PRESS RELEASE
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LUKOIL COMPLETED CONSTRUCTION OF THE FIRST STAGE OF THE YUZHNO KHYLCHUYU FIELD

Today, OAO LUKOIL First Executive Vice President Ravil Maganov, President of ConocoPhillips Russian/Caspian Region Don Wallette and Head of the Nenets Autonomous District Administration Valery Potapenko participated in a special ceremony on the occasion of the startup of comprehensive testing of the first stage of the Yuzhno Khylchuyu field located in the Nenets Autonomous District.

One of the biggest fields in the north of the Timan Pechora oil and gas province, this field is developed by OOO Naryanmarneftegaz, a LUKOIL and ConocoPhillips Joint Venture (70% and 30%, respectively).

The field was discovered in 1981. Proved oil reserves in the field exceed 500 million bbl. Oil quality there surpasses the Russian Urals export blend quality: its density is 35.5 API (Urals, 32.0 API), and sulfur content is 0.71% (Urals, 1.3%).

The first stage comprises 32 development wells, an oil treatment unit with the annual capacity of 3.8 million tons, an oil desulfurization unit, a tank farm with the total volume of 40000 m3, an export line pump house, a 27.8 km long Yareyu – Yuzhno Khylchuyu high-pressure gas pipeline (273 mm in diameter), a gas treatment station with the annual capacity of 370 million m3, a power supply complex with the rated capacity of 125 MW, and 287 kms of high-voltage transmission lines rated at 220 kV.

Startup of the second stage of the Yuzhno Khylchuyu field is scheduled for December 2008. The oil treatment unit annual capacity will be increased by 3.8 million tons, and 32 new wells will be put into operation. A high-pressure compressor station and sulfur disposal and storage facilities will be built.

The design oil production level in the field is expected to reach 7.5 million tons a year (over 150,000 bbl/d) in 2009.

Oil produced at the field is transported by a 158 km long oil pipeline (530 mm in diameter) to the Varandey Oil Export Terminal located on the Barents Sea coast, from where it is delivered, also through a floating storage facility in Kola Bay, by 70,000 ton deadweight tankers, for eventual sale to European and North American markets.

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“Successful completion of the first stage of the Yuzhno Khylchuyu field heralds the beginning of active development of Timan Pechora oil and gas province reserves, which will undoubtedly make a significant contribution to oil production growth in Russia. Construction of these facilities is also a good example of mutually beneficial cooperation between LUKOIL and ConocoPhillips, our strategic partner,” said First Executive Vice President Ravil Maganov.

Don Wallette, President, ConocoPhillips Russian/Caspian Region said, "We are pleased that, three years after forming the NMNG joint venture, this significant milestone was achieved. The Yuzhno Khylchuyu field is a unique development that draws upon the strengths and experience of both of our companies to overcome the challenges of this remote, arctic environment."