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# **LUKOIL in Kazakhstan: Investments Bear Fruits**

Aksai, Kazakhstan  
August 28, 2003

# LUKOIL Today

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## Today LUKOIL is:



1.3% of global oil reserves and 2% of global oil production.



20% of total Russian oil production and 18% of total Russian oil refining.



The only private Russian oil company whose share capital is dominated by minority stakeholders



The 2nd largest private oil company worldwide by proven reserves.



The 6th largest private oil company worldwide by production.



The leading Russian oil business group with annual turnover of \$15 bln.



The most liquid among Central and Eastern European stocks on the London Stock Exchange (LSE).



The most liquid oil stock and second most liquid stock overall on the Russian Trading System (RTS).



A leader among Russian oil companies for openness and transparency. The first Russian company to be listed on the London Stock Exchange.

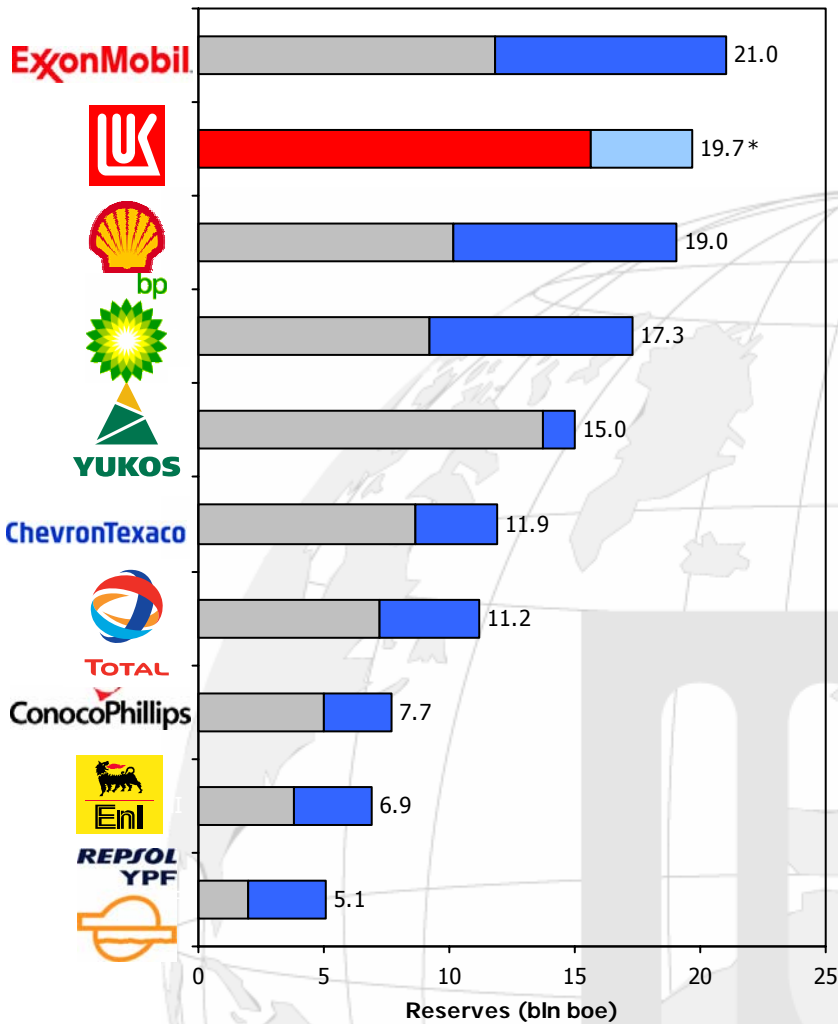
### Sources:

Energy Intelligence Group, Petroleum Intelligence Weekly, International Energy Agency, OPEC, US Energy Department, Russian Ministry of Energy, RTS, LSE, LUKOIL.

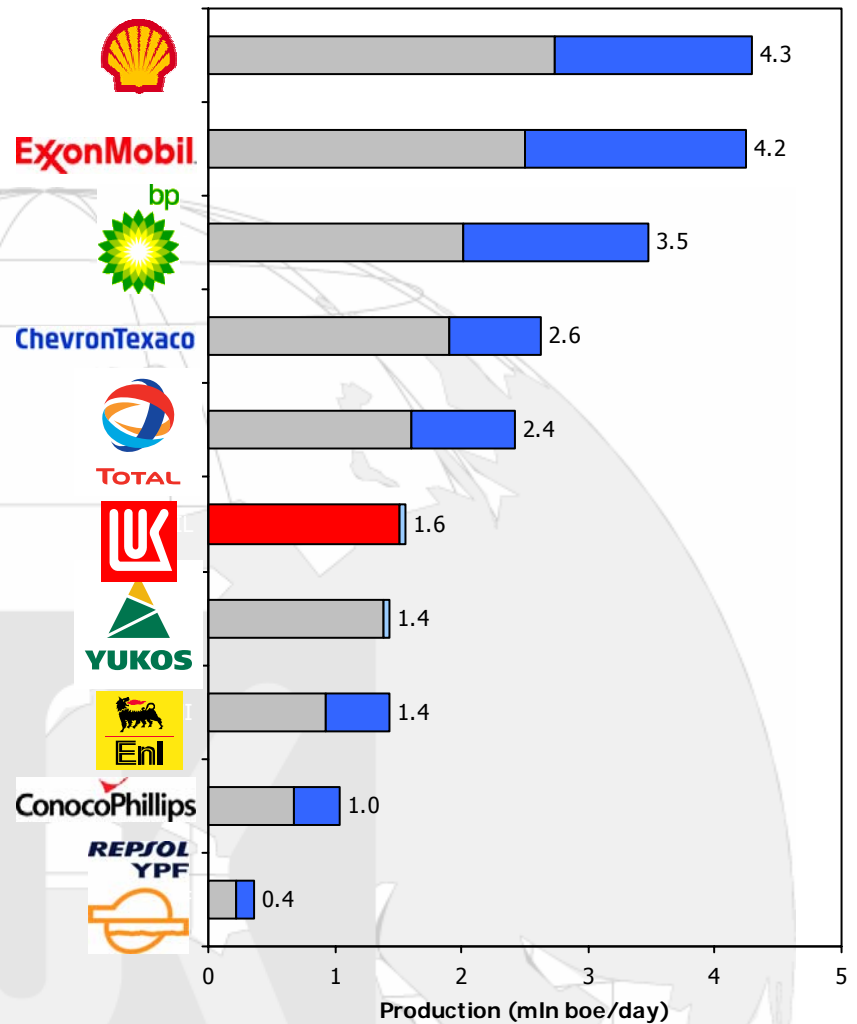
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# Part of the World Premier League

## 2002 Reserves



## 2002 Production



\* Taking into account acquisitions in early 2003.  
Source: company's annual reports

Crude oil and natural gas liquids
  Natural gas

# LUKOIL's Development Strategy

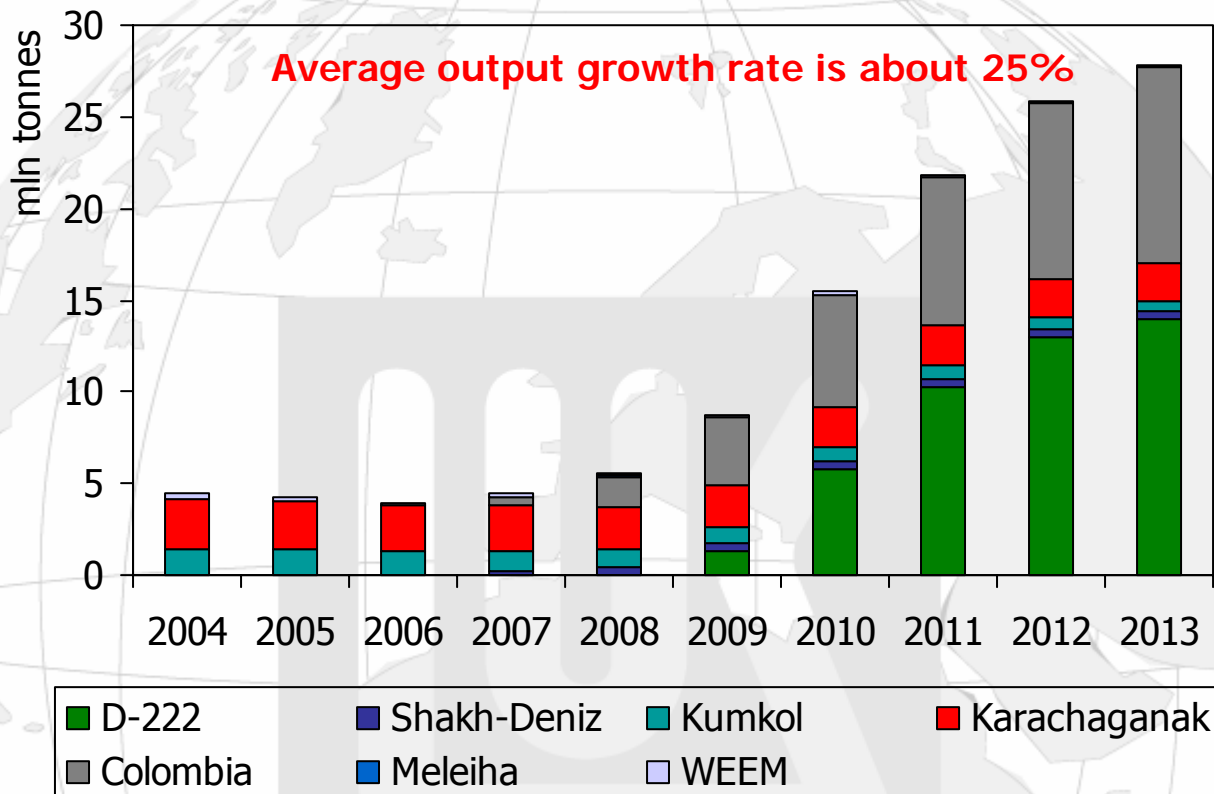
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- **Short-term strategy (2003-2005)**
  - 4% average annual production growth
  - To improve technology and systems of oil extraction, well-stream gathering, transportation and treatment
  - To accelerate development of new oil reserves
- **Medium-term strategy (2005-2008)**
  - 5% average annual production growth
  - 17-20% weighted-average ROCE in upstream
  - Technology and equipment renovation in the Company's core oil producing regions
  - Completion of preparatory stage and launch of commercial production in Northern sector of the Caspian Sea
- **Long-term strategy (2008-2010)**
  - To increase output: min (oil – 2.2 mln b/d, natural gas – 0.5 mln boe/d), max (oil – 2.8 mln b/d, natural gas – 0.65 mln boe/d)
  - To control lifting costs (in constant 2002 prices and at \$/RR exchange rate for 2002): oil – 2.0-2.5 \$/bbl, gas – 0.10 \$/1000 cf
  - To increase output from international operations to 15% of total production

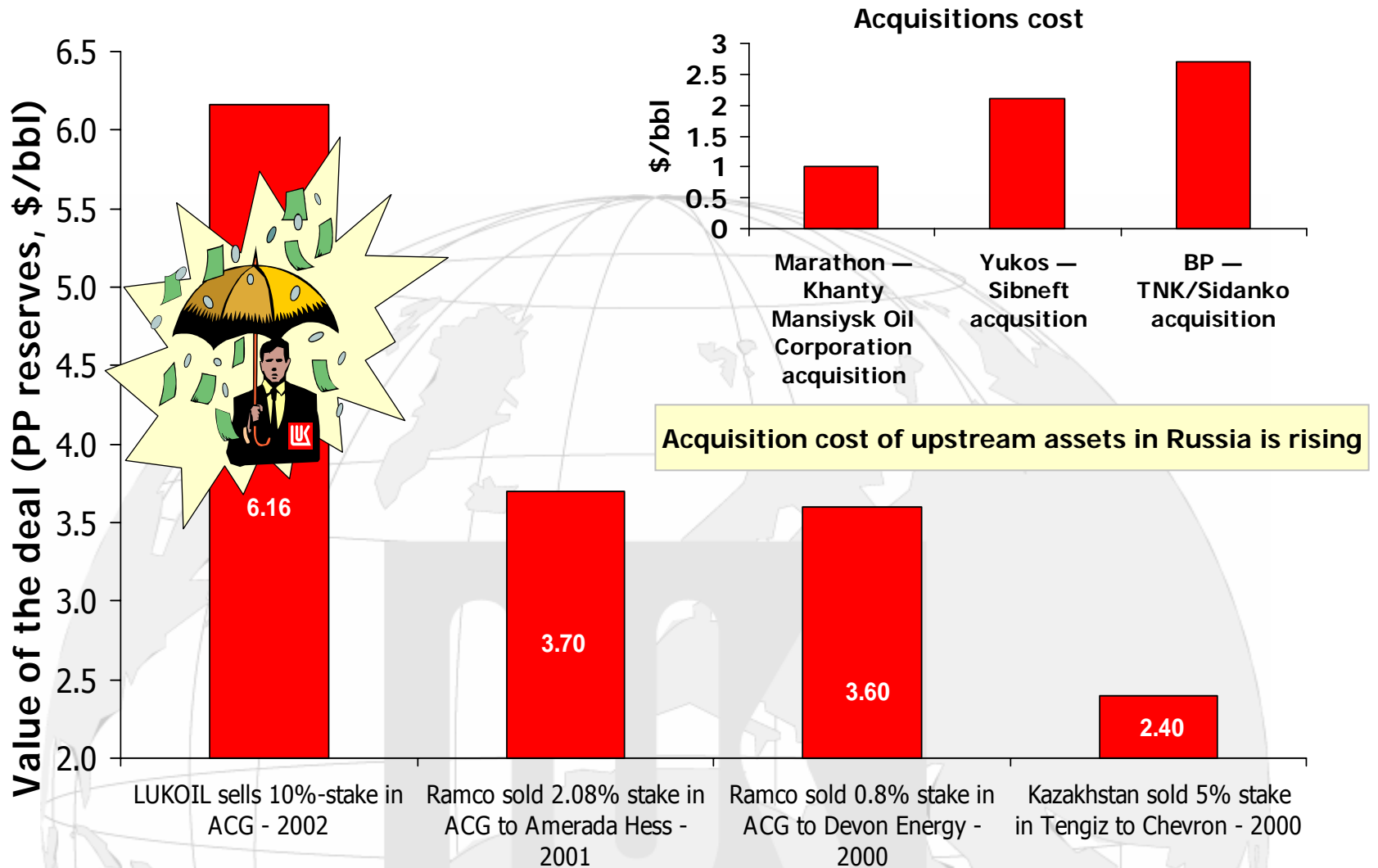
# Upstream Sector outside Russia – Strong Efficient Growth

## International diversification of upstream:

- Geographical diversification
- Strong natural growth of production
- Low lifting costs
- Attractive taxation environment

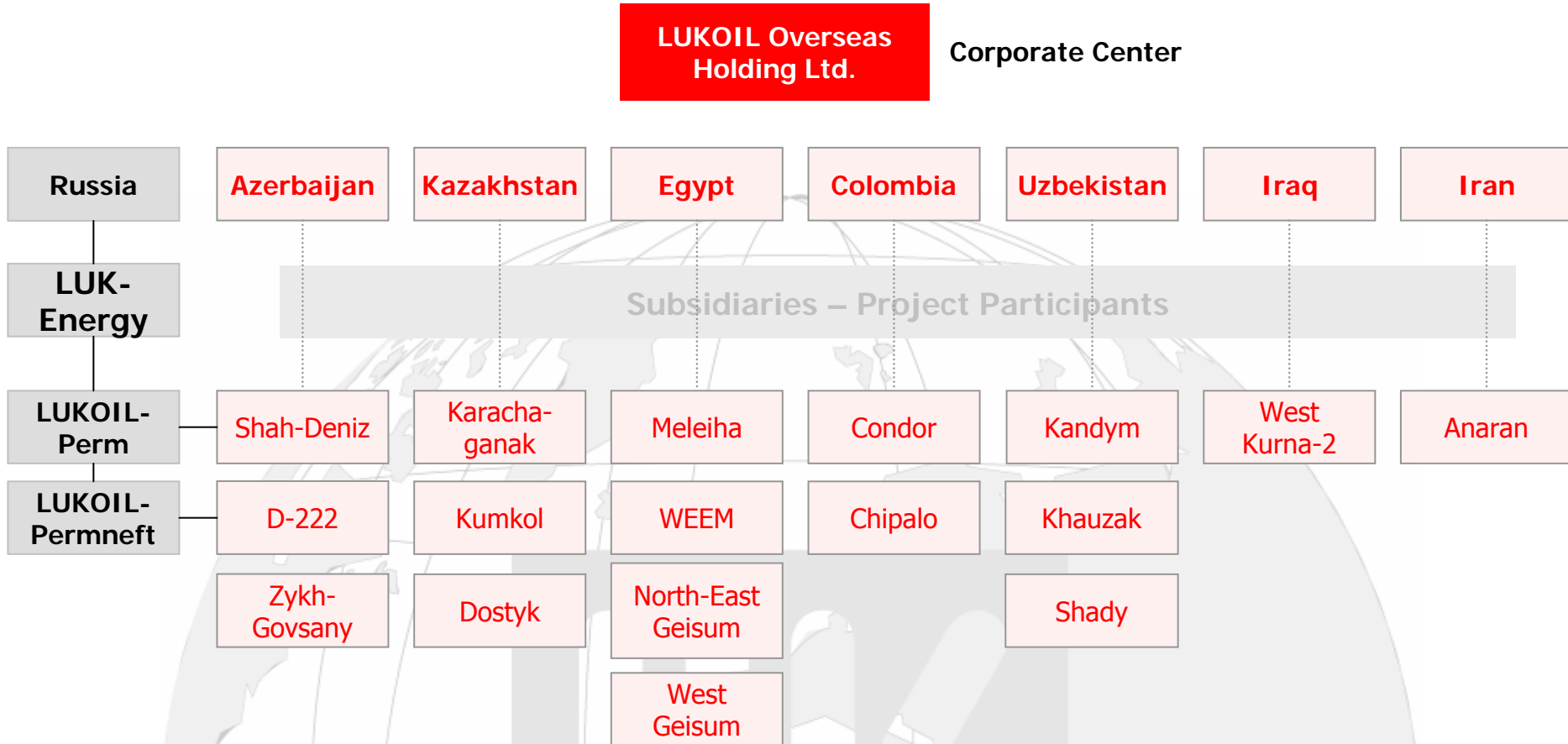


# Active Management of Portfolio Assets — ACG Case



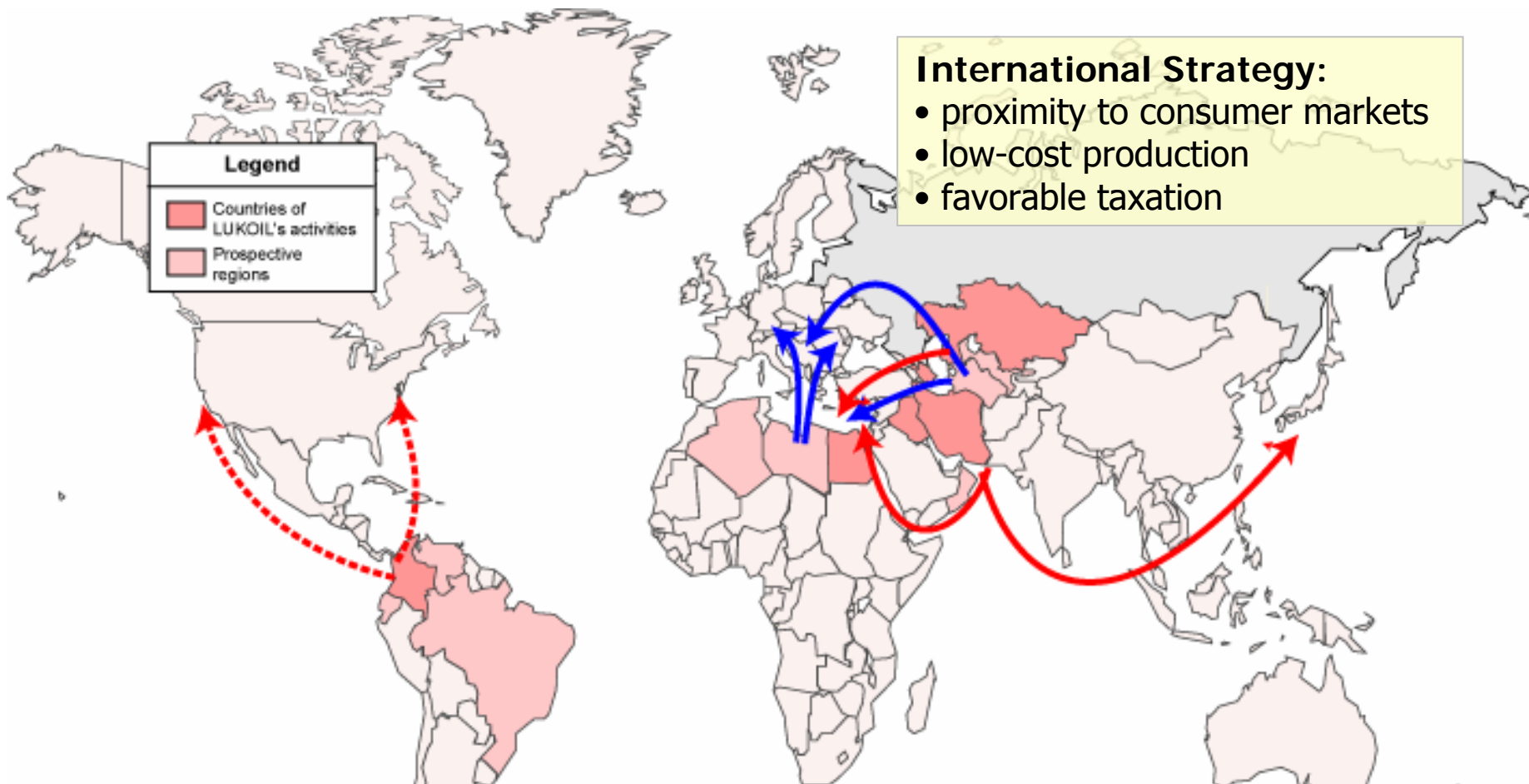
**LUKOIL's profit form the sale of ACG is estimated to be about \$1 bln**

# International Upstream Projects



A transparent project management structure helps decision making, efficient control of resources, and integration of new projects in the existing Company management structure

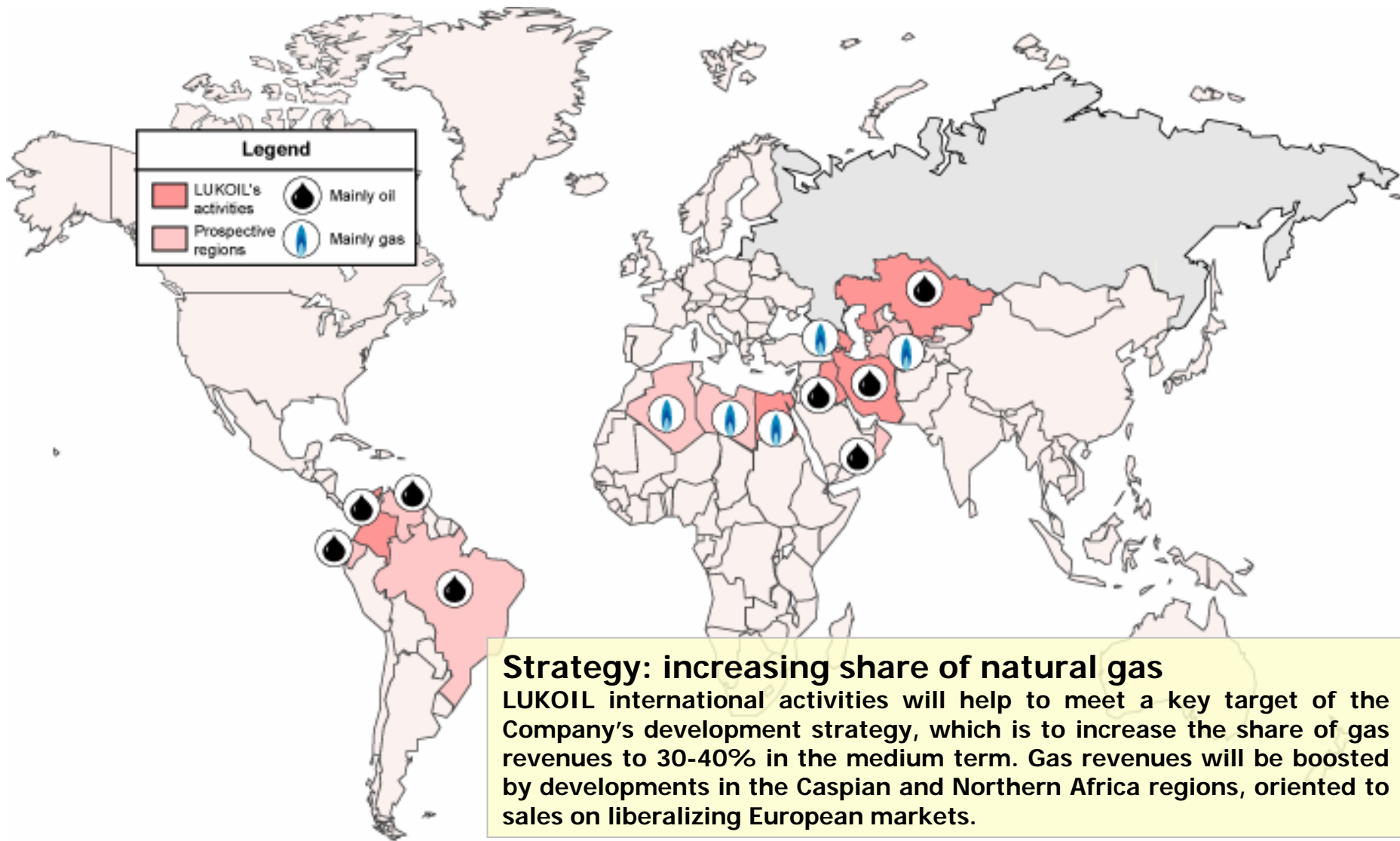
# International Upstream Activities



| Region Status                        | CIS (Caspian region)     | Middle East                       | Latin America              |
|--------------------------------------|--------------------------|-----------------------------------|----------------------------|
| Under development, new opportunities | Kazakhstan, Azerbaijan   | Egypt, Iran, Iraq                 | Columbia                   |
| New opportunities                    | Uzbekistan, Turkmenistan | Algeria, Libya, Kuwait, UAE, Oman | Ecuador, Brazil, Venezuela |



# International Upstream Activities



## Strategy: increasing share of natural gas

LUKOIL international activities will help to meet a key target of the Company's development strategy, which is to increase the share of gas revenues to 30-40% in the medium term. Gas revenues will be boosted by developments in the Caspian and Northern Africa regions, oriented to sales on liberalizing European markets.

# LUKOIL's Projects in Kazakhstan

**CPC (1996)**  
Share of LUKOIL: 12,55% (LukArco)

**Kumkol (1995)**

Proved reserves: 170 mln boe  
Production 2002:  
Oil and condensate – 1.1 mln tonnes  
Gas – 15 mln cum  
Share of LUKOIL: 50%  
Project participants: PetroKazakhstan (50%)

 **Karachaganak**

 **Astana**

**Kumkol**



*Balkhash*

CHINA

UZBEKISTAN

URKMENISTAN

**Karachaganak (1997)**

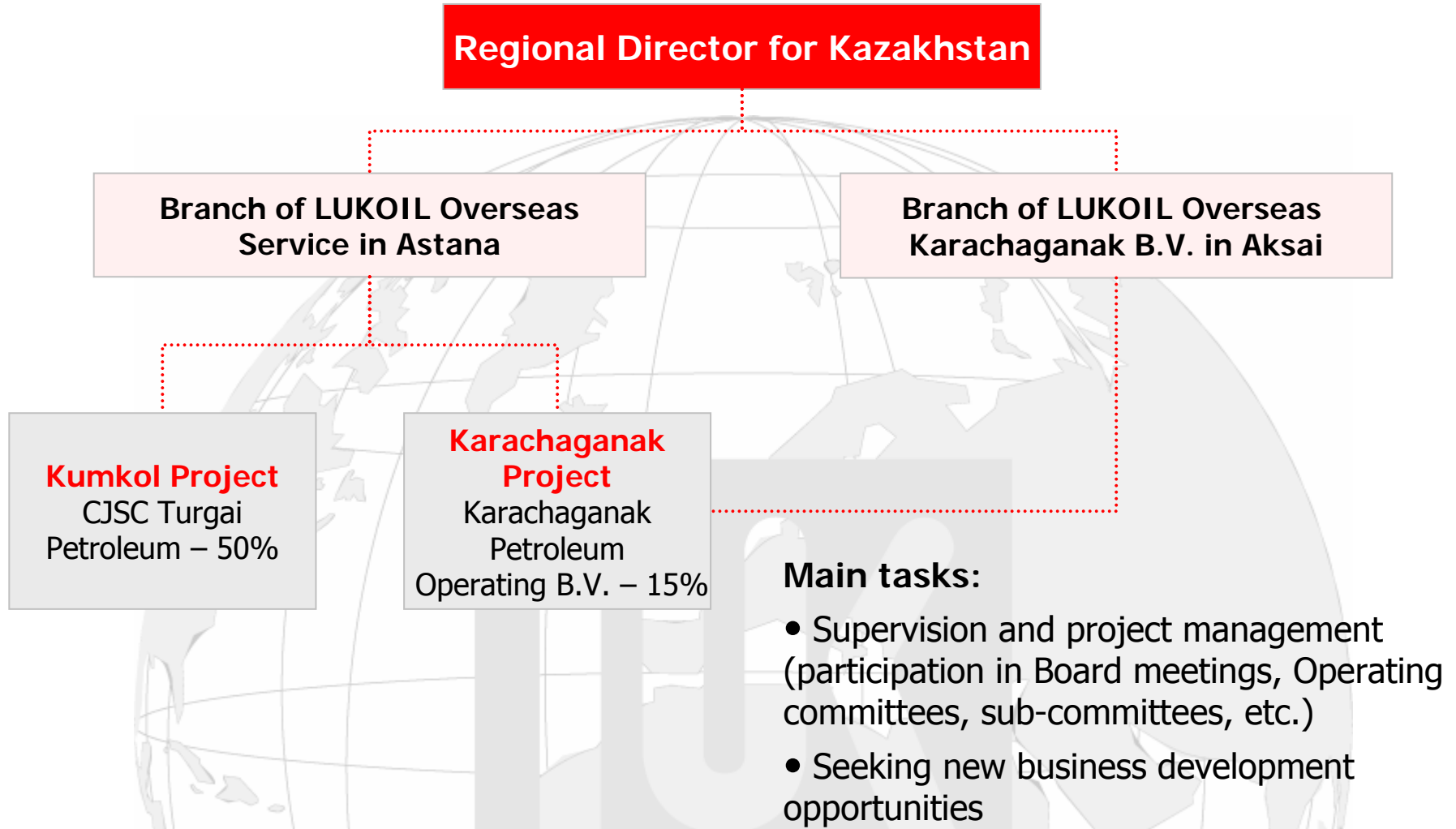
Proved reserves:  
Oil and condensate – 1,604 mln boe  
Gas – 11.1 bcf  
Production 2002:  
Oil and condensate – 36 mln boe  
Gas – 165 bcf  
Share of LUKOIL: 15%  
Project participants: BG (32.5%),  
Agip (32.5%), ChevronTexaco (20%)

**Tengiz (1997)**

Proved reserves: 391 mln tonnes  
Production 2002: 13.1 mln tonnes  
Share of LUKOIL: 5% (LukArco)  
Project participants :ChevronTexaco  
(50%), ExxonMobil (25%), KMG (20%)

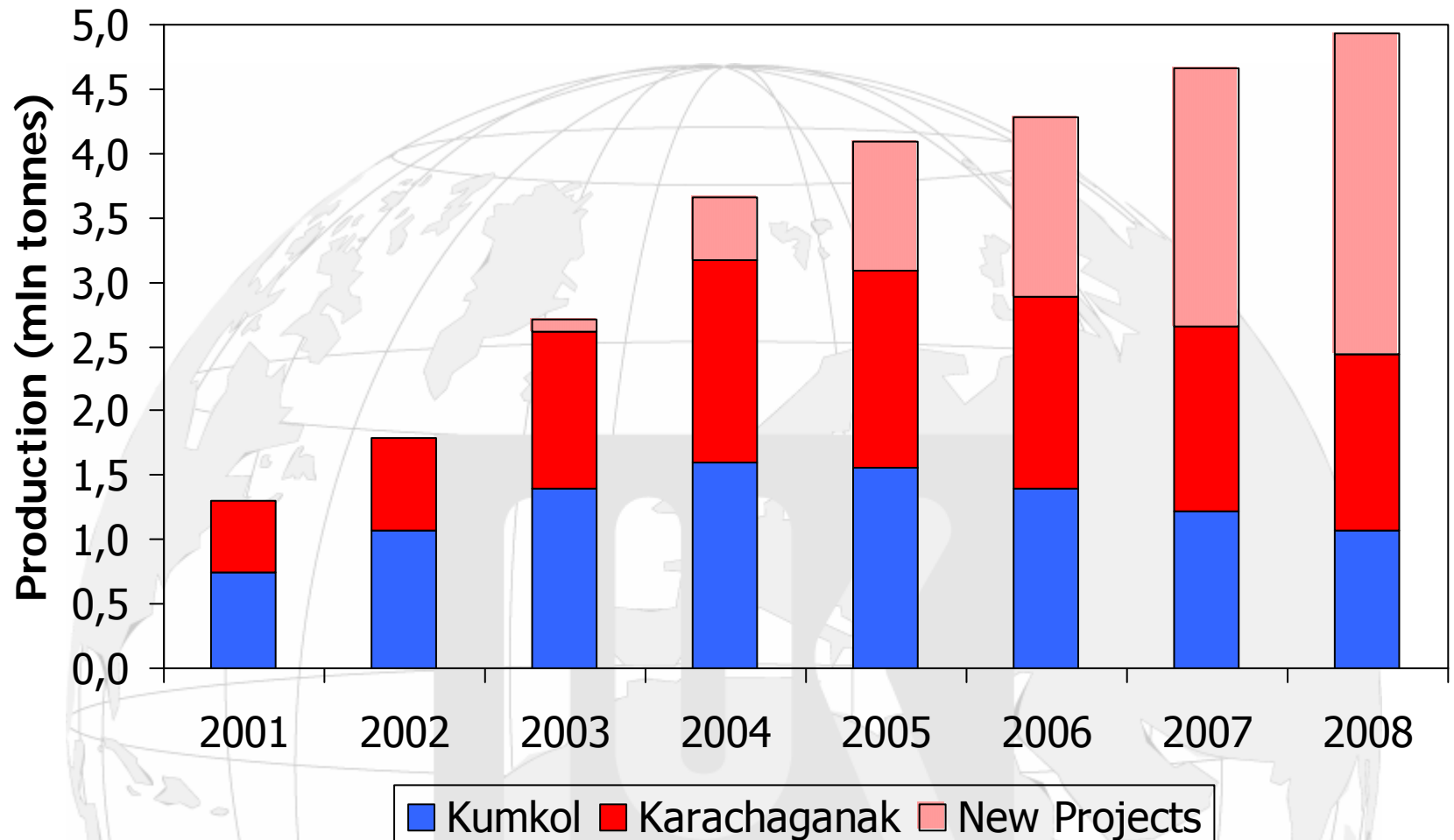
# LUKOIL in Kazakhstan

## Operational structure in Kazakhstan



# Production Forecast for Kazakhstan Projects

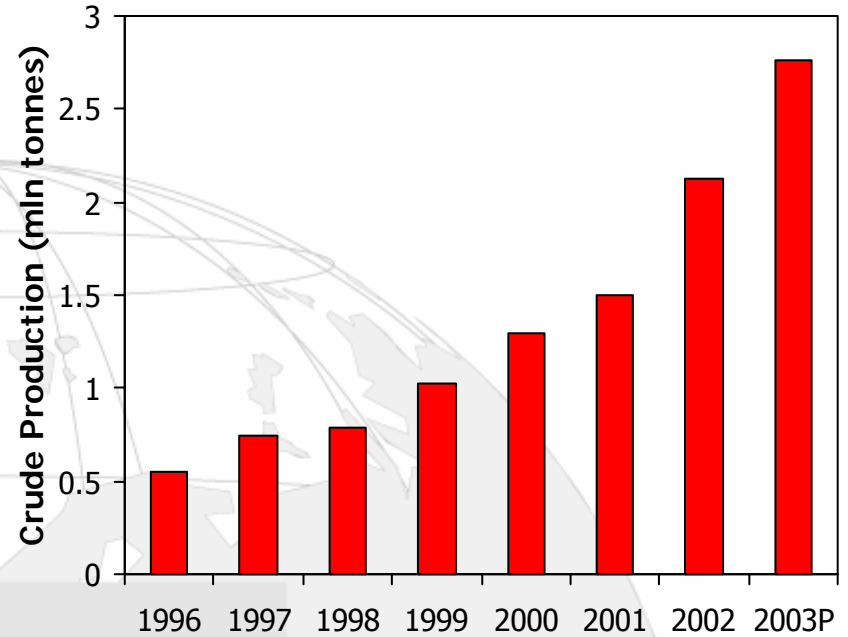
Oil and gas condensate production (LUKOIL's share)



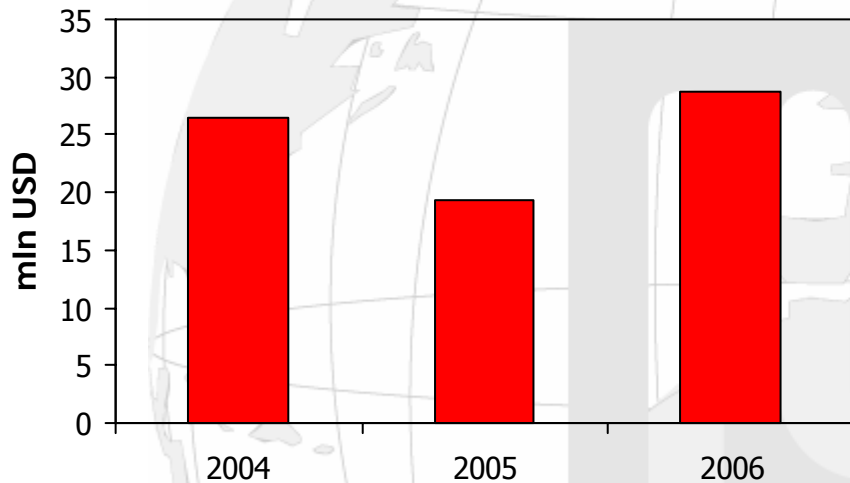
# Kumkol



## Production history



## Projected Free Cash Flows (\$18/bbl scenario)

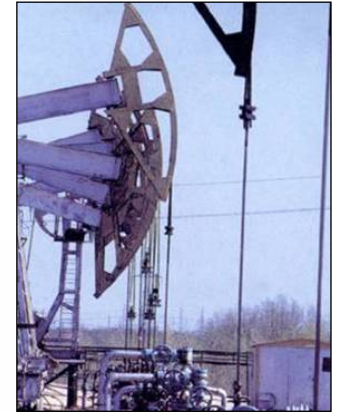


TURGAI PETROLEUM



# Kumkol

- Kumkol is operated by Turgai Petroleum, a JV between LUKOIL and PetroKazakhstan Inc.
- The company has boosted output and financial results over recent years



## Kumkol (Turgai Petroleum) – Financial and Operational Results (LUKOIL's share)

|                  |              | 2001   | 2002   | 1H 2003 | 1H 2003 /<br>1H 2002 |
|------------------|--------------|--------|--------|---------|----------------------|
| Production       | thousand boe | 5,834  | 8,334  | 5,016   | +38%                 |
| Revenues         | \$ thousand  | 61,863 | 65,364 | 46,513  | +94%                 |
| Operating Income | \$ thousand  | 37,417 | 27,592 | 29,805  | +93%                 |
| EBITDA           | \$/boe       | 7.76   | 5.12   | 6.52    | +49%                 |
| Operating costs  | \$/boe       | 1.30   | 1.20   | 1.25    | n/a                  |

# Kumkol – 2003 Highlights

## Kumkol – Dzhusaly pipeline

*Pipeline connects oil field and loading rack terminal at Dzhusaly station*

### Technical characteristics:

- Length — 177 km
- Diameter — 16"
- Capacity — 6,5 mln tonnes/year
- Cost ~ \$77 mln

Commissioning of the pipeline will reduce transportation distance by 1300 km

## Gas Utilization Project

*The project includes construction of a gas processing facility and turbine power generation plant*

### Technical characteristics:

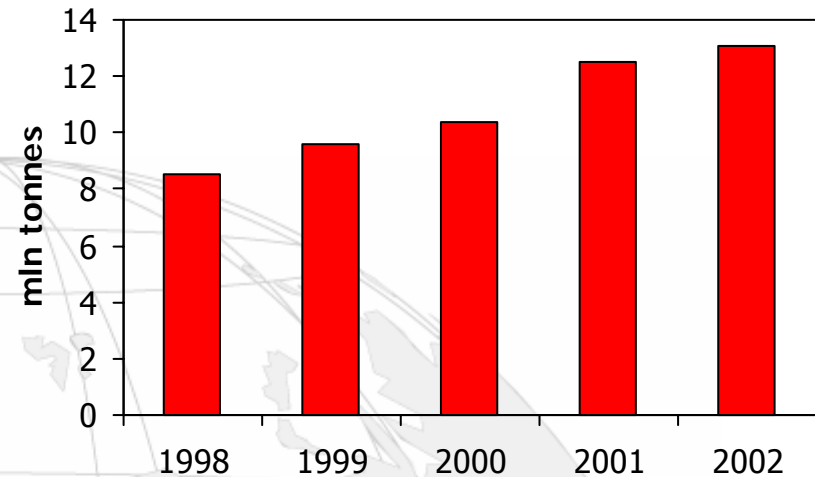
- Capacity — 55 MW/year
- Gas consumption — 0.5 mln cum/d
- Cost ~ \$40 mln



# Tengiz

- Tengiz oil field is operated by ChevronTexaco
- Oil is transported from the field via CPC pipeline
- To boost oil production the reinjection of sweet gas in 2004 and reinjection of raw gas since 2005 are planned.
- The production forecast is 22 mln tonnes in 2006 and 32 mln tonnes in 2010

## Production history



LukArco

ExxonMobil

ChevronTexaco



NATIONAL OIL & GAS COMPANY

ҚазМұнайГаз

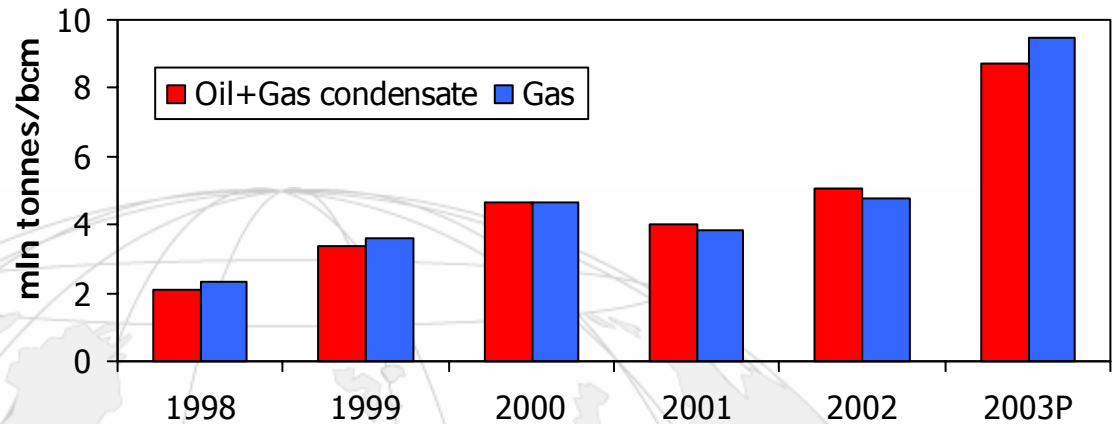
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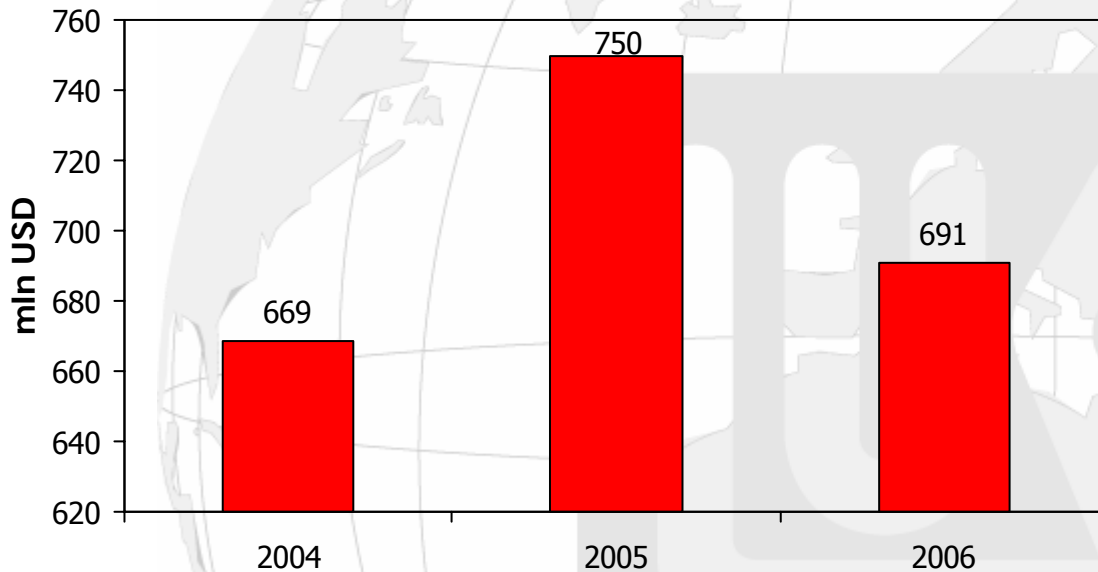
# Karachaganak

## Production history

Karachaganak is oil/gas/gas condensate field operated by KIO (Karachaganak Integrated Organisation)



## Projected Free Cash Flows (\$18/bbl scenario)



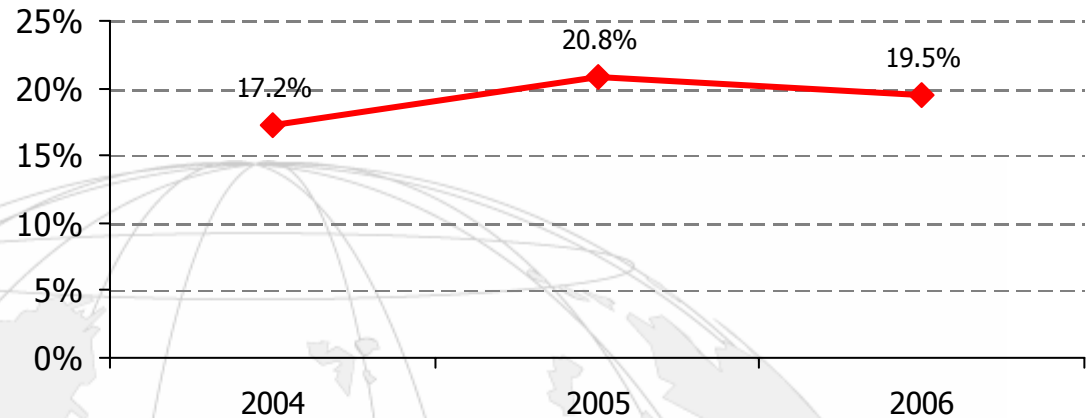
**ChevronTexaco**



# Karachaganak



Net Cash Flow / Cumulative Investments

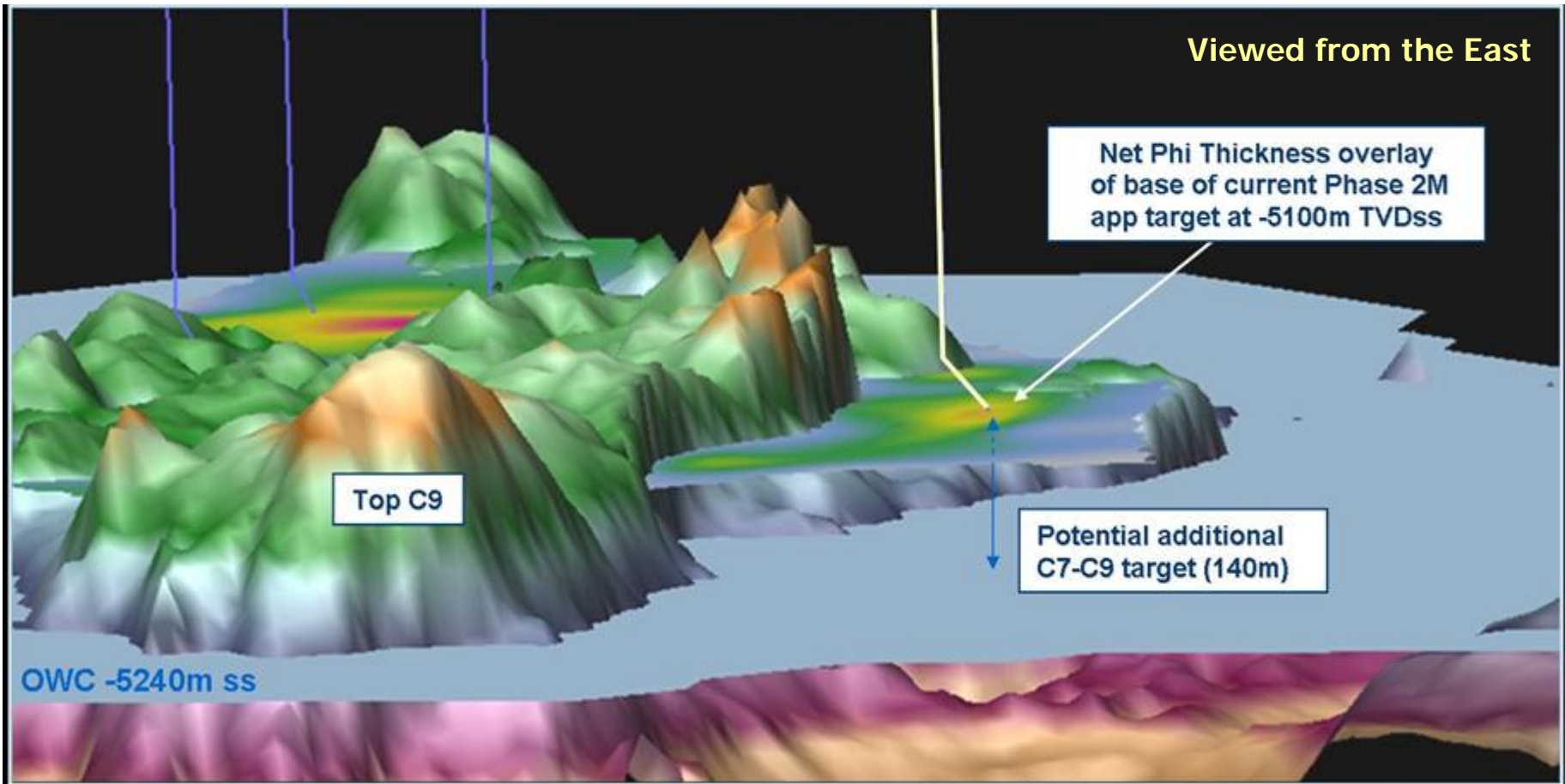


## LUKOIL Overseas Karachaganak B.V. Financial and Operational Results (LUKOIL's share)

|                   |              | 2001   | 2002   | 1H 2003 | 1H 2003 over<br>1H 2002 change |
|-------------------|--------------|--------|--------|---------|--------------------------------|
| Production        | thousand boe | 8,495  | 10,894 | 6,205   | +17%                           |
| Revenues          | \$ thousand  | 18,124 | 48,138 | 31,162  | +67%                           |
| Operating Income  | \$ thousand  | 3,628  | 12,411 | 10,705  | +232%                          |
| EBITDA            | \$/boe       | 0.78   | 2.62   | 3.30    | +84%                           |
| Operational costs | \$/boe       | 1.36   | 1.30   | 1.18    | -4.5%                          |

# Karachaganak

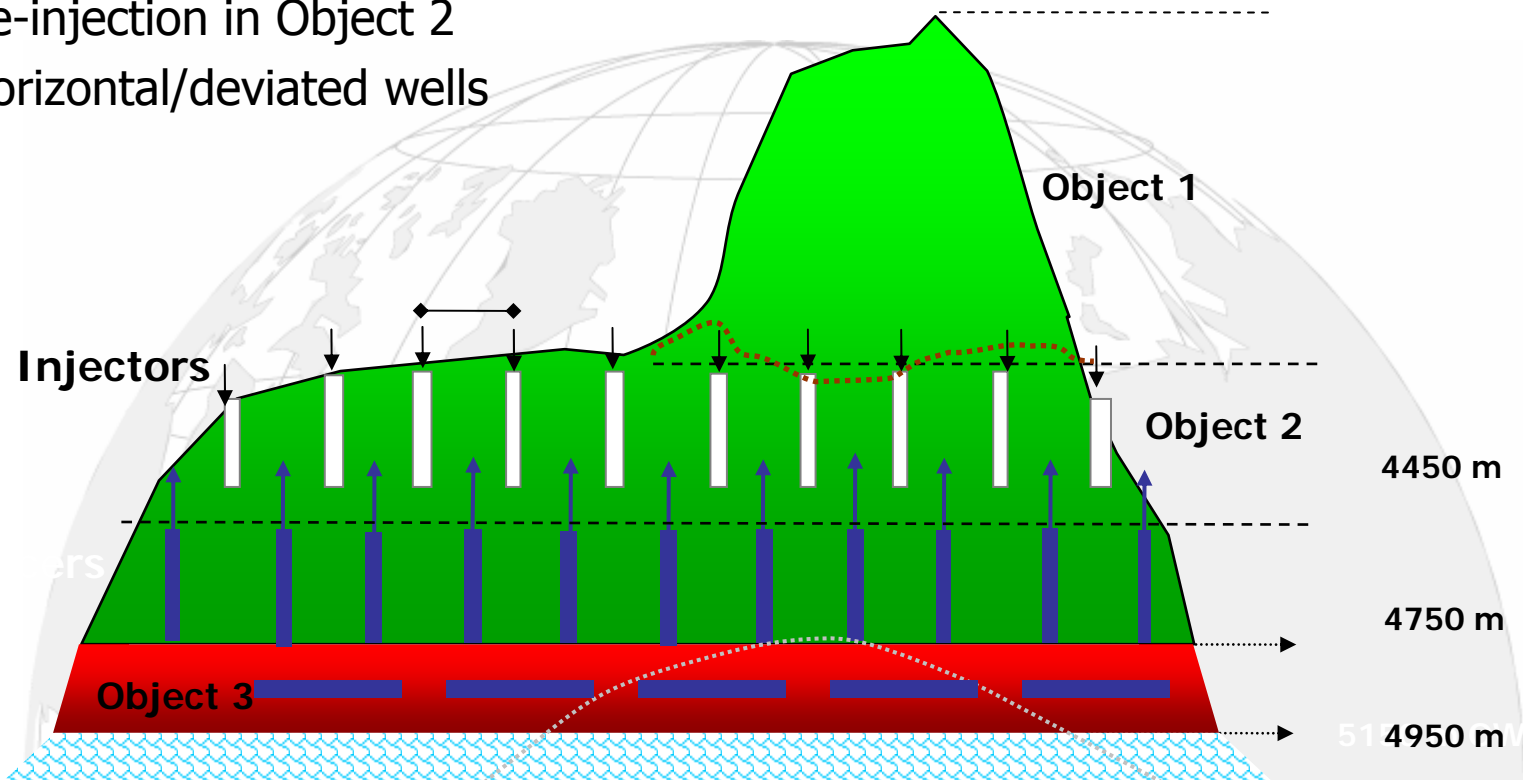
## 3D Structural View



# Karachaganak

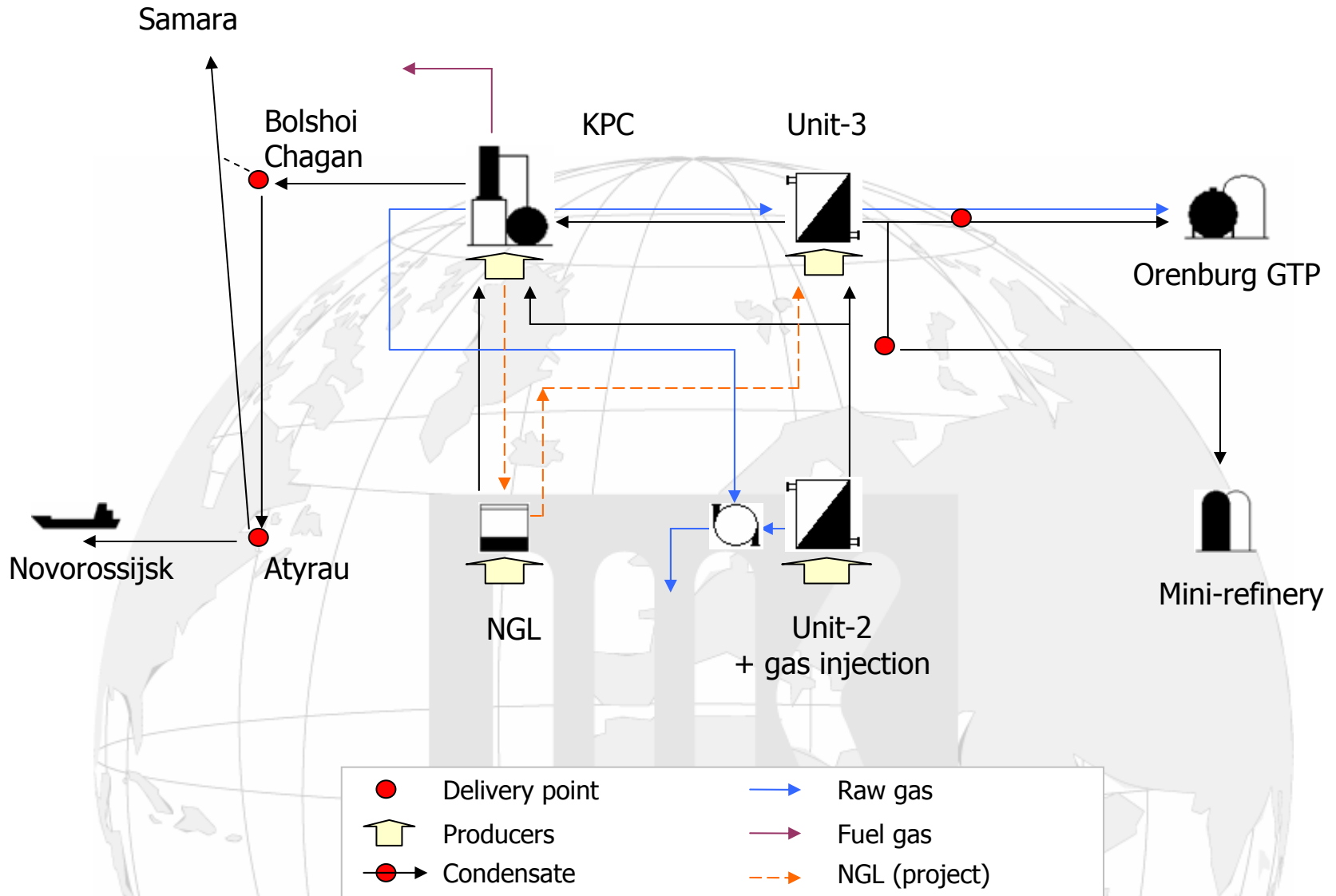
## Development Strategy:

- Partial Gas Cycling
- Re-injection in Object 2
- Horizontal/deviated wells



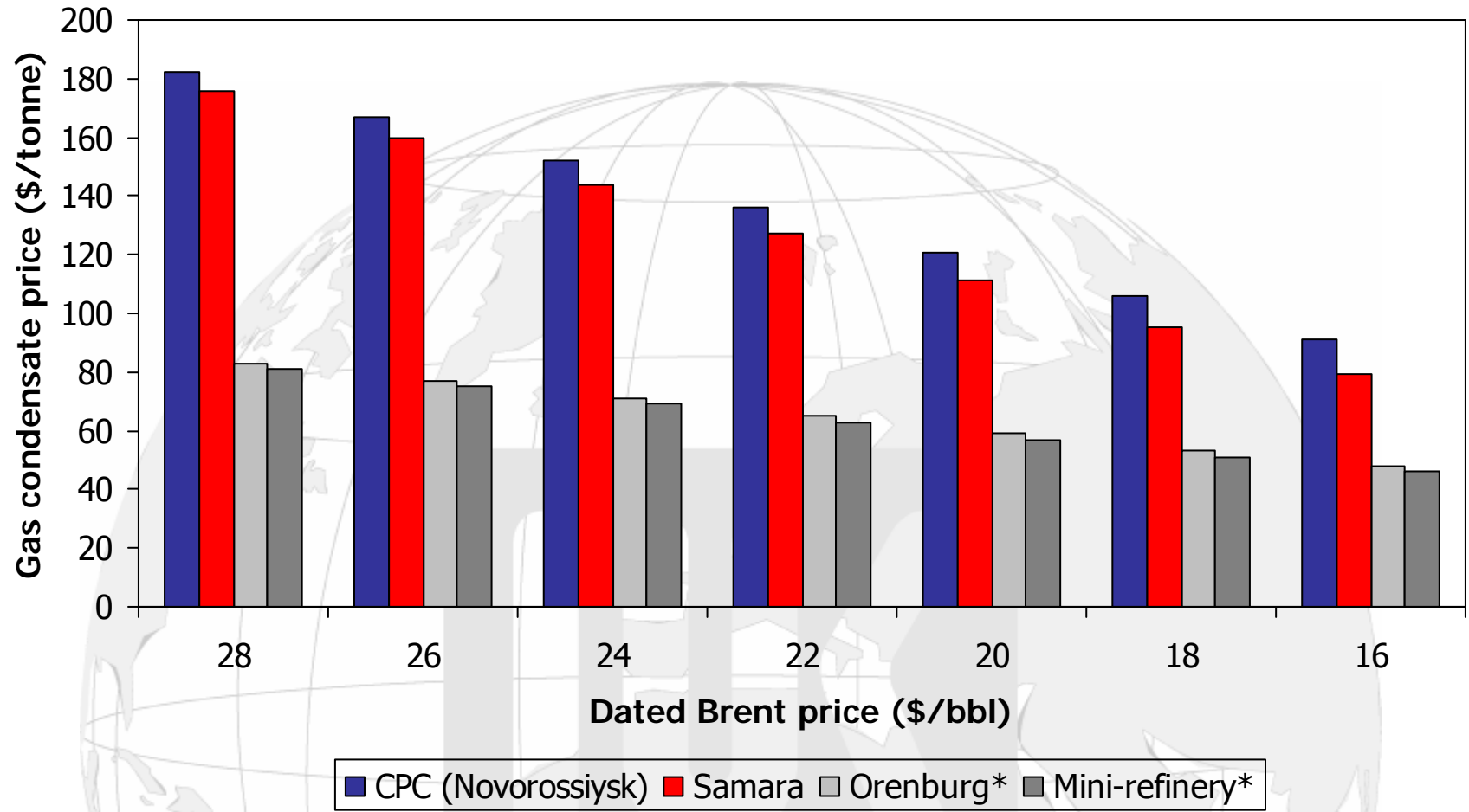
Gas injection scheme at Karachaganak field  
for partial pressure maintenance and gas disposal

# Karachaganak – Marketing Scheme



# Karachaganak – Marketing Scheme

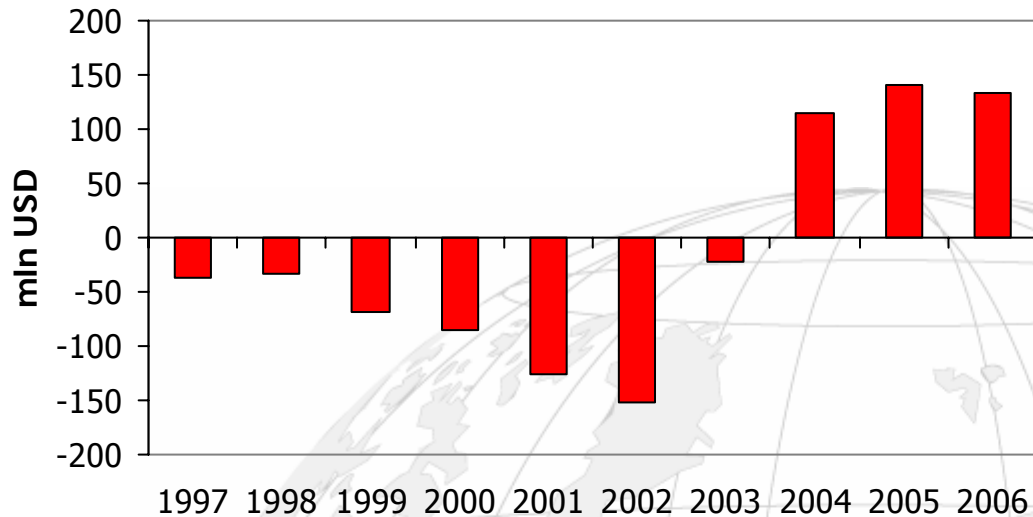
Comparative analysis of efficiency of different export routes (netback to delivery point, free of VAT)



\* Price is adjusted for stabilized condensate.

# Karachaganak

Cash flow before financing



**Karachaganak: a time to harvest**

**This year will be the last year with negative cash flow for the project. Since 2004 the project will allow its participants to recoup the capital investment they spent in nineties.**

## **Full Field Development (FFD) Project**

The project aimed at raising hydrocarbon recovery from 21% (Phase 2 + M) to ~30% (FFD), which will increase production by ~1400 bln boe

### **Liquid Production:**

up to 14 mln tonnes pa (possible construction of a 4th stabilization train to partially replace Unit 3 and increase supply of stabilized condensates to CPC and/or to Samara)

### **Drilling Activity:**

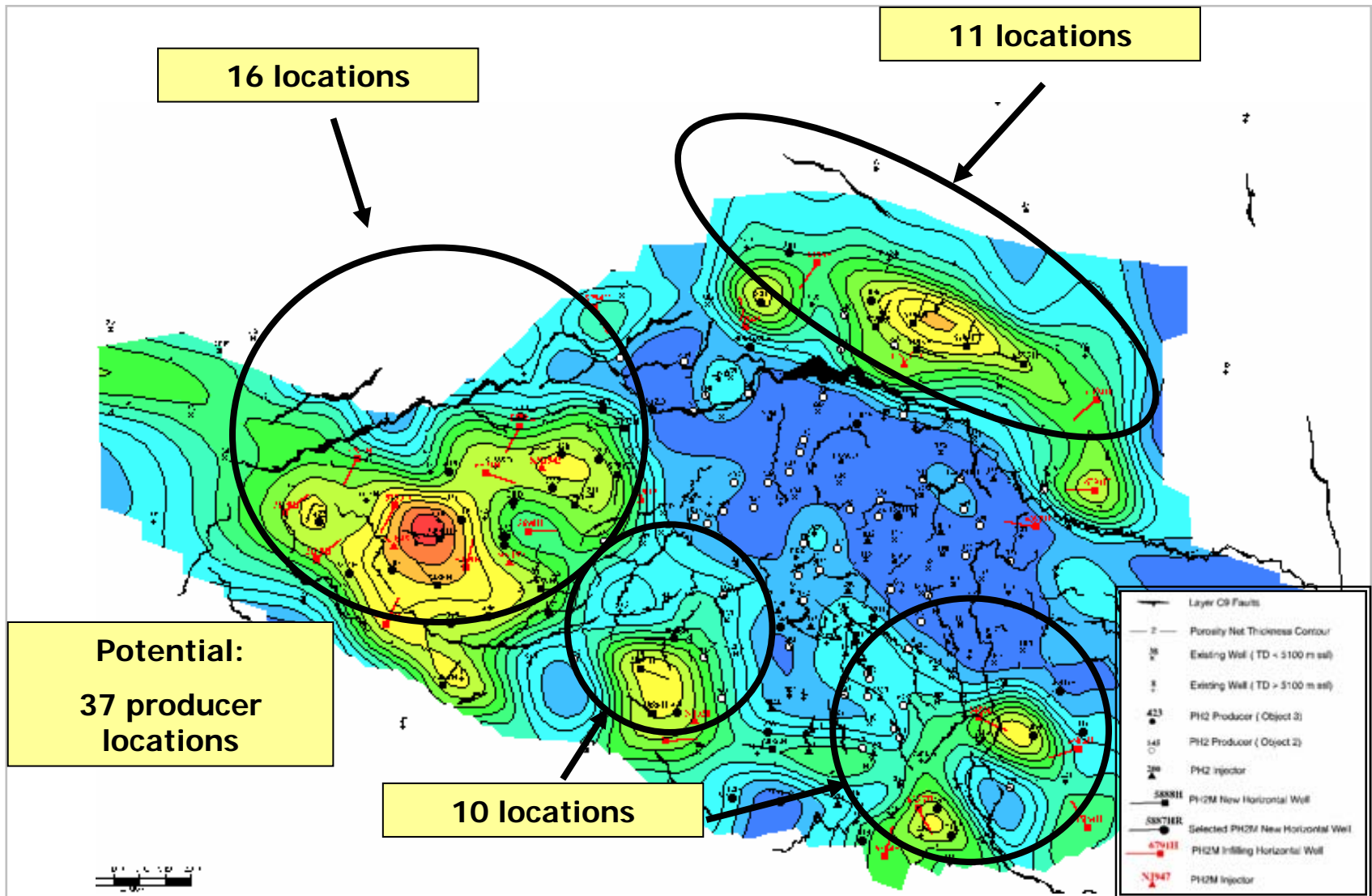
drilling of 77 new production wells (total 184) and 7 injectors (total 27) to comply with the new development scheme

### **Sour Gas re-injection:**

10 bcm pa to maintain reservoir pressure

# Karachaganak

## Object 3 Target Areas





# Karachaganak – 2003 Highlights

- Completion of Phase II
- Start up of gas re-injection process
- Completion of KPC facilities
- Completion of Karachaganak – Bolshoi Chagan – Atyrau pipeline
- Beginning of oil exports via CPC
- Gas project study to find most efficient option for gas utilization



## 2003 Plan for Karachaganak (LUKOIL's share):

|                  |              |
|------------------|--------------|
| ▪ Exploration    | \$0.54 mln   |
| ▪ Oil production | 1 mln tonnes |
| ▪ Gas production | 736 mcm      |
| ▪ Revenues       | \$110.5 mln  |
| ▪ EBITDA         | \$75.6 mln   |
| ▪ Net Income     | \$55.5 mln   |
| ▪ Investment     | \$131 mln    |
| ▪ Lifting costs  | \$1.27/boe   |

# LUKOIL in Kazakhstan – Cooperation with KMG

**A Russia – Kazakhstan inter-governmental agreement calls for joint development of the Khvalinskoye field and Tsentralnaya structure by LUKOIL and KMG**



## **Khvalinskoye field**

- LUKOIL and KazMunaiGas are 50%/50% partners in the venture
- The companies signed Agreement on Principles of Cooperation in April 2003
- Feasibility study is under way
- Audited reserves of the field are:
  - Oil ~ 10 mln tonnes
  - Gas ~ 127 bcm
- Development start-up in 2007-2008

## **Tsentralnaya structure**

- LUKOIL, Gazprom and KazMunaiGaz are partners in the venture
- On July 1, 2003 LUKOIL and Gazprom announced creation of the JV TsentrCaspNeftegas to work jointly on the project

# LUKOIL in Kazakhstan – Cooperation with KMG



## Dostyk project

- February 10, 2003, signed MOU with KazMunaiGas on joint exploration and production activities (Kazakhstan and Tyub-Karagan blocks)
- June 25, 2003 – signed Agreement on Principles of Cooperation
- Preparation of feasibility and environmental studies
- Contract negotiations with the Republic of Kazakhstan
- Seismic acquisition and drilling is planned for 2004



# LUKOIL in Kazakhstan – New Opportunities



## Onshore:

- Review of existing exploration opportunities with considerable upside potential
- Entering JV or consortium agreements with existing license/contract holders
- Search for potential mergers and/or acquisition targets

## Offshore:

- Review and study of new potential for exploration projects
- Preparation for offshore tenders



# LUKOIL in Kazakhstan

## Environment protection

- LUKOIL is in the forefront of the environment protection in the Caspian
- Significant efforts are directed at minimizing the effect of E&P activities on the environment
- The company has a spotless record for its exploration activity in the North Caspian



## Social responsibility

- Charity work, sponsorship of cultural events
- Participation in the development of social infrastructure

# Forward Looking Statements

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- Certain statements in this presentation are not historical facts and are “forward-looking.” Examples of such forward-looking statements include, but are not limited to:
  - projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios;
  - statements of our plans, objectives or goals, including those related to products or services;
  - statements of future economic performance; and
  - statements of assumptions underlying such statements.
- Words such as “believes,” “anticipates,” “expects,” “estimates”, “intends” and “plans” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.
- By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements, including our ability to execute our restructuring and cost reduction program.
- When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.