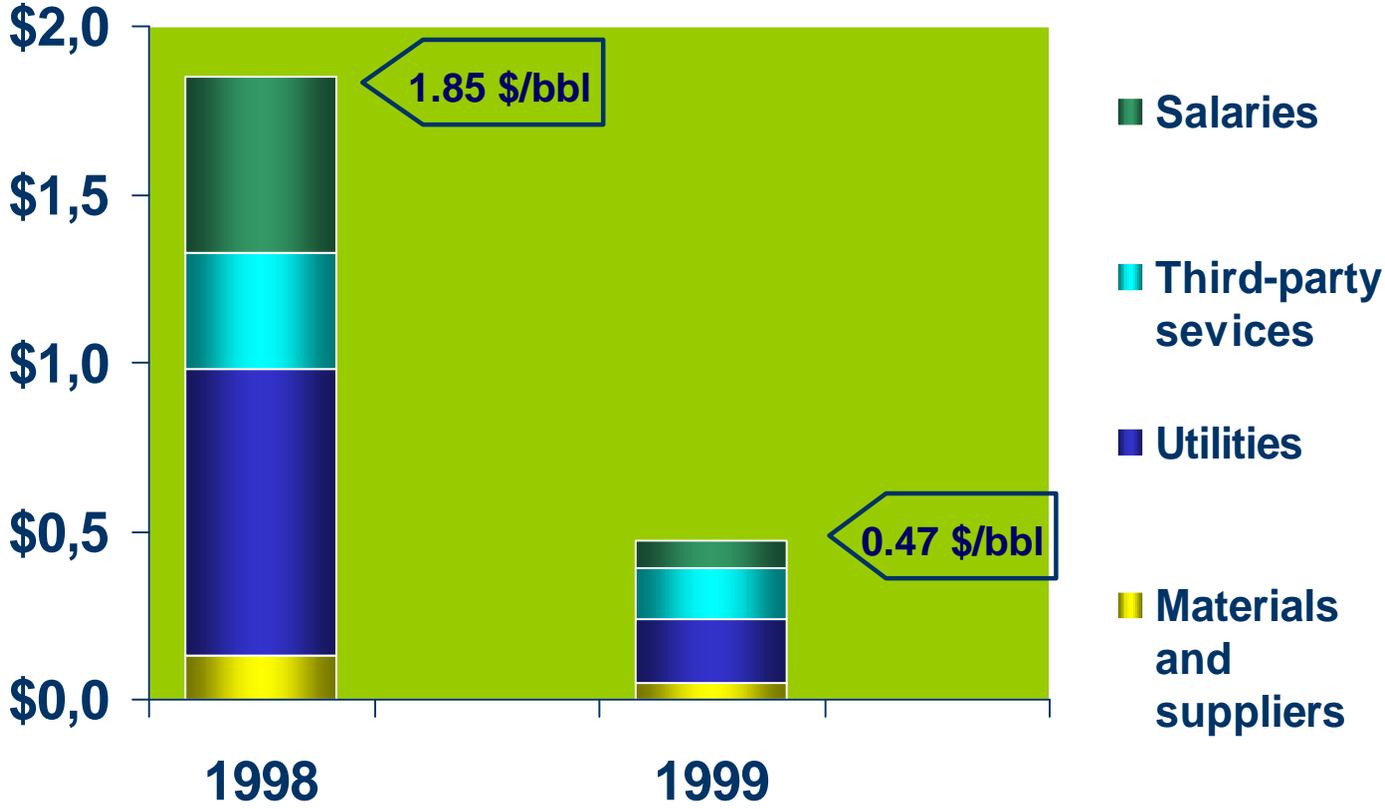
# Crude Oil Marketing



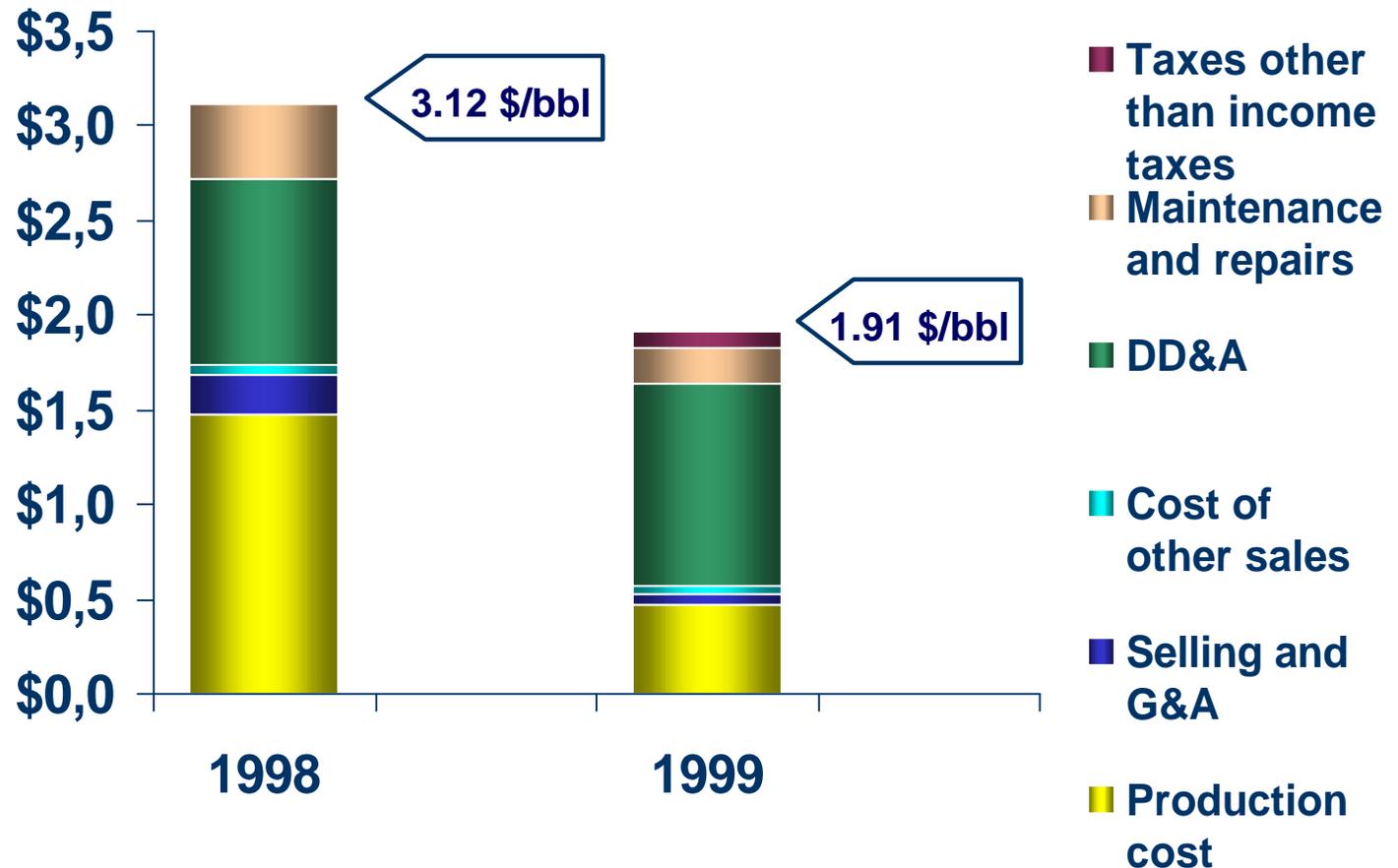
Export sales of crude were 36.4 m bbl in 1999



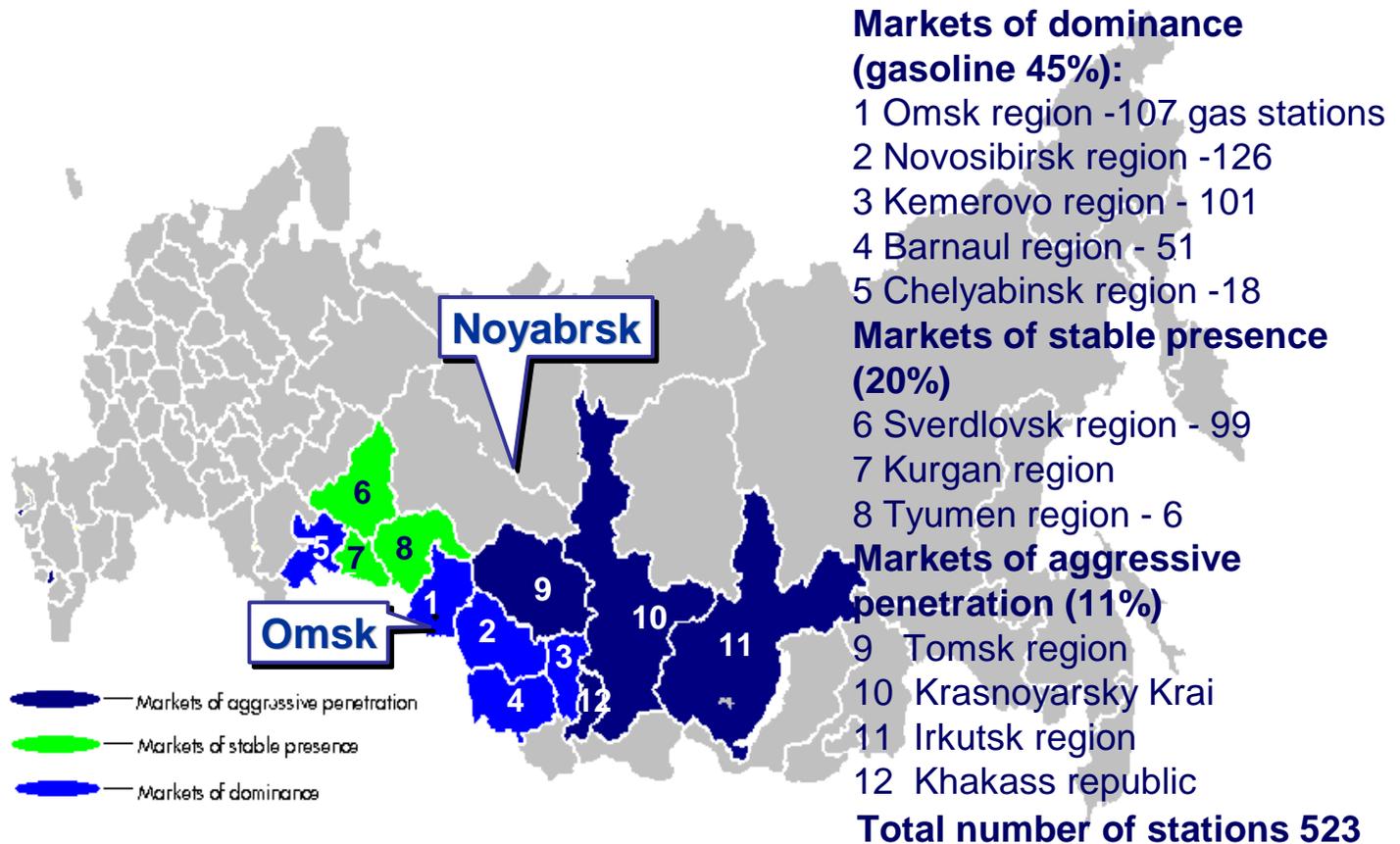
# Omsk Direct Costs per Barrel



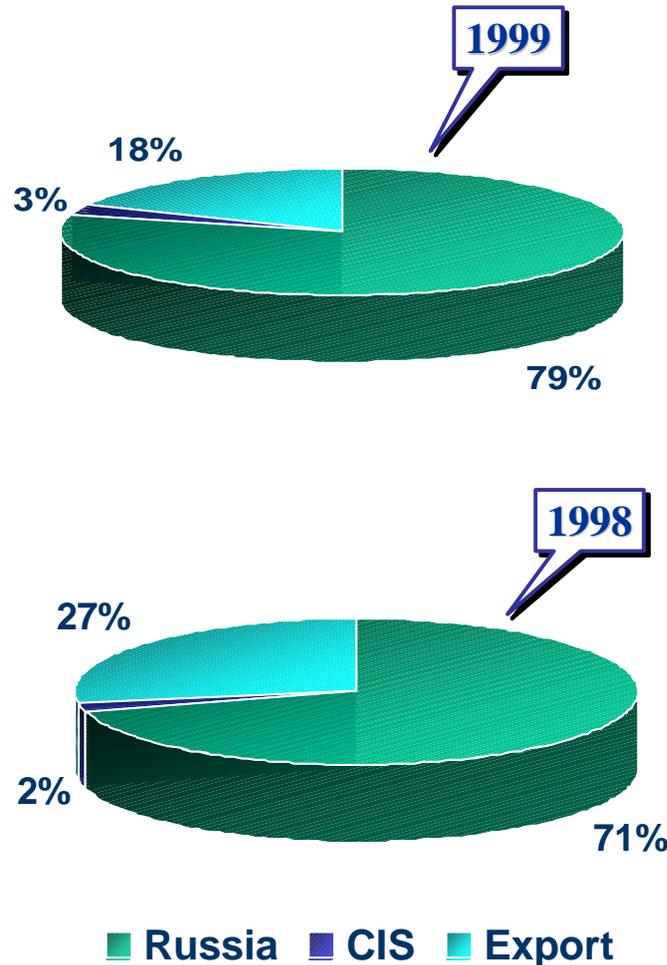
# Omsk Production Costs per Barrel



# Markets of Presence



## Sales of refined products



- ✍ Decrease export sales by 37%
- ✍ Aggressive penetration of new markets in 1999
- ✍ Increase margin on domestic sales
- ✍ The main domestic market is Western Siberia region

## **Marketing. Gas Stations networks**



- **Sibneft has retail networks in the Omsk, Novosibirsk, Kemerovo, Altai, Chelyabinsk and Tyumen regions**
- **New logo and corporate style on retail stations**
- **Long term relationships with corporate clients (e.g. airlines)**
- **120 retail sites added through franchise and exclusive supply agreements**



**1999 Corporate Developments**

**ALEXANDER KORSIK**

**Chief Operating Officer**

# Winning in a changing environment



Global	<ul style="list-style-type: none"><li>• Increase of oil prices</li><li>• Energy consumption growth in Asia</li><li>• OPEC supply restrains</li></ul>	<ul style="list-style-type: none"><li>• Pressure on OPEC to increase quotas</li><li>• Oil prices volatility</li><li>• Limited access to capital markets</li></ul>
Domestic	<ul style="list-style-type: none"><li>• Recovery in domestic economy</li><li>• Ruble devaluation effect</li><li>• Post-election political stability</li></ul>	<ul style="list-style-type: none"><li>• Increased export duties</li><li>• Increased electricity fees</li><li>• Ruble devaluation effect wears off</li></ul>
	Positive	Negative

## Global

- Attract a strategic partner to get access to know how, mitigate risks and increase borrowing capacity.
- Attract major international service companies
- Acquire value enhancing assets abroad

## Domestic

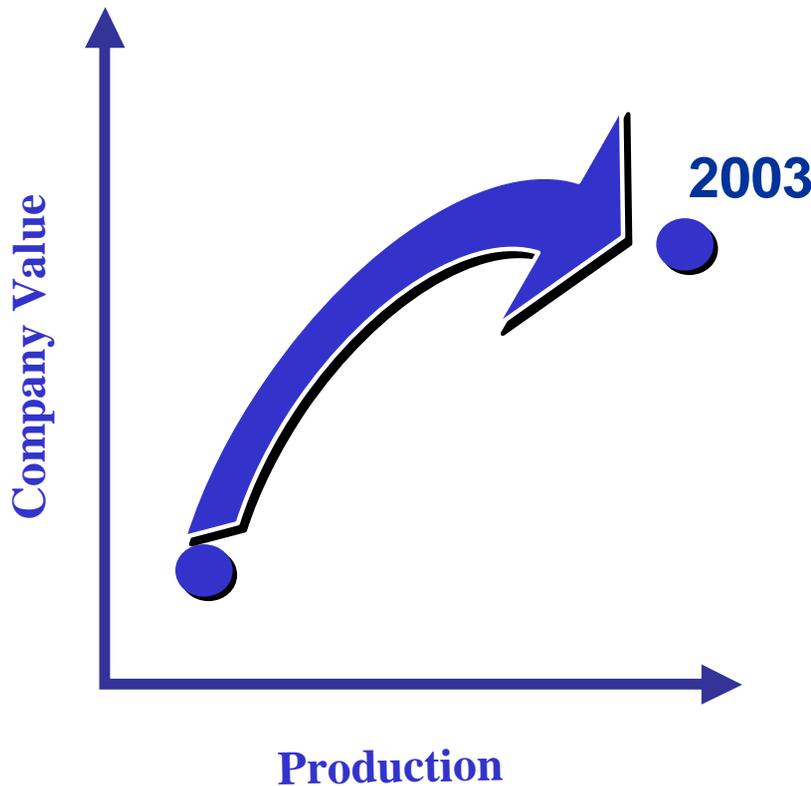
- Acquire value enhancing assets
- Evaluate each investment project
- Increase oil production through more drilling, use of new technologies and proper reservoir management
- Continue cost reduction
- Expand marketing and retail network

**Sibneft strategy**

## *New Business-Planning process*



- ✍ Proper return on investment
- ✍ Clear idea of contribution of each field to the company's cash flow and the profitability of each field
- ✍ Evaluation and management of geological operations efficiency in each particular field
- ✍ Streamlined long term (strategic) and short term (operating) business plans
- ✍ Sophisticated management information systems
- ✍ Tools to determine and optimize costs of production



## Ways of growth

- Getting world class return on investment
- Crude production increase to more than 359 thousand bbl/day by 2003
- Acquisition of new licenses
- Ongoing refinery modernisation
- Expanding marketing network
- Acquisition projects
- Opex reduction

## *New strategic projects*



- ✍ Develop new oil fields in Russia and abroad
- ✍ Aggressively expand marketing and retail network in Russia and abroad
- ✍ Attract a strategic partner for development of some oil fields on PSA terms
- ✍ Continue to rationalise existing operations to ensure they meet economic return targets
- ✍ Continuously implement new technologies
- ✍ Attract additional long-term international financing

# Implementation of R&D programs



**Noyabrsk**

- Plan to establish a new field development research center
- Acquisition of the leading Russian company working in the field of development planning
- 3D modeling for all fields.
- Advanced program of IOR methods application

**Noyabrsk  
Geophysiks**

Program for technical modernization, leading to more reliable results of well surveillance and saving time and money on its execution

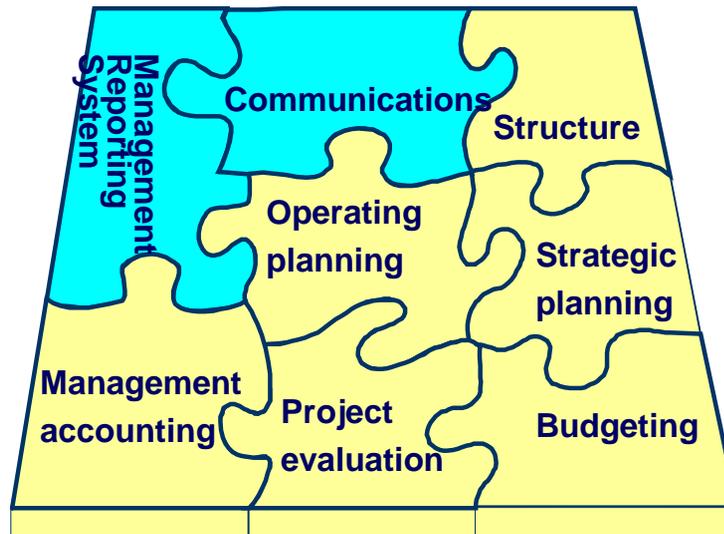
**Omsk  
Refinery**

- ? Substitution of imported catalyst for the one produced by Omsk Refinery
- ? Alkylation Unit construction

# Sibneft transformation



Sibneft management continuously works on the improvement of company performance



## Benefits

- senior managers gain effective control of the organisation
- increase in organisation efficiency - focus on value
- improved skills and motivation of employees
- a clear strategic direction for the company