



Korea
National Oil Corporation

Oil and Gas Development in Russia

December 2004

Korea National Oil Corporation

Table of Contents

- I Backgrounds**
- II Summary of Projects**
- III Business Environment**
- IV Technical Evaluations**
- V Taxation of Oil and Gas**
- VI Conclusions**

I. Backgrounds

- May, 2004 : made offers to Rosneft to jointly develop the Eastern Siberia and the Russian Far East
- From Aug ~Sept, 2004 : staff meetings and negotiations at an executive level
- Sep 21, 2004 : entered into MOU between KNOC and Rosneft for developing two offshore blocks
- Nov, 2004 ~ : preliminary technical evaluations of the blocks

II. Summary of Projects

agreed between KNOC and Rosneft to
develop the following two blocks.

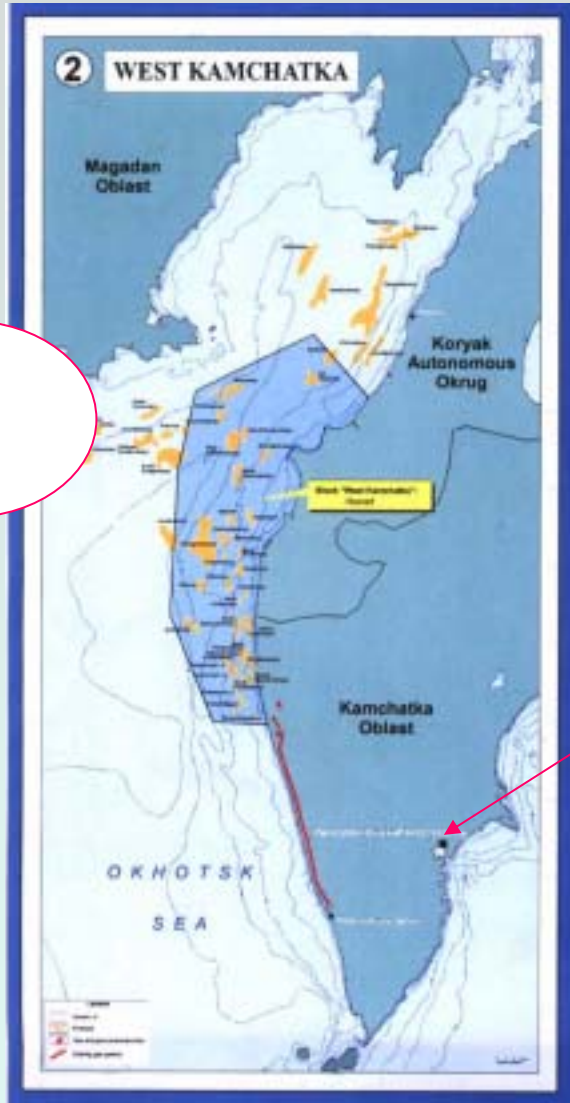
A. W. Kamchatka

- Location : Kamchatka Shelf in the Sea of Okhotsk
- Area : Approximately 55,000 km²
- Depth : less than 250m

B. Veninsky Block

- Location : Sakhalin Offshore (Sakhalin III)
- Area : Approximately 5,000 km²
- Depth : less than 200m

Ice
Kitchen



III. Business Environment

A. W. Kamchatka

- Term of Freezing : App. 100 days per year
- Available Harbor :
Petropavlovsk -
Kamchatskiy
(the state capital of Oblast,
Populace - App.
0.25 Million)
- Drilling Rig : consider a
other Sakhalin projects
- Environmental Restrictions :
more strict than those of
North Sea



B. Veninsky

- Term of Freezing : App 6 months
- Available Harbors :
 - Harbor Khomsk
 - Harbor Korsakov
 - Harbor Moskalbo
- Infrastructure : oil and gas pipelines, railroad, paved road in southern part
- Environment Restriction : more strict than those of North Sea

Yuzhno
Sakhalink

IV. Technical Evaluations

A. Exploration potential in West Kamchatka

- Good to fair petroleum system fields
 - source, reservoir, seal, and migration
 - evaluation based on data from onshore gas field and Sakhalin oil and gas field
- Prospects
 - 1 - 2 billion giant prospects (1~1.5 billion barrels of oil)
 - Large prospects at least 10 (300~500 million barrels of oil)
- The Promising Exploration Potential to find gigantic oil and gas fields
 - sediment, thickness, shape and size of prospects, gas discovery from Kamchatka onshore

B. Exploration potential in Veninsky Block

- High Possibility to find Oil and Gas
 - proven petroleum system
- Veni Structure (The most promising and the biggest structure in the Veninsky Block)
 - drilled two exploration wells
 - gave up a development stage due to lack of economic feasibility
- Other Prospects
 - possibility to find additional oil and gas
 - expected recoverable reserve : Gas- 1 TCF/
Oil- less than 150million barrels

V. Taxation of Oil and Gas

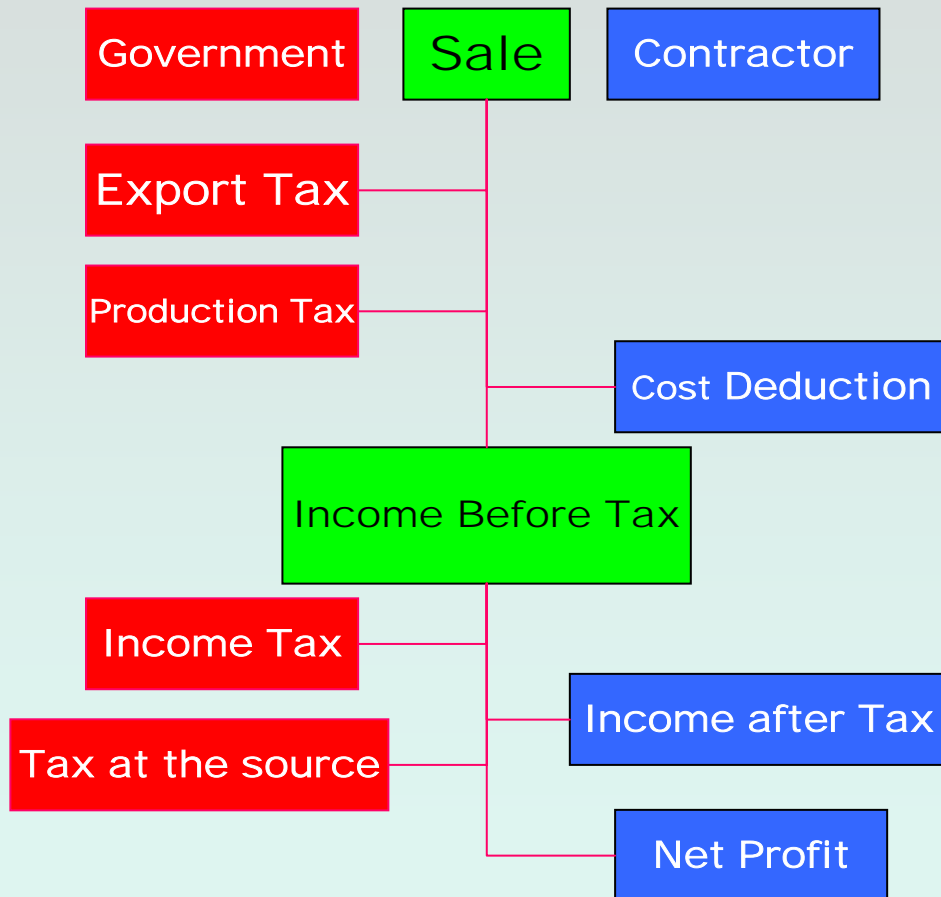
- Characteristics of Russian Taxation
 - regardless of the company's profit structure, imposed a significant amount of taxes
- **Export Duties** (exempted in PSA)
 - Petroleum : imposed from 0% to 40% on the basis of Ural oil price (less than or equal to \$15/bbl, more than or equal to \$50/bbl)
 - Gas : 30% of export amount
- **Production Tax** : 16.5% X (a sale price - Export Duties), (PSA - 8.25~16.5%)
- **Property Tax** : Capital Expenses of Undepreciated Portion X at max 2.2%
- **Import Tax** : 5~20% of imported equipments
- **Income Tax** : 24% of (A sales amount - Costs - Taxes excluding a tax for collection at the source)
- **Withholding Tax** : 5% of Net Cash Flow after Income Tax
- Others : **VAT, Unified Social Tax, Sea Tax, Land Tax**, etc.

V. Taxation of Oil and Gas

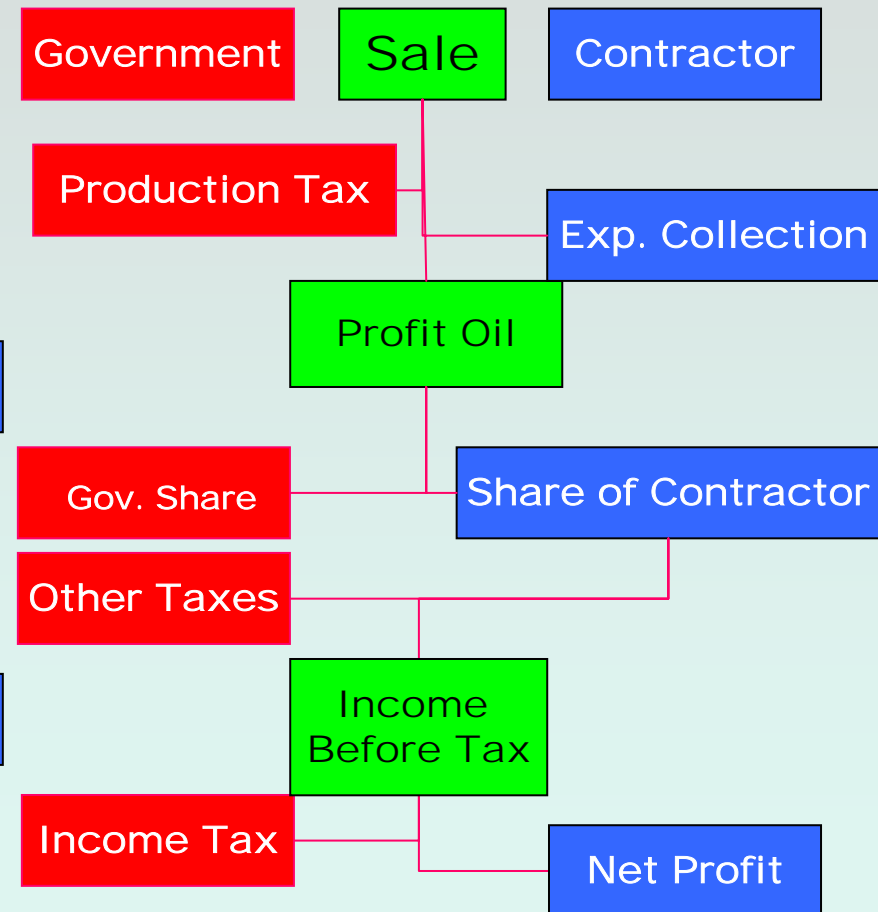


Korea
National Oil Corporation

Tax & Royalty



PSA



VI. Conclusion

- Strategic Importance in both W. Kamchatka and Sakhalin
 - scale of reserves, geographical adjacency to Korea
- Disadvantages
 - Physically - weather condition and lack of infra structure
 - Technically and Economically - technical obstacles in frontier areas/ disadvantageous tax system against the foreign companies
- Continuous Support from Government and Long - Term Strategic Approach - required