LUKOIL OIL COMPANY

Saudi Arabia

LUKOIL began its operations in the Kingdom of Saudi Arabia in March 2004 after the company won a tender for exploration and development of the Block A fields in the Rub al Khali desert. LUKOIL became the first Russian company to obtain access to the development of the country's mineral resources.

BLOCK A

Block A covers about 30,000 square kilometers and is located in the Rub Al Khali desert in the southern part of Saudi Arabia near Al Ghawar, the world's largest oil field. In March 2004, LUKOIL joined the Block A exploration and development project. The term of the contract is 40 years. A joint venture was created to execute the project, LUKOIL Saudi Arabia Energy Ltd. (LUKSAR), where LUKOIL owns 80% and 20% is owned by state oil company Saudi Aramco. LUKSAR opened an office in Al Khobar (Eastern Province) in the summer of 2004.

In February 2007, after the completion of exploration activities, LUKSAR announced the discovery of a hydrocarbon field in the eastern part of the Tukhman structure containing over 100 million tonnes of oil equivalent. The event was followed by the announcement of the discovery of the Mushaib gas condensate field, which contained over 150 million tonnes of oil equivalent. A total of nine exploration wells were drilled in the block during the exploration period.

With the discovered fields entering the appraisal stage, 90% of the Block A territory was returned to the state fund. The total area appraised in the Tukhman and Mushaib fields was 2,900 square kilometers. The appraisal phase included the drilling of one appraisal well in the Tukhman field and a research project to study the best tight gas production techniques for both fields.

In 2012 the project's shareholders decided to work out a joint position and hold negotiations with the government of the Kingdom of Saudi Arabia (KSA) to review the gas price and other contract terms. This effort resulted in preparation of the project feasibility study and beginning of negotiations with the Saudi government.