



Annual Results for the Year Ending
December 31, 1998

Our Mission

- 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
- To set a new Russian benchmark for efficiency and competitiveness in the oil industry



1998 Highlights

EUGENE SHVIDLER
President



1998 Highlights

- Net profit \$36.2 million
- 141% reserves replaced
- Oil reserves increased to 4,129 billion bbls
- Debt reduced - no default
- Consolidation of NNG complete

1998 Operating Achievements

- Group headcount reduced by 5,468 (13.0%)
- Group SG&A cut by 40.0%
- Export sales of crude up to 33.8% (40.88 million barrels) of production from 26.5% (35.04 million barrels) in 1997
- Export sales of refined products up to 27.1% (24.0 million barrels) from 19.2% (22.5 million barrels) in 1997
- 150 gas stations added to retail network



1998 Financials & Outlook

IRINA PANCHENKO
Chief Accountant

Income Statement

Thousands of US Dollars	1997	1998	% Change
Refined products and oil and gas sales	2,731,056	1,674,202	-38.7%
Total revenues	2,988,702	1,781,023	-40.4%
Operating expenses	2,585,300	1,569,637	-39.3%
EBITDA	403,402	211,386	-47.6%
DD&A	422,073	316,634	-24.9%
EBIT	132,881	99,967	-24.8%
Profit before tax	105,531	53,490	-49.3%
Net income / (loss)	23,888	36,145	+51.3%

Abbreviated accounts

Financials

- Net Profit \$36.15 million
- Significant ForEx gain (\$286.8 million)
- EBITDA \$211.4 million
- Operating loss contained in H2
- Devaluation
 - cost base slashed
 - funding squeezed

Cashflow Statement

Thousands of US Dollars	1997	1998
Net profit / (loss)	23,888	36,145
Change in net accounts receivable	65,484	106,402
Change in accounts payable	(55,095)	(157,887)
Change in estimated income and other taxes	14,931	(597,944)
Net cash from operating activities	281,707	83,068
Net additions to capital assets	(546,927)	(184,589)
Change in short-term loans	204,191	(3,806)
Increase in long-term debt	150,000	0
Change in cash and equivalents	89,898	(74,607)
Cash and equivalents at end of year	108,694	34,087

Abbreviated accounts

Balance Sheet

Thousands of US Dollars	1997	1998
Cash and equivalents	108,694	34,087
Accounts receivable	422,788	384,590
Net oil and gas properties / PP&E	4,312,754	4,213,052
Total assets	5,620,152	4,994,096
Short-term debt	324,177	320,371
Long-term debt	150,000	150,000
Accounts payable and accrued liabilities	407,609	318,222
Estimated income and other taxes	740,625	142,681
Minority interest	1,933,820	2,015,331
Shareholders' capital	1,890,412	1,926,557
Total liabilities and shareholders' capital	5,620,152	4,994,096

Abbreviated accounts

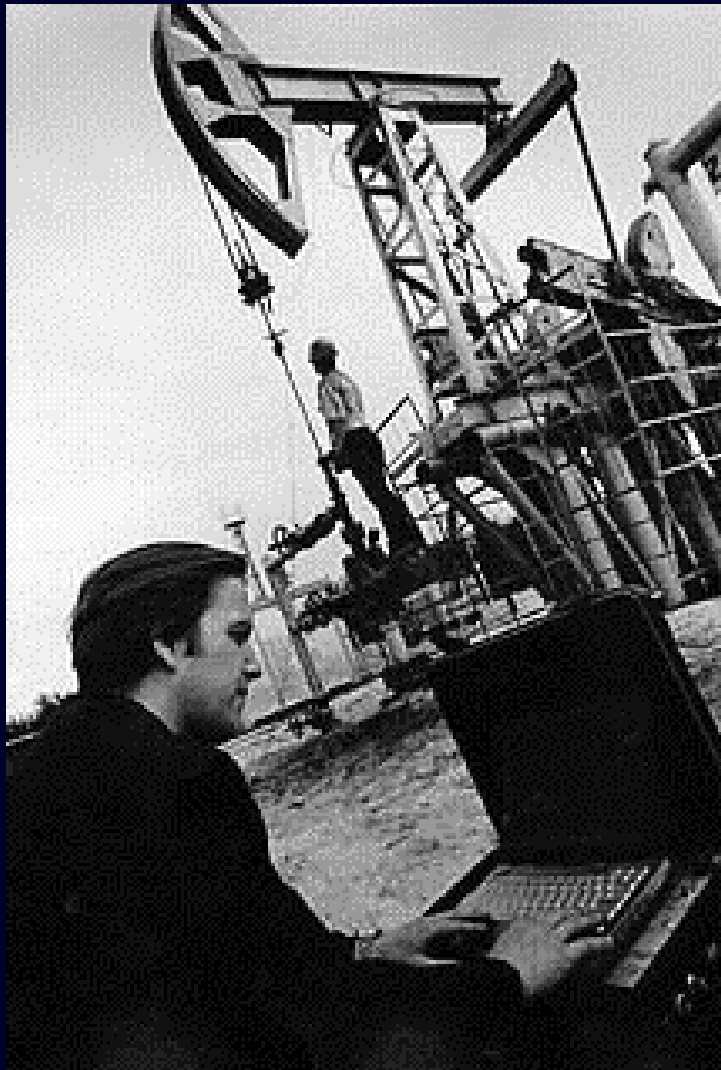


1998 Financials & Outlook

EUGENE TENENBAUM
Head of Corporate Finance

Capitalisation

Thousand of US Dollars	31/12 1996	31/12 1997	31/12 1998
Short-term debt	119,986	324,177	320,371
Long-term debt	0	150,000	150,000
Shareholders` capital	2,340,947	1,890,412	1,926,557
Net debt / Shareholders` capital	4.3%	19.33%	22.65%
Weighted average interest rate at end of period	57%	15%	15%
Weighted average interest rate for period	88%	19%	25%



Upstream

REVAL MUKHAMETZANOV
Vice President



Upstream Highlights

- Production down 4.7%
- Proved reserves up to 4,129 bln bbls*
- New fields added
- Water cut reduced to 67.4% (Russian average of 76%)
- Focus on profitability
- New emphasis on 500 key managers

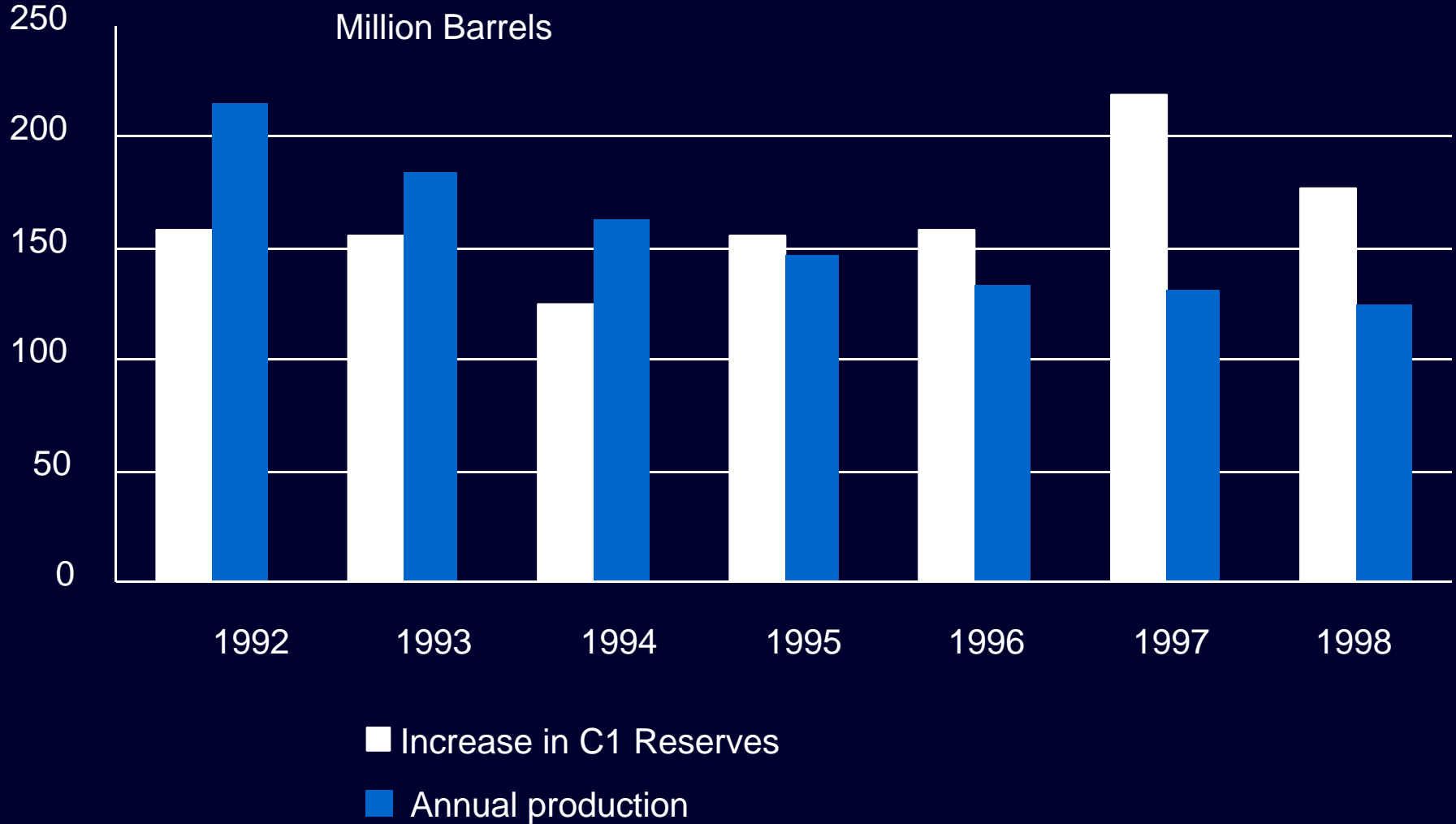
* 1999 Miller & Lents Report

Miller and Lents 1st January 1999

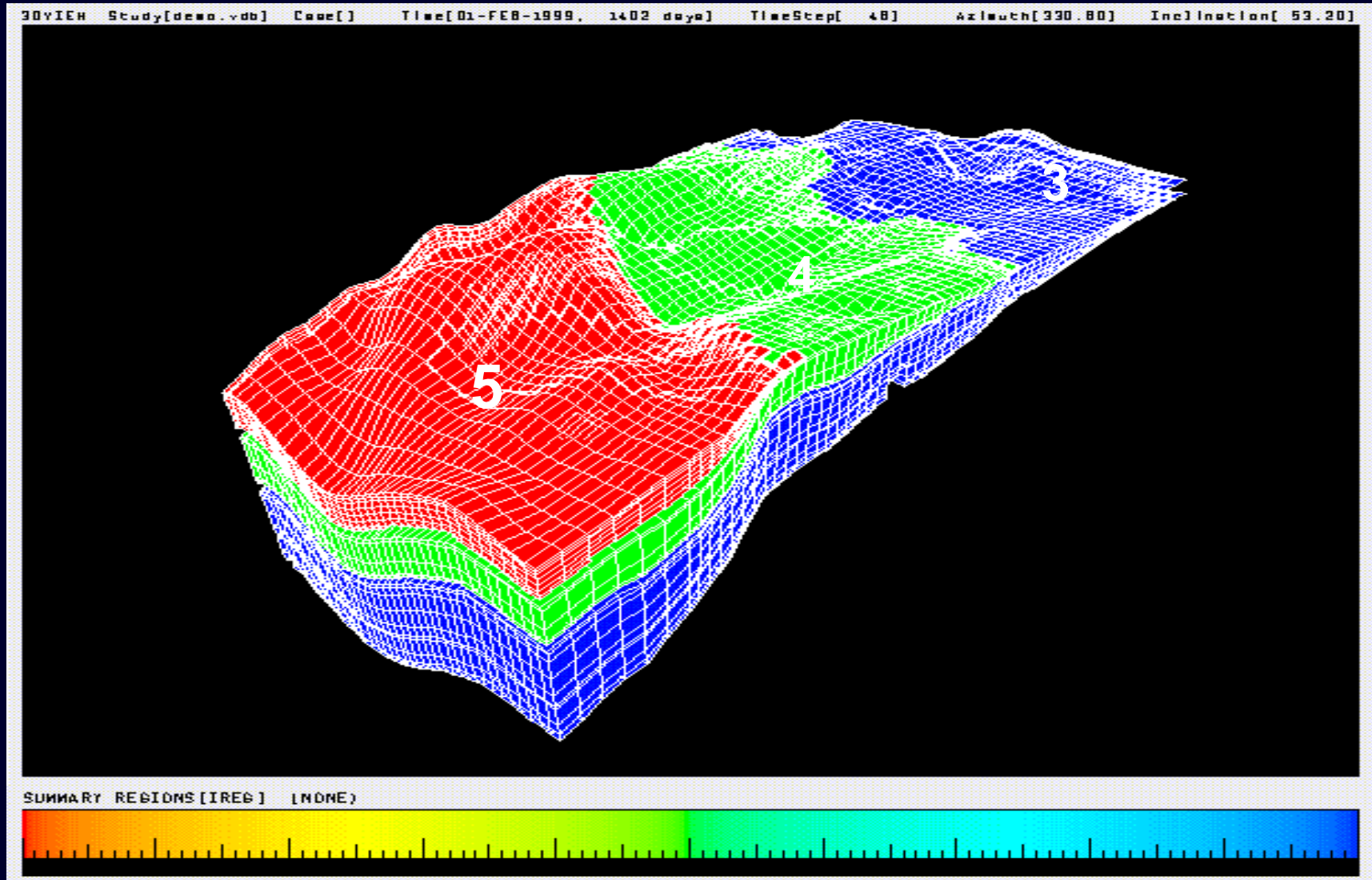
Total proved reserves up 3%

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

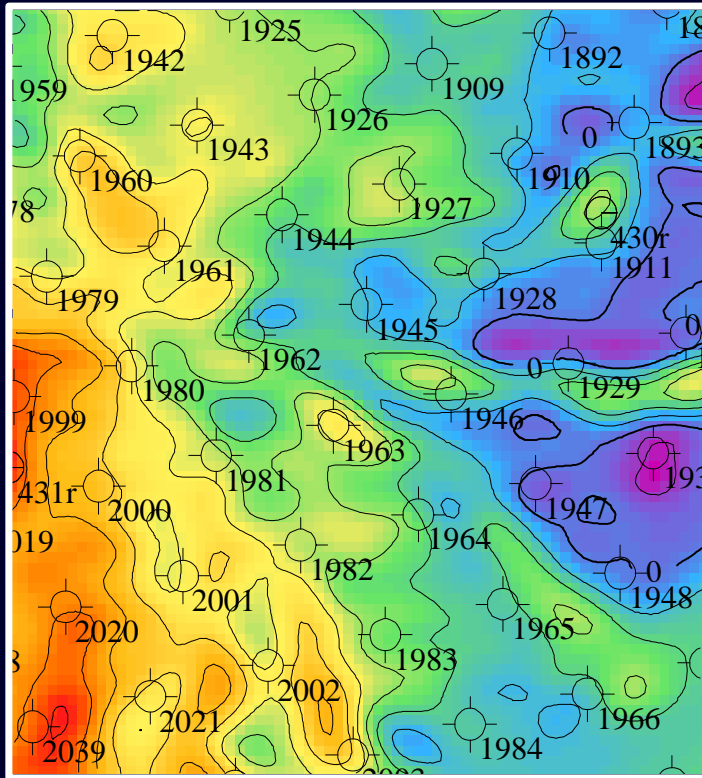
Increase in Reserves



Sugmut Oil Field

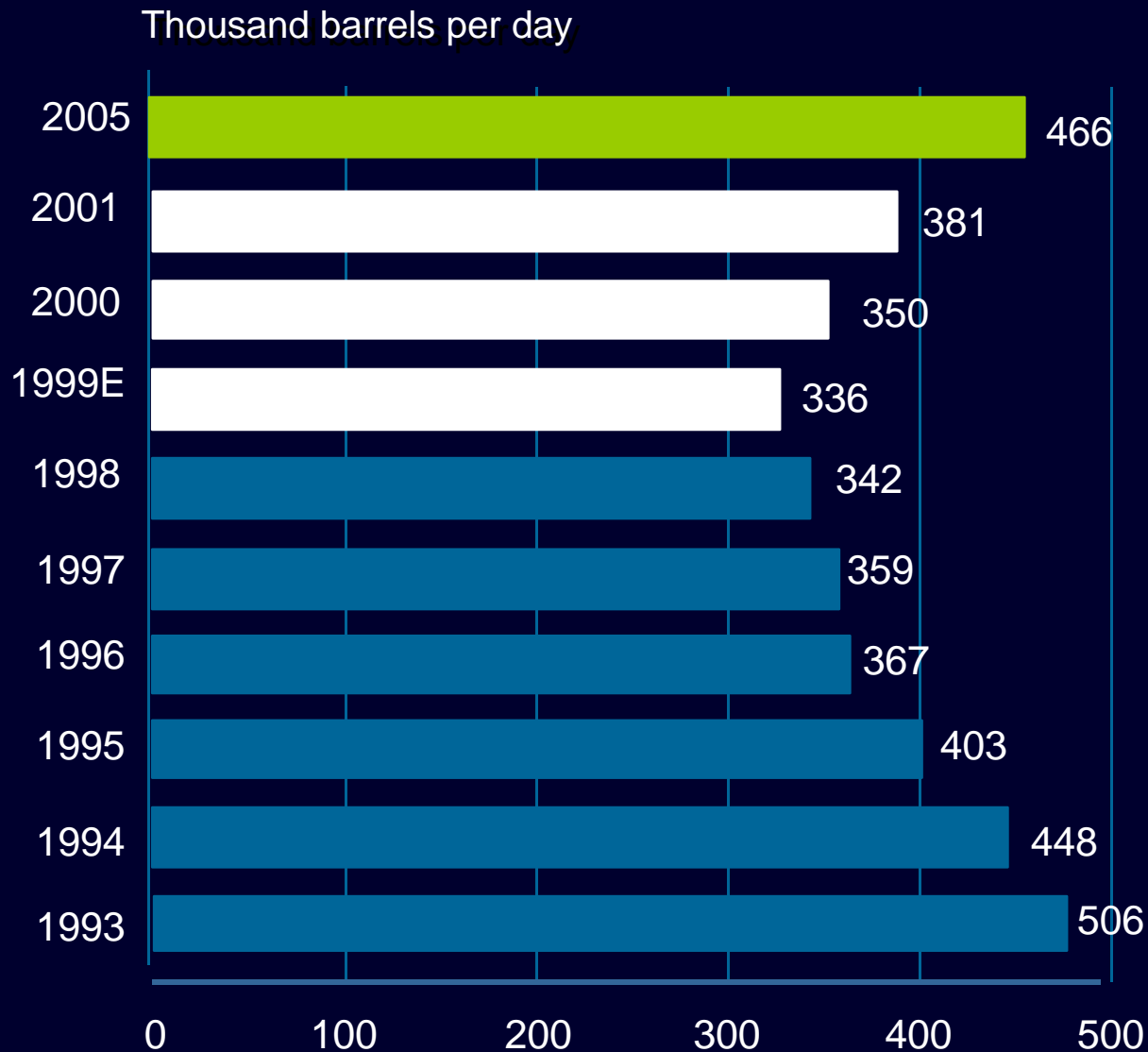


Sugmut Development



- Trial drilling completed
- New development program is to be drafted including the new materials of the seismic researches 3D, hydro-dynamic model of the reservoir
- Experts of american oil consulting companies are subcontracted to perform the technical program

Target Oil Production

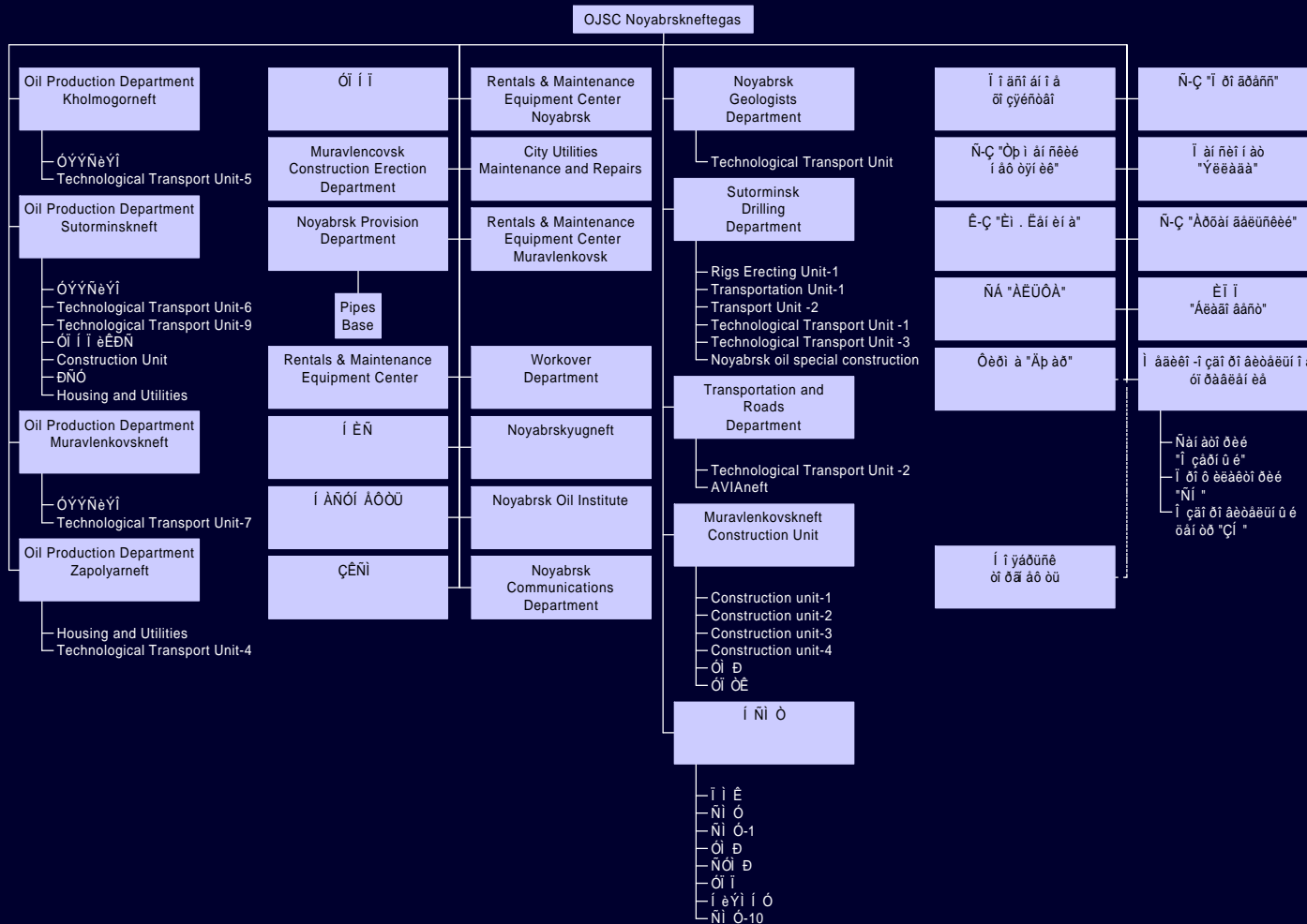


In light of the sustained low oil price the Company cut production by 4.7% in 1998 compared to 1997

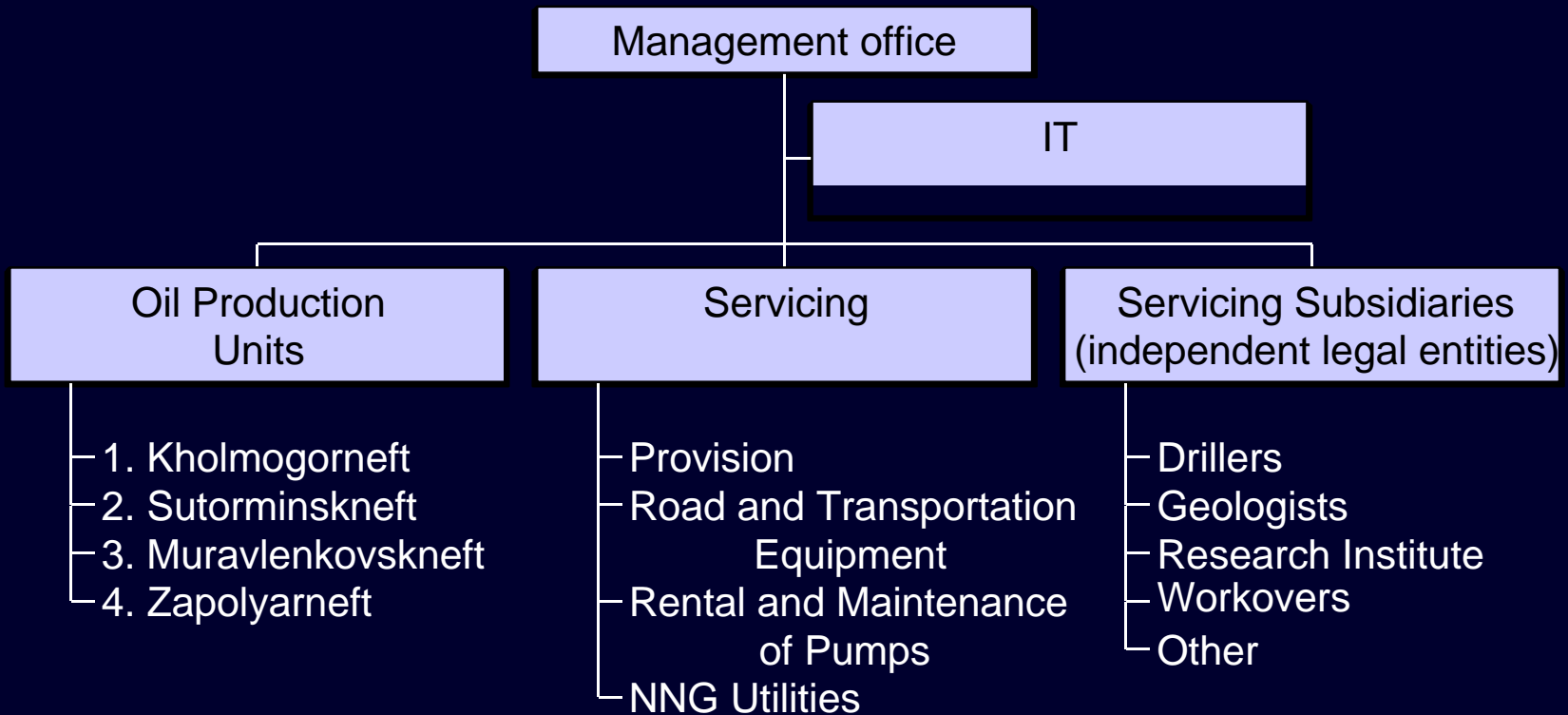
Organisational restructuring

- Focus on profits at production departments
- Outsourcing services
- Spin-off activities not related to oil production
- Social assets transfer
 - Release managers from social assets provision
 - Cost cutting
 - Create opportunities to increase profitability of social assets

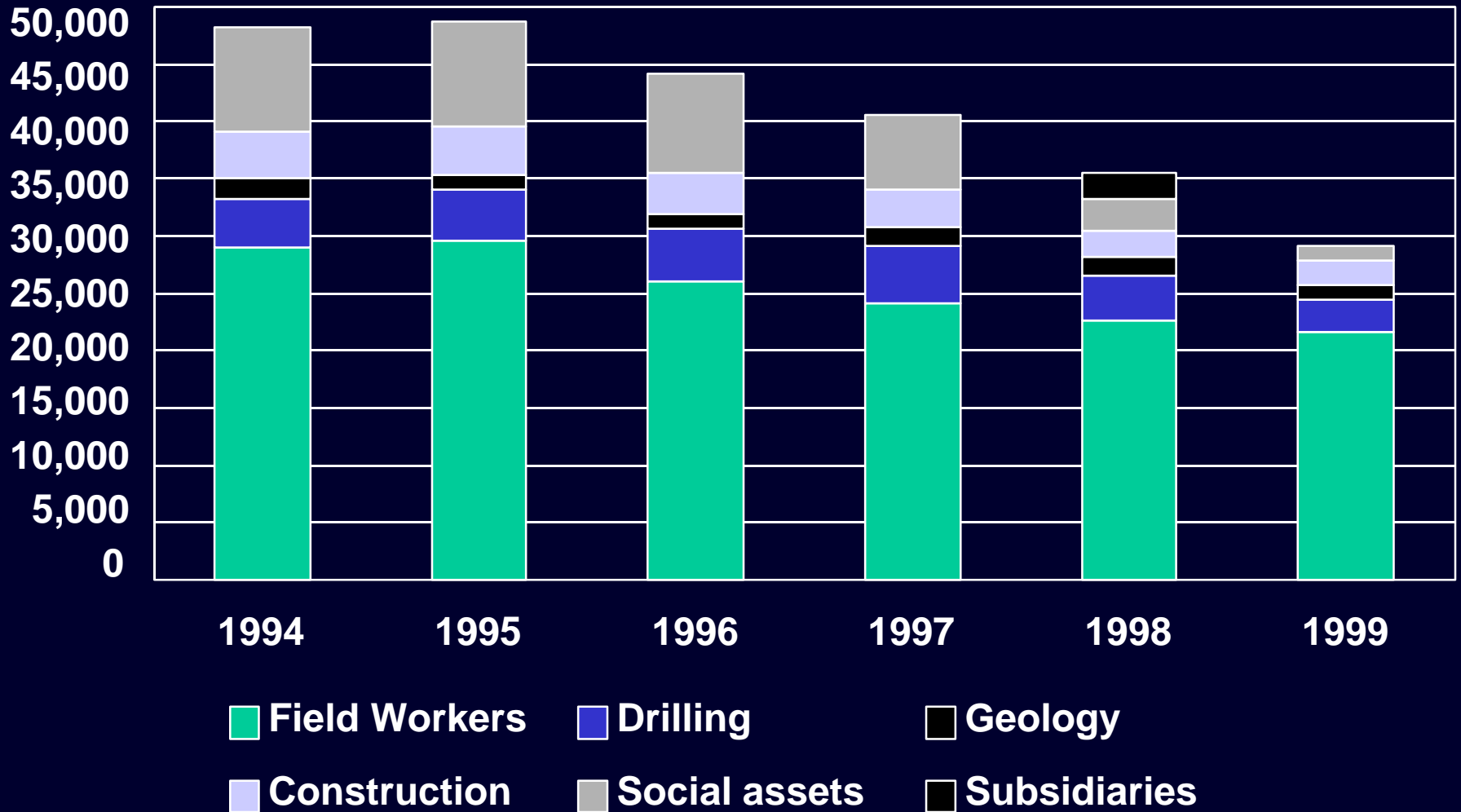
Former Organisational Structure of NNG



New NNG Structure



1998 Headcount Down 13%



Horizontal Drilling

- 10 horizontal wells are planned for 1999 at Romanovskoye, Yarainerskoye, Umseiskoye, and Vyngayakhinskoye
- Subcontractor to be defined through competitive tender (Schlumberger, Baker Hughes, NPO Buren, Halliburton are participating in the tender)

Alliance with Schlumberger

- Working on opportunities where Schlumberger technology can enhance production and optimise reserve recovery
- Vingapur identified for further development
- 56 hydro-fracturing completed since September 1998
- 185,000 tons extracted additional



Refining and Marketing

VALERY OIF
Vice President

Downstream - 1998 Operational Highlights

- 1998 throughput down 19.1% to 13.1 mm tons, 259,000 barrels per day
- Export sales of refined products up to 27.1% (24.0 million barrels) from 19.2% (22.5 million barrels) in 1997
- Depth of refining increased to 81.6% from 80.24% in 1997 compared to 59% average for Russia

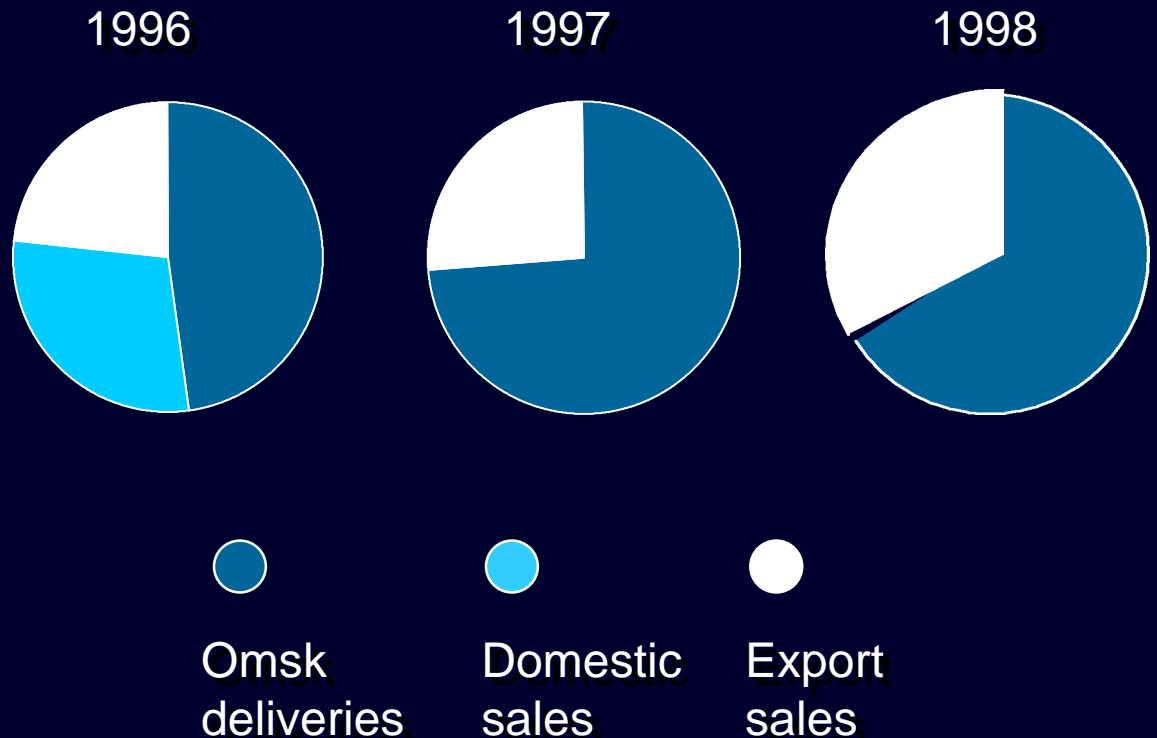
Downstream - 1998 Operational Highlights

- Focus on added value products
- Aggressive penetration of new markets in 1998
- to be continued in 1999
- New cracking unit at Omsk completed
- 150 retail sites added through franchise and exclusive supply agreements

Crude Oil Marketing

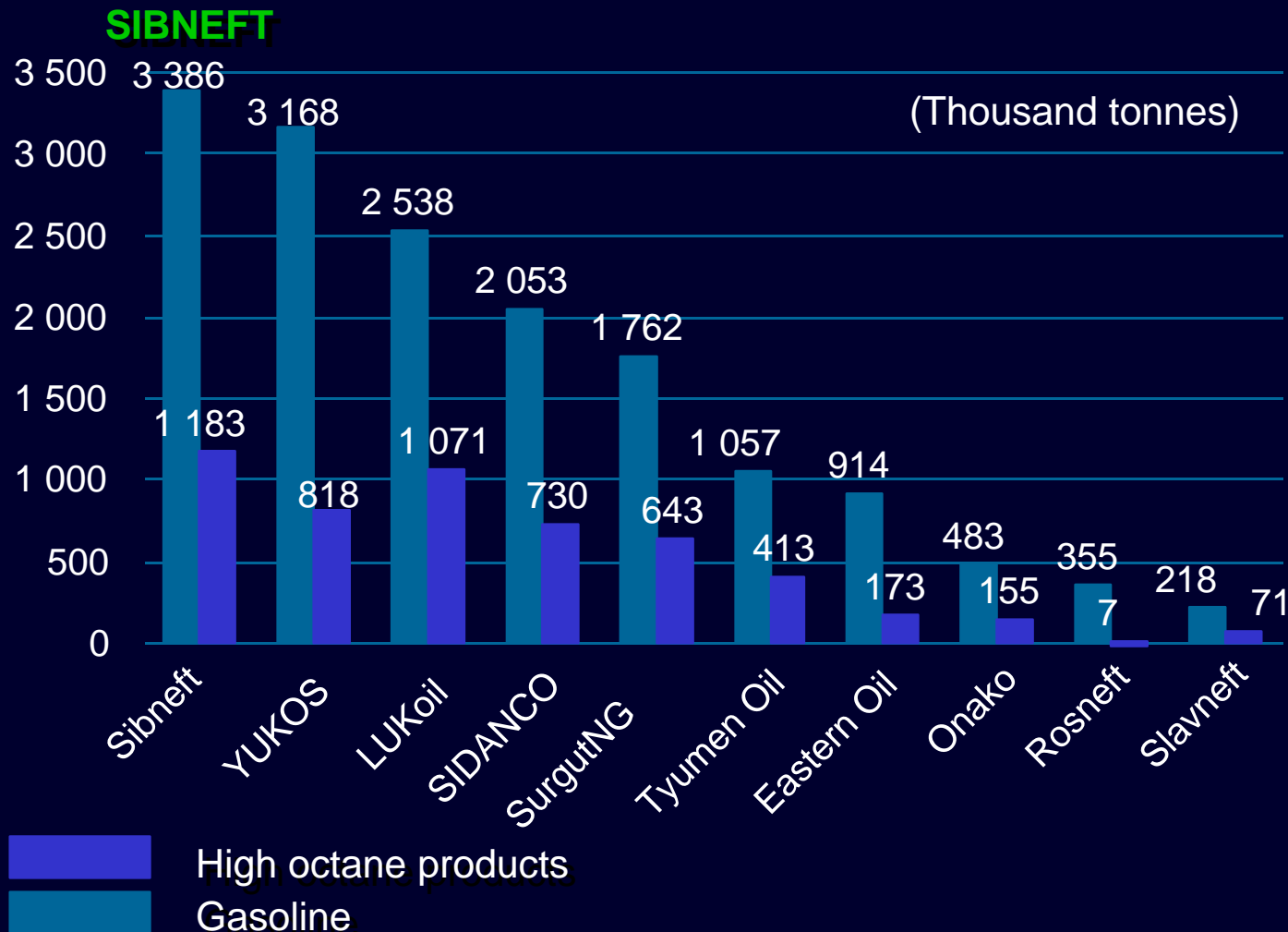
1998 export sales up by 14% to 5.6 million tons

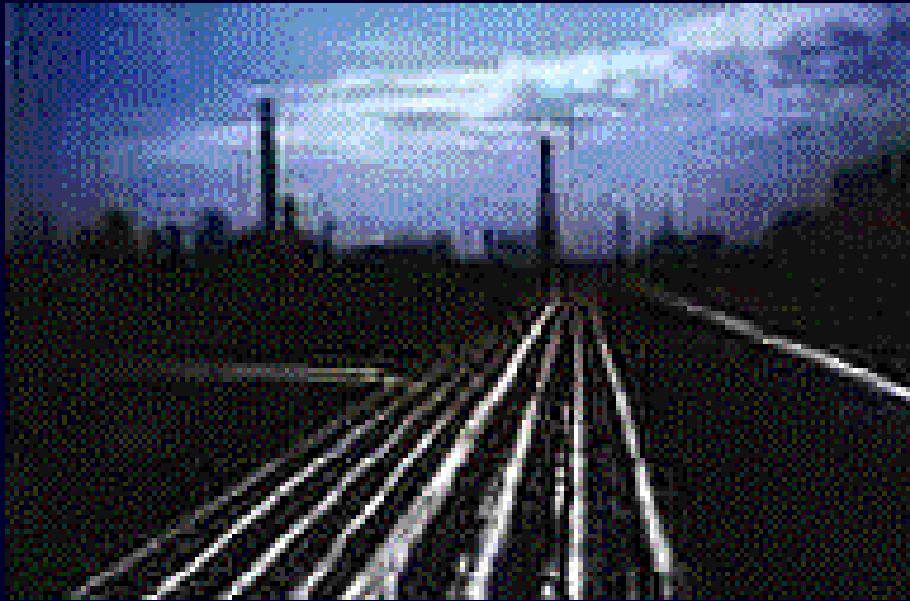
Export sales of crude up to 32.4% of production from 26.6% in 1997



Gasoline and High Octane Products Share in Total 1998 Throughput

In 1998 Sibneft was Russian largest gasoline producer





Corporate Developments

ALEXANDER KORSIK
First Vice President



Winning in a Tough Environment

- Quick adjustments to new operating environment
- Re-evaluation of all oil-fields
- New schemes for development
- New technologies, i.e. horizontal drilling
- Conservative oil prices forecast
- High investment hurdles
- Refinery modernization
 - Market demand
 - International standards
- Expansion of retail operations

Organizational Changes in Subsidiaries

- Core activities only
- Outsourcing of services
- Spinning-off of non-core businesses
- Transferring social assets will be largely complete by 2000

PSA Progress

- Feasibility study performed for Sugmutskoye, Novogodneye, Yarainerskoye oil fields
- PSA application for Sugmutskoye, Novogodneye, Yarainerskoye oil fields approved by the Ministry of Fuel and Energy
- PSA for Romanovskoye approval scheduled in 1999 by Yamal - Nenetsky District Duma (approval of the State Duma of Russia is not required in this case)
- PSA for Yurubcheno-Tokhoms koye oil field is approved by the Russian State Duma and President

New Business-Plan

- Maximize return on investment
- Evaluate the cash flows generated by NNG
- Estimate the contribution of each field to the company's cash flow and the profitability of each field
- Opportunity to manage, evaluate and estimate the efficiency of each geological operation on fields
- Determine and optimize costs of production level maintenance
- Unified approach to the selection of the primary data, methodology of calculations and planning

Project Evaluation and Selection

- Determination of the baseline production - level of production without implementation of projects of geological technical operations (GTO) and drilling
- 5 years cash flows, generated by baseline production and overall production with projects of GTOs on certain fields and drilling
- 112 projects of capital investment are considered
- Weighted evaluation of projects by IRR, NPV, PBP, PI
- Focus on profitable projects
- Creation of working program, ensuring maximum cashflow
- Four scenarios production analysis

Y2K - Be Prepared!

- No problems

- SAR R/3 at Omsk
- INFIN (Sibneft accounting system)
- Telemetrical control over oil production system in Noyabrsk
- Corporate telecommunications
- Sales management system

- Minor changes needed

- Office equipment (Windows, Novell, MS Exchange)

Corporate Governance

- First corporate Governance initiative in Russia
- Charter published in July 1998
- Recommendations of Committee accepted in full
- Remuneration, audit & nomination & assessment committees established



Project 2003

EUGENE SHVIDLER
President



Project 2003 - Key Goals in Five Years

- Focus on shareholder value
- Sustainable profit growth
- Clear strategy
- Value not volume

Project 2003 - Key Goals in Five Years

- Increase production in West Siberia to 403 thousand barrels per day
- Increase production at Sugmut and Sporyshev to 100 thousand bpd and 38 thousand bpd but managed to optimise the whole life of the reservoirs not just to meet short term production targets
- Expand our reserve base out of West Siberia. We aim to have at least 15% of our proved reserves outside this region and 5% of our production by 2003.
- Target area - Middle East and North Africa

Project 2003 - Key Goals in Five Years

- Increase the share of out-sourced service and maintenance requirements to 50% of our service and maintenance spend
- Reduce effective workforce from 47,000 to 25,000
- Develop the commercial gas potential of our fields with strategic partner achieving production of 6 billion cubic m per year

Project 2003 - Key Goals in Five Years

- Lead new Russian production of super-unleaded 98 gasoline
- Increase our export of products specifically increasing our sales to China, Mongolia and Kazakhstan by 250%
- Increase the amount of our own production sold through Sibneft's retail outlets from 13% to 60%
- Increase our sales of own-brand added-value lubricants by 200%
- Increase number of retail sites to 1,300

Project 2003 - Key Goals in Five Years

- Increase our sales of own-brand added-value lubricants by 200%
- Increase number of retail sites to 1,300