

UNIT-3 AGAIN SETS RECORD AT BEGINNING OF YEAR

It seems that it is becoming a strong tradition for the Unit-3 personnel to begin a new year by breaking a record.

After the arrival of year 2005, personnel from the Unit-3 Gas Processing Unit Complex, once again reached some sound achievements, having broken records on labour safety by working over 3.5 million hours without any negative incidents or time losses. This may be surprising, but a fact remains a fact. At the very beginning of 2004, the Unit-3 team achieved impressive results in hydrocarbons production. They then managed to achieve a record breaking level in the monthly output of condensate and gas. Once again a joyful event!

There is no doubt that these achievements are proof of the success of the programme conducted by KPO to increase their safety level, entitled, the Behavioural Based Study (BBS). The key issue with this programme is training all of the employees in personal responsibility for the observation of safety norms. One of the most efficient instruments to achieve this is the establishment of procedures for informing management regarding all danger signs as well as their subsequent elimination. This programme assists in revealing potentially problematic areas and allows for taking measures to prevent accidents.

On the occasion of this notable event, Unit-3 Manager Bill Hunter congratulated all Unit-3 employees and expressed his gratitude to the Unit-3 personnel, as well as to the export pipeline departments, and the Gathering and Production Satellites and

noted, "This is an excellent achievement, which stresses the commitment on the part of KPO personnel for the continuous observance of progressive methods and safety standards, labour protection and the environment. Taking into account that the last occasion of a time-loss occurred over two years ago, the results that were achieved have proven that we are approaching our goal of an accident-free workplace".

Commenting on this event, Nurzhan Kamalov, KPO Corporate Affairs & HSE Controller said, "KPO actively pursues a policy of developing a culture for production, in which the responsibility for the observation of labour safety rests on each and every company employee. Our goal is to achieve more improvement in these indicators through strict observation of HSE standards, the management of operational risks, and careful planning and control over production".

In addition, this record was possible due to careful planning and efforts on the part of KPO management aimed at increasing the level of labour safety at the Karachaganak deposit, and the implementation of a number of initiatives that are integrated into the HSE Improvement Plan, including the Behavioural Based Study program, the wide-scale introduction of which began during the beginning of last year.

Successful indicators in labour safety are proof of the fact that KPO steadily fulfills its obligations to meet the highest international standards for safety regulations, labour protection and the environment.

ENSURE SAFE AND CONTINUED OPERATION

GianRomano Andena, KPO Maintenance Manager

Effective and continuous production of hydrocarbons in the Karachaganak field and KPO production achievements mostly depend on how well the production structures operate within the company. It is no secret that success of any company involved in field development much depends on professionalism of top-managers who work in various areas directly connected with field development, implementation of company's strategy and maintenance activities. In the long run it is, inevitably, should bring to real economic growth of the company.

Here we would like to talk about one of such structures within KPO. With this purpose we met with GianRomano Andena, KPO Maintenance Manager.

- GianRomano, first of all, could you please tell us about yourself, how long have you been here in Karachaganak and have you been before to other fields like Karachaganak?

I started my career in the Karachaganak field in 2001 as Lead Commissioning Engineer. I had worked in this position a bit more than one year. Soon after that I was appointed as Maintenance Manager. I have a diploma on electronics and I have worked for 18 years in AGIP in Oil & Gas offshore and onshore fields. Mostly I have been in Engineering and Construction of various types of plant, offshore and onshore with engagement in commissioning and start-up team. For a long time I had worked in Nigeria and

participated in the construction of the refinery plant including the general revamping of the facilities, installation and software configuration of the Process Control System and the upgrading of the Power Generation Plant.

At the conclusion of the start-up phase I was engaged in the position of Maintenance Superintendent where I had developed the department in accordance with the new demands of the plant consulting a technical Office with engineers in deal of plant modification. As soon as I have completed my work in Nigeria I left for Kazakhstan and joined the Karachaganak Project.

- And what were your first impressions when you first arrived here in Karachaganak and is it possible to compare Karachaganak with the previous project you were involved?

When I first arrived here in Karachaganak I was amazed to see a huge territory on which Karachaganak was located. I was also amazed to see the size of construction works implemented and planned to be realised. The experience I have gained while working in Nigeria has allowed me to quickly get into gear here in the field.

As for the question to compare Karachaganak with other projects I was involved, I would like to note that Karachaganak is a special field and it rather hard to compare it with the other ones. As you are aware during the construction of the new production and processing facilities in the Karachaganak field we merged

Western and Kazakhstan standards. This had never been done before. One of the good examples of the state-of-the-art technologies being used in Karachaganak is the gas re-injection at Unit 2. Never before in the world in oil and gas fields such a combination of high pressure and acid content gas had been re-injected; in this sense Karachaganak is, undoubtedly, the world leader.

- Can we talk about activities of your department and in particular on your responsibilities?

As regards my duties, I am responsible for all maintenance activities carried out in the Karachaganak field including KPC, Pilot Camp, Unit 2, Unit 3 and Export Pipeline including Bolshoi Chagan pumping station and Atyrau terminal. Along with this, I have to pay great attention to implementation of KPO Nationalisation Programme that provides for gradual replacement of key positions held by expatriates by Kazakh specialists.

Maintenance Department is one of the major groups within Production & Maintenance Department, which covers the maintenance activities of all aspects of KPO operations to enable targets to be safely achieved. Our department is responsible for the provision of specialist maintenance by outside contractors or equipment manufacturer personnel. We have KPO main workshop to support all maintenance activities for all production objects located in the Project. All major repairs that cannot be completed at KPC workshop for some reasons are

arranged by Central maintenance to be carried out at specialist vendor premises. To implement better maintenance we provide investigation to identify a failure with it is further repair. On the whole we are responsible for designing, supply, mounting, engineering set up and to develop the Computerized Maintenance Management System for field maintenance planning. We also provide overhaul and current repairs of gas turbine generators, electric power station, sub-stations, transformers and implement other works connected with the repair of modern equipment.

-As far as I know Maintenance Department consists of several groups?

That's right. It is divided into several major groups: Mechanical, Electrical, Instrumental, Planning, Major Works and Asset Integrity Management. There are also smaller specialist units within these major groups, which provide highly technical specialized services at KPO requirements.

- To sum up what was said above, what is the major objective of your department?

The major objective of Maintenance department is to ensure the safe and continued operation of the KPO facilities and cost efficiency. Also I would like to add that over the last 3 years Maintenance Department has developed into a centralized well-organized department which continues to improve its overall performance.

NEW INITIATIVE AT THE BUSINESS GOVERNANCE ACADEMY

In September of last year, we wrote about Kazakhstani personnel, who on their own initiative opened a domestic learning institute during June of last year, and named it the Business Governance Academy. An aspiration to gain as much knowledge as possible on the various stages of project development and the utilisation of practical work experience accumulated over many years on the part of foreign and Kazakhstani specialists was the driving force behind the creation of the academy.

Recently, students at the academy put forward an initiative to introduce an intranet portal. On February 4th, they conducted a presentation to familiarise people on their project, where the Academy's purpose, its area of activities and results experienced over the last six months were reflected.

Zhanna Tanashikova, the KPO B.V. Corporate Reporting Specialist, who took an active part in the development and design of the portal, noted that the main purpose of their project is to provide an opportunity to all company employees to obtain a clearer picture of the activity of all of its subdivisions, their main functions and duties, and demonstrate their interconnection.

The KPO B.V. has a huge organisational structure with numerous departments, embracing a wide span of production activity. Many employees, being isolated within the area of their direct duties, cannot

picture themselves very clearly in relation to the other departments. The conclusion was, therefore, that it was necessary to develop a more efficient interaction between the structural subdivisions and provide an understanding of the main aspects of company activity to all employees. The Intranet portal will certainly play a positive role for the creation of efficient linkages between the different departments at KPO, which will benefit the entire operational processes.

"We would like to help all KPO employees to gain a general understanding, to share accumulated knowledge, to discuss what KPO means to each of us, and what kind of company we visualize for the future, and if necessary, to assist them in creating their own academy inside their respective departments," students of the Business Governance Academy say.

KPO's policy is first of all aimed at efficient and safe operations, increasing labour productivity and costs reduction. It is possible to achieve this with close interaction between the employees at the company. Following the launch of the intranet portal, there appears to be a real opportunity to expand communications between all of the departments and the many employees, both foreign and local.

The "My KPO" corporate portal at the Academy is a live portal, being updated regularly and is already accessible to all company employees.

ARCHEOLOGICAL DISCOVERIES AT PRIURALIE

Recent Archeological excavations in the WKO have confirmed suggestions regarding the previous existence of an ancient civilization. KPO contributed to these discoveries in the WKO. It all started when the company was constructing the Karachaganak-Bolshoy Chagan-Atyrau Export pipeline, and a KPO excavator stumbled across a brick structure. KPO immediately informed local authorities on the find. Archeologists and engineers who soon arrived at the scene then determined that an ancient city, a unique historical and cultural monument was buried underneath. All construction operations were stopped, and subsequent excavation discovered ancient baths and houses. This ancient historical monument from the Golden Orda times. The site is located 6 km to the south of Uralsk, and was mentioned for the first time by an expedition headed by Gayaz Kushayev in the 1970s. The city is mentioned in his monograph, *Essays of the Ancient History of the Priuralie Steppe*.

The Archeology Institute Director, Karl Baypakov came to Uralsk from Almaty for negotiations with KPO management on diverting the pipeline away from the Middle Ages era city. As a result, KPO management decided to change the route of the pipeline construction. Narynbek

Rakishev, the head of the state community organisation, State Inspection for the Protection of Monuments and Historical Cultural Heritage noted, "KPO did the right thing in accordance with the law on the protection and usage of historical cultural heritage." Rakishev noted the observance of law and the decency demonstrated on the part of KPO. "The company agreed that historical spiritual heritage is very important, and that long term research is necessary. We asked for equipment and a workforce, and KPO did all of this for us. Moreover, KPO management agreed to change the route for the pipeline. Neither myself nor the Institute have any complaints against KPO", Rakishev added.

The WKO Akimat instructed the West Kazakhstan History and Archeology Centre to conduct some scientific research. One of the most important excavations was conducted at the Esen Amantau Plateau.

West Kazakhstan is a junction point between Europe and Asia, through which migration flows passed beginning in ancient times. The historical monuments provide evidence of these migrations.

Gayaz Kushayev and his follower, Boris Zhelezchikov played an important role in the organisation of the archeological school. They made almost all of the discoveries at Priuralie.

BG CHIEF EXECUTIVE'S INNOVATION AWARD AND KPO IT&T

Late last year, the KPO IT&T team was awarded second place in the "Alliance with External Parties" category in the 2004 BG Chief Executive's Innovation Awards. The KPO Telecom section was one of 9 finalists out of 110 entries worldwide. There were three finalists in each of three categories: Alliance with External Parties; General technology Application; Enhanced Working Practice.

The award ceremony took place on 13 October at the historical Highclere Castle in UK. During the ceremony, BG Chief Executive Frank Chapman presented the award to the KPO IT&T team led by David Campbell, IT&T Manager of KPO/BG. The ceremony was also attended by Franco Bocca, KPO/Eni IT&T Manager, Daniyar Baizhanov and Ian Hill, Heads of Telecom Section and Ekaterina Tyshko, KPO Telecom Administrator. Representatives of contractor company OTC Corporation (Motorola business partner based in Almaty with the presence in Aksai) and Motorola Compact TETRA division were pleased to be invited too.

The event was very well organised and greatly enjoyed by all attendees. Ashley Almanza, Chief Financial Officer and Executive Director for BG sat at the KPO team's dinner table for the banquet.

Speaking about the implementation of the project in the Karachaganak field, David Campbell noted: "It was very significant that we didn't use western contractors or import the equipment ourselves. The telecommunication towers and equipment shelters have been built using local resources and materials. Thus, this local-supply chain has been our "Alliance with External Parties". He added "We are of course very proud to see such a project managed by our Telecommunication experts who are citizens of Kazakhstan and recognised as working to world-class standards of technology and safety"

The new Compact TETRA Trunk Radio System was implemented as a replacement for the 5 year old MPT system which served Karachaganak for the Construction phase. When complete, the new system will cover 1,500 square kilometres. The digital technology of TETRA has many more features and benefits, especially for Emergency Response demonstrated by the fact that this kind of system is widely used police forces and emergency services throughout the world. It is the first of its kind installed in Central Asia.

OPENING OF SKIING SEASON

On December 25th, the opening of skiing season in Aksai occurred, which was met with great impatience on the part of Aksai sportsmen, including from KPO, many of which are passionate fans of winter sports. This year, the winter wasn't in a hurry to arrive in Aksai, and it was previously warm and muddy as it is in autumn. However, at last the long-awaited frost arrived, along with a heavy snowfall.

A gathering for all volunteers wishing to participate in the competition was announced at 10 a.m. at the hippodrome. The opening of the skiing season took place! The competition was held in three stages, school teenagers' division was the first to begin, followed by the women and girls, and finally the men. Paolo Campelli, KPO General Director, took the floor prior to the start of the competition. He noted the special importance of this sporting event, and congratulated all of the sportsmen on Christmas and the upcoming New Year holidays, and wished success to all of the skiers. The First Deputy Akim of the Burlin Region, R. Uteshev and the Deputy Chairman of KPO B.V. Trade Unions Committee, BS. Dusmailov also made speeches during the opening ceremony.

Right before the start of the competition, skiing veteran, Oleg

Popov, a KPO employee, and the main inspiration behind all of the sports events taking place in Aksai, also said some words of greetings.

The competition began! In the girls and women's group, young sportsmen Yakimenko Valentina came in first, a pupil from Secondary School No. 2. In the men's division first-place was taken by Sergey Yakimenko. Two trophy cups were awarded to one of the most athletic families in Aksai.

Schoolchildren from the Berezovka village, that arrived together with their trainer, A. V. Koba, were surprised and at the same time gladdened by their own results.

The competition was held in several groups. Competitors from the KPO team, whom are well known to many Aksay residents, were among the winners including, O. Popov, V. Odnokulov, Zh. Syikov, O. Tendentnik, G. Musaeva, N. Anosova and many others.

Upon completion of the competition, the sportsmen were awarded with presents from the KPO B.V. Trade Unions Committee. Thus, one of the most popular winter sports has started its annual season! The KPO sportsmen have an important skiing race in Italy ahead, and we shall certainly report on it in our next issue, for now we wish them good luck!

CONTINUING TRADITIONS

Karachaganak supplied its first products to the Orenburg refinery in October 1984. In order to determine the quality of the supplied condensate and gas, the necessity arose to establish a chemical analysis laboratory, which was created in January 1986. Tiunova Lidiya Vasilievna was appointed the lab director, who was a most authoritative and qualified tutor for young employees. Unfortunately, Lidiya Vasilievna passed away in 1991, but the young employees under her tutelage, who had already accumulated a great deal of industrial and life experience, and in whom she inspired a belief in the necessity and importance of their work, recollect her often.

The first employees at the laboratory were Nadezhda Shevchenko, Balsara Nukaeva, Nina Shepeleva, Bakiza Kazybaeva, Irina Anokhina and Natalia Lizunova.

As in any subdivision following the signing of the Final Production Sharing Agreement (FPSA) in November 1997, changes took place in the chemical laboratory. Currently, the modern scientific-technical laboratory at the Karachaganak deposit, which is equipped with progressive equipment and is located in a modern new building, is designed for the development and introduction of the latest analytical technologies for gas, hydrocarbons, water, lubricants, fuel and environment. Laboratory specialists also study unknown chemical qualities that are found in the plant and export pipeline that can create problems, including alluvium and black sludge. 80 people, all of them Kazakhstani citizens, work in the KPO laboratory under the leadership of Philippo Geremi and Pietro Rigazetti. All of these are highly qualified specialists, who know their business thoroughly.

Following relocation to new premises and acquisition of new equipment, the laboratory possesses an opportunity to perform an entire complex of inspections. These include control over gas and condensate component content, determination of hydrogen sulphide content, sulphur mercaptane, methanol content, and paraffin and asphalt-resin substances in condensate. The laboratory also measures molecular weight as well as specific gravity; the content of chlorine salts, and takes samples for water content.

Many employees at the laboratory, who have been working there ever since the day it opened, attended professional qualification training courses in Italy. Following the launch of the main facilities, the volume of work has increased significantly, but the laboratory staff is coping completely with the functions that have been given to them, and perform the most challenging tasks competently. All of the deposit facilities, including the KPC, Unit-2 and Unit-3 are under the control of the specialists from the chemical lab. The laboratory is also expanding its employees. Night and rotation shifts are providing a maximised 24-hour operation at the laboratory, thus solving some very important goals for stable development of the Karachaganak deposit.

Certificates for export goods and supplied unrefined materials are issued based on the results of chemical analysis. Experienced and highly qualified specialists, including T. Zavgorodnyaya, a laboratory assistant for determining the content of the water and water-methanol mixture, the Chemist-technician, B. Kazybaeva, Instruments Technician, I. Kaziev and many others enjoy authority in the eyes of the other staff due to their professional experience and industriousness.

TO REVIVE A VILLAGE

On January 19, the reporting meeting for the district and village akims with the residents of Berezovka took place, a village located near the Karachaganak field. The issues brought up at the meeting mainly concerned social and routine problems.

The Burlin District Akim, Saginbek Mutashev reported on the results of agricultural production. Unfortunately, the weather was bad for last year. The average productivity in the district was 6.4 centimetres per hectare; whereas Berezovka received only one half of this amount, or 3 centimetres. This can be explained to a large extent not by ecology, but rather by the absence of large farms in the district, which operate using modern principles of agrotechnology.

During construction of industrial facilities, the entire field was one huge construction site, and many village residents became employed in construction companies. The construction stage is now over at Karachaganak, and most of the employable population is unemployed. Many construction workers found employment at other sites. In Berezovka however, many residents are waiting: what if resettlement occurs like with Tungush? The Tungush residents were offered to move to the oblast centre or another village. As a result, 151 families were moved in May 2003 to an apartment building in Uralsk, and 28 other families decided to live in rural areas. Moreover, Karachaganak Petroleum Operating provided some compensation to all of these families. The entire situation began from this.

Only 25 km from the oblast centre, in Aksai the prices for agricultural products at the markets are even higher than in the centre. One can breed cattle or poultry, farm, or sell products at the district centre. Some people are scared, what if they are moved? All of the households have a supply of water,

and all have an opportunity to grow vegetables, but not all of them grow their own food.

The Rural District Akim, Radik Nurmukhambetov spoke about the feelings of sitting in limbo surrounding the move. He also mentioned the developing social sector. Here, compared to other villages that are more remote from the field, Berezovka residents have some advantages. Their village has been gasified, and the investors have assumed all of the expenses for the natural gas. The list of social projects implemented and paid for by KPO is a very long one. Schools have undergone major repairs and all rooms are being equipped with new school furniture. There is a computer class and all of the necessary study materials. Recently, KPO representatives gave the children musical instruments and video and audio devices. KPO representatives participated in all of the celebrations, and the company will not stop at this point. KPO plans include the development and introduction of programs to provide additional assistance to the village. The reconstruction of the kindergarten and the House of Culture is planned for 2005. Children and pensioners will also receive vacations at sanatoriums, all paid for by KPO.

Various problems were discussed at the reporting meeting that are considered to be urgent in the opinion of village residents. These include the expansion of the outpatient clinic, the establishment of an in-patient clinic, and the provision of housing to young teachers. The district akim promised his assistance in solving these issues.

Attempting to clarify the situation and to provide unbiased information on the environment in the region, representatives from the district akimat, ecologists, medical workers, and KPO representatives all met with the Berezovka residents. Unfortunately, not all of the local residents were persuaded

by these objective explanations.

The grievances on the part of the residents' were checked through health examinations in connection with the development of the field. During May of last year, a team of 14 doctors from the Oblast centre conducted a complex medical examination of the village population. Their conclusion read, "Diseases related to the negative impact of hydrogen sulphide on the people were not discovered". The level of morbidity was actually lower in Berezovka than the district average.

The offices of all rural akims are equipped with telephones with direct connections with the person on duty at the field. State organisations not only require from investors compliance with established norms and control over all of the monitoring processes, but also a transparency in regard to all of the data that they obtain. Tables that illustrate the results of their research are posted regularly on special notice boards in the akimats' offices in nearby villages, and are published in the local press.

The Chair of the Village Veterans' Council, Petr Fonyak asserts that when the people are not afraid of work, their families live well. One more pleasant fact for Berezovka was also discussed. Last year, local schoolchildren planted trees on the outskirts of the village along the river. Perhaps the young people understood faster than the adults that they will have to live there.

The Berezovka Akim, Radik Nurmukhambetov is certain that the people's prosperity depends on themselves. "Already, some positive trends are being observed, indicating the revival of the village. The head of the Bolashak farm, Arman Ismagulov has serious intentions to work here. In connection with the adoption of a new land code, he bought 5,000 hectares of land which he plans to use for growing crops and breeding cattle, and he also bought 120 cows and other domestic animals."

TAIWAN BUSINESSMEN AT KARACHAGANAK

On January 25, a group of Taiwanese businessmen visited Karachaganak representing the Overseas Petroleum Investment Corporation (OPIC). According to these businessmen, the company's business involves the production of hydrocarbons in many countries around the world, the company also specialises in the manufacture of oil production equipment and chemical products.

Kazakhstani businessmen accompanied the 6-person Taiwanese delegation, in addition to members of the Oblast Investment Centre, led by the WKO Director of the Industrial Department, Gumar Duysembayev. The main goal of the visit on the part of the Taiwanese was to become familiarised with the project and the development of the oil and gas production industry in Kazakhstan, as well as to study opportunities for investing into this sector.

According to Gumar Duysembayev, the Taiwanese delegation arrived in Kazakhstan upon

invitation of the WKO administration for a learning visit. Mr. Duysembayev also said that representatives from the WKO administration recently visited Taiwan to learn about the oil and gas industry of that country, and that the visit on the part of the Taiwanese was reciprocal.

The meeting between the Taiwanese and KPO representatives took place in the administrative building located at the Karachaganak Processing Complex. KPO General Director, Paolo Campelli greeted the guests and conducted an overall review of the stages of development of the Karachaganak field, and informed guests on the cooperation between KPO, local authorities and the WKO administration. Campelli also informed guests that the Joint Operations Committee staff includes representatives from the WKO administration.

Mike Smith, the accident prevention manager, provided a report on the safety policy and measures at the industrial sites. The Field Development Manager, Nello Paterlini's, speech was

particularly interesting for the audience, and he conducted an engaging and detailed presentation on the industrial sites and the new equipment utilised by the company during production. Nello reported on the KPC, Unit-2 and Unit-3 and the 635 km long, export pipeline, drilling methods, production volumes, where their products will go next, and the planned production volume for this year. Moreover, Nello also spoke in detail regarding their personnel. At the moment, 1,300 people are employed at Karachaganak. Most of these employees are Kazakhstani citizens, and foreign employees total 200 people. Thus, the proportion of foreigners is 15-17% of the entire project workforce.

Following the meeting with KPO representatives, the Taiwanese delegation was offered to make a short excursion to the Karachaganak Processing Complex. In addition to the excursion to the KPC, the guests also visited the Kazakhstani mini-refinery "Kondensat" located on the field.

SWIMMING DURING THE CHRISTIAN FROST

Following the arrival of the 'Christian frost', all Orthodox Christians celebrate the Epiphany. Aksai residents did not remain uninvolved during this time, but according to the yearly tradition gathered together on January 19th on the bank of the small Utva river. Early in the morning on that day, worshippers at the Aksai Orthodox Church of Saint Seraphim Sarovskiy cut special holes in the shape of a cross in the ice.

It has been a firm tradition on that day for each believer to drink the water of the Christian Saint. Orthodox Christians faithfully hold this tradition

to be sacred, and for that day, water is their main symbol. According to legend, the christened, invigorating water possesses healing qualities, and brings vigor and health to the body and soul, and calm to the heart.

Father Georgiy prayed over the river, placed a church cross into the hole, and then to the surprise of many who were present, undressed and dipped his body into the icy water three times. Inspired by his example, many of those present who had not ever dared before to bathe in icy water, rapidly followed suit after the parson. For a long time, it has been a popular belief that the water on that holy day

brings vigor and heals the body of many diseases.

Many residents of Aksai of various creeds, who arrived out of curiosity, some of which were KPO employees also summoned the courage to dip themselves into the icy hole, believing that winter swimming will strengthen their health. These people were not mistaken in their belief, and many of them later spoke of a surprising energised feeling following their bathing.

The Epiphany on that day in Aksai was bright, sunny and frosty, which means that one should expect an early and hot summer.