

PARLIAMENT VISIT KARACHAGANAK

On March 12 a group of Senators together with members of the Senate Committee of Economics, Finance and Budgeting under the leadership of the Committee Chairman, Musirali Utebayev visited the West Kazakhstan oblast (WKO).

The main goal of their visit to the West Kazakhstan Oblast was to hold a number of meetings with the WKO administration, deputies from the Oblast Maslikhat, secretaries from the regional and city Maslikhats, the directors from the regional customs control department and the oblast tax committee, and naturally, to become familiarized with the exploration of the Karachaganak field.

During their visit to the WKO, the senators went to the Karachaganak Processing Complex (KPC) and met with heads of KPO B.V. The meeting took place at the administrative office that is located at the KPC. During the meeting, the KPO General Director Paolo Campelli conducted an overview presentation on the exploration underway at the Karachaganak project, and discussed the function of each manufacturing unit in detail, including the KPC, which is a complex processing liquid hydrocarbons for export to western markets through the Caspian Pipeline Consortium (CPC), the Unit-2 gas compression and re-injection facility, as well as Unit-3, the gas and liquids separation facility.

In addition, Mr. Campelli also discussed investments that have



been allocated by KPO into social projects in the WKO. He also stressed that the funding that has been allocated to developing the social sector of the WKO is the company's priority obligation, but does not amount to charity work. Paolo Campelli thanked the local administration for their fruitful business relations, and following the completion of the presentation, he answered all questions that were posed by the guests. Participants asked many questions of the General Director. The deputies subsequently became quite interested in the utilization of natural resources, the regional ecological situation, the project's time period for a return on investment, social projects, the KPO nationalization programme, in addition to the amount of Kazakhstani KPO contractors. Following the meeting, the senators were offered an overview tour of the Karachaganak Processing Complex (KPC), including a visit to the central control room.

The senators stayed and worked at the oblast for three days, and in the process, met

with WKO Akim, Nurgali Ashimov, as well as with the deputies of the local Maslikhat and oblast officials. In addition, the senate deputies also discussed a series of questions during a roundtable, and went to workshops run by the West Kazakhstan Machine Building Company, which was established at the Metallist Plant. Following the completion of their business trip to the WKO and Atyrau Oblast, the senators then met with KMG President, Uzakbai Karabalin as well as the management from key departments of the company. The senators were given complete answers to all of their questions that appeared during their trip. Bolat Nazarov, the managing director of the company informed the deputies on the economic aspects of the exploration of the huge Kashagan field and the Karachaganak oil and gas deposit. Both sides also discussed investments projects during the session, environmental conservation programmes, and the training of human resources for the oil and gas sector.

OIL, SOIL and AIR Karachaganak Introduces New Nature Protection Technologies

Oil companies in Kazakhstan are gradually changing their attitude toward environmental problems. One of the largest operators, Karachaganak Petroleum Operating B.V., has allocated more than \$100 million to environmental projects. Nurzhan Kamalov, KPO Corporate Affairs & HSE Controller, outlines the results of his company's environmental policy.

-How do you personally assess KPO's nature conservation operations?

-KPO intends to obtain international level indicators in the area of nature protection through the introduction of the international experience of the four core companies, including the BG Group, Eni, Chevron and LUKOIL.

Over the last few years, the company has invested more than \$100 million for implementing projects that contribute to the improvement of the enterprise's nature conservation operations and to contribute toward the fulfilment of projects according to the FPSA requirements (Final Production Sharing Agreement) and the legislation of the Republic of Kazakhstan.

At present, the most modern technologies are being implemented at Karachaganak, which afford the company to decrease the impact on the environment significantly. The equipment at the KPC (Karachaganak Processing Complex) and Unit-2 (the gas and liquids separation and re-injection plant) are unique.

-How do government agencies evaluate KPO's ecological protection activities?

-The ecological conservation agencies and national legislation are changing and being amended; and new legislation is being added every year to enhance the current system. KPO is attempting to fulfill all of its requirements fully and be stay in pace with the times.

The company is in the limelight with regular audits and inspections on the part of the state agencies. The company's nature conservation practices are entirely transparent. In addition, the International Finance Corporation of the World Bank undertakes annual inspections at our company. According to the conclusions of the auditors, the ecological conservation operations correspond entirely with all international standards.

-Petroleum companies must continue monitoring the atmosphere and water. How does KPO implement these obligations?

-Qualified services carry out the monitoring of the quality of the atmosphere at the Karachaganak field and its suburbs each day. An independent contractor known as Gidromet Ltd. checks the air quality annually, analyzing approximately 110 thousand samples of the atmosphere and takes air samples several times every 24 hour period.

In addition, KPO runs its own mobile ecological monitoring station for taking regular tests on air samples. The results of the analysis demonstrate that the concentration of polluting substances in the air over the field and in neighbouring regions

is lower than the maximum permissible concentrations.

In terms of water, KPO constantly monitors the water quality, both on the territory of Karachaganak and outside of the field. Extracted wastewaters undergo separation from hydrocarbons and the production wastes that appear during the oil stabilisation processes, and the salts extracted from the oil are pumped back into the deep subsoil at the field using special pumping equipment, for storing in two special (underground - KNL) chambers.

The purified rain and wastewaters are reutilized repeatedly in these processes where possible. The wastewaters are purified and are then used for fire-fighting systems and forest irrigation. The remainder of the rain and wastewaters at the Karachaganak field are then released into special hydro-isolation storage ponds following the mechanical and biological purification process, which prevent the pollution of the ground waters. The leakage of production waters to natural water channels is eliminated completely.

-Are the monitoring results made available to the public, specifically to people living near the Karachaganak field?

-The monitoring results are published in all local newspapers, which are distributed afterwards among all rural settlements that are situated near the Karachaganak field. Moreover, in 2005, KPO founded consulting groups in these settlements in cooperation with the Burlinsk regional authorities. The main purpose of these groups is to inform the rural population on the condition of exploration at the Karachaganak field and KPO's operations, including production, the social sphere, ecological and production safety procurement, emergency reaction plans and sanitary - epidemiological safety.

During the monthly sessions with the consulting groups, representatives of the companies, the Akimat and the public share information and exchange opinions on KPO's participation in the social economic and cultural life of the region. The present project provides us with the possibility to openly discuss issues related to the Karachaganak field exploration and to find mutually satisfying resolutions. The local authorities organize all of the meetings.

-Ecological scientists and other experts have connected the reduction in and extinction of various species that dwell in the sea and nearby with the petroleum operations being conducted by the production companies on the Caspian. The Kazakhstani press has many times published cases where Caspian swans and seals met their deaths, and often, the oil producers were placed under suspicion. What type of condition is the flora and fauna at the Karachaganak field in?

-KPO is striving to conserve biodiversity at Karachaganak, in addition to improving the natural habitat for the purpose of sustaining the natural regional biodiversity.

All of the equipment that has been set up at new production



facilities meets international ecological standards. For example, the power generation stations at the Karachaganak complex are equipped with a modern dry burning system, thanks to which, this station has been called one of the most ecologically safe in the world.

With the assistance of highly qualified and independent specialists, we constantly conduct monitoring of the condition of flora and fauna at Karachaganak. Public organizations participate in these operations. In addition, KPO holds regular Environmental Impact Assessments, during which, they conduct research on biological diversity, where it is expected to implement the next project.

-How do state agencies, particularly the Environmental Ministry, evaluate KPO's execution of its responsibilities in terms of ecological operations at the field?

-Last year, the Environmental Protection Ministry became acquainted with the operation of the Karachaganak Processing Complex and that of the waste recycling complex at this location. The ministry acknowledged that KPO is a serious company that allocates significant amounts of funds to its natural conservation goals. At the same time, during this visit, a memorandum of mutual understanding was signed between the ministry of Environment Protection, the WKO authorities and KPO.

In accordance with the Memorandum, KPO will implement a set of additional projects for the purpose of attaining a further consolidation of the ecological balance at the field, and will allocate an additional \$30 million to carry out ecological projects.

-There are also inhabited settlements on the Russian side of the border, not far from Karachaganak. Are you cooperating with Russian ecological agencies?

-Yes, and very intensely. For example, at the beginning of March, representatives from KPO, the West Kazakhstan Oblast Department of Nature Conservation and from the Orenburg State Inspection on Nature Conservation discussed the process toward the fulfilment of the joint protocol as signed during February 2005 by the ecological and executive agencies of Orenburg, the West Kazakhstan Oblast and KPO.

The Orenburg population had noted that the fulfilment of the protocol agreements has allowed for decreasing the level of ecological impact, which has been confirmed by the results of the regional air monitoring as well as a significant decrease in complaints on the part of the local population.

CHAPARRAL RESOURCES GENERAL DIRECTOR ELECTED



The Board of Directors of Chaparral Resources has come to a decision to elect Boris Zilbermints, who had been a member of the company's Board of Directors, as the general director, a LUKOIL press release reported.

Mr. Zilbermints has replaced Simon Jill in this post, who resigned shortly after Caspian Investments Resources Ltd. had purchased Nelson Resources Limited, which had owned the majority of shares in Chaparral Resources.

Thus, Boris Zilbermints holds two offices at present – the Kazakhstani Regional Director of the LUKOIL Oversea Holding Ltd. and the General Director of Chaparral Resources.

As was reported earlier, at the end of last year, the Russian LUKOIL JSC carried out all required procedures and conditions, including the approval of the purchase of a 100% stake in Nelson Resources Ltd. from its previous shareholders and the Kazakhstani government, and thus completing the deal. Consequently, LUKOIL has obtained full control over the property and projects of Nelson Resources Ltd.

NEW APPOINTMENT MADE AT BG GROUP

The top management of the BG Group has undergone some changes recently. Dave Roberts, who had served as the Executive Vice President and Managing Director for Asia and the Middle East ever since January 2003, has left BG to take up another position in the industry. Mark Carne has been appointed as the new Executive Vice President and Managing Director for Europe and Central Asia of the BG Group.

The BG press service said that Mr. Carne will be in charge of the Central Asian region, specifically the subsidiary – BG Kazakhstan.

In a letter to his colleagues, the members of the Contractors Committee (ConCom), Concom Chairman Lewis Affleck

expressed his confidence that with the newly appointed Marke Carne, the development of the Karachaganak field will gain a new impulse for its further development and the partnership will become more effective for the good of all companies in the project.

The BG Group operates in four different directions – the development and production of gas, the production of liquefied natural gas, and the transportation and distribution and production of electrical energy. The company operates in 20 countries on 5 continents, and the main geographical regions are Great Britain, Kazakhstan, Egypt, Trinidad and Tobago, South America and India. At present, the BG Group is



the operator of the Karachaganak gas condensate field in Kazakhstan, jointly with the Italian Eni (32.5%) and is also a shareholder in the Caspian Pipeline Consortium (CPC) (2%).

THE HEALTH OF PERSONNEL IS UNDER PROTECTION



Many believe that the production at Karachaganak merely entails the production of hydrocarbons, the transportation of oil and the drilling of new wells. And this is a correct assumption! However, not everyone knows that KPO's effective production operations would be impossible without the coordinated assistance of numerous company departments aimed at making the production cycle operate smoothly.

We have noted many times in the past that KPO is a huge organisation with a complex organisational structure and many different departments, each of which is a connecting link in the work necessary for the successful fulfilment of production goals. There are people whose contribution is unseen at first glance, but when one takes a closer

look, he/she begins to understand how vitally important it is.

As our readers have noticed, we try to publish materials on the work and functions of various KPO departments, on important events taking place at the field and company employees that have made contributions toward the realisation of a project. In this issue, we will discuss the KPO Health Protection and Labour Hygiene Group, which is based at Pilot Camp at the Karachaganak field. We met with Gulnara Gabdullina, a lab coordinator, who informed us on the work conducted by the staff of the lab.

- Gulnara, tell us about your group – how many people work there, and what are your responsibilities?

-There are 11 people in our department. All of our employees possess higher and specialised education in the area of medicine and biology. The head of our group is Robert Hanson. He is a first class expert and has many years of experience. There are also 2 laboratory coordinators, 4 labour protection and production hygiene specialists, and 4 industrial hygiene technicians. Our group pinpoints harmful production variables and conducts operations geared toward the timely discovery of any conditions with the potential to bring harm to the health of our personnel. We also conduct regular inspections at the canteens on the Karachaganak territory and beyond. At the shift camp, where KPO employees live and eat, our qualified experts observe the quality of food products that is supplied with attention, and periodically conduct the monitoring of the observance of sanitary hygiene norms on the part of all contractor organisations, thus controlling all sanitary requirements in regards to catering as well as all production processes.

While recruiting a contractor, we observe background radiation at production facilities on the field, including the Unit-2, Unit-3 and KPC and others. Health protection is a company priority. For the purposes of the prevention of diseases, we strictly observe regulations requiring personnel to undergo medical examinations at medical institutions in Aksai and Uralsk.

- As far as we have been informed, your own sanitary lab recently began working. Please tell about this work and its importance.

-Indeed, our group possesses its own lab. We have worked for 2 years now to create it. We have obtained a state license for conducting sanitary hygiene work in connection with Karachaganak production operations. Our lab uses the most modern mobile equipment for determining harmful production variables. During a visit to the lab, one would not even know that he/she is in a laboratory, since no chemical smell is present. There are also no chemical agents or flasks. However, our lab has equipment with the capability of determining the presence of harmful elements that could affect company employees during the process of their work. We also have the ability to detect chemical compounds in the air. All of our equipment has been included into the State Register, which allow us to use it on the territory of Karachaganak.

- We have heard that you have equipment that is being used in Kazakhstan for the first time ever...

-You must be referring to the GANK-4 universal gas analyzer, which is used for determining the presence of chemical compounds in the air. This device was made in Russia and is also being used at the Baikunur launching site. In our opinion, this is an excellent, convenient device that allows for detecting over 24 different chemical ingredients without using complex and inconvenient methodology or sample selection systems. With the help of this device, we hope to evaluate the working condition for the company personnel".

- What programmes were developed at your lab?

-Our lab developed sanitary hygiene monitoring programmes, radiation monitoring as well as catering inspections, and all have been agreed upon with regulatory agencies. As of last year, we have started the development of some new programmes in conjunction with contractor organisations, and this year, contractors will only conduct radiation monitoring as we plan to do the rest by ourselves. This is our contribution to Business Improvement Plan, announced by the company last year, which stipulates cost reduction in operational expenses. I would like to add that despite the fact that our lab appears small, we have established ambitious goals and hope that they will all be realised successfully in the near future.

- Gulnara, thank you for your time to talk to us, our newspaper would like to wish the best of success to yourself and your colleagues toward the realisation of all plans and programmes.

KPO LIQUID MUD PLANT

KPO has acquired the Liquid Mud plant (LMP) situated within the Waste Management Complex (WMC) located in the Karachaganak field.

This purpose built structure has been engineered and built to supply drilling mud, brines and cement chemicals for the drilling and work over activities performed since the 2002.

The scope of service of this structure is to provide the drilling fluids but at the same time recycle, treat, condition and store used fluids which can be re-used again in the activities.

The benefits already demonstrated to date include cost reduction, waste volume reduction and allow prompt access to fluids and chemicals.



The new acquisition is a state-of-the-art facility comprises of 3000 sq m winterized warehouse, 1200 T Capacity bulk storage tanks for fluids and dry chemicals, bulk cutting facility, 360 m3 drilling fluid processing tanks, 2560 m3 liquid storage and processing tanks, mixing pumps and other items of equipment used in the preparation and treatment process and additional equipment

used to treat and minimize liquid waste (centrifuges, filtering and flocculation units)

The acquisition of the complex will ensure the future management of drilling and work over fluids together with the safe disposal of any waste products in line with KPO's commitment to protect the environment in which we operate.



KPO LAUNCH NEW TRAINING PROGRAMME

As it is known, KPO's Personnel Nationalization Programme provides for gradual replacement of key positions held by expatriates by Kazakh specialists. Those KPO employees who demonstrated high performance and potential will have a possibility to further develop their career and participate in the Project's management.

In the framework of the Nationalisation Programme, KPO's Training Centre has recently launched a new Training Programme named International Management Qualification accredited by the Institute of Leadership & Management (ILM), a worldwide recognised awarding body based in the UK. The Institute of Leadership & Management is an awarding body which aims to build leadership and management at the individual, team and organisational levels.

Along with KPO representatives, the official opening of the programme was attended by CAPC representatives and Amanda Kellehr, Regional Manager of Central Asia & India of ILM. During the presentation Delio Guarnieri, the KPO Training & Development Manager, pointed out that the Programme would lay the foundation for



management development, introducing working models specially designed for participants across the Venture, with limited supervisory experience or likely to become team leaders or supervisors. The programme is structured on the basis of one year and at the end, the participants will gain the IMQ Certificate in Management. This year, the participants will attend 5 key areas for a total duration of 150 hours, spaced with working periods in the departments. Each of them is based on an interactive methodology, with workshops and one to one coaching session. During the normal working periods the participants

will carry out some assignments to be evaluated.

The programme is to be delivered by CAPC, the only licensed Kazakh Company in Central Asia based in Almaty. CAPC is an important contractor of KPO which provides not only training programmes, but also services not related to training activities.

According to the organisers of the training, the Programme will be attended by 40 Kazakhstani employees representing various departments of KPO. The participants have been selected through an accurate analysis of the development plans and the KPO needs.

ENSURING FULFILMENT OF ECOLOGICAL LIABILITIES

A session under the chairmanship of the Head of the administration of the Ilek region, Vladimir Yeremin, and the Akim of the Burlinsk region of the WKO, Kairgali Imashev was held in the beginning of March in the Russian village of Ilek with participation of delegations from Karachaganak Petroleum Operating B.V. (KPO), the Western Kazakhstan Oblast Environmental Protection Department (WKO EPD) and Orenburg Oblast Environmental Protection Department. During the session the participants discussed the process for fulfilling the joint protocol as signed in February 2005 by the ecological and executive agencies of the Orenburg and WKO Oblasts and KPO. Representatives from the Ilek regional community and Russian journalists were also present at the meeting.

The Director of State Inspectorate on Natural Conservation of the Orenburg Oblast, Sergei Antonov noted in his speech that "the implementation of the protocol's agreements has reduced impact on the environment, which has been confirmed by monitoring results on the air basin, as well as by a significant decrease in complaints on the part of the local population."

The KPO Environment Manager, Steve Pearson reported on measures geared towards the maintaining the ecological balance at the Karachaganak field. As Steve



Pearson noted, "KPO is diligently fulfilling its responsibilities, as agreed upon in the mutual protocol."

"With the state-of-the-art experience and technologies brought by the consortium's partners, KPO intends to reach world-class environmental performance. Today, KPO is aiming at becoming the leader in the national oil and gas sector, and is creating a new environmental protection strategy. Over the last few years, the company has invested more than US \$500 M into the implementation of various projects that contribute to improving environmental performance of the venture, promote the rational utilizations of natural resources and provide for the strict fulfillment of environmental obligations in full accordance with the FPSA (Final Production Sharing Agreement)", added Steve Pearson.

The Deputy Chief of WKO EPD Alexandr Potyakin explained that modern nature conservation techniques have allowed achieving a significant reduction of emissions at Karachaganak.

For example, the commissioning of the flash gas compressors at the Unit-3 plant have allowed for a decrease in the level of emissions by almost 20 times. "This is a positive trend, but we still should not stop at what we have gained," Mr. Potyakin added.

During the seminar, the participants also discussed the plans for 2006 including continued exchange of information, conducting of joint air sampling and organising a trip to Karachaganak for the Ilek community representatives.

As it is known, KPO pays great attention to protecting the natural environment of Karachaganak. The state of the air, soil and water is tested regularly by various parties within the framework of the Production Monitoring Programme approved by the RoK state ecological and epidemiological agencies.

The monitoring results have demonstrated that KPO is conducting its production operations in complete accordance with the RoK and international standards.