

OIL AND GAS SECTOR: SITUATION IN THE SECTOR AND ITS STRUCTURE

- ◆ Oil and gas sector has a share of about 15-16% in the manufacturing of Uzbekistan;
- ◆ NHC *Uzbekneftegaz* – monopolistic operator of extraction and processing;
- ◆ Large-scale privatization is expected, targeting a strategic partner;
- ◆ The most potential comes from the development of extraction, processing and export of gas;
- ◆ Significant interest by foreign companies, first of all from Russia and South-East Asian states.

Oil and gas sector is one of the most important among economic sectors of Uzbekistan, constituting to about 15-16% of industrial output of the country annually. Since 1995 import of oil had stopped; however, in recent years it was again resumed in small amounts due to incomplete utilization of Ferghana OPP capacities.

Oil and gas sector of Uzbekistan is represented by National Holding Company “*Uzbekneftegaz*” and its 5 main division, separated into independent OJSC’s. Its structure consists of 190 enterprises employing more than 80 thousand people.

An important factor in operation of the company was excise tax rate deduction for producing oil and gas products and use of natural resources effective from January 1, 2007. In particular, tax rate for using resources in oil extraction was lowered to 20% from 35%, gas condensate – to 20% from 32%, natural gas – to 30% from 58%. Excise tax rate for petroleum produced in the country was lowered to 28% from 45%, diesel oil – to 25% from 40%, aviation kerosene – 8% from 20%.

Selected indicators of NHC “ <i>Uzbekneftegaz</i> ”	
Charter capital, mln UZS	253 679,99
Number of shares (ordinary)	253 679 988
Par value per share, UZS	1 000
Government, %	99,7
“Industrial union of Donbass”, %	0,28
Employees, %	0,02

Source: NHC “*Uzbekneftegaz*”, Prime-Tass News Agency

Main enterprises of NHC “*Uzbekneftegaz*”

JSC <i>Uznefteprodukt</i>	JSC <i>Uztransgaz</i>
<ul style="list-style-type: none"> • Controls assets of Ferghana, Altyaryr and Bukhara oil processing plants of the country, which process oil and gas condensate • Sells oil and gas products to sectors of economy and population. • Owns a network of oil depots, oil-products terminal stores and petrol station • Controls activities of enterprises selling oil and gas products in the domestic market of Uzbekistan 	<ul style="list-style-type: none"> • Underground storage of gas • Management of units transporting natural gas of Uzbekistan to domestic consumers and exporting it, as well as transiting natural gas from neighboring countries • Construction and general repairs of units of gas pipeline system
JSC <i>Uzgeoburneftegaz</i>	JSC <i>Uzneftegazmash</i>
<ul style="list-style-type: none"> • Exploratory and operational drilling of oil and gas wells • Development of oil and gas deposits 	<ul style="list-style-type: none"> • Manufacturing of mechanic equipment for enterprises and organization of oil and gas and gas and chemical complexes, as well as for needs of related sectors of economy of the country.
JSC <i>Uzneftegazdobycha</i>	
<ul style="list-style-type: none"> • Extraction of oil and gas • Gas processing • Management of Shurtan GCC operations 	

Other JSC's, enterprises and organizations serve main manufacturing activities of the oil and gas sector. They include OJSC's: "Neftegazstroykomplekt", "Mubarakneftegazmontaj", "Bukharagazpromstroy", "Kashkadaryaneftegazpromstoy", "Yuggazstroy", "Tashneftegazstroy", "Uztashkineftegaz" and "UzLITneftegaz" (Uzbek research and development and project-prospecting institute of oil and gas industry), Production-technological communication department "Uzneftegazsvyaz" (provides technological communication in the industry), Uzbek militarized unit of flush and gas safety (UzVCh), 2 professionalized colleges (in Bukhara and Ferghana cities), Editorial body "Uzbekskiy jurnal nefti i gaza", as well as Unitary enterprise "Depository company "Neftgazdepozit".

OIL

2.9% of all oil reserves belong to Central Asian region. At the current rate of consumption of these reserves they will last on average for 76 years. In total, there were discovered 194 deposits of hydrocarbon material. Including, 88 deposits in the exploitation stage, 58 – ready for exploitation, 35 – prospected, 9 – in the state of abundance. Forecasted potential reserves of oil are equal to 820 mln tons, condensate – 360 mln tons. It is forecasted that by 2020 there will be an increase of hydrocarbon material reserves of 75-112 mln tons of fuel equivalent per year, natural gas reserves by industrial grade – 30-85 bln cubic meters per year.

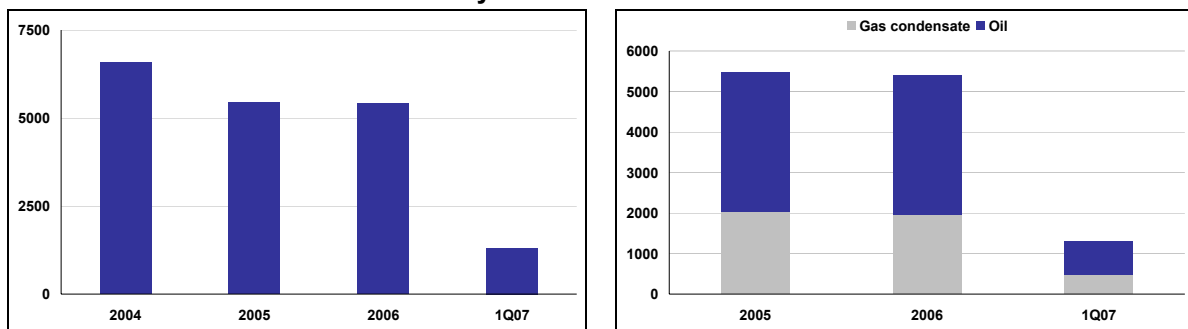
Indicators of reserves, supportability and extraction in Central Asia

Region	Proved reserves of oil, mln tons	Supportability (years)	Extraction
Uzbekistan	215	39	5,45
Kazakhstan	5400	88	61,4
Kyrgyzstan	11,4	163	0,07
Tajikistan	1,6	82	0,02
Turkmenistan	74,8	8	9,52
Afghanistan	14	0	0
Total	5716,8	63,33	76,46
In the world	192731,3	55	3684,89

Source: FGUNPP "Aerologiya"¹ and IATs "Mineral"²

NHC "Uzbekneftegaz" has capacities to extract 58-60 bln cubic meters of natural gas and 8 mln liquid hydrocarbons annually. NHC "Uzbekneftegaz" is 8th in the world in extracting gas and 5th in CIS in producing fuel-energy resources.

Hydrocarbon extraction



Uzbekistan does not actively participate in the international oil market, as all of the extractions meet practically the whole demand of three domestic oil processing plants, while for plant in Ferghana insignificant amount of oil is imported from Kazakhstan due to logistical peculiarities of the region.

¹ Federal agency for soil usage: Federal state unitary science and production enterprise "Aerologiya"

² Information Analysis Center "Mineral"

Dynamics of oil exports and imports in Uzbekistan, mln tons.

	2001	2002	2003	2004	2005
Oil exports					
Uzbekistan	0,7	0,7	0,5	0,3	0,3
Kazakhstan	32,4	39,3	43,49	52,4	54
Turkmenistan	0,39	0,59	2,92	2,9	2,8
Oil imports					
Uzbekistan	0,06	0,05	0,04	0,04	0,03
Kazakhstan	2,34	2,63	2,69	3,15	3,72
Turkmenistan	0,6	0,7	0,7	0,7	0,5
Kyrgyzstan	1	0,9	0,9	0,9	0,8
Tajikistan	N/A	N/A	N/A	0,93	0,9

Source: FGUNPP "Aerologiya" and IATs "Mineral"

Total capacity of oil processing plants of the country is 11.2 mln tons of hydrocarbon material annually. Excess (as compared to own extraction) capacity allows them offering services of processing raw materials supplied by customers on tolling basis.

Ferghana oil processing plant (together with Altyaryk branch in Khamza city) is capable of processing 8.7 mln tons of hydrocarbon material annually. The enterprise produces wide variety of oil products (about 50 titles), which fully comply with international standards. In particular, diesel oil produced at the plant is exported. In abroad – mainly in Iran, Afghanistan and neighboring CIS countries – there is demand for motor and transmission oils produced at the plant.

Bukhara OPP can process up to 2.5 mln tons of hydrocarbon material annually. Bukhara OPP, established in 1997 in participation of Technip, produces automobile gasoline, diesel oil, kerosene.

In summer of 2005, Uzbek-Russian JV "Djarkurganneftepererabotka" put into operation in Uzbekistan OPP for 7 mln USD with capacity of 130 thousand tons of raw oil annually. Production capacities of the enterprise are oriented at processing "heavy" oil containing high level of paraffin. The plant will produce 50 thousand tons of petroleum-bitumen and diesel oil, as well as other oil products. Russia in the JV is represented by "Kompaniya Petromaruz" LLC.

	2004	2005	2006	1Q06	1H06	1Q07
Gasoline, '000 tons	1373,2	1394,1	1369,0	321,8	656,5	349,6
Kerosene, '000 tons		353,2	358,9		165,3	87,0
Diesel oil, '000 tons	1546,2	1437,0	1437,0	339,5	689,5	352,1
Residual oil, '000 tons	1170,6	978,8	895,6	228,6	404,6	233,3
Petroleum-bitumen, '000 tons		322,9	319,0		139,3	75,2
Liquid gas, '000 tons		211,5	223,1			54,9

GAS

Proved reserves of natural gas in Central Asian region is equal to 6.47 trln cubic meters, which is 13.2% of proved reserves of CIS countries and about 4% of world reserves. Out of this 43.4% belongs to Turkmenistan, 27.5% - Kazakhstan, 1.5% - Afghanistan and 0.2% - Kyrgyzstan and Tajikistan together. In Uzbekistan there are 27.6% of natural gas reserves of Central Asian countries. Forecasted reserves of it in the country are estimated at 6 trln cubic meters. Uzbekistan is a leader in gas extraction and its processing, while neighboring Turkmenistan exports about 75-80% of the extracted gas. Out of 59.9 bln cubic meters of natural gas extracted in Uzbekistan, by the results of 2005 more than 11 bln cubic meters were exported. Main partner in natural gas export for Uzbekistan is Russia, where 8.15 bln cubic meters were directed; in 2006 this increased up to 9 bln cubic meters and in 2007 it is expected to increase by another 4 bln cubic meters owing to modernization of Central Asia – Center pipeline and development of new gas deposits in the country. Russia is interested in increasing gas supplies from Central Asian region, as it must provide delivery of its fuel to European countries and is unable to meet such high demand. There was developed a scheme for the upcoming years, according to which Uzbekistan sells gas to Kazakhstan and it will deliver gas to Russia excluding its own consumption. Export volume of gas exclusively into Kazakhstan is equal to 2 bln cubic meters and aims at satisfying demand of southern regions of that country. Kyrgyzstan and Tajikistan consume no more than 1 bln cubic meters of Uzbek gas, with the

highest share in this constituting to Tajik industrial enterprises, which by the results of 2007 will purchase 630-640 mln cubic meters and in the next year plan to increase consumption up to 700 mln cubic meters.

Price of the exported gas at the present moment is equal to 100 USD per 1000 cubic meters at a tariff for transit through the territory of Kazakhstan of 1.1 USD per 100 km. Previously the price was 55-60 USD. From next year on, Uzbekistan plans to switch to world prices in its relationship with gas importers – Russia, Kazakhstan and Tajikistan. Expected price may become 130 USD and later 150 USD per 1000 cubic meters.

Data on natural gas in Central Asia, bln cubic meters

Country	Gas reserves	Supportability (years)	Extraction and production	Gas processing
Uzbekistan	1850	30	59,9	41
Kazakhstan	1840	89	11,5	0,1
Kyrgyzstan	6	n/a	0,03	0
Tajikistan	7	n/a	0,04	0
Turkmenistan	2900	50	58,8	3,5
Afghanistan	99,9	n/a	0,02	0
Total	6472,9	n/a	130,29	44,60

Source: FGUNPP "Aerologiya" and IATs "Mineral"

Gas processing in Uzbekistan is carried out at three enterprises – Mubarak GPP (more than 28 bln cubic meters), "Shurtaneftegaz" and Shurtan gas and chemical complex (4.5 bln cubic meters) whose output is in demand throughout the whole region, as well as it is exported into Pakistan, Afghanistan, Iran and other countries.

By 2010, NHC "Uzbekneftegaz" expects to increase production of liquid natural gas by 2.8 times up to 586.9 thousand tons. For that, into projects of construction of new liquid gas units and reconstruction of the existing ones it is planned to attract 320 mln USD in foreign investment. Increase in liquid gas production will take place primarily on the basis of Mubarak GPP and "Shurtaneftegaz". Besides, program to increase liquid gas production developed last year includes modernization projects of gas-fractionation systems of Ferghana and Bukhara OPP as well as utilization project of associated gases at Kukdumalak deposit.

In March, 2005 "Uzbekneftegaz" put into operation the first order of the propane refrigeration complex with design capacity of 13.6 bln cubic meters at Mubarak GPP. Works with the second order of the complex have been started, once it is set in operation volume of gas scrubbing will reach 24 bln cubic meters annually.

Mubarak GPP is situated in Mubarak district of Kashkadarya region of the Republic of Uzbekistan. MGPP – state joint-stock company. Raw material for MGPP is hydrogen sulfide-containing gas and unstable gas condensate obtained from Unitary Subsidiary "Mubarakneftegaz". Current production capacity: 26 549 mln cubic meters of sulfurous gas per year, 611.5 thousand tons of unstable condensate. Marketable output: dry purified gas – 24 349 mln cubic meters, stable condensate – 571.1 thousand tons, liquid gas – 10 thousand tons, sulfur gas – 240 thousand tons.

Shurtan gas and chemical complex, the only enterprise in Central Asia producing polyethylene, was put into operation at the end of 2001 on the basis of Shurtan gas condensate deposit. 985 mln USD complex includes gas purification unit, plant for production of 125 thousand tons of polyethylene, 137 thousand tons of liquid gas and 130 thousand tons of unstable condensate per year. Technological part of the complex was carried out by American ABB lummus global, Italian ABB soimi and three Japanese companies – Mitsui & Co. Ltd., Toyo engineering and Nissho iwai corporation. The enterprise also produces the followings:

- (gas processing) 4.5 bln cubic meters annually;
- (output of marketable gas) 4.2 bln cubic meters annually;
- (liquid gas) 137 thousand tons annually;
- (light condensate) 130 thousand tons annually;
- (sulfur) 4 thousand tons annually;

At the end of 2005, construction of liquid gas producing unit started on the basis of unitary enterprise "Shurtaneftegaz". Design capacity of the unit, which is constructed with own funds of "Uzbekneftegaz", is 135 thousand tons of propane-butane mixture per year.

Dynamics of natural gas consumption, bln cubic meters

	2000 г	2001 г	2002 г	2003 г	2004 г
Uzbekistan	42,7	45,1	46,4	47,2	50,17
Kazakhstan	4	5	5,39	5	8,1
Kyrgyzstan	1,9	2,01	1,2	0,74	0,92
Tajikistan	1,2	1,3	1,1	1,3	1,39
Turkmenistan	16,5	18	13,2	15,69	16,56
Afghanistan	0,23	0,05	0,05	0,02	0,02

Source: FGUNPP "Aerologiya" and IATs "Mineral"

GAS TRANSPORTATION SYSTEM

Gas transportation system of Uzbekistan serves more than 13 000 km of pipeline and includes 23 compressor stations. In general, the system deploys 250 gas-compressor units.

In 2005, program for development of pipeline system was started, designed for the period up to 2010. The program aims increasing export volume of gas up to 16 bln cubic meters or by 60%. To do so, it is planned to construct 200 km of new export gas pipelines and 200 km drain gas pipelines, reconstruct 900 km of internal gas pipelines, as well as construct in the north-west of the country a new gas compressor station "Sarymai", reconstruct and enlarge 20 operating gas distribution stations and 4 gas compressor stations at underground storage depots of gas.

In the middle of 2005, in Uzbekistan construction of two new gas pipelines was started: Gazli-Sarymai and Gazli-Kagan. The new pipelines will connect deposits of Bukhara-Khiva oil and gas region with north-western territories of the country and will expand the export infrastructure of Uzbekistan. To implement these investment projects of 120 mln USD, there was established JV "Neftegazmontaj", whose foreign counterpart is Zeromax.

INTERNATIONAL COOPERATION

Joint projects with OJSC "Gazprom"

An agreement on mutual cooperation in gas industry between NHC "Uzbekneftegaz" and OJSC "Gazprom" was signed on December 17, 2002. The agreement, in particular, stipulates long-term purchase of Uzbek gas for the period of 2003-2012, participation of OJSC "Gazprom" in projects in the sphere of natural gas extraction on the territory of the Republic of Uzbekistan on terms of PSA, as well as cooperation in the sphere of development of the gas pipeline infrastructure of Uzbekistan and transportation of Central Asian gas through the territory of the country. A pilot project in the sphere of gas extraction is cooperation on terms of PSA in re-establishment of gas extraction at Shakhpakhty deposit. PSA of the project took effect on April 14, 2004. This project anticipates annual extraction of 0.5 bln cubic meters of natural gas.

On February 5, 2005 Medium-term agreement on natural gas transportation through the territory of the Republic of Uzbekistan during 2006-2010 was signed between OJSC "Gazprom" and JSC "Uztransgaz". The agreement was made to organize transportation of Central Asia, first of all Turkmen, natural gas using gas pipeline system of Central Asia-Centre and Bukhara-Ural, passing through the territory of the Republic of Uzbekistan. As explained by Ryazanov, Gazprom, besides gas projects on the territory of Uzbekistan, plans to participate in exploration of oil deposits in the country.

In January, 2006 "Gazprom" received a license to explore prospective gas condensate deposits in the west of Uzbekistan, governing principles of soil exploration are seven investment blocks of Ustyurt region and main parts of PSA of several deposits in the west of the country. For exploration works in 2007-2011, Gazprom plans to spend about 260 mln USD, and to equip Urga, Kuanysh and group of Akchalak deposits – more than 350 mln USD.

In 2007, for exploration works in Ustyurt it is planned to invest 99.1 mln USD. In January, 2007 "Gazprom" started the active phase of exploration works in Ustyurt region. Program of exploration works is designed for 5 years. Total investments into the project are estimated to reach 400 mln USD.

Cooperation with OJSC "LUKOIL"

In accordance with the Decree of the Cabinet of Ministers of the Republic of Uzbekistan dated 11.06.04 N276, on June 16, 2004 there was signed an Agreement on production sharing with “Lukoil Overseas Holding Ltd.” company (Russia) “On development of Kandym group, Khauzak, Shady and Kungrad deposits” between RUZ and consortium of investors consisting of “Lukoil” (90%) and NHC “Uzbekneftegaz” (10%). The PSA took effect on November, 2004. Duration of the PSA is 35 years.

Management of “Lukoil” company looks upon Uzbekistan as strategic region for its investments, which is evidenced by the initial results of the work. During last 2 years alone, financial investments amount to over 160 mln USD. In November, 2007 gas was extracted for the first time at Khauzak deposit, with the capacity of 3 bln cubic meters annually.

Design and exploration works are carried out at Kandym group of deposits, which are expected to be put into operation in 2009-2010 with consolidated out-turn volume of up to 10 bln cubic meters annually. Investments into these 2 projects alone exceed 1.5 bln USD.

Implementation of Uzbek-Russian project on development of gas and gas condensate deposits, costing 1 bln USD, requires attracting large group of specialists, experts, conducting large number of explorations, calculations and other works. For this reason, management of OJSC “Lukoil” decided to open representative office in Tashkent.

Stroytransgas

In the beginning of 2005, Interagency board on attracting foreign investments and credits under the Cabinet of Ministers of Uzbekistan approved “Stroytransgaz” as the winner of the tender of investment project “Construction of propane-butane mixture unit to increase production of liquid gas at Mubarak GPP”. Russian company intends to invest into the project, implemented in the framework of JV, 200 mln USD during 3 years. There will be constructed liquid gas unit with design capacity of 336 thousand tons of liquid gas (propane-butane mixture) and 150 thousand tons of gasoline (gas stable gasoline) per year. Annually, the unit will process 1,2 bln cubic meters of natural gas.

Soyuzneftegaz

“Soyuzneftegaz Vostok Limited” (fully owned subsidiary of “SoyuzNefteGaz”) and NHC “Uzbekneftegaz” signed PSA on exploration and development of oil and gas deposits of Central Ustyurt and South-western Gissar (Uzbekistan). The project was approved with the special decree of the President of Uzbekistan. The document stipulates that Russian company took the obligation to invest into the project 466.22 mln USD, among them 369.6 mln USD during the first 3 years including minimum program of exploration works in the amount of 21.8 mln USD.

In line with the agreement, “Soyuzneftegaz Vostok Limited” receives a license to conduct exploration works on the territory of South-western Gissar and Ustryurt region for 5 years and to extract hydrocarbons for 36 years.

In February, 2005 “Uzbekneftegaz” decided to breakup the PSA with British UzPEC and to call back the license to explore deposits of Central Ustyurt and South-western Gissar due to non-observance of investment obligations by British company. UzPEC refused to return the license, stating that claims of Uzbek side were unreasonable. Afterwards, the holding offered to implement the project in the framework of JV on the basis of the active licensed fields, however “SoyuzNefteGaz” was considering the possibility of implementing the project only in terms of PSA.

UzPEC was established by British Trinity Energy Group to carry out oil and gas projects in Uzbekistan. In 2001, together with “Uzbekneftegaz” it signed PSA, for licensed fields of Central Ustyurt and South-western Gissar. This was the first PSA in the history of Uzbekistan; volume of investments was 400 mln USD. Since 2002, British company was extracting liquid hydrocarbons from the deposits of South-western Gissar. In 2004, “SoyuzNefteGaz” bought 100% of UzPEC shares from Trinity Energy Group. UzPEC’s Board of Directors was headed by the chairman of the Board of Directors of Russian company – Yuriy Shafrannik.

COOPERATION WITH OTHER COUNTRIES|

International consortium (Russia, Korea, China, Malaysia)

In the beginning of September, 2005 NHC “Uzbekneftegaz”, Russian “Lukoil Overseas”, Malaysian “Petronas”, Korean KNOC and Chinese CNPC signed an agreement on establishment of consortium of investors to conduct exploration works and development of oil and gas deposits in the Uzbek part of the Aral Sea. By terms of the agreement, each participant of the consortium has an equal share. According to the preliminary parameters of the project’s feasibility report, the first phase with an estimated cost of 80 mln USD foresees conducting 2D seismic works of 3 thousand linear km during 3 years. The second phase with an estimated cost of 200 mln USD foresees drilling of prospect wells at the identified structures. Implementation date of this phase will be decided by the results of the seismic works. The third phase with its cost not yet estimated, foresees preparations for development and subsequent operation of the deposits, discovered during the second phase.

India (Gail Limited)

As a result of the official visit of the Prime-minister of India Manmohan Singh to Uzbekistan, during April 25-26, 2006 there was signed a Memorandum between NHC “Uzbekneftegaz” and Indian company - Gail Limited on joint operation in oil and gas sector of Uzbekistan. As primary courses of cooperation between 2 companies, as outlined in the memorandum, are exploration works on the territory of Uzbekistan, identification of prospective fields for joint development with subsequent production of liquid gas and petrochemical output, was said in “Uzbekneftegaz”.

Uzbekistan has offered India territories to study and develop oil and gas deposits on terms of PSA. India will have certain territory to conduct exploration works aiming to provide exposure of hydrocarbons, which will be split between 2 countries on 50/50 principle.

In addition, “Uzbekneftegaz” signed a memorandum on mutual understanding with the Ministry of oil and gas industry of India on cooperation in oil and gas industry. This document envisages establishment of ties among companies of 2 countries in conducting exploration works, development of new deposits and production of oil and gas output in Uzbekistan, as well as implementation of big technical and construction contracts to lay oil and gas pipelines, to construct plants producing liquid and compressed natural gas.

Malasia (Petronas)

At the start of October, 2005 Malaysian oil corporation Petronas and “Uzbekneftegaz” signed an agreement to study gas deposits in Surkhandarya region in the south of Uzbekistan. The agreement foresees technical studies, as well as conducting exploration works on the territory of Baysun investment block during 18 months. By the results of the exploration works, parties will decide on form of cooperation in development of gas deposits of Baysun block, where at the present moment there are 2 large gas deposits – Gadjak and Kognisay.

Switzerland (Zeromax GmbH)

In mid-2005 in Uzbekistan construction was started of 2 new pipelines: Gazli-Sarymay and Gazli-Kagan. The new pipelines will connect deposits of Bukhara-Khiva oil and gas region with north-western territories of the country and will expand the export infrastructure of Uzbekistan. To implement these investment projects of 120 mln USD, there was established JV “Neftegazmontaj”, whose foreign counterpart is Zeromax.

At the end of 2005, Uzbek-Swiss JV “Kokdumalak Gaz” LLC put into operation an installation utilizing associated gas at Kokdumalak deposit, which is in Kashkadarya region. This installation costing 30.9 mln USD allows utilization of 1.3 bln cubic meters of associated gas per year. Construction of the installation is the first stage; Zeromax GmbH plans to invest another 60 mln USD to implement the second stage of associated gas utilization project at Kokdumalak deposit. As a result of the second stage, there can be utilized extra 3 bln cubic meters of associated gas. The project is financed with own funds of Zeromax GmbH and foreign credits.

Gas is extracted at Severnyi Guzar and Severnyi Nishan deposits. Once full capacity is reached at Severnyi Guzar deposit, there will be annual extraction of 430 mln cubic meters of gas and 30 thousand gas condensate; at Severnyi Nishan deposit – up to 2 bln cubic meters of gas if full capacity is reached during 4 years. Extracted output will be directed for processing at Unitary subsidiary “Shurtanneftegaz”, part of the NHC “Uzbekneftegaz”.

In mid-2005, Zeromax and NHC “Uzbekneftegaz” established on a parity basis JV “Gissaneftegaz” LLC with a view to search and explore new deposits of oil and gas, as well as development of complex hydrocarbon accumulations with subsequent processing and sale. The project envisages exploration works for oil and gas in within Tagam-Shimiliy of Tandyrchi zone of Gissar region and commencement of 5 gas condensate deposits in Bukhara-Khiva region. Duration of the project is 25 years. If JV “Gissaneftegaz” reaches full capacity it can extract 3 bln cubic meters of gas per year. In general, it is planned to extract 30 bln cubic meters of natural gas, 1 mln tons of gas condensate and 500 thousand tons of oil.

Iran

Iran made a contract with Malaysia’s Petronas to explore oil in Uzbekistan. The contract inaugurates the first case Iran is participating in oil exploration in Uzbekistan. Results of 2D and 3D seismic works will be available after 10 months-long works at several oil blocks.

Representative of the Iranian side declared: “The project will be finished in 10 months and will be the first Iranian oil exploration project abroad”. The value of the contract is undisclosed, however it was announced that in case of positive outcome, development of deposits will be carried out with the participation of Iranian side. In addition, there is a project, together with CNPC, under study to increase liquid gas production at Unitary Subsidiary “Shurtanneftegaz”.

China

Activeness of the Chinese is induced by intensive development of cooperation between PRC and Uzbekistan, agreements reached between heads of 2 states during the visit of the President of Uzbekistan Islam Karimov to China, and by the fact that Chinese National Petroleum Corporation (CNPC) plan to invest about 600 mln USD. JV will be established on parity basis with charter capital of 96 mln USD.

The JV will receive 23 deposits in Bukhara-Khiva region. 20 of these deposits are classified as small, that’s way separately they are unprofitable and will be developed in complex taking into account modern technology of extraction, which is owned by Chinese side. 3 deposits – medium sized in reserves and developed before, the biggest among them – Umid deposit with remaining reserves amounting 2.5 mln tons.

In mid-2004, CNPC and “Uzbekneftegaz” signed framework agreement on enlargement of cooperation in oil and gas sector of Uzbekistan. Uzbek side plans to exploit expertise of Chinese company in development of small flow rate deposits with long period of operation. For example, in Ferghana valley of Uzbekistan there are deposits which as operated more than 90 years. These kind of small deposits with flow rate of 1-2 tons of oil per day in the country are more than 500. The second line of cooperation is expertise exploitation of Chinese company in drilling directional wells in harsh geological conditions. Dong Sheng will be dealing exclusively with this line of cooperation, which plans to invest 113 mln USD into oil and gas sector of Uzbekistan. In line with project announced during OGU-2005, Dong Sheng intends to establish together with “Uzbekneftegaz” JV “UzDunshen” (50/50), which will carry out rehabilitation of oil and gas deposits in use for long period, exploration works at new locations. At the present moment, there was prepared feasibility report of the project.

Moreover, there are discussions with Chinese “TU-KHA” to increase oil extraction at Gazli deposit.

Chinese China Petroleum Technology & Development Corporation (division of CNPC) signed a contract with NHC “Uzbekneftegaz” to deliver 23 drilling installations for 200 mln USD. The contract will be financed with the credit of Chinese Eximbank amounting 179.1 mln USD and own funds of NHC. Drilling installations must be delivered at the end of the 1st quarter of 2008.

It is expected that new equipment will be used first of all to explore oil and gas. “Uzbekneftegaz” plans by the end of 2010 to implement to increase reserves of hydrocarbons in the oil and gas containing territory of Uzbekistan by 521.1 mln tons of fuel equivalent. CPTDC has got experience of working in Uzbekistan. In 2004, Chinese company carried out modernization of 10 drilling installations for “Uzbekneftegaz” for 69.7 mln USD.

Korea (KOGAS)

The biggest buyer of liquid gas in the world – KOGAS – signed a memorandum on mutual understanding with NHC “Uzbekneftegaz” on cooperation in the sphere of exploration, development and extraction of natural gas, as well as in the sphere of construction and support of infrastructure.

In the documents, submitted by KOGAS to Financial control service, also mentioned that the company made agreement with Uzbekistan to jointly explore Uzunjui block, where reserves are estimated equivalent of 191 mln tons of liquid natural gas.

South Korean company has also reached settlement with “Uzbekneftegaz” to develop jointly Surgil gas deposit, where proved reserves of gas are equivalent of 84 mln tons of liquid natural gas. KOGAS said that it plans to establish JV for development project once it receives permission from the Uzbek government.

Singapore

Uzbekistan plans to implement, by 2012, 6 oil and gas projects with total cost of 1.421 bln USD with the participation of Singaporean companies. List of projects under study to implement in the framework of economic cooperation with the Republic of Singapore, is presented in the decree of the President of Uzbekistan Islam Karimov.

In particular, with participation of Temasek Holdings it is planned to implement 3 projects for total cost of 1.395 bln USD. 300 mln USD out of these – cost of the project to enlarge existing production capacity of polyethylene at Shurtan gas and chemical complex up to 225 thousand tons, 1 bln USD – establishing production of synthetic fuel on the basis of the projected Ustyurt gas and chemical complex with processing capacity of 1 bln cubic meters of natural gas.

Temasek Holdings will also participate in the project of intensification of oil extraction at deposits operated for long-period and conducting exploration works in East-Surkhan zone. By preliminary estimates the project will cost 95 mln USD. Together with CW Singapore, it is expected to construct gas dehydration plant at Kungrad compressor station in Ustyurt region with cost of 20 mln USD.

“Uzbekneftegaz” plans to establish JV together with Advanced Holdings to design and produce automation systems and equipment for enterprises of oil and gas sector. The decree was made by the results of the state visit of the President of Uzbekistan Islam Karimov to Singapore in January, 2007.

In addition, there are following operating enterprises:

- ◆ ELLOG (USA), NISHO IWAI (Japan) – Compressor station for gas injection at Kokdumalak deposit (1997);
- ◆ TECNIP (France), MARUBENI, JGC (Japan) – Bukhara OPP (1997);
- ◆ BCI Industries (USA) – Khodjaabad underground gas storage (1999);
- ◆ MITSUI, TOYO Engineering (Japan) – the first phase of reconstruction of Ferghana OPP (2000);
- ◆ ABB Lummus Global (USA), ABB Soimi (Italia), NOVA Chemicals (Canada) - Shurtan gas and chemical complex (2001);
- ◆ BATEMAN Projects Ltd. (Israel) – Shurtan booster compression station (2003).

JV's:

- ◆ UZMALOIL (Uzbekistan-Malaysia);
- ◆ UZTEXACO, UZ-DR SERVICE CENTER, KOKDUMALAK, BENTONIT, FARMOY (Uzbekistan-USA);
- ◆ UZVOLGABURMASH, DJARKURGANNEFTEPERERABOTKA (Uzbekistan-Russia);
- ◆ KOKDUMALAK-GAZ (Uzbekistan-USA).

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