PRESS RELEASE
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LUKOIL INCREASES ITS SHARE IN D-222 (YALAMA) PROJECT

Today in Baku, Natik Aliyev, President of the State Oil Company of Azerbaijan Republic (SOCAR), and Vagit Alekperov, President of OAO LUKOIL ("LUKOIL"), signed a package of agreements on additional terms and conditions for the exploration and development of a promising offshore Block, Yalama D-222 in the Azerbaijan sector of the Caspian Sea.

The Agreement on exploration, development and production sharing (EDPSA) of the promising offshore Yalama D-222 Block in the Azerbaijan sector of the Caspian Sea was signed on July 3, 1997 in Moscow during the official visit of President Geydar Aliyev of Azerbaijan to the Russian Federation. The Agreement came into effect after its ratification by the National Parliament of Azerbaijan on December 10, 1997.

Since then, a number of subcontractors, namely Caspian Geophysical, PetroAlliance and SoyuzMorGeo, have conducted vast geological and 2D/3D seismic surveys, processed the obtained data, made assessment of the Block's structure and of the outline of the petroliferous structure to find out that the outline of the structure exceeds the contracted area as determined by EDPSA.

As a result, LUKOIL came out with a proposal to SOCAR to expand the contracted area from 1,287 square kilometers to 3,037 square kilometers. The Parties negotiated and agreed upon the conditions of the expansion and signed a relevant agreement.

The parties also discussed LUKOIL's proposal to SOCAR to increase LUKOIL's share in the project from 60% to 80% by means of reassignment of SOCAR's 20% share. The terms and conditions of the reassignment were agreed by the Parties and a relevant agreement was signed.

The D-222 Block is part of Yalama which is the largest promising structure in the mid Caspian. Distanced 30 kilometers from the coastline, the structure almost equally covers Azerbaijan and Russian sectors of the Caspian. The Structure is situated at depths ranging from 80 to 700 meters. There is a high probability of discovery of hydrocarbon reserves. The drilling of the first exploratory well in the contracted area of the D-222 Block, using a semi submersible drilling platform, is planned for the second part of 2004.

Press Centre PJSC "LUKOIL"
Phone:
E-mail: media@lukoil.com

In this connection, President Vagit Alekperov of LUKOIL, noted that: «Yalama operations are in tune with our strategy which emphasizes our need to focus both financially and technologically on the international projects where the Company is the operator. This Agreement allows LUKOIL to expand its presence in Azerbaijan which is still considered by LUKOIL as one of the most strategically important regions of its operations».

President Natik Aliyev of SOCAR said that: «The package of agreements signed meets the needs of SOCAR and will speed up exploration work at the promising petroliferous Block in the Northern part of Azerbaijan sector of the Caspian Sea».