

RUSSIA NATIONAL DAY SUPPLEMENT

BRIGHT FUTURE FOR RUSSIAN-SAUDI TIES

With joint synergies, Riyadh and Moscow can play a greater role in global economy

PAVEL GULKIN

RUSSIA has been making strenuous efforts to regain its historical position in the Middle East after the collapse of the Soviet Union. This has become especially obvious in recent years after the election of Vladimir Putin and later Dimitri Medvedev to the presidency. Saudi Arabia turned out to be one of the new partners, with whom the new Russia ought to build the relations from scratch.

In September 2010, the 20th anniversary of diplomatic relations' restoration between the Russian Federation and the Kingdom of Saudi Arabia will be commemorated. The alignment of business ties between the two countries took a fairly long period of time — about 15 years. Viable trade and economic exchanges between Russia and the Kingdom became apparent in 2004-2005 after the historic visit of Custodian of the Two Holy Mosques King Abdullah (crown prince at that time) to Russia in 2003.

Before that the volume of bilateral trade balanced at annual level of \$100-150 million. The bilateral trade started to gain a stable momentum only in the second half of the first decade of the new millennium, when it grew at an average of 25 percent per annum.

According to Saudi Arabian Monetary Agency (SAMA), for the first time the turnover passed one billion mark in 2008, climbing to almost \$1.1 billion. The same year, Russia moved to 24th from 33rd place for imports, and from 107th to 82nd for export among the Kingdom's trade partners.

The structure of the Russian-Saudi trade is seriously unbalanced — virtually the entire trade accounts for Russian exports. The main trading items of Russian exports in 2008 were raw and low value-added products — barley, timber, steel bars and fittings and paper, which accounts for 75 percent of the total turnover. Approximately 15 percent of Russian exports goes for pipes, machinery and equipment, and only 10 percent for consumer goods. Saudi Arabia exports to Russia some petrochemical products, aromatic oils and sanitary ware.



Custodian of the Two Holy Mosques King Abdullah with then Russian President Vladimir Putin during a welcome ceremony for the latter at Riyadh airport in February 2007.

The Russian-Saudi investment cooperation in recent years was also not moving at a desirable pace. Since 2004, the only major Russian companies operating in Saudi market are Lukoil (through JV Luksar with Saudi Aramco) — exploration for gas in Rub Al-Khali — and Stroytransgaz for construction of pipelines, conduits, oil and gas oilfields maintenance. Little or none has been heard of Saudi investments in Russia until recently.

Some substantial changes in the Russian-Saudi trade and economic relations became visible only in 2009-2010, after the first-ever visit of the Russian President Putin to Riyadh in 2007. The agreements reached in the course of this visit, as well as the global crisis that followed afterward, stimulated many Russian companies to search for new markets and shift their attention to Saudi Arabia, which had weathered the crisis considerably following its prudent policies.

Today the most active in the Kingdom's market are medium-sized Russian companies. Over the year about 10 joint ventures with Russian participation were set up in Saudi Arabia and several Russian corporations registered its subsidiaries.

These are mostly construction and servicing companies, endeavoring to capitalize on large-scale infrastructure projects in the Kingdom. Some joint Russian-Saudi projects were initiated in third countries. Its most remarkable distinction

is the merger of Russian technologies with Saudi capital. Many Russian technology-focused companies started working in the Kingdom through Saudi dealers and distributors, such as Kaspersky Lab — antivirus software, Suprotec — nanotech lubricants. Several Russian companies are currently prequalified by Saudi Aramco, Saline Water Conversion Corp., Saudi Electricity Company, etc., and are about to start operations soon in the pivotal areas for the Saudi economy, like rehabilitation of oil wells, turnkey telecom projects of traffic monitoring and control, construction of water and power-generating facilities.

With both governments' participation, and due to the established business support infrastructure (Russian-Saudi Business Council, Russian-Saudi Intergovernmental Commission, regular exhibitions in both countries) and already elaborate legal foundation, the Russian-Saudi business alliance can rise to a new level in the coming years.

The main obstacle hampering the increase of the mutual trade and investment volumes is the structural and typological similarity of our economies — both states are major global oil powers and their core competence lies precisely in the field of producing, processing and trade of hydrocarbons.

However, this similarity to a great extent ensures the uniform nature of the challenges both countries' economies are facing. Both countries are currently on the route to significant modernization and creating knowledge-based economies. Therefore the best chances for deepening and expanding the Russian-Saudi cooperation lie in the priority sectors for both economies. Sharing each other's competitive advantages should contribute to the enhancement of mutual competitiveness and will ultimately lead to a more diversified involvement of Russia and Saudi Arabia in the global system of specialization.

The synergy of dual economic and financial potentials with entrepreneurial initiative will allow our countries to overcome the commodity dependence and start playing greater deserved role in the global economy.

It's impossible to resolve crises by force

IT has been almost 20 years since the new independent democratic Russia appeared on the international politic arena, and now we witness its growing influence. The Russian Federation adheres to "traditional values" of international relations — Charter of the United Nations Organization, mutual respect, multivector, and pursuit of balance of interests.

Russia plays an active role in different multilateral bodies toward formulation of the main principles of multipolarity with collective leadership of major powers. Primarily this applies to the United Nations Security Council, G20, G8 and some other international and regional structures. In these bodies together with other states Russia takes pains to find solutions for common challenges — the financial crisis, proliferation of weapons of mass destruction, terrorism, piracy, drug traffic, global poverty and climate change.

The magnitude of these challenges calls for harmonization of relations between states through the dialogue of civilizations, including economy and culture, and creation of a stable architecture of international relations based on democratic principles. Celebrating the 65th anniversary of the "Great Victory" in World War II this year reminds us once again that we should resist common threats together, avoid settling national problems on account of others and realize once and for all that it's impossible to solve crises by force.

On the international arena, Russia is developing and strengthening relations with many countries of the world, not least the Middle East states, among them Saudi Arabia as the biggest regional power.

The Soviet Union was the first state to recognize the independence of the young Saudi state and establish diplomatic and trade relations with it in 1926.

In recent years, bilateral cooperation between our countries has notably advanced. The third meeting of the intergovernmental Russian-Saudi Commission for Trade-Economic and Scientific-Technical Cooperation is to take place on June 16-17 in St. Petersburg. Last month the Saudi-Russian group of Parliament friendship of the Consultative Council of the Kingdom of Saudi Arabia visited Russia, and it is gratifying that the visit was widely covered in Russian and Saudi media.

Cooperation between Russia and Saudi Arabia in the international arena is also expanding. For the majority of key regional and international issues our positions are close



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or similar. Cooperating with other major countries in the framework of G20, Russia and Saudi Arabia are making efforts to overcome the fallout of the global financial crisis. With other members of the forum our countries contribute to the search of solutions of current economic problems, like reformation of international financial architecture or improving the financial sector regulation.

Regarding the Middle East peace process, and in particular the settling of the Israeli-Palestinian conflict, both our countries share the same position — calling for a comprehensive and fair solution in the region that is aimed at the establishment of an independent Palestinian state. As a participant of the Middle East Quartet, Russia consistently supports the Arab Peace Initiative proposed by Saudi Arabia in 2002 as a backbone of the peace process. Russia and its partners in the Quartet welcomed the resumption of Palestinians' indirect talks with Israel. Backed by the Arab

League, the proximity talks are due to be held on the basis of international law and in accordance with the approach approved at the last ministerial meeting of the Quartet in Moscow in March this year.

Russia hopes that the recent tragic events with the international aid convoy near the Gaza coast won't result in a new freezing of the Israeli-Palestinian contacts.

The Russian Federation and Saudi Arabia also share the opinion that the only way to settle Iran's nuclear issue is through diplomatic means, and that a military option would have disastrous consequences for the region. In this regard we consider the Iran-Turkey-Brazil agreements on nuclear fuel swap as an important step toward the progress in the situation with Iran's nuclear program.

Taking into the consideration the present tension over Iran, I would like to remind your readers of the growing importance of Russia's concept of security in the Gulf region proposing a collective framework to achieve a sustainable security in the area. This concept was put forward by the Russian Federation in 2007. A positive point on the issue of Gulf security is the result of the Review Conference of the Parties to the Treaty on the Non-Proliferation of Nuclear Weapons that was held in New York with the participation of both Russia and Saudi Arabia. The agreements achieved during this conference could give impetus to the process of establishing a zone free of weapons of mass destruction in the Middle East. And we know that our Saudi partners support this plan.

The Russian Federation also welcomes the active Saudi stand for promoting intercultural and interciviliation dialogue based on equality and mutual respect. Besides, being the state with over 10 million Muslim population, Russia praises Custodian of the Two Holy Mosques King Abdullah's significant role in highlighting Islam as a religion of tolerance.

To sum up, I'm sure that our friendly countries have the potential to achieve greater success in developing and strengthening mutually beneficial cooperation on political issues, as well as in economics, trade, investment, science, technology, culture and other spheres.

Oleg Ozerov
Russian Federation's Ambassador Extraordinary
and Plenipotentiary to the Kingdom of Saudi Arabia

LUKOIL'S pivotal role in spotlight

ARAB NEWS

IN 2004, the joint venture LUKOIL Saudi Arabia Energy Ltd. (LUKSAR) was established, with LUKOIL Overseas holding 80 percent of the shares and the national oil and gas company Saudi Aramco, 20 percent of the shares. The same year, the joint venture initiated implementation of a large-scale project to survey and develop natural gas and gas condensate fields at Block A in the Rub' Al-Khali desert. Commercialization of the discoveries made by the LUKSAR specialists in the interim years is now in full spate. Ildar Aliagaev, director of LUKOIL Saudi Arabia Energy Ltd. (LUKSAR), speaks about the scope of LUKOIL's participation and cooperation in the joint venture. Here are the excerpts:

Within the scope of the Gas Initiative project initiated by the government of the Kingdom of Saudi Arabia in 2003, three geological survey blocks located in the Rub' Al-Khali desert were put up for tender. More than 40 international companies took part in the tender, including all the oil majors. What interested LUKOIL specifically in Block A?

According to the information and analytical data that were available at the time the decision was made, Block A was the best studied in terms of seismological survey and drilling work. One of the wells produced a small additive flow of gas and condensate. Also of some importance was the fact that this sector is closest to the territory on which the state-owned company Saudi Aramco operates on already discovered and developed hydrocarbon fields. Block A, with an area of 30,000 sq km is situated in the northern part of the Rub' Al-Khali desert, alongside the world's biggest oil field — Al-Ghawar. The feasibility study of this block pronounced its development to be the most profitable. And it was LUKOIL that won it in the competition with ExxonMobil, ENI and Occidental Petroleum.

What are LUKOIL's contractual obligations under the project?
The contractual obligations for the first survey period included seismological survey work in a volume of 8,750 km in 2D equivalent and drilling of nine survey wells, as well as processing and interpretation of the data obtained. We fulfilled the contractual obligations for the first survey stage on time, the drilling having been completed in full, while the volume of the seismological survey work was exceeded more than 2.5 fold.

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Also, during that stage, the depth of the target horizons increased compared to what was originally planned, so did our headway accordingly. LUKSAR thus fully discharged its obligations toward its shareholders and has now initiated active work to commercialize the discoveries made.

And what were the results of the survey drilling?

On the basis of the results of the exploratory wells sunk, the Ministry for Oil and Mineral Resources of the Kingdom of Saudi Arabia was sent official information about the discovery of two new natural gas fields (nonassociated potential gas reservoirs), for which evaluation plans have been approved.

Development of yet another discovered field was recognized as not commercially viable because of its small size. Besides, during the sinking of one of the exploratory wells, an additional reserve was discovered within the bounds of that previously declared. LUKSAR's discoveries are a clear indication of major prospects for Saudi Arabia with respect to an increase in the gas reserves in the region of the Rub' Al-Khali.



LUKSAR has earned itself a reputation as a reliable operating company that is ready to work in the competitive environment.

To what extent was the experience of conducting seismological and geological work at Russian fields applicable on Block A?

Unfortunately, the time of "easy discoveries" is past. The geology of the Rub' Al-Khali desert is both specific and complex. For example, the frequency of seismological research here is considerably greater than at Russian fields and many forms of geological work to which we are accustomed are not applicable at all in this region. For this reason, we try to acquire the practical experience gathered by Saudi Aramco, LUKOIL and service

companies operating in the Middle East and apply innovative solutions. This is a deliberate choice on our part and a competitive advantage enjoyed by LUKSAR.

Considerable experience has already been gathered of working under conditions that are new for a Russian company; invaluable knowledge of the geology of Block A has been collected and partnership relations have been established with many companies operating in the Saudi Arabian oil and gas industry. LUKSAR has earned itself a reputation of a reliable business partner and leader in the application of the latest drilling technolo-



gies on anomalous seam conditions. The complexity of the geological structures under study, the need to raise constantly the efficiency of the work and the focus on the ultimate result set LUKSAR the task of innovative organization in all spheres of activity.

How are the operations of LUKOIL Overseas and Saudi Aramco coordinated within the scope of the project?

The operations are coordinated by the Board of Directors of LUKSAR, which includes representatives of both the shareholder companies. Modern means of communications allow all questions to be resolved promptly and efficiently.

What are LUKSAR's plans in Saudi Arabia in the near- and medium-term future?

The board of directors of LUKSAR has adopted a unanimous business resolution to go over to the active phase of assessing the gas condensate field discovered. In accordance with this resolution, the company has rejected 90 percent of the initial territory of Block A and is concentrating on assessment work territories. LUKSAR's main obligation currently is to fulfill the plans approved by the shareholder companies for evaluating the hydrocarbon reserves of

two sectors, specifically to drill 5 appraisal wells and carry out 3D seismological survey work in a volume of over 1,500 sq km. The time schedule for this work is strictly fixed. One point of the agreement concluded between the shareholders makes commercialization possible only after complete assessment of discoveries. This is our task for the near future. The medium-term goal is to organize and launch gas and gas condensate production.

How do you assess the prospects for LUKOIL's work in the Middle East as a whole?

The Middle East is known to be a complicated region. LUKSAR has earned itself a reputation as a reliable operating company that is ready to work in the tough competitive environment, and can do so, alongside other oil and gas production companies of the Middle East.

From personal experience, I know that, during the work on Block A, Saudi Aramco took an interest in the geological and engineering approaches and technological solutions we applied and adopted some of them for its own use. So we are cooperating efficiently and on an equal basis with Saudi Aramco and this means that LUKOIL has the most favorable

10 millionth ton of oil produced at LUKOIL field

ARAB NEWS

ON JUNE 2, the 10 millionth ton of oil was produced at the oilfield of North Buzachi in Kazakhstan since the launch of production there, according to a LUKOIL press release. The oilfield of North Buzachi is situated in western Kazakhstan, in Mangistau Region, 250 km from the administrative center Aktau. The oilfield was discovered in 1975, commercial production started in 1997, and LUKOIL joined the project in December 2005.

Buzachi Operating Ltd — which is a joint venture of LUKOIL Overseas, CNPC and Mittal Investments — conducts the field development. The proven reserves of oil by the end of 2009 amounted to 154 million barrels (LUKOIL share - 38 million barrels). About 700 operational and injection wells are located in the field. The total number of workers is about 500 and 94 percent of them are Kazakh citizens.

In 2009 the production amounted to 1.92 million tons of oil and 26.5 million cubic meters of associated gas (LUKOIL share - 0.48 million tons of oil and 6.8 million cubic meters of gas). Taxes and budgetary payments in 2009 — \$133 million, since LUKOIL's ingoing the project — about \$720 million. LUKOIL's cumulative investment in the project is nearly \$250 million. Moreover, during the next 10 years, LUKOIL plans to invest \$500 million in the further development of this oilfield. By 2016, the maximum oil production is expected to amount to 2.2 million tons.

Passing gas utilization system, which has been recently put into operation, is the largest technological facility of the production field. It comprises gas-gathering nets made of fiberglass tubes and burners to dispose from the associated gas and to heat crude oil and water, which is injected into the oil reservoir in order to keep formation pressure. The total price of the system is \$14 million.

A unique method of gel-polymer water flooding should be highlighted among the techniques implemented in the field. This technique has been used in order to retrieve high-viscosity oil for the first time in world practice. This method allowed to achieve essential economic effect and to provide an additional oil extraction in amount of 16,000 tons per year (380 tons of oil per 1 ton of injected polymer), which significantly exceeds the results of similar techniques' implementation in world practice.

prospects for developing business in the Kingdom of Saudi Arabia — one of the strategically important countries in both the Middle East and the world as a whole. The company's successful operations in Saudi Arabia, which is the leader of the Muslim world and of OPEC, as well as the world's biggest supplier of oil, is of tremendous importance for LUKOIL's image and exerts a positive impact on development of the company's entire global business.



LUKSAR's discoveries are a clear indication of major prospects for Saudi Arabia.

OJSC 494 UNR



General contractor 494 Administration of the chief resident engineer was founded in February, 1967 in the system of building-housing authorities of the Ministry of Defense of the USSR for special-purpose project constructions in the Moscow Region.

By presidential order of the Russian Federation of May 25, 1998 the Russian building investment company Open joint-stock company 494 Administration of the chief resident engineer (OJSC 494 UNR) was founded on the basis of this organization.

OJSC 494 UNR has built hundred thousands square metres of area for various application. If we add them together there will be a whole city with population making over 80 thousand people. The open joint-stock company 494 UNR has constructed apartment houses of mass building, objects of the social infrastructure, industrial buildings, habitable business class complexes, preschool institutions, schools, grammar schools, school of the Olympic reserve in Moscow and the Moscow area.



The project "MARSHAL" is a multifunctional residential complex with underground parking and various social premises; it is located in North-West Administrative District of Moscow in one of the most attractive and pristine areas of the capital.

The feature of a residential building section is open porches where you can make a small garden. Zoning of the complex areas is made so that the administrative business building element bears an optional feature of a noise screen by creating a cozy space in the complex yard.

"MARSHAL" is located on a lot in 6,3 hectares where housing occupies only third part. It allowed architects to keep a plenty of trees in the complex territory to form its own microclimate.

Residential complex "MARSHAL"
Moscow, Marshal Rybalko St. 2
Metro station October field
Total area of the complex: 202 000
Number of storeys: 1-17
The General area of a residential building section of the complex: 80 131 m2
The area of non-residential premises: 65 855 m2



"PRUDON-494"

In transport construction the methods of three-dimensional reinforcement of ground coat are widely used that transform it in a new constructive material with superior characteristics.

As the practice shown, one of the best construction for this purpose is a geotechnical cell Prudon. Made on the basis of the enterprise 494 UNR the geocell «Prudon-494» is a flexible compact module from fixed with each other PUF coatings that form a cellular structure in a tension position with fixed geometric data. Limiting shearing deformations and fixing the ground coat, it forms a single structural mass that stands heavy pressure. The geocell is irreplaceable at roads construction, for slope paving, bulk constructions, cones of grade eliminations and bridges.

Prudon-494 is a strength, low materials consumption, stability to influence weather-climatic and hydrogeological factors, lasting quality and ecological safety.

A simple and technological construction provides the decision of a wide spectrum construction problems without demanding application of road-building equipment.



One of the complex problems arising at road construction is protection of slopes against water and wind erosion. Traditional methods at their high material consumption and significant labor costs do not provide long-lasting safety of slopes.

The perspective technology cardinally resolves a problem of fixing bridges cones and grade eliminations. Reducing costs on construction formation and its support providing its lasting quality, new decisions provide freeze-thaw resistance of cones up to 60 centigrade and resistance to effects of heat up to + 55 centigrade.

- Technology scope:
- Highways.
 - Railways.
 - Slopes.
 - Bridges cones and grade eliminations.
 - back walls.
 - Reinforced dirt fills.
 - Landscaping.
 - Construction and operation of skiing complexes.



GEOTECH Holding CJSC is currently the largest geological exploration company in Russia, recognized as the industry leader. The Holding includes seismic and drilling companies with more than half a century of experience in the oil services market.

President's Statement

The key activities of the Company include exploration of subsurface resources in Russia and other countries and providing efficient and effective services to oil and gas industry.

Despite the situation in the world markets, 2008-2009 was the crucial time for GEOTECH Holding CJSC. Having acquired the assets of Khanty-mansiyskgeofizika OJSC, the Company became the leader of the industry. Our growth did not stop here, we started preparation for 2008-2009 season by implementing comprehensive technical modernization of the companies of the Holding. The purpose of this modernization was to maintain the high quality of work and provide our Clients with services that meet the latest requirements of geological exploration industry. This was the largest modernization in the industry in the post-Soviet era.

State-of-the-art technologies and accumulated experience of the Holding's companies allowed us to complete the record high scope of seismic surveys at Centra Khoreiverskoye upheaval site for Zarubezhneft OJSC and SK Rusvietpetro LLC. This site has the largest scope of 3D seismic survey (1,342 sq.km) in Europe and Russia, and completing all this scope within one winter season was in a certain way a record not only for GEOTECH, but for the entire geological exploration industry of Russia.

For the first time we signed the contract with foreign partners (Canada, USA and others) to sell the unique Yenisei pulse sources manufactured by the Holding. The first tests conducted in North America proved the high efficiency of this equipment.

Pulse sources are based on a state of the art Russian technology that has no equivalent anywhere else in the world. These pulse sources are positioned as an alternative to conventional explosive sources and vibrators.

Entering the international market is always a difficult task, but we accomplished it in 2009 and now we have good reasons to plan further expansion of the presence of Russian-made equipment in the international markets.

In terms of the scope and quality of seismic survey, GEOTECH holds a leading position in all regions of Russia. Currently, we are the largest seismic survey company in Eastern Siberia (Krasnoyarsky Krai, Irkutskaya Oblast, Yakutia).

We are committed to increasing the scope of exploration drilling in Eastern Siberia in the next year and our plan is to become the leader in exploration drilling in this region in the next few years.

We are currently forming a joint venture with ITERA in Turkmenistan and plan to complete a large scope of geological exploration in this country.

We are also actively negotiating and have already reached agreements with clients from Indonesia, Brazil and several Arab countries.

Since 2009 our company is working actively in cooperation with NESMA BATTERJEE CO. Which is a joint venture between a large multi profile Saudi company NESMA HOLDING and the BATTERJEE GROUP to find our niche in the Saudi oil and gas sector and offer our services to the Saudi Aramco.

Our fruitful and intensive business contacts with NESMA BATTERJEE Company Ltd. with which we are in the process of forming a joint venture open very promising perspectives in implementation of various business projects that will strengthen mutually beneficial ties between our countries.

[Signature]
President of GEOTECH Holding
Levitskiy N.V.