



PUBLIC CONSULTATION AND DISCLOSURE PLAN

: including summaries of Public Relations/Communications Programs and KIO Programs contributing to Socio-economic Development





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1. INTRODUCTION

This document describes the Karachaganak Integrated Organisation (KIO) and its social development programmes in the role as the developer of the Karachaganak oil, gas and condensate field.

Karachaganak Integrated Organisation (KIO) is a joint venture between BG (32.5%), ENI (32.5%), ChevronTexaco (20%), and LUKOIL (15%). In Kazakhstan, KIO operates as Karachaganak Petroleum Operating B.V. More details about KIO's parent companies is given in Appendix 1.

KIO oversees the expansion and development of the Karachaganak field - one of the world's largest oil and gas condensate fields, which is located in North West Kazakhstan and holds over 1.2 billion tonnes of oil and condensate and more than 1.35 trillion cubic metres of gas.

KIO's operations are regulated by a Final Production Sharing Agreement (FPSA) between the Partners, who have come together as Contractors to the Republic of Kazakhstan, and the Authority for Kazakhstan, which is the Ministry of Energy and Mineral Resources.

The development is bringing income to both the local and national economies, providing long-term jobs for Kazakhstan's citizens. At the peak of construction, the project may provide up to 17000 jobs, of which about 80% will be Kazakh.

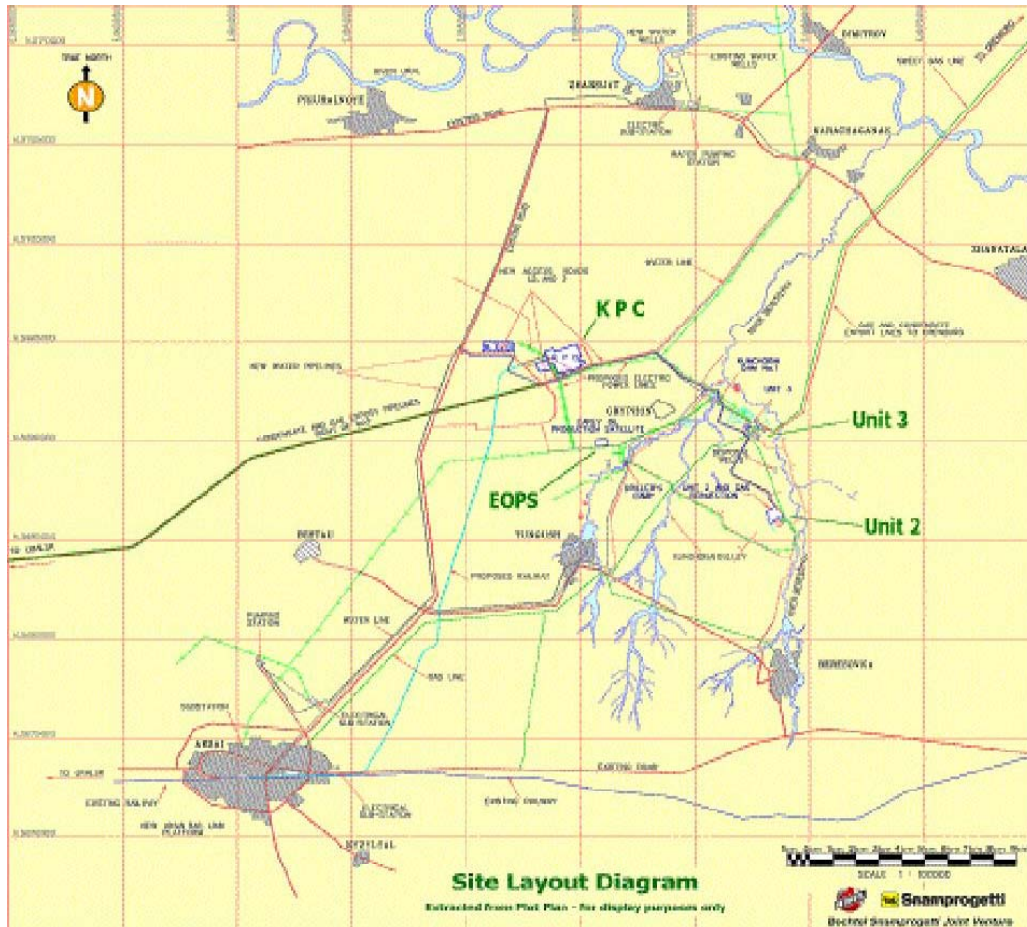
2. THE KARACHAGANAK FIELD

Karachaganak is one of the world's largest oil and gas condensate fields, situated in West Kazakhstan. It was discovered in 1979 and covers an area of 280 square km. Karachaganak holds over 1.2 billion tonnes of oil and condensate and more than 1.35 trillion cubic metres of gas. The field is located within the fertile Pre-Urals steppe zone. About fifty percent (50%) of the territory of the area is used for field husbandry, forty percent (40%) as meadows and pastures and the remaining ten percent (10%) is taken by villages, woods, roads and infrastructure buildings.

The field is geographically situated to the Northeast of the cross-section of 51 parallel North and 50 meridian East.



The field is 16 km from Aksai town, 150 km from Uralsk and at elevation of between 80 and 130 m. The closest populated areas are: Tungush (2km), Berezovka (5km), Uspenovka(12km), Karachaganak(7km), Zhanatalap(8km), Zharsuat(11km) and Bestau(8km) from outer equipment boundary.



The Karachaganak field has been in production since 1984. Processing facilities include a gas and condensate separation facility, Unit 3, and a network of gathering system of pipelines and wells. Current production is exported by pipeline to the Orenburg Processing Plant located 130 km North in Russia

3. FINAL PRODUCTION SHARING AGREEMENT & FORMATION OF KIO

On 18 November 1997, a 40-year Final Production Sharing Agreement (FPSA) was signed between the Republic of Kazakhstan, and a consortium of partners comprising ENI (32.5%), BG International (32.5%), ChevronTexaco (20%) and LUKOIL (15%). These partners have teamed up to form the Karachaganak Integrated Organisation, or KIO. In Kazakhstan, KIO operates as Karachaganak Petroleum Operating BV.

The FPSA covers the further development and exploitation of the field with the key elements comprising the following:

- Provision for a 40-year contract from 1998-2037 (inclusive)
- Phased development commitments
- \$10 million annual investment in social projects
- Environmental Management Plan
- Provision of 20 MW of electrical power to Aksai township
- Employment and training commitments.

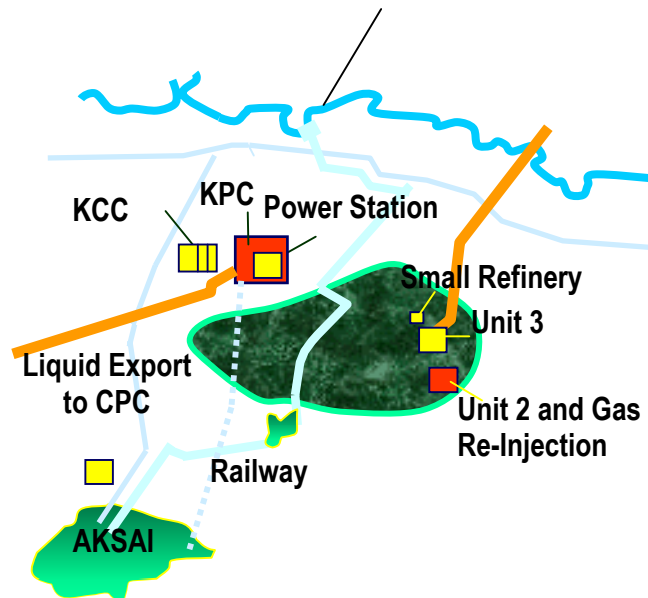
4. PROJECT MILESTONES

- 1979** Discovery of the Karachaganak Field
- 1985** Production commenced, with limited quantities of gas and condensate exported to Orenburg in Russia
- 1992** Kazakhstan Government enters agreement for ENI and BG to negotiate a Production Sharing Agreement
- 1995** Product sharing principles agreement signed whilst negotiations continue
- 1997**
 - Texaco and Lukoil joined the international consortium
 - Final Production Sharing Agreement (FPSA) signed in November, giving KIO a 40-year licence
- 1998** FPSA becomes effective
- 1999** Preparatory work commences
- 2000**
 - Main works contract awarded
 - KIO senior management team moves to Aksai
 - Monthly condensate production record set at 483,000 tonnes, daily production record reaches 16,730 tonnes
- 2001**
 - Prime Minister of Kazakhstan K. Tokayev visits the Karachaganak field
 - 28 kilometre rail link from Aksai to the Karachaganak field completed
 - KIO receives international award for safety performance
 - The President of Kazakhstan N. Nazarbayev visits Karachaganak and opens new power station

- 2002 Target date for gas re-injection to commence
- 2003
 - Target date for production of oil from new facilities
 - Target date for export to Caspian Pipeline Consortium (CPC) to commence
- 2038 End of 40-year Agreement

5. FIELD DEVELOPMENT PLAN AND ITS PHASES

The Field Development Plan provides for completion, refurbishment and improvement of existing facilities and for major construction programme of new facilities. When completed, the Karachaganak field will be equipped with wells, facilities and processing, that will increase production. Maximum liquid and gas rates of 12 MMTY (million tonnes per year) and 25 BCMY (billion cubic metres per year) should be achieved according to the Plan by 2005 and 2010, respectively. The plan also provides for the re-injection of up to 10 BCMY of sour separated gas by year 2010.



Phase 1 - period from 1995 to 1997, Production Sharing Principles Agreement.

Phase 2* - period from the effective date of the FPSA until the Phase 3 commencement date. This Phase is assumed to end at the delivery of first oil from the Karachaganak field to CPC (end of 2003).

Phase 3 - period from the Phase 3 until the Phase 4 commencement date.

Phase 4 - period from the end of the Phase 3 to the end of the FPSA (18 November 2038).

*Current Phase

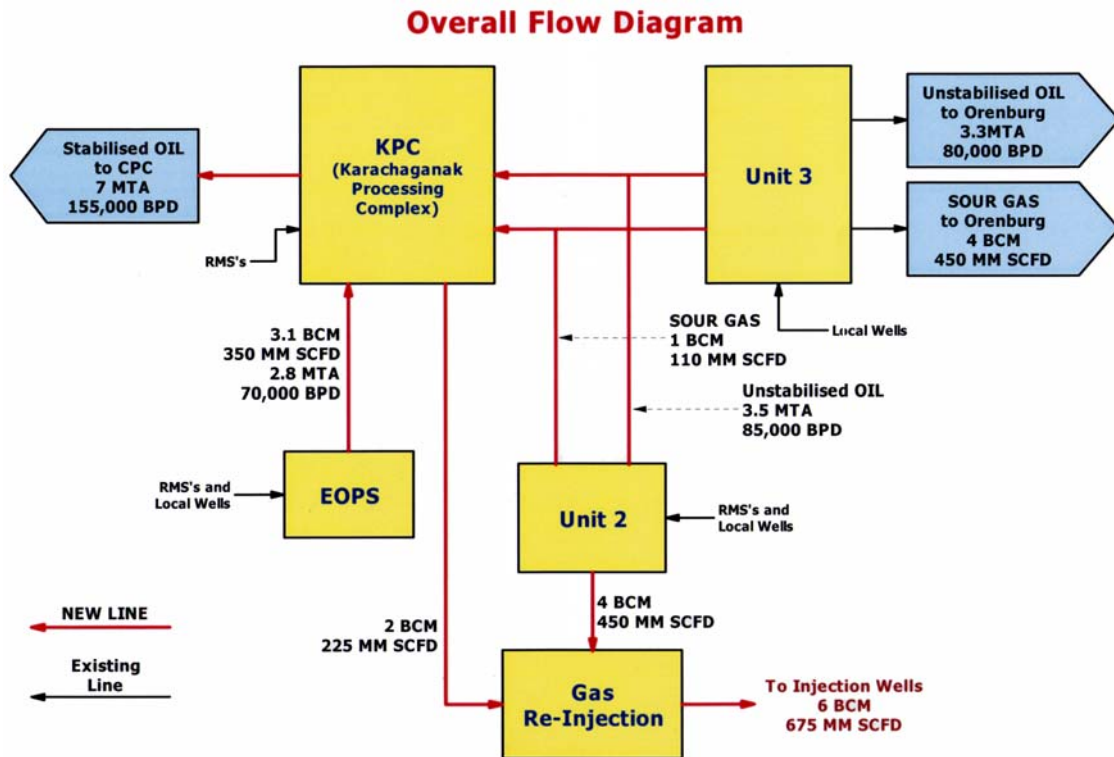
6. PHASED COMMITMENTS AND KIO CAPITAL INVESTMENT

Phase 1	▪	\$ 0.16 billion
Phase 2	<ul style="list-style-type: none"> ▪ Final Production Sharing Agreement ▪ Liquid Treatment Plants for 7 MTY ▪ Liquid Export Pipeline to Atyrau via Bolshoi Chagan ▪ Liquid production for 9 MTY ▪ Gas re-Injection capacity for 6.5 BCMY ▪ Power Plant and 20 MW for Aksai 	≈ \$ 3.5 billion

7. PHASE 2 OF THE FIELD DEVELOPMENT

Phase 2 of Karachaganak development has four main components:

- KPC, which is a processing plant for liquids
- Unit 2, a gas injection unit comprising 3 compressors capable of high pressure injection (550 bar)
- 635 kilometres of Export Pipeline to tie into the CPC pipeline
- About 100 worked over wells including some with new horizontal side-tracks.



8. PRODUCTION FACILITIES

8.1 Unit 3

Unit 3 separates liquid hydrocarbons, coming from the wells, into gas, oil and condensate. The separation process is carried out in four processing trains. Dehydrated gas from Unit 3 is exported via two pipelines to Orenburg Gas Processing Plant for further processing. At the first stage, separated condensate is partially stabilised at the Main Pump Station. After this, condensate is pumped to Orenburg via three condensate pipelines. Currently, Unit 3 is capable of producing 4.5 -4.7 billion cubic metres per year of gas and 4.6 - 4.8 million tones per year of condensate. Over the past few years KIO has made several improvements to Unit 3 including new control, fire detection and protection systems.

8.2 Production Facilities - Unit 2

Unit 2 is a gas and liquid hydrocarbon separation plant which, as yet, is only partially constructed. The overall size of the site is approximately 1 square km. Unit 2 is the facility where the gas recompression equipment is located.

The other main equipment at Unit 2 comprises the slug catchers for oil/gas separation and glycol contactors for sour gas dehydration prior to re-injection.

The gas compressors are manufactured by Nuovo Pignone and are close to the current limits of proven technology. There are three units operating in a parallel configuration. Each unit has a capacity of 2.2 billion cubic metres per year. The suction pressure is 70 bar and the discharge pressure will be 550 bar. The compressors are three stage with interstage air-cooling.

8.3 Production Facilities - Karachaganak Processing Complex (KPC)

The final production facility in the field is the Karachaganak Processing Centre, known as KPC, which is located on the NorthWest edge of the field area. This is the main processing unit, which will enable the stabilisation of condensate bringing its specification up to export standard. The overall size of KPC is about 1.5 km by 1km. The newly constructed railway finishes alongside KPC. Although there is a lot of equipment at KPC most of it is the standard type of equipment one would normally expect to see in any condensate/gas-processing unit. One difference is the power station.

KPC will handle its production through infield flow lines, from producing wells and unstabilised liquid hydrocarbon supplied from Units 2 and 3.

8.4 KPC Facilities

8.4.1 Inlet Facilities - the produced fluids will be transported from the Field to KPC through a network of trunk lines. The inlet facilities are designed to handle high, medium and low-pressure streams and have slug catchers for primary separation.

8.4.2 Sour Gas Processing Facilities comprising of the high, medium and low-pressure gas dehydration units, dew point control trains and outlet gas compression units.

8.4.3 Gas Sweetening Facilities to reduce the hydrogen sulphide concentration, mercaptan and sulphur content.

8.4.4 Liquid Hydrocarbon Processing System stabilises and sweetens the liquid hydrocarbon coming from the wells.

8.4.5 Liquid Hydrocarbon Sweetening Plant splits stabilised liquid hydrocarbon into a gasoline stream containing the odorous mercaptan products and a heavy crude oil portion.

8.4.6 Stabilised Liquid Hydrocarbon Storage - floating roof tanks with a capacity of two days of liquid hydrocarbon that is normally sent through the export pipeline.

8.4.6 Utilities include:

- Flare and venting system
- Cooling water system
- Fuel gas system
- Instrument and plant air system
- Water treatment system
- Potable water treatment
- Rain water drainage system
- High salinity waste water system
- Boiler blowdown system
- Closed drain system
- Oily water treatment
- Produced water treatment
- Sewage treatment system
- Water disposal system
- Nitrogen system
- HP steam system
- Steam liquid hydrocarbon recovery system
- Chemical and additive storage
- Diesel fuel system
- Fire-fighting system

8.4.7 Power Plant

The new power generation plant will be capable of providing power to all electrical loads associated with the field (except the gas re-injection compressors) as well as providing 20 MW of power to the local township of Aksai in accordance with the Final Production Sharing Agreement.

The plant consists of two turbine halls, 110 kV switchyard, main switchgear building, low voltage building, fuel gas compression building, emergency diesel generator building, two 1,250 m³ diesel storage tanks, and a

boiler house. Electrical switchgear is provided at the 110 kV, 35 kV, 6 kV and 400 volt levels. Other facilities provided include a Fire and Gas detection system for all areas, CO2 extinguishing for the turbine generator enclosures, CO2 extinguishing for the diesel generator building, fire water system, communication system, air, and nitrogen systems.

8.5 Support Facilities - Karachaganak Construction Camp (KCC)

The Karachaganak Construction Camp, KCC, is located approximately 30 km from Aksai. It has been built to accommodate the employees of the Main Works Contractor (approximately 5000 people), the Drilling Contractor (approximately 800) and the KIO Development Team (200 people) who are responsible for construction activities in the field. The camp is self sufficient with all utilities such as power supply, potable water system and sewage treatment.

8.6 Export Pipeline

The Export Pipeline consists of 635 km of 24" pipe running from Karachaganak Processing Complex (KPC) to Atyrau. There will be two pumping stations; one at KPC and Bolshoi Chagan; and a receiving and storage facility located in Atyrau. In Atyrau, the line connects to the Caspian Pipeline Consortium (CPC) system, which will transport the oil to Novorossiysk where it will be loaded into tankers. Nominal capacity is 7MTY.

8.6.1 KPC to Bolshoi Chagan Pipeline - 181 km

Defines as part of the FPSA, signed with RK in November 1997. The pipeline can deliver oil to KazTransOil at Bolshoi Chagan for delivery to Samara or into the Bolshoi Chagan to Atyrau line for delivery to CPC.

8.6.2 Bolshoi Chagan to Atyrau Pipeline - 454 km

Amendment to PSA - Approved December 1999

Transports oil from Bolshoi Chagan Pumping Station to Atyrau for delivery into the CPC pipeline system.



- Existing Pipeline to Orenburg
- Pipeline Samara - Atyrau
- CPC Pipeline
- KIO Export Pipeline

9. PRODUCTION

New records have been set both for the production of gas and condensate from the Karachaganak Field and for sales revenue.

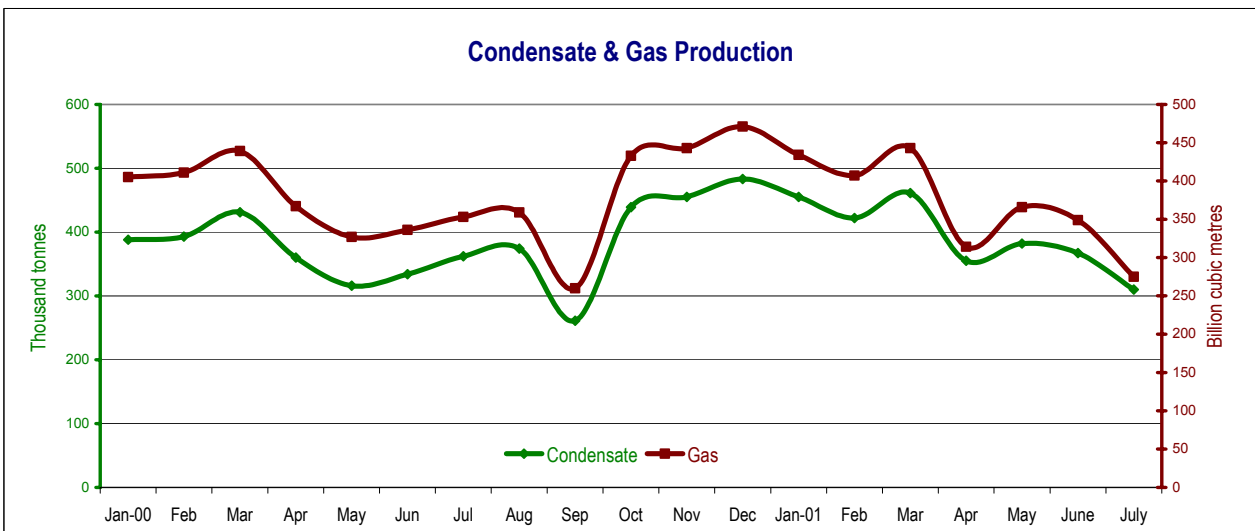
Existing production facilities at Unit 3 have now undergone a major refurbishment and this, coupled with the introduction of international expertise, saw production of condensate rise to nearly 4.6 million tonnes in the year 2000. Gas production for the year also hit record levels at 4.6 billion cubic metres.

In the year to August 2001, the Karachaganak field contributed 50 per cent of the total gas production in the country and 13 per cent of the condensate*.

10. MARKETING

All sales from the Karachaganak project are managed by KIO's marketing team that has offices in London, Moscow and Aksai.

At present, the only outlet for the Karachaganak field products is through the processing plant at Orenburg, but this will not always be the case. A new pipeline is now being built to link Karachaganak with export facilities on the Black Sea coast at Novorossiysk via the CPC's pipeline. This will allow access to international markets when the new production facilities commence operation and production volume is increased considerably.



*Over 2.7 million tonnes of condensate and 2.5 billion cubic metres of gas was delivered in the seven months to August 2001.

11. MANAGEMENT OF HEALTH, SAFETY & THE ENVIRONMENT

Since agreement of the FPSA in 1998, KIO has undertaken many initiatives aimed at protecting and improving health, safety and the environment (HSE). These initiatives seek to minimise the adverse impact of operations on the people, air, soil and water environments.

KIO has focused its efforts on tackling some of the difficult and previously unresolved legacy problems left by the previous operator at the time of collapse of the Soviet Union. The other focus has been on implementing new technology within the development programme for the Karachaganak field that minimises HSE impacts.

New technologies are being employed to reduce emissions. These include the use of "Green Burners" for essential flaring of hydrocarbons during various well operations; the planned installation of a methanol-water-

condensate regeneration unit at a cost of \$5 million and an additional flash gas compressor at a cost of \$5,5 million.

Since 1999, KIO has implemented an extensive tree planting and re-greening program within the Karachaganak field. At the end of 2001, KIO had planted almost 90 hectares of trees with an approximate expenditure of \$800,000. This was achieved using local suppliers and labour. The company has conducted an extensive land reclamation programme at a cost of approximately \$500,000. This includes reclamation of, over 185 hectares of disturbed land at various sites within the field, which were inherited from previous operations.

Additionally, in excess of \$100,000 has been spent on research by national experts, to identify possible methods for remediating a particular disturbed land site of 53 hectares which is also a legacy from previous operations. The site known as the 'Gryphon' has been successfully cultivated with various test crops. The results have been encouraging with the prospect of having a long term solution for the Gryphon and insight into measures that could help restore the fertility of the land more broadly within Kazakhstan.

After assuming operation of the Karachaganak Field, KIO instituted a program to remove obsolete abandoned drilling rigs, which had been left by the previous administration. By the end of 2001, 23 drilling rigs will have been removed at a cost of approximately \$2 million and an additional 38 hectares of land reclaimed.

KIO has commissioned several flora and fauna studies to ensure that its operations are not adversely affecting the flora and fauna, which exist in the Karachaganak Field and nearby environs.

The company has an extensive monitoring program in place, undertaken by local specialists, to continuously monitor air, soil and water quality. The results of the monitoring show minimal impact on the environment within the field area and beyond.

A close working partnership has been developed with the relevant government control agencies and KIO is also working with local communities, universities and institutions to develop the field for the benefit of all involved.

KIO is equally committed to achieving world class performances in health and safety. During the year 2000, the lost time incident frequency rate for the whole project was cut to 0.63 compared with 1.09 the previous year. In 2001 KIO effectively sustained this world class performance against the background of a large increase in the size of the workforce. KIO's ultimate goal is to create a workplace where employees and contractors are injury free.

12. NATIONALISATION

12.1 Background

It is clear that KPO's success will always depend on the performance of a highly skilled and multi-cultural workforce. However, the mixture of the workforce will change due to the planned reduction of expatriate staff and their replacement by national staff. KIO is dedicated to developing and training national employees in order to promote them to higher levels of responsibility and provide resources for the future success of the Company. This commitment is fulfilled through KIO Nationalization Plan which also addresses a recurring theme of the public consultations and hearings about employment opportunities for Kazakh nationals. The plan is divided into four key areas:

- Recruitment of the best people
- Provision of individual development programmes
- Provision of the necessary training
- The timely introduction of Kazakh nationals into key positions.

The continuous training and development of this changing workforce is therefore an essential focus of management attention.

To underline its commitment to the plan, KIO has appointed a Kazakhstan liaison manager and his task will be to drive through the nationalisation programme. A great deal of effort has been dedicated to develop a comprehensive Nationalization Plan as part of KIO's obligations within the Final Production sharing agreement. The objectives of the plan are:

- To transfer knowledge to the Kazakh workforce.
- To train the Kazakh workforce to meet KPO's business objectives.
- To meet contractual FPSA obligations

The successful implementation of the plan will reduce the expatriate workforce while promoting national employees to higher levels of responsibility and professionalism within KPO. An eight-year plan has been developed with annual targets for all expatriate positions targeted for Nationalization. The overall targets are detailed below.

Management	40%
Professional and Supervisory	60%
Skilled and Technical staff	70%
Support and clerical staff	100%

Government officials complimented KIO on the plan, which they said was the first to contain such a detailed programme for replacement.

12.2 Training Centre and Teaching staff

KIO has a dedicated training and development department housed in a modern training centre. There is a large team of administration and teaching staff including:

- 6 English Language teachers
- 6 English language teachers (Local)
- 22 Oil and Gas specialist trainers
- 25 Technical interpreters/translators (Local)
- 1 Senior HR officer (Local)
- 1 Receptionist (Local)
- 1 IT trainer (Local)
- 1 Reporting officer (Local)
- 1 Facilities support officer (Local)
- 3 Driving Instructor's (Two of them Locals)
- 1 Training Co-ordinator (legislation specialist)
- 1 Librarian (Local)

12.3 Training facilities

The majority of training takes place within purpose built facilities. The Facilities were expanded in 2001 to include a modern Language Laboratory, a sophisticated Honeywell Distributed Control System (DCS) Process Simulator (estimated cost in excess of \$1m), four classrooms to conduct Electrical, Mechanical, Instrumentation and Production training courses. There are large workshops for practical skills training including lifting and slinging, forklift truck operation and scaffolding erection/inspection programmes.

The centre comprises:

- Three English language classrooms for up to 20 students
- One fully equipped IT training room with nine student computers and one tutor machine with electronic projection capabilities.
- Two large conference/training room that accommodates up to 32 students where technical programmes are conducted

- One fully equipped First Aid training room for up to 20 students.
- An Open learning centre with four multimedia-training machines and an English language resource and technical reference section.
- A large conference room for briefing up to 100 staff
- A driver assessment and training office
- Two classrooms for Managerial and soft skills training
- A fully equipped Instrument and Electrical training laboratory
- Dedicated Lifting and Slings, Scaffolding and Forklift training area
- Breathing apparatus and basic fire extinguisher training area

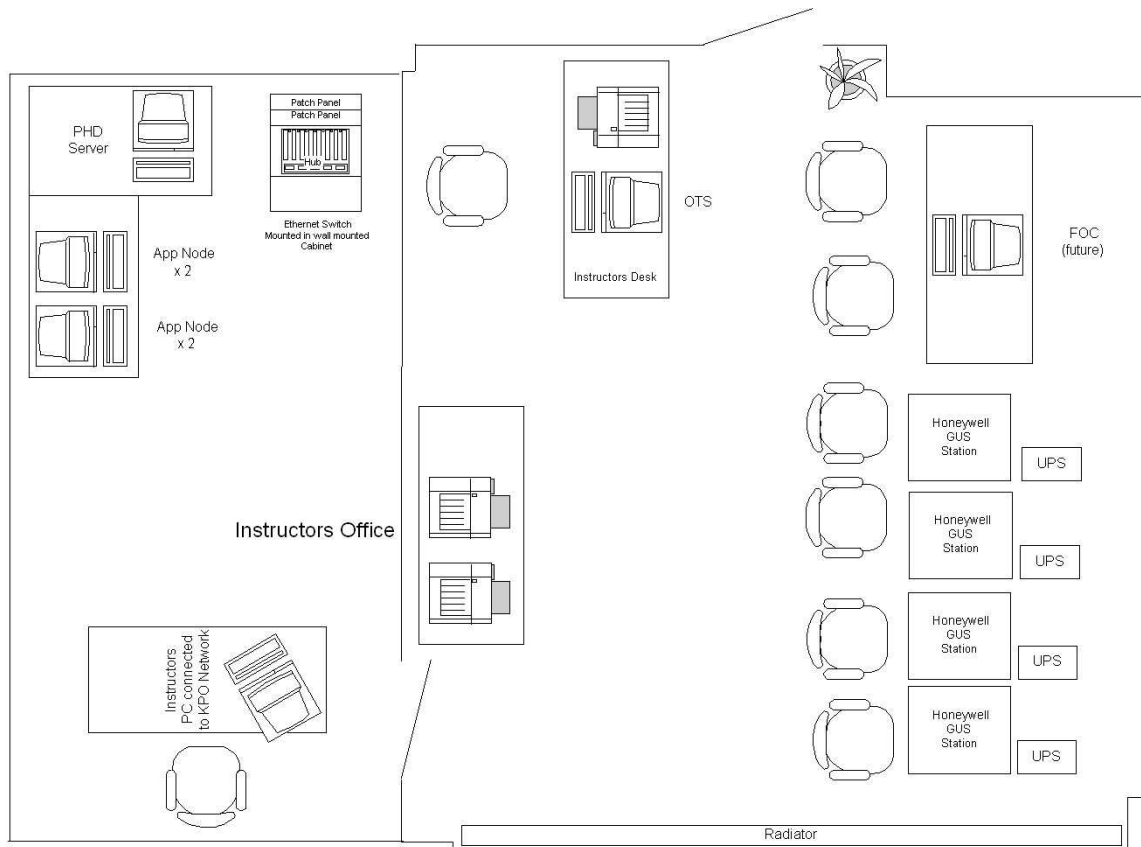
There are also additional facilities available at the Work sites.

12.3.1 DCS Process Simulator - Production Process Training

The Honeywell production process simulator was delivered to site in December 2001. A dedicated simulator training facility has been set up in the training centre (see layout drawing) This state of art facility will be used throughout 2002 to provide the 32 Control room supervisors with the appropriate skills and competencies to operate and control Unit 2 and KPC production facilities.

The first group of trainees (16) have undertaken their preliminary training in the UK. They will now be given more advanced training on the DCS Process Simulator in Kazakhstan covering steady-state and plant upset conditions. A second group of trainees (16) will commence the UK based element of their development in January 2002. They will remain in the UK for eight months before returning to Kazakhstan to undertake further training on the simulator.

The simulator instructors for Unit 2 have written forty-six operational scenarios, and supporting training workbooks. A further eighty similar training modules will be prepared for KPC and pipelines. The simulator will play a vital role in ensuring that the new process units are controlled safely and efficiently, and it will be incorporated into future emergency training exercises.



12.4 Career Development

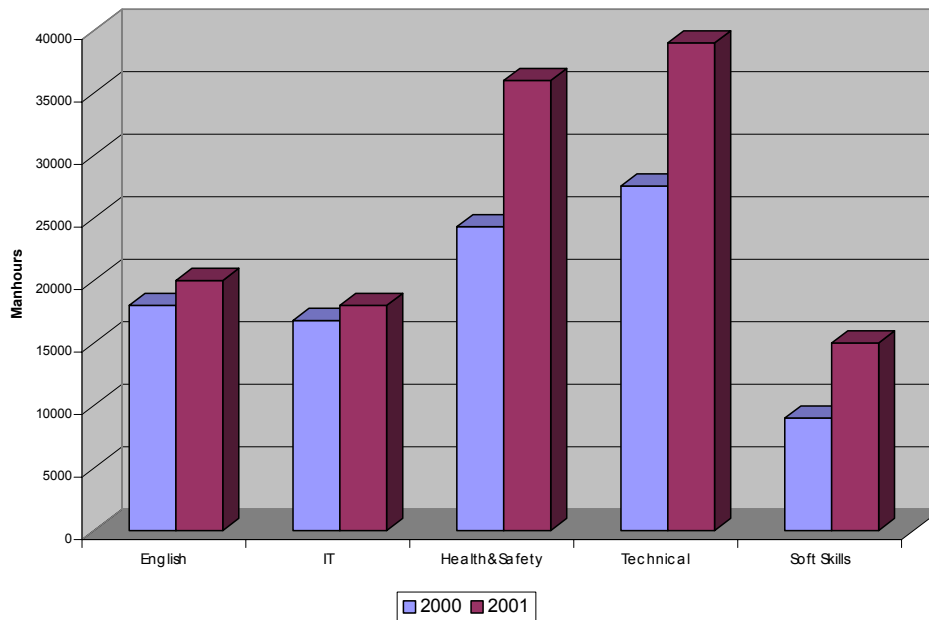
The implementation of a Career Development Process will ensure that employees have the appropriate competencies aimed at helping them progress and succeed. By producing an Individual Development Plan, employees can set out clear and realistic career goals and ensure that training is targeted at achieving these goals. These plans include all the required stages for achieving a particular level or position. Knowledge, motivation, work experience, and professional / technical skills at work, are taken into consideration in building the necessary competencies required for success. Training requirements will be continuously identified throughout this development process.

Training is an essential tool in support of the Career Development Process. Targeted training will develop functional and generic competencies and improve employee performance and ensure that most of the Venture's future human resource needs can be met from within Kazakhstan. Focused training will reduce the learning time for employees starting new jobs by appointment, transfer or promotion

12.5 Summary of Main 2001 Activities

The Training and Development Centre arranged and conducted over 23,895 man-days of training this year. This is an increase of almost 30% of man-days over year 2000.

Training Activity Comparison 2000/ 2001



All of the training conducted falls into several areas:

12.5.1 Safety - this type of training is regarded as essential for all personnel and includes various safety and induction topics. In summary expected action to be carry out during 2002 are split into three sections as following:

1. Current program continuing well into next year (Operations and Maintenance) and comprise Induction, KPO Safety Policy, H2S Awareness and Certification, General Safety Awareness and Inspections, Assessed Permit to Work. In addition, the Production / Gas Rescue Operators, will also cover Emergency Life Saving First Aid, and Competent Gas Testing courses.
2. "Training Needs Analysis" for KPO National employees. The various national job groups identified 47 different HSE course modules - as being potentially required -.
3. Driver training and formal assessments will continue well into 2002 as well.

12.5.2 Technical And Professional - this type of training enables individuals to carry out all of their duties to Internationally acceptable standards and includes specialist vendor, Information Technology and Field specific programmes.

12.5.3 Supervisory/Managerial – this area covers training to develop a range of skills to develop KIO’s senior staff to effectively manage people and resources. A “Soft skills” course schedule has been put in place to cover major topics

12.6 2001 - Training and Development activity report

KIO Department

Total hours Number of participants

Almaty Office	98	2
Commercial & Marketing	528	34
Engineering	6,962	539
External Relations Department	12	3
Finance & Control	2,223	189
Contractor's Training	10,172	1,471
General Services	186	9
General Manager Office	1,346	12
HSE	7,270	539
Human Resources	4,954	386
Import Substitution & Import Qualification	49	7
IT & Communications	2,376	178
KPD	9,752	1,325
Legal Department	158	13
Operations	6	3
Procurement & Logistics	4,467	612
Production	90,932	2,354
Project Services	6	2
Quality Assurance	717	60
Well Operations	2,140	252
Grand total	147,375	8,184

Total: 24,000 man-days of training

12.6.1 English language instruction

The number of trainees undergoing English language instruction has increased significantly from a total of 139 in September 2000 to 495 in December 2001. This increase is in part due to the English language-training project, which was established for the project development team. Two full time teachers (one ex-patriot and one local) are permanently based at the Karachaganak Construction Camp with instruction being provided to 192 personnel. Demand for instruction continues to be high at all sites and as numbers increase the numbers of instructors will be increased accordingly.

The composition of the teaching team is significantly different to a year ago when the then four instructors were exclusively native English speakers. The team now numbers twelve, six of whom are Kazakh nationals. This is in keeping with the drive towards nationalisation, and in addition there is currently an ex-patriot teacher-trainer working with the local instructors on an in-house materials and methodology programme. More Kazakh instructors will be employed as trainee numbers grow.

The scope of the project has widened the last twelve months. Whereas formerly only General English was offered, the language teaching team have diversified into English for Business and English for RPE and Well Operations (an Engineering English programme is also currently under development), and have begun the task of instructing new KPO hires as part of their pre-experience training. Large groups of Instrumentation Technicians, Production Operatives, Mechanical Maintenance Technicians, Electrical Technicians and Control Room Supervisors are receiving instruction at the Training Centre in Aksai, and demand is expected to remain high in 2002. In addition, 2002 will see the introduction of training modules for KPO interpreters and translators. This will entail the importation of specialist instructors from abroad, possibly Russia and the UK.

The Training Centre has lately received delivery of a 16-position language laboratory, and this will expand the methodological options available (computer-assisted language learning has been available since mid-1999),

as well as enable self-access language training. A Kazakh instructor will be sent to London in 2002 to research methodology and in particular, multi-media applications for the laboratory. Investment in materials for language learning has been constant and will continue as the centre seeks to keep English language training at the forefront of what is possible in the local environment.

12.6.2 Health, safety & environmental training

In the latter half of 2001 a comprehensive review of all the current and future HS&E training needs was carried out across the organisation. The survey was conducted to identify what HS&E competencies/skills were needed by local personnel occupying substantive posts within the organisation. Twenty-three new HS&E courses will be introduced in 2002.

New training facilities will be set up to deliver vessel entry, and gas testing training. A dedicated area has been set aside at the training centre to conduct lifting and slinging, forklift truck driving and scaffolding erection/inspection courses.

12.6.3 Overseas training

Following the success of the UK based Control Room Supervisor programme, there is to be a significant increase in number of local staff attending courses abroad in 2002. Large groups of Electrical, Instrumentation and Mechanical employees will be travelling to Edinburgh to attend intensive 10-week training programmes appropriate to their discipline. The courses have been designed to give them the best possible practical and theoretical experience to ensure that they can support the commissioning activity on the new equipment at Unit 2 and KPC.

Other groups to be sent overseas for training include local HSE inspectors that will be sent to Aberdeen, UK to undertake a comprehensive 4-6 week development programme that will include a work experience attachment to one of the venture's parent companies.

Many of the best performers in the English language training classes, and personnel that require a higher level of knowledge of the language, will be sent to language training centres in the UK to practise and develop their skills.

12.6.4 Training Passport and training records

In the first quarter of 2002 the organisation will introduce a training passport.

This new document will be issued to all employees, and will be used to contain details of all their training achievements, courses attended etc. The Passport will describe the competencies and skills required for a particular job position. It will also hold information about on the job performance, and the subsequent evaluation by the appropriate workplace assessor. The document will be linked to the training card system of assessing job knowledge at the worksite (Unit 2, 3, KCC, and KPC).

The training passport will provide the hard copy evidence of a jobholder's capability, and whether he or she is authorised/qualified to carry out work in safety critical areas. KIO's existing training records database will be modified accordingly to hold duplicate information in an electronic form.

It will be the duty of all employees to ensure that their passport is kept up to date with accurate and reliable information.

13 IMPORT SUBSTITUTION & KAZAKH CONTENT

13.1 Background

The National Development Strategy of Kazakhstan, Kazakhstan 2030, identifies one of the key tasks as the formation of a robust, diversified, balanced and competitive industrial system. This is based on transforming the existing industrial potential by the application of up-to-date scientific achievements and technology. Kazakhstan's industry renewal will be achieved primarily by the application of new techniques and technology. This will help ensure that manufactured goods are able to meet the requirements of international standards and markets. In order to bring this about, professional training and re-skilling of workers is required at all levels. At this stage in the country's development, the oil and gas sector is of primary importance as a catalyst for broader economic development within Kazakhstan. Development of the oil and gas sphere will stimulate the development of related sectors of economy ranging from manufacturing through to development of an oil & gas service sector. The challenge of import substitution in the Republic of Kazakhstan is very important and therefore it commands a high priority for the Government and its partners.

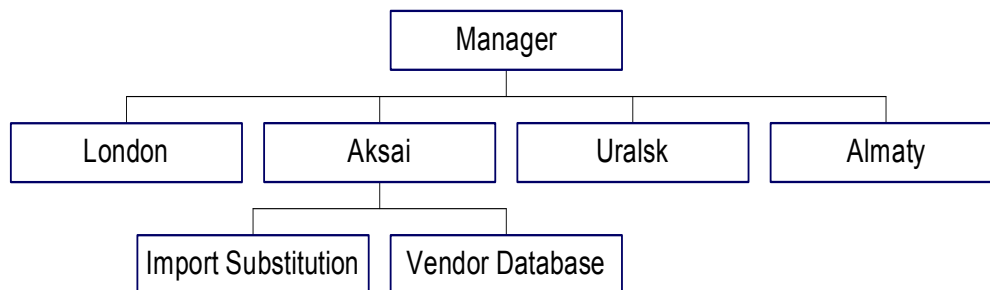
The basis for the development of the KIO programme to increase Kazakh content in the Karachaganak Project for 2001 – 2003 was a new industrial policy developed by the Government of Kazakhstan. This covered the sphere of Import Substitution and the wider involvement of Kazakh manufacturers of goods and services in projects implemented by foreign companies in Kazakhstan.

Following the KIO partners meeting with First Deputy Prime Minister, Mr. Akhmetov on 20 March 2001 KIO put in place an independent Import Substitution and Vendor Qualification (ISVQ) department which has been working closely with the Energy Ministry Working Group. The department was established to provide direct assistance to Kazakh suppliers so they can develop their capabilities to meet KIO's standards. This positive move by KIO has been welcomed by the Kazakh authorities who had previously expressed concern that limited business was going to Kazakh companies.

13.2 ISVQ Organisation and function

ISVQ is set up as an independent department comprising 2 expatriot managers and 10 Kazakh nationals with plans to increase numbers in line with activity.

Import Substitution and Vendor Qualification



The main function of the department is to increase local content of KIO's activities by means of vendor scouting and pre-qualification together with the promotion of relationships between western and local companies.

Karachaganak Integrated Organisation (KIO) developed a "Kazakh Content Increase Program in the Karachaganak Project 2001 – 2003" (Stage 1). The Program was reviewed and approved by Mr D.Akhmetov, First Deputy Prime-Minister of RoK during his visit to Aksai in July 2001.

The Stage 1 Program was conceptual, and it was agreed with Mr D.Akhmetov that KIO would develop an action plan, based on the conception outline of stage 1, for 2002 – 2003, but reflecting the particular steps of KIO would take to maximise the increase of Kazakh content in Karachaganak Project.

Supporting the RoK Government initiative, KIO has developed a flexible plan to increase Kazakh Content not only in current KIO Projects, but taking into consideration the prospective future development activity in the Karachaganak field.

This program was developed in accordance with the requirements of the Field Production Sharing Agreement (FPSA) and in particular with Article 14 (Local Procurement) Section 1 (Contractor Preference):

'In the performance of its obligations hereunder and under the Related Documents, the Contractor shall give preference to materials, equipment, products and services from sources in Kazakhstan where, in the reasonable opinion of the Contractor, procurement from such sources would be competitive in terms of price, efficiency operating parameters, delivery terms and quality'

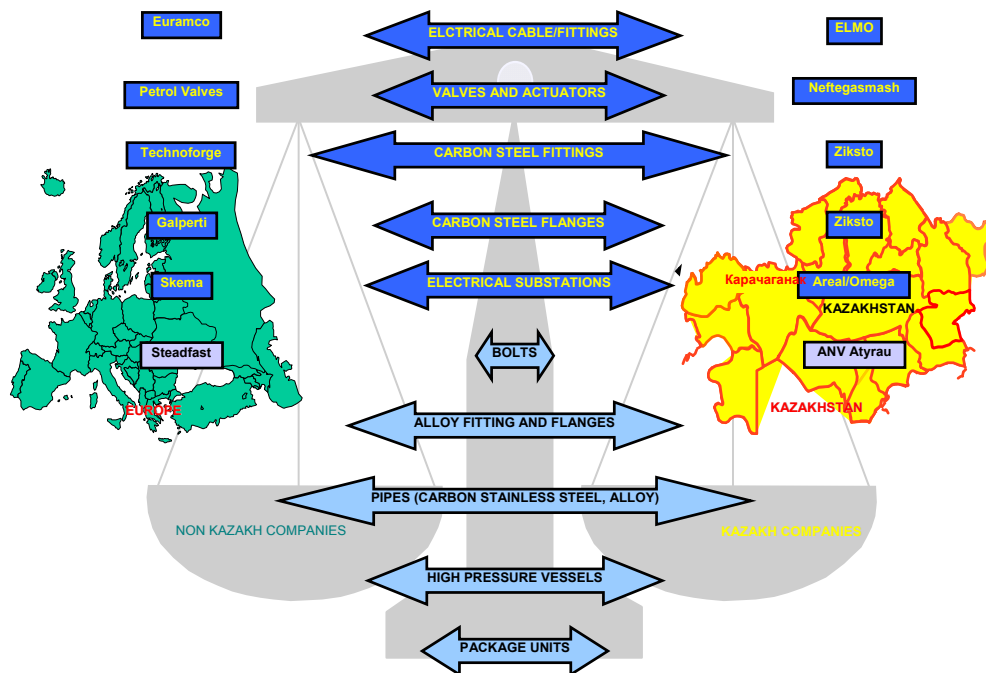
Delivery of the Kazakh Content Increase Program in KIO activities will be of benefit to all parties, allowing the effective involvement of new technologies, provision of training and professional development of local personnel, the decrease in production costs and the creation of the right conditions for modernisation of Kazakh industry.

13.3 Co-operation Agreements

KIO believes that in addition to the short-term issue of Kazakh content the real challenge is the long-term issue of substituting those products that are currently imported. Substitution is a key element in being able to develop Kazakh suppliers that are internationally competitive and that can provide sustainable employment. KIO has been instrumental in establishing co-operative agreements between Western and local companies

The existing KIO program allows the analysis of the existing supply for materials and equipment with Western Vendors and facilitates the inclusion of suitable Kazakh Vendors into these agreements. At the time of issue of the Import Substitution Programme Stage 1, KIO had facilitated two such agreements. Since then, KIO has completed a further three co-operation agreements, bringing the total to five.

The KIO aspirational goal is to complete further agreements in 2002. The schematic below indicates the progress made and the areas identified for the future:



Establishing cooperative agreements is a lengthy process, which is far from complete once the agreement has been signed. KIO has found it necessary to remain closely involved in the implementation of the participation agreements to ensure the full commitment of both parties is maintained in order to obtain tangible results. Of particular importance is the need to ensure the rapid commencement of training of personnel and technology transfer.

13.3.1 Existing Co-operation Agreements

As indicated above KIO has completed 5 co-operation agreements to date, the principal details of which are outlined below.

Neftegazmash (Ust-Kamengorsk) and Petrol Valves (Italy)

This was one of the first co-operation agreements to be facilitated by KIO and covers the manufacture and supply of valves. Neftegazmash personnel have already completed a training program organized by Petrolvalves. This training was held in Kazakhstan.

Elmo OJSC(Almaty) and Euramco (UK)

This agreement covers the supply of electrical fittings and consumables. This has proved a very successful relationship with Elmo.

Ziksto (North Kazakhstan) and Technoforge (Italy)

This agreement covers the supply of carbon steel fittings. Whilst the manufacture of products by Ziksto will require some re-alignment of Ziksto's capabilities, the priority is for Ziksto to weld, machine and paint semi finished products. Technoforge are assisting Ziksto in their efforts to achieve ISO 9001 accreditation by the middle of 2002, in particular for the production of pipefitting in the 2"-12" range.

Ziksto (North Kazakhstan) and Galperti (Italy)

Galperti are the Frame Agreement holders for carbon steel flanges and following the signing of the frame agreement, Ziksto are reviewing the new equipment requirements necessary to produce the flanges. Additionally Ziksto are currently sourcing and pricing the raw materials that will be used in the manufacturing process. The companies are optimistic that Ziksto will be able to commence the manufacture of flanges in a reasonably short time frame.

Areal/Omega (West Kazakhstan) and Skema (Italy)

Visits to Italy and Uralsk have been completed in order to identify the best way for the companies to work together on the production of high technology electrical power distribution equipment. Omega's facilities have suffered from under investment, but the personnel have the engineering skills necessary for technology transfer. Consequently a plan has been developed to position Omega to take direct orders and subcontract work by the middle of 2002. The critical activities include training of Omega personnel by Skema, technology transfer, identification and development of a suitable facility and marketing of the company's new capabilities. Areal/Omega personnel will shortly commence an extensive training program with Skema in Italy.

There is a wide geographic spread for the Kazakh Vendors involved in these participation agreements, as shown in the schematic below:

Co-operation Agreements working in Kazakhstan



9

13.3.2 Future Co-operation Agreements

Currently initial discussions facilitated by KIO, have commenced, or are about to commence, between a number of Kazakh and Western Vendors, as summarised below. Unfortunately, there has been some delay to these discussions, because of the unwillingness of some Western Companies to undertake air travel in the current security environment.

ANM (Atyrau) and Steadfast (UK)

Discussions are ongoing to develop a co-operation agreement for the production of studbolts, anchor bolts, fasteners and gaskets. ANM are in the process of purchasing new manufacturing equipment with the assistance of Steadfast. An issue common to a number of the frame agreements is the identification of suitable sources of raw material. The most likely source of supply will be the Russian steel mills and visits are currently in hand. In the interim consideration is being given to supplying semi-finished products to ANM for completion as a short-term measure.

In addition the following exploratory talks are in hand:

PZTM (North Kazakhstan) and Frames (Holland)

Frames are a leading process engineering company and these talks on possible areas of co-operation have proved very successful. KIO expects to be able to announce the signing of what will be the sixth co-operation agreement early in December.

PZTM (North Kazakhstan) and Eurofast (UK)

These discussions will focus on the production of studbolts.

In addition as outlined in the schematic, KIO has identified the following supply areas for further possible co-operation agreements:

Valves and Actuators
Double block and bleed valves

Control valves
Stainless steel and Alloy Fittings

13.3.3 Trade Organizations

As part of KIO's ongoing commitment to the creation of co-operation agreements between Western and Kazakh Vendors, close relations are maintained with relevant Trade associations to facilitate the introduction of prospective partners.

UK Trade Association

KIO worked closely with the local Akimat to ensure the maximum benefit from the visit of the Aberdeen delegation in October. This is the second year running for this visit and KIO expect that a further visit will take place next year, in which KIO anticipate playing a key role.

Italian Kazakh Trade Association

KIO is maintaining contact with this association and will work with the Akimat to ensure the maximum benefit from the expected visit in Q2 2002.

Association of Equipment and Service Providers for the Natural Resource Industry of the RoK

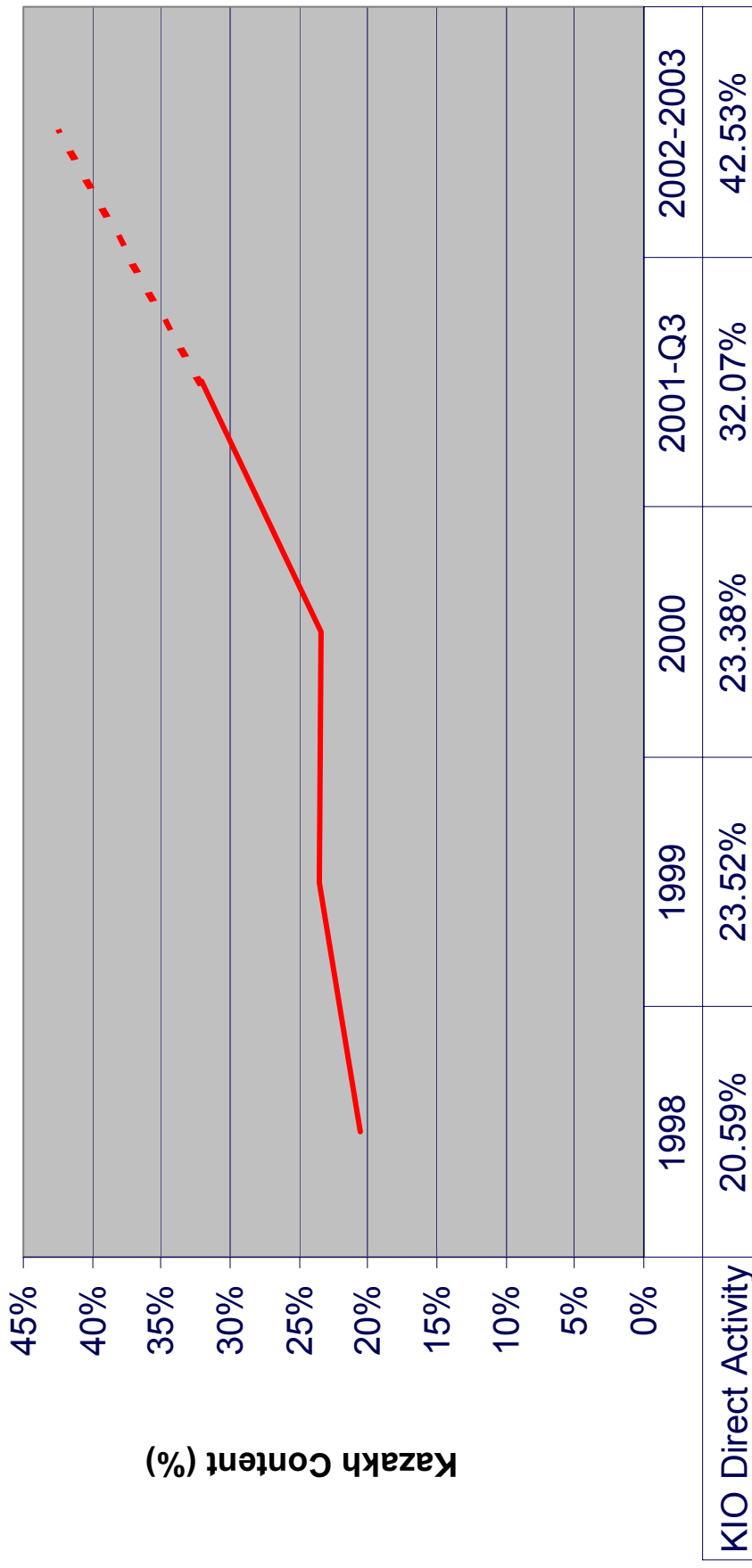
KIO has established good relations with this newly formed association of Kazakh Companies and were pleased to be able to sponsor their stand at KIOGE. KIO is currently investigating the best way of working with this association and other third parties such as the Business Incubation Unit in Uralsk, US Aid and funding bodies to develop a plan to facilitate the development of those Kazakh Vendors best able to meet KIO's future needs. This includes raising the abilities and awareness of such Western business practices as pre-qualification and tendering, Quality Systems such as ISO 9001 etc. A suitable plan will be prepared.

13.4 ISVQ Achievements

The success of the programme can be measured in terms of the increasing value of Kazakh content and the number of contracts committed with Kazakh companies. Kazakh content for newly committed contracts increased to around 24% in 2000 from 21% in 1999. This gave a total value of \$760 million. In 2001 KIO achieved a Kazakh Content of 63% of new operational commitments (\$105 million) and 61% of new development commitments (\$27 million). KIO has now committed to contracts with over 400 Kazakh companies that have already been able to demonstrate their ability to meet KIO's standards for quality, price and delivery.

KAZAKH CONTENT TREND

KIO - Kazakh Content Trend



13.5 Future Plans

13.5.1 Kazakh Content Targets

KIO's Aspirational Targets are as listed below. The achievement of these targets is dependent on a number of parameters that are subject to change. The major factors are further budget changes, changes in the work plan for operational reasons, the ability of Kazakh Vendors to successfully compete for KIO's business and once awarded the business their ability to meet the contractual obligations.

Materials and Equipment

2002

The total anticipated spend in KIO's ongoing operations on materials and equipment is \$20, 300,000 with an anticipated Kazakh Content of 47%.

2003

Expenditure plans for this year have not been subject to the rigorous challenge and review process that has been undertaken on the 2002 estimate. Therefore likely expenditure levels will be lower. However based on current estimates a Kazakh content of 48% is targeted for an overall estimated spend of \$22,600,000.

Services

The table below gives details of the estimated services expenditures. The estimate of the Kazakh share of identified services is based on KIO's assessment of what it believes Kazakh Vendors can provide either alone or with some western involvement. It excludes those areas that Kazakh vendors cannot currently meet.

The table below illustrates the overall position for services:

Category	2002	2003
Total Estimated Services Expenditure	\$187,000,000	\$194,000,000
Services out with Current Kazakh Vendor Capability	\$85,000,000	\$83,000,000
Services Identified as whole or part supply by Kazak Vendors	\$102,000,000	\$111,000,000
Kazakh Share of Identified Services	\$78,000,000	\$87,000,000
Kazak % of Identified Services	76%	78%

As noted earlier in this program, the expenditure figures for 2003 are expected to reduce after they have been subjected to the same rigorous review and challenge that has been applied to the 2002 figures.

13.5.2 Alignment of Kazakh Vendors with KIO Requirements

KIO has now adapted its business procedures to ensure that suitable Kazakh Vendors are included in all requisitions. KIOP's Stage 2 Import Substitution Program will enable KIO to focus on identified vendors, whilst at the same time taking account of the other suppliers that are available. KIO will ensure targeted companies within the program are included in the initial bidder list. There are a number of areas where specific actions will be undertaken:

Almaty 107

KIO will continue to prioritize these companies and indeed KIO is actively pursuing those companies who have failed to respond to request to submit pre-qualification documents.

Co-operation Agreements

The Phase 2 development is now well advanced and as such the opportunities for new contractual commitments remains relatively small. For example 90 % of the materials and equipment of the Frame Agreements have been called off already, leaving an outstanding requirement of approximately \$80 million. This relatively low level of future expenditure across the 70 frame agreements will make the facilitation of future co-operation agreement more difficult.

An active program of involvement in following up the Co-operation Agreements will be established and resourced to ensure that progress is made and that lessons are learned from the problems that occur.

A review of the remaining frame agreements will be conducted to identify any other potentially suitable areas for Co-operation Agreements. The remaining values or equipment to be supplied under the Frame Agreements will be a key indicator in the identification of areas where Western Companies / Kazakh Vendor co-operation is likely to bring results.

13.5.3 Operations and Maintenance Support Contracts

The main area of opportunity for Kazakh Vendors will be in the Operations and Maintenance Contracts where the Aspirational Target is that Kazakh Vendors should be selected after competitive tender for support services.

KIO will develop a contract strategy that will permit as supportive approach as is commercially possible to be taken to Kazakh Vendors for these contracts. In particular consideration will be given to the practicality of using Kazakh Vendors as lead contractor with Western Support as appropriate, rather than Kazakh support to Western Suppliers. An update presentation on the strategy will be made to the Ministry of Energy and Mineral Resources in March 2002.

13.5.4 ISVQ Organisation

As part of an overall business rationalization, the London based ISVQ and Procurement functions are being relocated to Aksai. This relocation will allow a much greater focus on the issue of Kazakh content and should in future permit almost all of KIO's tendering to be carried out in country. This is in line with KIO's understanding of the RoK on this issue.

In response to feedback from some vendors KIO is also considering how best to improve vendor access to KIO's future company needs. One idea under consideration is a type of 'help desk' single point of contact for Vendors.

13.5.5 Business Support

KIO has held discussions with a number of financial institutions including EBRD and ADB regarding the best method of establishing a fund for providing assistance to Kazakh Vendors. From the information available to KIO, it would appear that there are already a number of funding sources available to Kazakh Vendors in Kazakhstan. The barrier to Industry Development would appear not to be lack of funds but rather a lack of credit worthy Kazakh Vendors to access the available funds.

KIO is currently focussing its efforts in discussions with USAID and IFC regarding funding for training and provision of expertise for Kazakh Vendors. It is planned to develop these discussions and obtain appropriate approvals for the selected method of funding by the end of Q1 2002

13.5.6 Workshops and Seminars

In support of the campaign outlined in section 6.4 KIO is planning the following programs, subject to adequate funding:

Workshops

A KIO Sponsored High Level Workshop attended by Government, KIO and Western and Kazakh Vendors from the Co-operation Agreements. This will allow the sharing of the successes and failures of these agreements and facilitate the rapid transfer of best practice by the RoK' government.

KIO is planning to commence a program of feedback workshops for Kazakh Vendors who have been unsuccessful in the tender process. This will lead to improved vendor performance.

Seminars

KIO is currently developing a program for seminars on '*Improvement in Kazakh Vendor Pre Qualification and Tendering Capabilities*'. This is clearly a key area and selection of the companies will be critical. KIO is currently planning to hold a 10 company pilot workshop with the Vendors selected with the assistance of the local Akimat.

A series of seminars on '*Quality Management*' is being investigated. Selection and prioritization of vendors is again a key area as are resourcing and funding. KIO is considering use of in house resources.

Another area that requires improved Kazakh Vendor awareness and capability is *Western Technical Standards*. This is a large and difficult area that will require a significant input from the RoK government.

14 OVERVIEW ON KAZAKHSTAN AND THE BURLINSKY DISTRICT (WESTERN KAZAKHSTAN OBLAST)

14.1 Kazakhstan

Kazakhstan is the tenth largest country in the world, second largest in the CIS and is about the size of western Europe with a territory of some 2.7 million square kilometres. The vast majority of Kazakhstan's territory is plain land, rising in the south east towards the Central Asian massif (the Tyan Shan, Jungar Alatau and Altai mountains). The republic is divided into five geographic regions, according to climate and economic conditions: Western, Eastern, Southern, Northern and Central Kazakhstan.

The climate of Kazakhstan is sharply continental and varies widely throughout the country. Summers are hot with temperatures reaching above thirty degrees Centigrade and winters are cold with temperatures sometimes falling to minus forty degrees Centigrade in the north.

Natural Resources. Kazakhstan is endowed with the world's richest natural resources. Its mineral wealth includes more than 1,225 types of minerals seventy of which have already been prospected and 60 are being actively exploited. The number of deposits registered in the records, excluding construction materials, exceeds 493. Huge amounts of iron, coal, oil, gas, lead, aluminium, copper, zinc, nickel, uranium, silver, gold, bismuth, cadmium and thallium are being extracted from numerous deposits of the country. The estimated value of potential extractable main resources (oil, coal, metals, and gold) is \$1,126.6 billion.



Land area	Total area of Kazakhstan is 2.7 million square kilometres Central Asia. The country is bordered in the north, north-east and east by the Russian Federation; in the south-east by China; and in the south by Turkmenistan, Uzbekistan and Kyrgyzstan.
Ethnic group*	The ethnic composition: Kazakhs (53.4 per cent); Russians (30.0 per cent); Ukrainians (3.7per cent); Uzbeks (2.5 per cent); Germans (2.4 per cent);Tatars (1.7 per cent); and others (6.3per cent).
Languages	Kazakh is the official state language. Russian is officially used on equal grounds along with the Kazakh, while English is used by international organisations and foreign business community
Capital	Astana. The government and parliament moved to the new capital in December 1997, confirming its role as the new administrative capital. It is accepted that Almaty will continue as the financial and business centre of the country, as well as the interim base for international organisations, transport, communication and culture. In order to facilitate the development of the new capital, officially opened in June 1998, Astana was also given the status of a “special economic zone”.
Administrative divisions	14 oblasts (provinces), 159 rayons (regions), 84 towns, 241 urban villages, 2042 villages (auls) and 22 main cities with the population of more than 100,000 people

*1999 Census data

The population of Kazakhstan is 14.953 million, of which 55,2 per cent live in urban areas. The average population density is low, 6 per square kilometres (compare to a European average of 67 per sq.m). Two thirds of Kazakhstan population live in the Southern and Northern regions of the country, whereas the central and western provinces are sparsely populated. Almaty, the former capital of the Republic, has a population of 1.3 million. The second largest city is Karaganda (population 600,000), while the population of Shymkent, Pavlodar, Semipalatinsk and Taraz varies from 300,000 and 500,000. Astana, the new administrative capital since late 1997, has a population of approximately 400,000, but is growing rapidly.

Along with migration, declining natural growth due to lower fertility and higher mortality rates since 1991 have also significantly influenced the population number. Thus, between 1991-1999 the birth rate per 1,000 population decreased from 21.5 to 14.2. Kazakhs, the main ethnic group of the Republic, accounting for 53.4 % of the population (41,1 % in 1991), preserved a relatively high (although also declining) birth rate. Since the last census (1989), the number of Kazakhs has increased by 1.4 million. The second largest ethnic group is Russians - 30,0 %, (37,3 % in 1991). Others include Ukrainians (3.7%), Germans (2.4%), Tatars (1,7%), Uzbeks, Belorussians and Koreans. Average life expectancy in 1999 was 59 years for men and 70.2 years for women, compared to 63.8 and 73.1 respectively, in 1991.

Since independence Kazakhstan has passed through several stages which warranted the need for reform; adoption of capitalism and market forces, opening up to foreign investment and a wider range of trading partners. Starting from 1991 Kazakhstan introduced a convertible currency, completed a large part of its privatisation program, price and trade liberalisation. The country leadership has undertaken a radical reform of the pension system, financial services, legislation on foreign investment and public sector institutions. During that time various national programmes for economic transformation were implemented, and the foundation for the economic independence of the country was laid.

The crisis in the socio-economic development of the Republic of Kazakhstan in the 1990s had a negative impact on the demographic situation. A tendency of an overall decline in the population number began in 1992, with the losses from migration exceeding natural population growth. Since independence Kazakhstan's population decreased by almost two million from 16.8 million in 1991

14.2 Burlinsky

The Karachaganak field lies in the Burlinsky district (rayon) within West Kazakhstan Oblast. Uralsk is the administrative centre for the Oblast and also accounts for around a third of the urban population in the region. The town of Aksai is sited 16 km from the field. There are also a number of villages that are in closer proximity to the field. Tungush (2km), Berezovka (5km), Uspenovka (12km), Karachaganak (7km), Zhanatalap (8km), Zharsuat (11km) and Bestau (8km).

Tungush is one of the populated areas in close proximity to the field and it fairly typical of the other villages surrounding the field.. Currently, there are 816 residents in the village, 360 households. Kazakhs constitute more than 90% of the total population. Traditionally residents have been involved in agriculture and cattle breeding. The main crops are wheat and barley. Since the collapse of the Soviet system, the collective farms had been disbanded and in its place five private farms have been established: *Tungush, Dostyk-Zholu, Imangazieva, Bestau and Otan*. The farms have signed land lease agreements with KIO. The basis for Land lease is regulated by the FPSA and Kazakh legislation (President's Decree on Land and Law on Subsurface Use and Subsurface Users, dated 27 January 1996 N 2828 and regulatory norms). KIO signed land lease agreement with five private farms in Tungush. The total size of temporary leased land is around 213 hectares. This constitutes annual payment of 9.265,500 Tenge (\$61,770).

In another of the nearby villages, Berezovka, KIO has signed agreements with six land –owners. The total size of temporary leased lands- is approx. 349 hectares. Land lease payment – 15.181,500 Tenge (\$101,210) See Appendix 2 for more detailed information on Land Lease Payments.

14.2 Statistical Trends

The tables below give data for West Kazakhstan Oblast and the Burlinsky district. Comparison of the two serves to highlight the changes coincident with the development of the Karachaganak field.

Key Social and Economic Indicators for the Oblast

	1993	1994	1995	1996	1997	1998	1999	2000
Population (end of year), x 1,000	665.4	659.4	657.6	654.2	647.6	618.4	610.8	604.4
Population Growth per 1,000 people	9.3	8.6	5.6	4.1	4.0	2.4	0.9	1.9
Annual Average Employment, x 1,000	288.9	266.1	264.4	252.9	268.0	270.1	269.6	273.4
Registered Unemployed, x 1,000	2.4	4.4	7.6	17.5	12.3	12.1	10.2	9.4
Monthly Average Nominal Wage per Person in KZT (tenge)	111	1318	3616	5463	7316	8334	10551	14001
Regional GDP, x 10 ⁹ KZT	0.9	12.4	25.0	30.8	53.0	53.1	71.2	109.4
Per capita, 1,000 KZT	1.4	19.0	38.5	47.8	83.5	85.2	115.9	180.0
Industry Output (including household production), 10 ⁹ KZT	0.4	5.2	10.8	11.4	19.9	19.2	31.6	80.9
Agricultural Produce, 10 ⁹ KZT	6.8	4.7	5.7	7.2	17.8	12.9	11.4	15.0
Capital Investments, 10 ⁹ KZT	0.2	2.0	3.7	3.9	5.1	7.6	53.7	100.8
Dwelling Area Commissioned, x 1,000 m ²	151.9	96.3	70.4	75.0	74.5	50.8	37.2	37.8
Freight ton-kilometers for all transport types	5.8	3.9	2.8	5.0	11.4	12.0	12.5	12.0
Retail Turnover, 10 ⁹ KZT	0.2	1.9	5.0	6.3	8.6	11.1	11.6	17.9
Foreign Trade Turnover, million USD				166.9	205.8	238.6	312.5	874.3
Of which								
Export				108.2	108.9	123.3	159.9	509.4
Import				58.7	96.9	115.3	152.6	364.9
Consumer Price Index (December to December of previous year, %)	22.0	15.2	152.7	123.0	104.8	103.6	116.0	108.4

Key Social and Economic Indicators for the Burlinsky District

	1993	1994	1995	1996	1997	1998	1999	2000
Population (end of year), x 1,000	51.0	49.1	48.9	49.0	48.5	48.9	49.5	51.9
Population Growth per 1,000 people	9.1	7.8	5.5	5.0	5.1	3.2	2.2	2.0
Annual Average Employment, x 1,000	16.5	15.9	13.9	14.4	13.9	12.2	10.6	15.4
Registered Unemployed	133	208	357	718	558	575	251	232
Monthly Average Nominal Wage per Person in KZT	120	1,173	4,786	7,700	11,926	12,970	22,529	32,448
Capital Investment, 10 ⁶ KZT	0.9	203.2	772.7	1,174.6	2,425.5	5,307.9	50,852.7	98,533.2
Dwelling Area Commissioned, x 1,000 m ²	4.0	3.8	1.9	1.6	4.6	4.2	4.5	9.1
Retail Turnover, 10 ⁶ KZT	10	78	182	285	207	229	525	1,509
Number of Pre-schools, end of year	32	26	27		7	6	5	5
Number of children attending pre-schools	2,598	2,073	1,860		1215	1,273	1,003	1,020
Number of general-education day schools	38	38	37	37	36	35	34	34
Number of schoolchildren enrolled	8,741	8,849	8,958	9,364	9,632	10,085	10,695	11,059
Total number of physicians (all specialities)	110	104	107	115	110	108	90	93
Number of nurses	310	294	307	301	307	264	208	211
Number of beds in hospitals	350	270	265	245	245	205	180	180

Comparison of Key Social and Economic Indicators for the Oblast and Burlinsky District

	1993	1994	1995	1996	1997	1998	1999	2000
Population (end of year), x 1,000	665.4 / 100%	659.4 / 100%	657.6 / 100%	654.2 / 100%	647.6 / 100%	618.4 / 100%	610.8 / 100%	604.4 / 100%
	51.0 / 8%	49.1 / 7%	48.9 / 7%	49.0 / 7%	48.5 / 7%	48.9 / 8%	49.5 / 8%	51.9 / 8%
Population Growth per 1,000 people	9.3 / 100%	8.6 / 100%	5.6 / 100%	4.1 / 100%	4.0 / 100%	2.4 / 100%	0.9 / 100%	1.9 / 100%
	9.1 / 98%	7.8 / 91%	5.5 / 98%	5.0 / 122%	5.1 / 128%	3.2 / 133%	2.2 / 244%	2.0 / 105%
Number of Registered Unemployed, x 1,000	2.4 / 100%	4.4 / 100%	7.6 / 100%	17.5 / 100%	12.3 / 100%	12.1 / 100%	10.2 / 100%	9.4 / 100%
	133 / 6%	208 / 5%	357 / 5%	718 / 4%	558 / 5%	575 / 5%	251 / 2%	232 / 2%
Monthly Average Nominal Wages per person, KZT	111 / 100%	1,318 / 100%	3,616 / 100%	5,463 / 100%	7,316 / 100%	8334 / 100%	10551 / 100%	14001 / 100%
	120 / 108%	1,173 / 89%	4,786 / 132%	7,700 / 141%	11,926 / 163%	12970 / 156%	22529 / 214%	32448 / 232%
Dwelling Area Commissioned, thousand m ²	151.9 / 100%	96.3 / 100%	70.4 / 100%	75.0 / 100%	74.5 / 100%	50.8 / 100%	37.2 / 100%	37.8 / 100%
	4.0 / 3%	3.8 / 4%	1.9 / 3%	1.6 / 2%	4.6 / 6%	4.2 / 8%	4.5 / 12%	9.1 / 24%
Retail Turnover, 109 KZT	0.2 / 100%	1.9 / 100%	5.0 / 100%	6.3 / 100%	8.6 / 100%	11.1 / 100%	11.6 / 100%	17.9 / 100%
	10 / 5%	78 / 4%	182 / 4%	285 / 5%	207 / 2%	229 / 2%	525 /	1,509 / 5%

WKO Population (as of 01/01/2001)

Population as of 01/01/2000	Migrated in	Migrated out	Number of Births	Number of deaths	Population as of 01/01/2001
610,800	11,000	18,500	7,500	6,400	604,400

Ethnic Composition of WKO (1999 census data)

Kazkhs	Russian	Ukranian	Tatars	German
399,000/66.0%	174,000/28.7%	19,600/3.2%	10,100/1.7%	2,400/0.4

Population Dynamics for the Oblast and Burlinsky District

Population (thousand people)	WKO			Burlinsky District		
	1999	1989	1999 as % to 1989	1999	1989	1999 as % to 1989
Total Population	617.7	629.5	98.1	48.8	40.5	120.5
Urban	252.4	267.4	94.4	31.8	20.6	154.4
Rural	365.3	362.1	100.9	17.0	19.9	85.4

Unemployment by Year for the Burlinsky District

Population Category	Years		
	1998	1999	2000
Employed	25,946	28,302	28,876
Unemployed	918	700	450

Average pay is 32,448 KZT per month in the Burinsky District, and this level is the highest in the WKO.

Crime Rate in the Burlinsky District (including juvenile crime)

Category	Years					
	1995	1996	1997	1998	1999	2000
Total Crimes	695	757	555	473	374	364
Juvenile Crimes	40	26	50	44	27	18
Clear-up rate (%)	73.9	70.5	82.5	87.1	88.5	89.9

Infectious Diseases in the Burlinsky District (recalculated rates per 100,000 people)

Infectious Diseases	Years			
	1995	1996	1997	1998
Acute Intestine Infections	147.7	131.9	107.3	164.3
Dysentery	11.9	21.9	15.9	29.1
Salmonella poisoning	17.9	3.9	3.9	10.4
Viral hepatitis A	343.4	335.4	182.8	172.6
Viral hepatitis B			1.9	10.4
Measles	35.9	1.9	1.9	58.2
Acute respiratory/viral infections	3,946.0	5,190.1	7,149.5	5,130.7
Influenza	980.5	528.2	733.4	1,604.1
Mumps	49.9	9.9	111.3	25.8
Brucellosis	5.9	13.9	7.9	12.6
Tuberculosis	71.8	125.8	96.0	139.4
Syphilis	89.8	319.5	508.8	459.8
Gonorrhoea	181.7	319.5	196.7	199.7
Diphtheria				2.0
Carriers of diphtheritic bacillus				16.6
Malaria				2.0
Chicken pox			184.8	322
Rubella measles			11.9	185.1
Scarlet fever			9.9	8.3

Output of Livestock Products and Livestock Count

Output/ Count	All Farm Types					
	West Kazakhstan Oblast			Burlinsky District		
	2000	1999	2000 as % of 1999	2000	1999	2000 as % of 1999
Meat (tons, at slaughter-house entry)	30,162	37,813	79.8	1,933	2,344	82
Milk (tons)	113,303	110,003	103	12,362	13,092	94
Eggs (x 1,000)	15,665	15,358	102	1,809	1,840	98
Lamb Wool (tons)	1,655	1,604	103.2	43	44	98
Cattle (number of heads)	381,962	380,799	100.3	3,901	3,811	102
Milk Cows (number of heads)	142,204	142,078	100.1	9,849	10,476	94
Pigs (number of heads)	37,097	40,084	92.5	6,749	7,270	93
Sheep, goats (heads)	771,691	770,015	100.2	15,638	17,186	91
Horses (heads)	66,832	71,484	93.5	2,260	2,855	79
Camels (heads)	3,224	3,252	99.1	0	0	-
Poultry (heads)	390,112	367,648	106.1	57,181	52,036	110

Livestock Population in the Burlinsky District

Year	1991	1994	1995	1996	1997	1998	1999	2000	2001

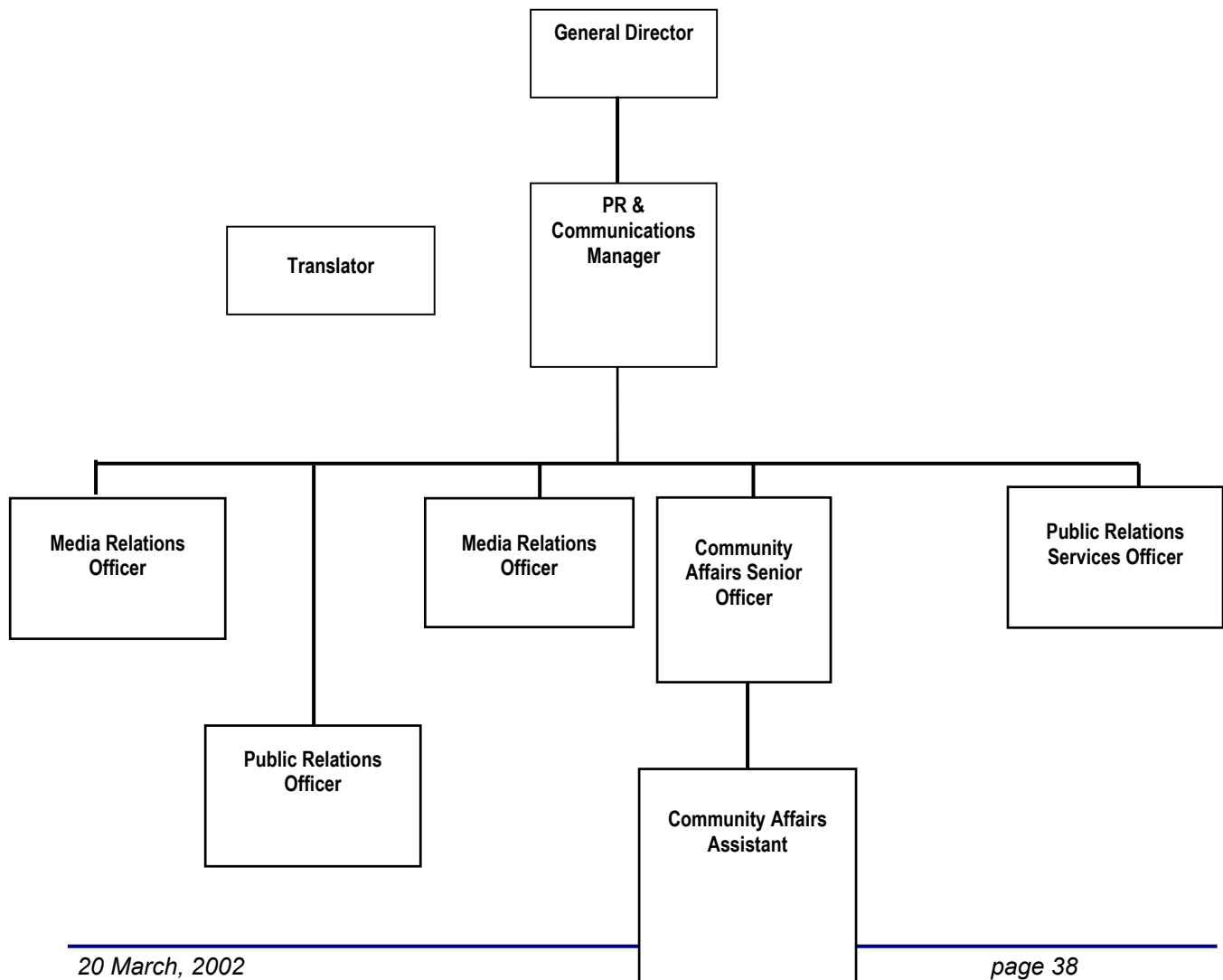
Livestock Counts	57,500	45,900	41,000	28,900	25,400	20,600	20,700	20,800	18,600
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15 KIO INVOLVEMENT WITH THE COMMUNITY

15.1 PR & Communications Department

Prior to 2001 KIO managed its interactions with the public through both operational and service departments within the venture as a whole. As the venture has grown in size, so has the scale of the communications challenge. In 2001 KIO created a dedicated department to manage its public relations and communications programme. The PR & Communications department was created to provide a better focus for the range of public activities that KIO carries out. The responsibility for managing the community relations programme now lies with the PR & Communications department that report directly to the General Director. The department is responsible for developing and implementing KIO's policy and plans in the area of media, community relations and public affairs. Currently the media and communications plan is being revised taking into account earlier experience and changing circumstances

The department is led by a manager reporting to the General Director of KIO and comprises specialists dealing with community affairs, public and media relations. All of the positions are currently filled.



15.2 Community Development and Social Programmes

The department has made good progress with its community relations activities overall despite losing some momentum in this area due to a staff resignation. Recruitment of a full time replacement has been successful and the new recruit is already active with the community groups as well as developing forward plans.

The department has taken the opportunity presented by the recruitment of a new community affairs specialist to look closely at the earlier work and its achievements. Prior work was focused on the development of KIO's sponsorship, donations and social commitment policy as its main priority. The policy has led to a successful implementation of projects that KIO selects on the basis of input and advice from community advisors and is described in more detail below. Work had also begun on developing ideas for a community relations programme. Regular contacts had been established with the village communities closest to the field. The focus has been initially at the two closest villages and the new community relations job holder began this in January, 2002. Initial stakeholder research had also been carried out including some of the local communities, NGO's, local, regional and national government. The earlier research and interactions with some of the members of these groups was driven by the fact some of them had taken a proactive role in seeking involvement with KIO. A more systematic approach to identifying stakeholder groups and their needs will help to better inform KIO's management actions. This work is ongoing and will form the basis for developing an integrated approach to the next steps in KIO's Community Relations programme.

The KIO sponsorship programme is also complimented by other initiatives such as the Social programmes and charitable donations made by the employees of KIO. The Social programmes form part of the agreement with the Republic of Kazakhstan, KIO has a formal commitment within the Final Production Sharing Agreement to provide for an annual fund for social projects. Each of these areas is discussed in more detail below

15.3 KIO COMMUNITY SPONSORSHIP

Apart from the committed fixed financing of social projects (\$10 million annually), where the priorities are determined predominantly by local government in accordance with the procedures set by FPSA, KIO is also involved in a range of sponsorship activities to support disadvantaged community groups in Aksai and Uralsk. The KIO Sponsorship Committee, comprising managers from KIO and advisory groups drawn from the community, carefully reviews all requests for sponsorship. Preference is given to projects that have a real benefit to the community as a whole. Priority areas for sponsorship support are education, healthcare, training, youth empowerment, sports and culture where the goal is to deliver a sustainable benefit into the long term. Details of the sponsorship, donations and social commitment policy and its implementation are given in appendix . In 2001 total sponsorship contributions amounted to \$ 350,000.

Some recent examples of KPO sponsorship include:

Supply of medical equipment to Aksai regional hospital. Healthcare improvement is a priority area for KPO social policy. As part of the 10th anniversary celebrations, we have agreed to donate \$20,000 towards medical equipment for the Aksai district hospital. This will help to raise the quality of medical services in the Aksai community. (October, 2001)

Medical treatment for Aksai Children. KPO invited Tunus Satubayev, a famous physician from Uralsk to conduct medical treatment for children suffering from spine diseases. We have identified more than 70 children whose parents cannot afford medical course. Healthy generation should be the most precious asset in building prosperous future in Kazakhstan. (August, 2001)

The Aksai Ladies Volleyball Team. As part of its commitment to develop sports and a healthy way of living, KPO has committed \$70,000 to support The Aksai Ladies Volleyball Team. The team had a good season last year, coming third in the National Championships.(July, 2001)

Aksai Games. In September 2001, KPO, in collaboration with the Burlinsky Akimat and other companies, has championed a regional sport tournament devoted to the 10th Anniversary celebrations. Teams have been competing in football, basketball, volleyball and other games. We have sponsored sports uniform for KIO sportsmen and spent more that \$20,000 on clothing and bicycles. We strongly believe that sports bring community and companies closer together. KIO has also sponsored Zheptpisov Konus, outstanding

sportsman, Champion of Asia, 6-times Champion of Kazakhstan to compete at the International Wrestling Championship in Russia.

Sponsorship of Special Olympics, WKO Branch. This year KPO sponsored Alma Aisheva, a pupil from Uralsk, to take part in the international skiing competition held in Anchorage, USA. Alma won two gold medals. KPO has also allocated \$3,555 to sponsor Regional Special Olympic Games and donated sports equipment to Kushum orphanage for children-invalids. (January, 2001)

Concert in Aksai. Support for Culture is one of the main areas of KPO social policy. This year KPO allocated \$10,000 to arrange a concert in Aksai in support of the special 10th Anniversary train called My Kazakhstan. Thousands of people enjoyed singing from prominent Kazakh singers. KIO employees have also performed during a music festival "My Kazakhstan" in Aksai and were honoured to take part in "Days of Burlin District" planned for 4-5 October in Uralsk. (June, 2001)

Children's Art Exhibition. In April, KPO sponsored a children's drawing competition in Aksai, with some heart touching results. The best drawings have been placed on display at the Karachaganak Construction Camp.

Small-Business Start Training Programme. This year KPO in partnership with Women of Ural Area NGO organised three-months training programme for women in Uralsk. The programme curriculum is aimed to teach women how to start their own small business and encompasses computer technology, accounting basics and briefing on taxes and other payments effective in Kazakhstan. We strongly believe that only through education women will be empowered to be active members of society and bring confidence to their families and children. (September, 2001)

Uralsk Ecology Museum. KPO provided \$85,000 for the refurbishment of the Western Kazakhstan Oblast Ecology Museum. The museum affords a great opportunity to promote within the local community and local businesses the joint responsibility everyone has in caring for and promoting Kazakhstan's natural resources and environment. (March, 2001)

Kazakh National Academy of Music. KPO contributed \$45,000 to support students of the Kazakh National Academy of Music to take part in the international music event held in Italy in December 2000.

Aksai Regional Museum. A contribution of \$30,000 was made to implement refurbishment of the museum in Aksai.

Tungush Village. KPO has been working closely with Burlinsky and Tungush Akimats. KPO has been supplying potable water to the 870 residents of Tungush and will also be supplying a generator to the village and providing much needed equipment for the school. We have also arranged computer and English language training programme for 25 schoolchildren from Tungush. Pupils will attend Eurasia Training Centre in Aksai. (July, 2001)

Summer holidays for schoolchildren. Every year, during summer holidays, KPO gives financial assistance to Aksai children to enjoy holidays in ENI's summer camp in Italy. Additionally, 18 children chosen from schools in Aksai, travel to Scotland every year for a two-week visit. This is a wonderful opportunity to improve English language skills and to experience an international environment.

Thanksgiving in Uralsk. In November 2000, in co-operation with KPO and Peace Corps volunteers, students of Uralsk State University arranged 250 Thanksgiving-style meals for orphans and others in need. (November, 2001)

Jubilee Celebrations. These celebrations were devoted to the famous writers, Mikhail Sholokhov and Zhuban Moldagaliev. The aim was to support the development of cultural heritage of Kazakhstan. KPO's sponsorship went towards the publication of books and the installation of two new monuments and memorial plaques.

Welfare Initiatives. KPO extended its support to local citizens. This year, pensioners and veterans of Aksai were able to relax in health resorts. Veterans received 100,000 KZT for medical treatment and a contribution of \$5,000 has been made to the Fund Charity for local welfare improvement.

Tuberculosis Fund. KPO shares Kazakhstan's Government concern to take effective measures against tuberculosis and allocated \$5,000 to the Fund. The money will be spent towards educational materials to schools for sick children and improving nutrition.

Rehabilitation Centre for Deaf. KIO has contributed more than 200,000 Tenge to establish Regional Rehabilitation Centre for Deaf in Uralsk. Refurbishment has been finalised and the opening ceremony took place on 28th of September.

Charity Actions KPO invested 100,000Tenge to help victims of nuclear and missile tests at Kapustin Yar and Azgur. KPO has been working closely with Antinuclear Public Movement *Narun* to better understand the problems and challenges. In partnership with the *Aksai Council for Veterans and Invalids* KPO donated wheel-chairs and ear hearing devices to invalids. We have allocated \$5,000 towards this goal.

15.4 Social projects in Western Kazakhstan Oblast

KIO contributes to the development of the communities where it operates - both through its operations and social investments. According to the Final Production Sharing Agreement (FPSA) signed with the Republic of Kazakhstan, KIO has to invest \$10 million annually towards social infrastructure projects in the Western Kazakhstan Oblast (WKO). As well as providing the funding for the social projects, KIO's actual investment goes beyond the \$10 million funding because it provides all its project management and supervisory skills as an additional contribution. The social projects use Kazakh companies to carry out the work with KIO ensuring that the project delivers to its original plan. With KIO being involved in this way the Kazakh companies benefit from working to modern project management standards that all contribute to the capacity building of Kazakh suppliers.

The project selection process is steered by the Local Authority – WKO Akimat. Proactive involvement and stewardship of local administration ensures that the projects meet the real needs of the community. Many communities are already seeing the benefits of new schools and hospitals, better water supplies and supported cultural projects. Present social projects include; the construction of a Cultural Centre in Uralsk; the construction of a skating rink in the Uralsk School of Sport; the construction of a new secondary school for 784 pupils in Zachagansk. A summary of the social projects carried out to date is given below. Note that KIO has provided additional funding beyond the annual \$10 million. The additional funding was given to mark the celebration of the 10th Anniversary of Kazakhstan Independence (16/12/2001)

Refurbishment of roads in Uralsk. KPO provided \$3.5million for the repair of two main streets in Uralsk: Gagarin and Lenin Streets.

Major overhaul of water pipeline system in Aksai. Water supply has become a pressing issue in the Burlinsky region and in Aksai in particular. KPO allocated \$1.9 million to repair the water distribution system in Aksai. As part of this project, 5,300 meters of old pipeline will be replaced with work ongoing. In addition, it is planned to refurbish the sewage system and associated pipeline in Micro-districts 4, 5 and 10 and also along Utvinsky Street. The project will ensure a stable and reliable supply of potable water to Aksai citizens.

Implementation of other social projects. In addition to the usual annual investment of \$10million, KPO allocated \$5million for various social projects in WKO. The biggest projects include refurbishment of the Theatre of Drama named after Ostrovsky and reconstruction of an adjacent square, repair of the Oblast Philharmonic Society building and reconstruction of Theatralnaya Street and the Revolution Square.

15.5 Social Projects – 1998-2001

Description	Project Value (budget) \$USD millions
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Social Projects - 1998-1999	
Refurbishment of Aksai Hospital (I – phase)	4.5
Construction of District Hospital in Kaztalovka village.	6.5
Infectious Disease Hospital in Uralsk	2.1
Therapeutic Building of Uralsk Oblast Hospital	1.1
Kairat-Dzhanibek gas pipeline	1.7
Borsy-Kairat gas pipeline	3.6
TOTAL:	19.50

Social Projects - 2000		
Refurbishment of Aksai Hospital	1.8	
School in 6 th micro-district of Uralsk	2.35	
Supply of medical equipment for Oblast Hospital	0.5	0.5 carry over from 1999
Indoor Skating Rink (carrying over project)	3.6	
Kazakh Drama Theatre (carrying over project)	1.75	
TOTAL:	10.00	0.5

Description	Project Value (budget) \$USD millions		
Social Projects – 2001		Additional*	
Indoor Skating Rink	2.6		
Kazakh Drama Theatre (carrying over project)	2.1	0.7	
School in Zachagansk Village for 772 students	2.2		
Refurbishment of Uralsk Oblast Hospital (polyclinics)	0.77		
Refurbishment of Dzerzhinskiy Street and other roads of Uralsk City	2.25	1.75	
Refurbishment of Drama Theatre by Ostrovskiy		0.23	
Refurbishment of Philharmonic Society Building		0.62	
Reconstruction of Square by Revolution		0.56	
Reconstruction of Teatralnaya Street		0.49	
Reconstruction of Square attached to Drama Theatre by Ostrovskiy		0.35	
Engineering works for 2002		0.3	
Engineering works for:			
- Chapaevo village water supply system	0.03		
- Fedorovka water supply system	0.03		
- Chingirlau gas pipeline	0.01		
- Gas pipeline Aksai-Taskuduk Dzhambeita	0.01		
Additional funds for roads			3.5
Aksai Water Supply Project			1.9
TOTAL:	10.00	5.00	5.4

* Additional funding provided by KIO to celebrate the 10th Anniversary of Kazakhstan Independence

15.6 Social Projects in Atyrau kazakhstan Oblast

Social projects have also been identified for the citizens of Atyrau where the section of export pipeline from Bolshoi Chagan joins with the Caspian Pipeline (CPC),.KPO has committed to provide \$2.9 million for social projects in Atyrau oblast

Description	Project Value (budget) \$USD millions
Capital repairs of housing and heating systems	1.2
Construction of policlinics in Saraishik, Makhambet region	0.2
River Ural – Makhambet village cross over construction	0.34
Gas distribution systems in Indersky and mokhambet regions	0.1
Capital repair of housing and purchase of water and sewage pumps for Inderborski village	0.16
Construction of School for 200 students in Koktem district of Inderborski region	0.9
Total	2.9

15.7 KIO EMPLOYEES SUPPORT PROVIDED TO VILLAGE COMMUNITIES

KIO employees are also instrumental in providing support to the communities surrounding the field. Charitable donations of money and gifts are given along with practical support to help the communities.

A recent example is the help provided to an orphanage in ZhaurSAT village. In particular, 8 orphans received new clothes, gifts, beds & bedding and furniture for their dormitories. A new TV & video, stereo system (with tapes and CDs), and a new fridge were installed in the common play room. Additionally, boxes of food supplies and a vacuum cleaner were given to the school.

16 PUBLIC CONSULTATION AND DISCLOSURE SUMMARY

16.1 PREVIOUS PUBLIC CONSULTATION & DISCLOSURE ACTIVITIES

This Public Disclosure and Consultation summary provides details of the existing public record for the Karachaganak Oil Gas & Condensate Field development project since KIO's time of management of the field as well as describing the formal legal requirement to consult the public arises when the environmental authorities get involved with providing an expert, peer review of projects that affect the public. A public hearing must be held as part of the state's peer review process pursuant to the Environmental Expert Examination act (18 March 1997 No 85-1, Articles 8 and 15) Details of this and other relevant legislation is given in appendix 2

The public hearing component of the state expertise is a 'grass roots' meeting designed to give the public a chance to voice any concerns they may have in connection with any proposed development that may affect them. Any public concerns raised are taken into account by the state bodies that review the proposed development project. The peer review body provides an expertise 'conclusion' that is conditioned by any concerns raised. The conclusion document that is prepared as part of the expertise process is submitted to the Central Executive Body of the Republic of Kazakhstan. It has to show that public opinion has been incorporated within the opinion. A positive conclusion may be delivered along with attached conditions that the developer must then follow.

KIO has conducted a number of formal public hearings in connection with the development of the field and associated pipelines. The route of the pipeline will run through the lands of three Districts of West Kazakhstan Region – Terektinskyi, Burlinskyi and Zelenovskyi . and then terminates at Atyrau Hearings were held in Uralsk, Atyrau and Fedorovka. Advance notification of the meetings was made using local media. Local officials also invited parties that they thought would have an interest. KIO made general presentations on the company and the project development including a special presentation to graphically show how the pipeline was to be laid under the River Ural.

In general the reaction to public reaction to the meetings has followed a similar pattern with concern being expressed about:

- Social benefits, employment
- Impact on environment
- Compensation to residents in case of accidents
- Impact on water supplies
- Gasification of the villages.

The feedback from these activities has been used to help inform and shape the content of KIO initiatives in the areas of Nationalisation, Import Substitution & Vendor Qualification, Emergency response plans, sponsorship programme and PR/Communications.

<i>Date of Hearing</i>	<i>Location</i>
23 June 1998	Aksai
10 October 2000	Uralsk
13 October 2000	Atyrau
14 November 2000	Fyodorovka

An example of one of the presentations used at the hearings is given in appendix 5. The regulatory guidance covering preparation of Environmental Impact Assessments and associated tracking requires that once documents have been disclosed they are required to be stored by the regulatory bodies who are charged with

ensuring that public consultation takes place. In the case of the Karachaganak field development the regulatory body that has copies of the material is WKO Oblast Ecology. Copies of the documents are also held by the Republican Ecological Information Fund.

KIO continues to revise and update its consultations drawing upon good practice guidance taken from others including IFC Guidelines with the emphasis moving towards increasingly proactive measures being taken with local in communities and the broader range of stakeholders.

16.2 STAKEHOLDERS

KIO has carried out some initial work in identifying stakeholders although further work is required on identifying other stakeholders and developing a better understanding of their needs. The groups include the following:

- Republic of Kazakhstan – Government
- West Kazakhstan Oblast -(WKO) Administration, Aksai Administration
- Regulators - West Kazakhstan Regional Ecology Department
- Local Communities
- Community Interest Groups
- NGO
- KIO Employees

Government

The ROK Government provides the overall political influence in the outcome of the project. This exercised through the FPSA and through the laws of the republic. The government acts as the appointed representative on the Joint Operating Committee (JOC) – decision-making body that directs KIO. As such they

West - Kazakhstan Oblast

(WKO) Administration

WKO have a direct interest in seeing that project provides benefits to the citizens of WKO. The scope of involvement includes:

- Stewardship in selection of social infrastructure projects. Proposes list of projects for JOC review and approval
- Reviews and approves Work Programme and Budget of the social infrastructure projects
- Issues and maintains within its power all approvals, permits and licences.

Aksai Administration

Aksai Akimat has limited influence over the project. Expectations of KIO are high in terms of financial support to shore up social sphere.

KIO has always stressed importance of working in partnership with community, regional authorities and NGOs. Opinion and recommendations made by Akimat are always taken into consideration.

Regulators – West Kazakhstan Regional Ecology Department

KIO is the biggest investor in Kazakhstan and WKO. WKO OE strictly monitors KIO performance in terms of environmental protection and compliance with Kazakhstani norms and regulations. Pursuant to Kazakh Law and the FPSA, KIO is responsible for environmental payments.

Local communities

Burlinsky District

- Around the field operations – Tungush (2 km), Berezovka (5km), Uspenovka (12 km), Karachaganak (7 km), Zhanatalap (8 km). Zharsuat (11 km) and Bestau (8 km). These are in addition to the township of Aksai.
- Along the pipeline route
- Terektinsky District: Tonkeris, Pokatilov, Novopavlovsk, Aksuat, Chagan, Fyodorovka, Podstepnoye.

Zelenovsky District: Kushum, Yanaikin and Shoptukol

KIO has been working closely with the Akim of Tungush, secondary school and community members to improve the quality of life in the village. KIO has put in place several other projects aimed to improve the quality of life. The projects include: supply of educational materials to school, electric generator to ensure reliable supply of electricity during heating season, Computer and English language course for schoolchildren. Furthermore, KIO is the major employer for the young generation. Residents of Tungush and other villages are working for the project. Competitive salaries enable them to support their families. KIO has been supplying potable water to the residents. Supply has been arranged in partnership with the private farm to enable community to exercise ownership of the project.

COMMUNITY INTEREST GROUPS (Aksai)

Aksai has a number of community interest groups that have been identified mainly on the basis that they have actively contacted KIO. The list is not exhaustive and as discussed above will be subject to further ongoing study.

Council of Veterans

The Council unites 8000 pensioners, 200 War veterans, and 2000 invalids. The main mission is to advocate the rights of this community group, which is considered as one of the most disadvantaged due to low pensions and high cost of living (utilities, medicines, food and etc.).

Veterans, pensioners and invalids represent one of the most disadvantaged groups. Pensions are very low – approx. \$25 per month and invalids monthly allowance is less than \$20. In recent years, this group was deprived of all social benefits- utility costs, free travel passes etc. The main interest is to seek KIO assistance in resolving social issues.

KIO has established good working relations with the Chairman of the Council, Aksai Department for Labour and Social protection, Aksai Administration, WKO Society of Deaf, Tuberculosis Fund, Uralsk City Municipal authority. This year, KIO allocated funding for: recreation for pensioners, wheel-chairs, sports equipment to Kushum orphanage for disabled children, Regional Special Olympic Games among disabled people, Rehabilitation Centre for Deaf in Uralsk, food supply for Tuberculosis hospital in Uralsk, educational materials for children- patients of a resort for tuberculosis treatment.

In the future it is planned to organise a consultation forum: meetings with the Veterans and Disabled People on a Victory Day (9th of May), Disabled People's Day (11 October).

Aksai Council of Women

The Council unites 27,813 women in the region and pursues the goal of protecting their rights. The Council exists formally with no activities at this stage. The Council is heavily dependent on financial resources and KIO is seen as one of the main sponsors. Women in Kazakhstan, despite effective legislation establishing gender equality, are considered as being one of the most vulnerable groups. In accordance with the Agency for Statistics of Kazakhstan, women are paid a four times lower rate than men. The level of female unemployment is 1.6 times higher. Employers view women as non-attractive employees due to expected maternity benefits and other social allowances. According to statistics: in WKO out of 28.9 % of population living below living wage, 33.2% constitute women and 24.6% - men.

Currently there are 4 vocal NGOs in Uralsk representing women interests (see further in NGOs section). All NGOs reveal strong interest in joint projects with KIO.

KIO has certain common goals with women NGOs such as training for women, In partnership with the local NGO (Ural Area Women) a training programme has been put in place for 25 women. The training programme will help women to acquire skills required in the labour market: computer skills, accounting.

NGOs

KIO understands the important role non-governmental organisations play in Kazakhstan in addressing social development issues. NGOs bring value in their ability to represent needs, priorities and concerns of communities. KIO has been involved in a process to better understand local NGOs management and their capacity and ability to represent communities. There are 18 NGOs currently registered in Uralsk, administrative centre of WKO.

The Women's Union - Priuralie

The focus of this group is to promote women's participation in political, economic and cultural life; protection of their rights, lobbying in the Parliament. Main activities include training programmes for unemployed women.

NGOs rely heavily on funding from foreign investors. KIO is viewed as the most desired partner. Interest is in developing joint training programmes for women, organising exhibitions etc.

Association of Business Women

The focus of this group is to support women in the private sector through lobbying their interests in the legislative bodies; promote participation of women in politics. Support is given to women running for public office.

Association of Disabled Women "Bibi-Ana"

The Association is headquartered in Almaty. The WKO branch has been registered with the purpose to help disabled women to sustain themselves. Initially the idea was to organise a small medium size enterprise (SME) – sewing factory, however, it never got off the ground due to lack of financial support. There are 60 women activists. The Association works closely with the WKO Council of Invalids and Uralsk City Council. The situation for this group is worsened by, high unemployment and a low social allowance (\$15 a month). Most of the women have children and no income to support them.

Committee of Soldiers' Mothers

The aim of this group is to protect political, social and economic rights of families (426 families in the Uralsk City) who lost their relatives in peacetime while on a military service. The Committee works in partnership with the relevant authorities (ministry of interior, law enforcement agencies and etc). Activities are governed by

Kazakh law. (Status and Social protection of Military servants and their families) The Committee unites 120 activists.

Association of Ecology NGOs.

The NGO Chairman is the Deputy of the Regional Legislative Body. Their mission is to provide public expertise for the projects

- Raising awareness and propaganda among population
- Monitoring of the environment (disabled due to lack of laboratory facilities)

Works in partnership with students, Society of Fishermen and Hunters, Fish protection Agencies, universities, Youth movement Zhaik Zhastaru.

The Association has been active in the area around the field operations. The long-term interest is to guide public monitoring of environment. At this stage, there are no adequate facilities or certificate for such activities.

NGO Zhaik Zhastaru

The aim of this group is to protect and promote political, social and economic rights of the young generation. The main project is the adoption of the Law about Youth. The young generation is one of the most vulnerable in terms of unemployment. The unemployment rate among the young generation constitutes 28.9% (Source – United Nations Human Development Report – Year 2000). Every 10th teenager dropped from secondary school after completion of 9th grade. There is a causal dependence between unemployment and drug addiction, criminality and etc.

The group has expresses an interest to collaborate with KIO in running joint programmes: rehabilitation of teenagers, anti-drug programmes, training and education.

KIO Employees

Employees as an internal stakeholder group have access to line management for information and their interests and any concerns are channeled through this route. The range of issues for employees covers a broad range including employment conditions, job security, career opportunities and company image and profile. This stakeholder group will feature as part of the systematic exercise to identify stakeholders and their needs.

16.3 PUBLIC CONSULTATION AND DISCLOSURE

Although there are numerous ways KIO staff and programs have interacted with these communities in the past, these will become increasingly formalized in the future to better document and formalize the transfer of relevant information to interested parties

The PR & Communications Department (established in 2001) is taking ownership/control of community outreach and sponsorship programs for community development. To this end, the s Community Relations Officer (Zhanna Dyusenbina) is developing a series of community relations activities. One activity being considered is that of developing a “road show” to introduce the PR & Communications program to the local communities. More broadly the Community Relations Officer has the duty to satisfy the requirements set down in the FPSA:

“The contractor shall establish and implement a community relations program to provide residents of the Republic with current, relevant and objective information about development of the Contract area and the impact of petroleum operations on the environment, natural resources and occupational and public

health. Access to such information shall be provided to the public by mass media and other means as are appropriate”

The main duties of the job are as follows:

- Prepare, update and deliver annual KIO community relations plan.
- Develop a detailed understanding of the communities upon which the Karachaganak project impacts – by conducting a stakeholder analysis.
- Understanding the issues and concerns of these communities as part of a two way communicational process.
- Administering the KIO sponsorship, contribution and donation scheme and budget.
- Contribute to the development of Public Planning and Consultation documents. Document the results of such consultations.
- Provide “familiarity of face” and consistency of message.
- Alert PR and Communications Manager to concerns and issues raised at “grass root” level.
- Liaise with Uralsk Office Manager to maximize PR from \$10m annual investment in social projects.

The new Community Relations Officer will be developing plans over the next 3 months including further stakeholder analysis linked with the ongoing visits to the local communities. These activities are summarised on the attached 2002 PR & Communications plan.

The action plan includes the disclosure of this document and others as part of the disclosure process required by IFC. KIO will be making the disclosure for IFC in three locations in Kazakhstan – Uralsk, Aksai, Atyrau.

16.4 PR/Communication Programme Action Plan 2002

The 2002 KIO PR Plan builds on the progress made in 2001. The approach is focused on issues and action areas involving the systematic and routine activities with internal and external stakeholder groups. The focus for the KIO PR & Communications department is to provide coherent and accurate information that enables KIO to develop excellent working relationships and reputation amongst its stakeholders. A summary of the 2001-2002 activities is given below.

PRESS RELEASE

Total number of press releases issued: 61

- 57 press releases issued in 2001
- 4 press releases issued in 2002

PR ARTICLES PLACED IN NATIONAL, REGIONAL, AND LOCAL NEWSPAPERS

NATIONAL

- “Novoe Pokolenie” (New Generation): an environmental article titled “Union of Ecologists and Oilmen” on November 30, 2001
- “Express K”: an environmental article titled “Believe Us, Earth” on March 1, 2002
- “Kazakhstanskaya Pravda”: a story on world-class Emergency Response Training Programme and Field Exercise Facility in Uralsk on March 3, 2002

Total number: 3

REGIONAL

- “Priuralie” placed 15 stories on KIO’s activities, Karachaganak development, and a story on soil/crop.
- “Uralsk Weekly” placed 4 stories
- “Puls” placed 5 stories
- “Talap” placed 3 stories

Total number: 27

LOCAL

- “Our News” placed 21 stories on KIO’s activities and Karachaganak development including 2 stories on environment
 - “Panorama Karachaganak” placed 14 stories on KIO’s activities
 - “Burlin News” placed 3 stories on Karachaganak development
- Total number: 38

PRESS VISITS TO THE FIELD

PR organised 2 press visits.

- On November 3, 2001 press people from Uralsk representing various editions such as Khabar TV, Interfax, Kazakhstan Today, Talap, Priuralie, Puls, Uralsk Weekly, and OKO visited the field and participated in the celebration of 5 million hours without lost time incident in KPC
- On November 16, 2001 press people representing national editions including a reporter from the Economist/New York Times and a reporter from BBC visited the field.
(Comment: Both visits resulted in wide coverage in both regional and national editions)

CORPORATE VIDEOS

PR produced 4 corporate videos

- Karachaganak Update –2000
- Karachaganak Update – 2001
- Import Substitution-Sustainable Future
- President’s Video

(Comment: Most of these videos were distributed among Kazakhstan ministries, government organisations, and among Kazakh print and broadcast media. In addition, Import Substitution/Sustainable Future video was played twice on Channel 31 during KIOGE exhibition in October 2001. It was also played in October 2001 and in March 2002 by WKO TV.

CORPORATE PUBLICATIONS

- Karachaganak Update 2000-2001 (both in English and Russian)
- 10th Anniversary leaflet-A Lasting Partnership
- Kazakh Content & Import Substitution
- Advertisement dedicated to the 10th Anniversary of Kazakhstan Independence for the President’s book

KIO NEWS

- KIO News-2001 (English/Russian)
- KIO News-2002 (English/Russian)

EXHIBITIONS

KIO participated in 3 exhibitions

- Kazakhstan International Oil & Gas Exhibition – Astana (KIOGE)-2001 (October)
- Uralsk International Fair-Exhibition “Shanyrak” dedicated to the 10th anniversary of Kazakhstan independence (September 7-9)
- Aksai exhibition in March. KIO provided exhibition stand and PopUps

CONFERENCES

PR participated in 3 conferences

- KIOGE (October, 2001)
- OSCE (August, 2001)
- KPA (January, 2002)

PRESIDENT NAZARBAYEV’S VISIT TO THE FIELD

- Memorial brass plaque installed on the power station
- Billboard installed on the power station (10 years of Kazakhstan independence)

- Umbrellas for VIP
- Silver Yurta for the President
- Crystal pyramids for VIP

SPECIAL EVENTS

“My Kazakhstan” special train.

(Comment: KIO sponsored the event to bring Kazakhstan’s top singers, musicians, and other artists to Aksai.

Within KIO, the Communications and Public relations function is defined as “the systematic and effective management of the company’s information to internal and external audiences, in a manner which safeguards its image, promotes its achievements and promotes its business interests.”

The different elements of the 2002 plan are as follows:

- Environmental communications
- Communicating Kazakh content achievements
- Communicating the Nationalisation program

KIO is a culturally diverse organisation with multiple stakeholders in a politically evolving and challenging former Soviet Union state. KIO is engaged in high profile activities with impacts beyond Kazakhstan itself.

Effective communications is of central importance in ensuring that the image, integrity and achievements of Karachaganak activities are maintained during all interfaces with internal and external audiences. The PR & Communications Department plays a major management role in this process by ensuring that the annual PR program is effected in a controlled, targeted and unified manner throughout the whole venture.

In brief, the main objectives are:

- To increase the external understanding of the project and its achievements by delivering core messages to KIO’s target audience.
- To create a unified culture that is equipped to project this.
- To satisfy the wishes of shareholders as to the wisdom of their investment.
- To build a proactive and effective PR department, using national staff wherever possible.

KIO’s communications strategy is to introduce a system that fills existing perception gaps, to develop the areas where there has been observable success, and to project positive messages to key audiences in a co-ordinated and consistent fashion.

Its twin aims are to reduce the incidence of ill-informed comments by the regular provision of clear facts, and to pay specific attention to publicising the achievements of the project.

KIO disclosure policy is regulated by the FPSA. The Republic of Kazakhstan Legislation is aimed at protecting the interests of the Republic of Kazakhstan and preventing harm to the business interest of its Partners. The FPSA imposes certain confidentiality restrictions and conditions under which information, regarded as confidential by the agreement cannot be disclosed.

KIO is striving to ensure accountability and transparency with its public eyes by providing regular information updates on its activities. KIO’s disclosures are aimed providing objective information on all of its activities including information of its social and environmental programmes. The sources for such information include:

- As an employer KIO is committed to raise competence of its staff. Internal communication is important part of its overall communication strategy. *KIO News* is aimed at serving this goal. *KIO News* is produced 4 times a year and includes project development updates, HSE achievements, policies and guidelines, information of social infrastructure projects, import substitution and Kazakh content
- *KIO World* targets external audience and focuses on Kazakh content, import substitution, HSE performance, nationalisation of KIO personnel, training, employment and etc.
- Karachaganak Update is released annually and represents a KIO Annual report. The main blocks of information include: project milestones, information on production and marketing; field development; Kazakh content; HSE; Social Programme
- Brochures and Booklets. KIO produced booklets for the 10th Anniversary of Kazakhstan Independence describing its social commitments; import substitution and employment opportunities for local specialists.
- Press Releases informing the wide range of public about major developments and achievements.
- The KIO web site is currently under the final stages of construction and will be launched after the approval by all participating parties. The web site will provide access to overall information on project development, operations, social projects, etc. in three languages - English, Russian and Kazakh.
- Project update videos - produced quarterly and distributed among stakeholders and the media. There are three promotional videos available currently - Karachaganak Update 2001, A Sustainable Future (about Import Substitution programme) and a 3.5 minute promotional video.

The overall plan for 2002 is given below.

2002 PR Plan

#	Shift	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1	Internal Communications												
	KIO News		✓			✓			✓			✓	
	Contractors Forum PR Committee		✓	✓	✓			✓	✓	✓	✓	✓	✓
2	Press Relations												
	Corporate releases												
	Local releases Placed articles Press visit – Aksai Press visit – London				✓		✓		✓		✓		✓
3	Public Relations												
	Develop detailed plan Implement Aksai media plan Fact book Issues / Q&As Office procedures in place												
	Public holiday commitments Uralsk inauguration (President) Data base Astana presentation Astana cocktail party Almaty reception Uralsk reception	1 New Year	Issue 1	8 Women's Day 22 Nauryz	Issue 2	1 Unity Day 9 Victory Day	Issue 3			Issue 4		Issue 2 Issue 5	

17 KIO ENQUIRY/COMPLAINT HANDLING PROCESS

KIO has an established procedure for handling internal complaints that routes any grievances or complaints through line management involving Human Resources.

Historically external complaints have been handled in a less formal whereby any issues that are brought to the Venture Director's attention are passed to PR & Communication to be addressed or are dealt with at the point of entry into KIO. This practice has been reviewed following feedback from IFC. KIO recognises that the current practice for handling any external enquiry can be improved including formally publicising the mechanism the public should use to contact KIO.

As a result of noting the above, KIO management accepts that the process can be improved. It therefore proposes to introduce and implement a new scheme to be administered under the auspices of the Community Relations Office.

The principal elements of KIO's complaint handling process are:

- Complaint received. Details logged and reference given
- Acknowledgement. Within one week.
- Appraisal. ..against acceptance criteria. Rejection or acceptance within two weeks.
- Assessment. Preliminary investigation.
- Decision to proceed. Notify complainant within four weeks.
- Dialogue. Pacification? Mediation? Settlement?
- Complaint concluded.
- Report. To KIO management and to the public.
- Complaint closed

KIO will refine, formalise and publicise the above procedure, making the process better known in the community. KIO will publicise a hot line number to facilitate rapid access by the public.

KIO will encourage its management to adopt the same procedure for any grievances raised at a departmental level. Indeed, managers will be encouraged to extend the principle to include issues and anxieties that may be raised by external audiences.

18 BENEFITS THAT THE KARACHAGANAK FIELD DEVELOPMENT BRINGS TO KAZAKHSTAN

The Karachaganak field development project is bringing a broad range of benefits to Kazakhstan over and above the financial benefits through tax revenues and the ROK share of production.

1. Employment: At the peak of construction more than 17,000 jobs will be provided of which 80% will be Kazakh nationals
2. Investment: To date the over \$2 billion has been invested and this will grow to \$3.5 billion by the ends of phase 2 in mid 2003
3. Training: Comprehensive technical training and softer business skills are a fundamental component of the nationalisation programme that are helping with capacity building within ROK
4. Infrastructure: Improvements to basic amenities and services-water supplies, roads, hospitals and schools
5. Social investment: In addition to basic improvement in amenities investment is being made in cultural centres and support to the arts and sports.
6. Supply chain development: Import substitution programmes are complimented by supplier development and training
7. Environmental restoration: Previously long term intractable environmental legacy issue are being addressed as a result of investment both financial and technical
8. Access Technology and Intellectual property: New state of the art technology is being adopted along with new ideas to support regulatory reform
9. Exemplar to attract other foreign investment: KIO's achievements stand out as a reference point for other potential investors as to what can be achieved.

Appendix 1 - PARENT COMPANIES



BG Group, The Integrated Gas Major, works across the spectrum of the gas chain. Active on four continents in some 20 countries the Group operates four business segments - Exploration & Production, Liquefied Natural Gas, Transmission and Distribution, and Power.


Natural gas, the cleanest of the fossil fuels and least harmful to the environment, is increasingly becoming the fuel of choice. BG Group works in co-operation with governments, partners and other stakeholders to build natural gas markets globally.

is a joint operator of the giant Karachaganak oil and gas/condensate field in Western Kazakhstan. BG is also a shareholder in CPC which is building an oil pipeline linking reserves in western Kazakhstan to the Black Sea, thereby providing access to world markets. In addition, BG is a partner in the Agip KCO consortium that is currently exploring acreage in the Kazakh sector of the Caspian Sea. Appraisal of the potentially giant Kashagan oil field began in May 2001 following the encouraging results of the Kashagan East-1 exploration well and the subsequent Kashagan West-1 well.

BG Group in Kazakhstan:

- **Karachaganak**
- **Caspian Pipeline Consortium (CPC)**

The CPC was formed to build a pipeline system to transport oil from western Kazakhstan to the Black Sea at Novorossiysk. The pipeline system consists of new-build line and marine terminal facilities, plus upgraded line. The first phase of the system, known as the Initial Construction Project (ICP) will have a capacity of 600 000 bopd (28.2 mtpa), all of which has been allocated to CPC shareholders.

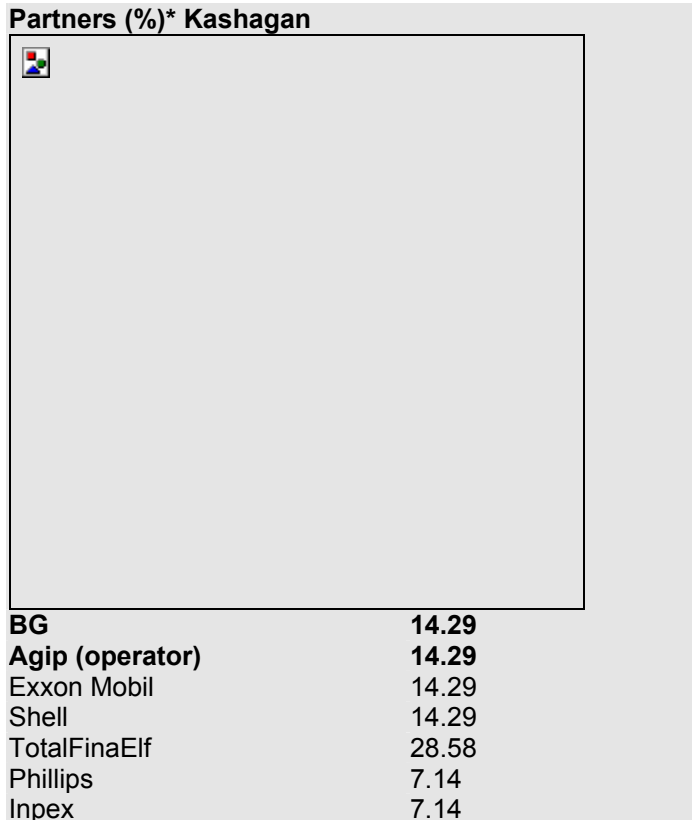
Partners (%) CPC	
	
BG	2.00
Russian Government	24.00
Kazakh Government	19.00
ChevronTexaco	15.00
LUKARCO	12.50
Exxon Mobil	7.50
Rosneft - Shell	7.50
Oman Government	7.00

Agip	2.00
Kerr McGee	1.75
KazakhOil/BP	1.75

BG is entitled initially to 55 000 bopd (2.75 mtpa) of capacity which will be used to transport liquids from the Karachaganak field. The first expansion is expected to increase this capacity to 60 000 bopd (3 mtpa), and there is potential to increase the total capacity of the pipeline to some 1.45 million bopd (67 mtpa) over time. Line fill started in March 2001 and was completed in September 2001.

▪ **North Caspian Sea Exploration - Agip KCO**

BG holds a 14.29% interest in North Caspian Sea PSA which covers 5 600 sq km of the Kazakhstan sector of the Caspian Sea. The PSA was signed in 1997, becoming effective in April 1998. ENI-Agip was appointed operator in February 2001, replacing the joint operating company OKIOC. The first exploration well, Kashagan East-1, was announced as a discovery in July 2000, flowing at rates of 3 800 bopd of 42-44 degree API oil and 7 mmscfd of gas on a 32/64 inch choke from the first interval to be tested. A second well on the Kashagan structure (Kashagan West-1) was tested in April 2001 at rates of up to 3 400 bopd and 7.6 mmscfd of gas. An appraisal programme for Kashagan has been agreed by the Kazakhstan authorities, and up to five wells could be drilled by 2003. The first appraisal well, KE-2, began drilling in May 2001.





Eni is an integrated energy company, operating in the oil, natural gas, electricity generation and petrochemicals industries as well as oilfield services and engineering.

- Conducts operations in more than 70 countries, where it employs about 70,000 people
- At present produces more than 1.3 million barrels of oil equivalent per day. Eni intends to increase its daily hydrocarbon production to at least 1.5 million boe by 2003
- In year 2000 generated revenues of about 48 billion euro and net income of 5,771 million euro

Eni was one of the first Western oil companies to enter exploration and production activities in Kazakhstan. In 1992 it acquired a participation in the Karachaganak field in the North West of the country. Today Eni participates in two exploration and production projects:

- Development of the Karachaganak oil and gas field, where Eni's share is 32.5% and is the operator with British Gas. The joint venture is formed also by ChevronTexaco and LUKOIL;
- Exploration and possible development of an offshore area - in the northern part of the Caspian Sea, south of Atyrau - of 5,500 square kilometers, with 11 Blocks, in water depths ranging from 2 to 10 meters. The "North Caspian Sea Consortium" formed by Eni (14.28% share), Shell, TotalFinaElf, Exxon, Mobil, BG, Inpex and Phillips Petroleum, has selected Eni as single Operator of the "North Caspian Sea" project's Production Sharing Agreement. The Consortium has completed (March 2001) the drilling of the Kashagan West 1 well and has detected hydrocarbons at this location. The well Kashagan West 1 is the second exploration well in the Kashagan structure and is located over 40 km away from the first one at Kashagan East.

In addition, Eni holds a 2% share in CPC, for the construction of an oil pipeline from Atyrau (Kazakhstan) to Novorossiysk, on the Russian Black Sea. This participation will allow Eni to transport about 3 million tons per year of oil production from Karachaganak, starting in the year 2003.

ChevronTexaco

ChevronTexaco Corp. ranks among the world's largest and most competitive global energy companies. Headquartered in San Francisco, it is engaged in every aspect of the oil and gas industry, including exploration and production; refining, marketing and transportation; chemicals manufacturing and sales; and power generation.

The corporation traces its roots to an 1879 oil discovery at Pico Canyon, north of Los Angeles. This find led to the formation, in the same year, of the Pacific Coast Oil Company. Another side of the genealogical chart points to the 1901 founding of The Texas Fuel Company, a modest enterprise that started out in three rooms of a corrugated iron building in Beaumont, Texas.

These two companies, the predecessors of Chevron Corp. and Texaco Inc., respectively, were both instrumental in transforming a fledgling oil business into today's multifaceted, high-tech energy industry.

Global, diverse and highly skilled, the ChevronTexaco work force of about 53,000 takes pride in a commitment to community partnerships, social responsibility and environmental excellence.

Active in more than 180 countries, ChevronTexaco has reserves of 11.5 billion barrels of oil and gas equivalent and daily production of 2.7 million barrels. In addition, it has a global refining capacity of more than 2.2 million barrels a day and operates more than 25,000 service stations around the world. The company also has interests in 47 power projects now operating or being developed.

ChevronTexaco is a leader in gasification technology, which converts low-value materials, like refinery residue, into clean synthesis gas. In addition, the company develops and commercializes advanced energy technologies, including fuel cells, photovoltaics, advanced batteries and hydrogen storage.

ChevronTexaco in Kazakhstan:

- **Karachaganak**
- **The Tengiz Field**

ChevronTexaco and the Republic of Kazakhstan are developing the giant Tengiz and nearby Korolev oil fields. This historic partnership, called Tengizchevroil (TCO), was formed in 1993 as a 40-year, \$20 billion joint venture. Tengiz, one of the world's largest oil fields, contains some 6 to 9 billion barrels of recoverable oil.

- **The North Buzachi Field**

In 1998, Texaco purchased a 65 percent working interest in the North Buzachi oil field in western Kazakhstan near the Caspian Sea. This field is located onshore 111 miles north of Aktau and holds an estimated 1.5 to 2 billion barrels of crude oil.

The project team has conducted an environmental impact assessment of the region, using satellite imagery, and begun appraisal work, which involves drilling test wells and undertaking seismic surveys to estimate potential production results. Each process of this project uses leading-edge technology and best practices that demonstrate and reinforce a commitment to operational excellence and safety.

- **Caspian Pipeline**

As the largest oil company member of the Caspian Pipeline Consortium (CPC), ChevronTexaco will be a primary beneficiary of the new 900-mile pipeline. The Caspian Pipeline connects western Kazakhstan to the Russian Black Sea coast and will allow for maximum development of the Tengiz Field. The pipeline had its groundbreaking in May 1999, and is expected to deliver first oil in the second half of 2001.





LUKOIL is the leader of Russia's fuel and energy complex.

LUKOIL is the first Russian integrated oil company operating according to the principle "from oil well to filling station". LUKOIL was set up in 1991 in the form of a concern, based on the three biggest oil- and gas-producing enterprises in Western Siberia - Langepasneftegaz, Uraineftegaz and Kogalymneftegaz, which were combined to form the name LUKOIL. Subsequently, LUKOIL absorbed other oil-producing, oil-refining, sales, petrochemical, transport and other oil business enterprises.

LUKOIL TODAY:

- Operations in 40 regions of Russia and 25 countries
- One of the biggest proven reserves of oil in the world owned by a private oil company
- Over 120,000 employees working in Russia and abroad
- 24% of all the oil produced in Russia
- 12% of all the oil products produced in Russia
- More than 1,100 filling stations on the territory of Russia, the republics of the former USSR and other countries.

In Kazakhstan, it has shares in three current projects:

- 15% in the agreement on the division of output from the Karachaganak gas condensate field
- 5% in the development of the Tengiz oil field
- 50% in the development of the Kumkol oil field.

Appendix 2 - KAZAKHSTAN'S LEGISLATION THAT REGULATES INFORMATION DISCLOSURE AND PUBLIC CONSULTATION

Constitution of the Republic of Kazakhstan

Article 18

3. State bodies, public associations, officials, and the mass media must provide every citizen with the possibility to obtain access to documents, decisions and other sources of information concerning his rights and interests.

Article 20

2. Everyone shall have the right to freely receive and disseminate information by any means not prohibited by law. The list of items constituting state secrets of the Republic of Kazakhstan shall be determined by law.

Law of the Republic of Kazakhstan "On Health Protection of Citizens of the Republic of Kazakhstan"

Article 51. The Right of Citizens to Obtain the Information on Their Health Condition and Factors Affecting Health

3. Citizens shall have the right to obtain information from health care agencies, organizations and employers on prevention and treatment methods, disease prevalence level among citizens, factors effecting their health, including environment conditions, as well as labor and living conditions.

Law of the Republic of Kazakhstan "On Emergencies of Natural and Technological Character"

Article 16. Openness and Information Related to State of Emergency of Natural and Technological Character

Information related to state of emergency of natural and technological character shall include information on the level of risk and harmfulness of organizations activity, the necessary security and measures of prevention and elimination of emergencies. This information shall be open to the public and shall be subject to publishing in mass media and broadcast media.

It shall not be permissible to conceal, untimely present or knowingly give public officers false information related to emergencies of natural or technological character.

Law of the Republic of Kazakhstan "On Ecological Expert Evaluations"

Article 8. Types of Ecological Expert Evaluation

State-directed and public expert evaluations shall be carried out in the Republic of Kazakhstan.

Article 15. Requirements to Documentation Submitted for State Ecological Expert Evaluation

1. For state expert evaluation the Client must submit the following documentation:

1) Comprehensive ecological, social and economic evaluation of the impact upon the status of the environment and public health from planned activities for the entire period of performance of those activities; and the statement of ecological consequences of those activities;

2) Documents of approval of the planned activities by central and local executive bodies, as well as results of accounting for the public opinion in accordance with the procedure established by the Central Executive Body of the Republic of Kazakhstan in the sphere of the environmental protection.

2. The documentation being submitted for state expert evaluation must have the following decisions:

1) On introduction of efficient materials, energy-saving, low- and non-waste technological processes;

- 2) Rational use and recovery of natural resources, integrated processing and utilisation of production and consumption waste;
 - 3) Ensuring efficient purification of effluents as well as their use for technical needs with the priority refusal from discharge of effluents water into natural waters and water bodies, and on the items of local geography;
 - 4) Validity and surety of proofs concerning the protection of atmospheric air from pollution;
 - 5) Safety and restoration of soil, vegetation canopy and fauna, strict compliance with the status of environmental preserve stock;
 - 6) Ensuring protection of the public and environment from harmful impact of anthropogenic, physical, chemical and biological factors.
- 3.** Appropriate expert sub-division of the Central Executive Body of the Republic of Kazakhstan in the sphere of the environmental protection shall have the right to request additional materials needed for conducting state-directed ecological expert evaluations.

Appendix 3 - LAND LEASE

A large portion of the current land leased by KIO relates to that required for construction purposes. The basis for Land lease is regulated by FPSA and Kazakh legislation (President's Decree on Land and Law on Subsurface Use and Subsurface Users, dated 27 January 1996 N 2828 and regulatory norms). KIO has entered into contractual relationships with the private land-users for temporary land lease. These farms are located around field operations and the liquid export pipeline route. In general, as of today the number of land – users has reached approx. 115. The contract for temporary land use is signed for one year. KIO and its contractors are responsible to conduct all nature protection activities and should utilise the leased land for intended purposes.

Upon completion of construction works, KIO carries the responsibility to implement land reclamation activities including technical and biological measures to promote fertile soil restitution within three years. Subsequently, previous land tenure is envisaged to follow.

Payments

The FPSA stipulates that Contractor shall pay land lease payments as provided by local authorities, however, such payments shall not exceed land tax calculated pursuant to the Tax Code. At the date of FPSA signature, the land tax constituted 4.35 Tenge per square meter (1 hectare contains 10,000 sq.m). Thus, land lease payment constitutes 43,500 Tenge per 1 hectare.

Along the pipeline route, temporary use area was determined according to the project right-of-way (33,0 m) of the export pipeline route. In total, Zelenovsky, Terektinsky and Burlinsky regions as well as Uralsk City owned agricultural area allotted for temporary use comprises approximately 1970ha.

Around the Field

KIO signed land lease agreement with five private farms in Tungush. The total size of temporary leased land is around 213 hectares. This constitutes annual payment of 9.265,500 Tenge (\$61,770).

In Berezovka, KIO has signed agreements with six land –owners. The total size of temporary leased lands- is approx. 349 hectares. Land lease payment – 15.181,500 Tenge (\$101,210)



Approved _____

Date " _____ " _____ 2001

**Karachaganak Petroleum Operating BV****SPONSORSHIP, DONATIONS AND SOCIAL COMMITMENT POLICY
July 2001****CONTENTS**

I Introduction

1.1 Purpose statement

Categories

1.2 Commitments required under the FPSA

1.3 National, regional and local sponsorships and donations

1.4 Employee donations

1.5 Trust Foundation

Criteria

4 Process**5 Payment and accountability****6 Communication****7 Performance Tracking**

1 Introduction

This policy paper outlines the various sponsorship activities undertaken by KPO, and details how they should be managed. It also aims to rationalise KPO's discretionary corporate sponsorship spend by linking it more closely with corporate objectives. To this end it pays particular attention to centralised budgetary control, selection criteria and the requirement for measurable benefits.

The policy is in line with best practice guidelines operated by all four partners. *(Input has been received from BG, ENI, Texaco and Lukoil – all of whom have endorsed the policy).* It therefore forms the cornerstone upon which the KPO sponsorship programme is built.

1.1 Purpose statement

- KPO recognises its role as a responsible corporate citizen in Kazakhstan.
- It accepts that a pragmatic approach is required given that demands for support will always exceed the company's capacity to give.
- The purpose of KPO's sponsorship programme is to discharge its responsibilities as a responsible corporate citizen. The purpose of the policy is to provide a framework for conducting this activity in a fair, consistent and sympathetic manner.
- KPO will revise its corporate policy statement annually. KPO will publish Brief Statement of Principles every year. The Statement will stipulate commitments in a social sphere and outline scope of investments towards social infrastructure development.
- KPO intends that this policy statement and its sponsorship programme complements the national programmes of its parent companies
- KPO is a primary source and vehicle of sponsorship funding for parent companies in WKO.

2 Categories

There are currently four areas of sponsorship, donations and social commitment. These are detailed below.

2.1 Commitments required under the FPSA

FPSA obligations apply principally to the fixed annual expenditure for social projects in the Western Kazakhstan Oblast. Detailed programmes for each of these are incorporated into the KIO Annual Work Programme and budget and approved by the JOC. Despite its commitment to fund, KIO has little control over what social projects are selected to finance. It should however increase its efforts to secure publicity and wider recognition for its contribution.

2.2 National, Regional and Local Sponsorships and Donations

An annual budget is to be established and included in the Work Programme and budget for Partner and then JOC approval. This budget will be held by the General Director, who must approve any proposals via a Sponsorship Committee, which should meet on first Saturday of each month. All proposals must be accompanied by a business case which demonstrates that the sponsorship or donation will be of benefit both to the communities and Karachaganak

Venture. Assessments will be made according to as many as possible of the criteria listed under section 3.

2.2.1. *National sponsorship* means the sponsorship of events and activities that have a corporate significance to KPO in Astana and Almaty.

2.2.2 *Regional and Local sponsorship* means the Oblast where KPO has a significant presence i.e. WKO (including Uralsk) and also Burlinskyi District. Atyrau will be considered for granting sponsorship funds to a lesser.

The greater part of KPO’s sponsorship budget will be spent at a regional and local level, given the high profile activities of parent companies at a national level. A substantial allocation from the overall Sponsorships and Donations budget will be made available for small donations and sponsorships to help local schools, charities and other good causes in the Aksai region. The same criteria as above apply, and standard letters will be drafted to reflect the reasons for acceptance/refusal. The subject matter should refer to KPO’s stated concentration on the neediest in society – the sick, poor, young and elderly.

2.3 Employee donations/contributions

Currently KPO receives a series of letters from individuals requesting for sponsorship assistance. KPO will refer these letters to employees’ charity groups, i.e. *Aksai Children’s Hospital Fund, Kinky Malinky, Malinky Inc.* and etc.

2.4 Trust Foundation

KPO is considering setting up a Foundation and the matter is at a discussion stage.

3 Criteria and apportionment

All requests received by KPO will be considered against the following criteria. Requests that do not meet these criteria will be politely declined at the outset.

The KPO sponsorship budget will be split into the following categories

	% of total
1. Social welfare/healthcare	25
2. Education	25
3. Sports	20
4. Arts/Culture	15
5. Discretionary	15

Statement of limitations/exclusions

1. KPO will not make donations to political, religious and other organizations that discriminate on the grounds of race, creed, gender, sexual preference or national origin.
2. The sponsorship budget will not be used for supporting publications or courtesy advertising where there is no benefit to KPO.
3. Sponsorships and donations should be to organizations preferably in the form of goods and services.
4. KPO will refer individual cases of hardship to KPO individual sponsorship groups.

5. The reputation of KPO and the Parent Companies must not be harmed

Additional evaluation criteria

- Quality of proposed programme and implementation plan
- Nature of leadership of organization seeking support
- Reliable administrative and financial controls
- Impact on beneficiaries
- The proposals must contain specific goals which are measurable
- All local laws and conventions are to be fulfilled
- The US Act on Foreign Corruption or any other anti-corruption requirements must not be violated

Note: As a general rule parent companies will avoid high profile sponsorship initiatives in WKO.

4 Process

The budget will be held by the General Director and administered by the PR and Communications Manager, in conjunction with a Sponsorship Committee (representatives from HSE, HR, PR, Finance and General services) to save the General Director's time. Individual departments are not to hold separate sponsorship budgets.

Requests for sponsorship received by departments will therefore be passed to the PR department with a covering note outlining the business case and an indication as to whether to concede to the request.

The KPO External Relations Officer will

- Act as the contact point for all incoming proposals.
- Include evaluating proposals against the established guidelines.
- Gather information appropriate for decision-making process, implement fact-finding mission.
- Make preliminary recommendations for funding.
- Coordinate monthly meetings of the Sponsorship Committee.
- Finalize sponsorship requests: write response letters, initiate payments
- Organize hand-over ceremonies and ensure publicity for sponsorship actions.

External Relations Officer will administer the scheme, keeping records, organizing meetings, responding to all request on a timely basis etc.

All applicants are to be encouraged to submit detailed proposals which should include the following elements:

- Description of organization, its activities, achievements and purpose
- The specific need that KPO is being asked to support
- What it hopes to accomplish – goals.
- Project budget
- Annual organization budget
- Its affiliations and existing supporters.

Pro-forma letters to be designed to streamline process

5 Payment and accountability

All payments are to be recorded in accordance with normal KPO accounting practice, and details of all sponsorships and donations are to be reported in the KPO Monthly Report.

The KPO External Relations Officer is to:

- Prepare an annual plan and budget forecast.

- Record all requests and decisions made.

- Maintain a budgetary record

- Process all applications in a timely manner in accordance with this policy document and with the input of the Sponsorship Committee.

- Performance Tracking (see section 6)

6 Communication

All major grants should have a communications plan to enable the company to articulate its commitment to the community and to being a good corporate citizen. KPO will work with those organizations receiving support to develop press releases and other PR activities.

7 Performance Tracking

Additionally, KPO will be tracking the impact of its sponsorships and donations. A tracking system will be employed to measure performance and results of programs and projects receiving support from KPO.

SPONSORSHIP COMMITTEE

<i>Chairman</i>	<i>General Director</i>
<i>Members*</i>	HSE Director Operations Director PR/Communications Manager External Relations Officer Finance Manager HR Manager
<i>Advisory Groups**</i>	Community Groups Trade Union Aksai Akimat Aksai Maslikhat (local elective body)
<i>Decision</i>	Simple Majority. Final decision by General Director's signature.
<i>Meetings</i>	Sponsorship Committee will meet first Saturday of each month

* Sponsorship Committee holds the right to invite representatives from other KPO departments if there is a special issue.

**Advisory groups will not be generally present at the meetings. KPO will seek advise/suggestions/comments from Advisory Groups on informal basis prior to the meetings.

Sponsorship and Donations Review and Approval

Reference №	
Date received	
Recipient	
Brief description of the project:	
Compliance with KPO policy and objectives	
Amount requested	
Initial accepted	
Review questions	
Recommendations	
Visit (name, date)	
Final acceptance	
Method of funding	
Date Funding Provided	
Actions to claim credit	

Approved:

Date:

Approved:

Date:



KARACHAGANAK PETROLEUM OPERATING BV

24" Condensate Export Pipeline

Bolshoy Chagan to Atyrau

- Existing Oil Export - Karachaganak to Orenburg
 - Unstabilised Oil / Condensate
 - 4 million Tonnes per year
 - 2 off 350mm diameter pipelines 140Km
 - Russian Market (refineries Ufa, Salavat..)

KARACHAGANAK EXPORTS

New Oil Export Route - Karachaganak to CPC

- Stabilised Oil/Condensate
- Phase I up to 7 million tonnes per year, Ph II up to 10 million Tonnes per year
- Transported via CPC to Black Sea Terminal at Novorissiysk
- Loaded onto Tankers for onward distribution to International Market.

Main Export Pipeline comprises Two Sections:

Section 1:

- Karachaganak - Bolshoy Chagan:
 - 186 km 24" diameter pipeline - API 5LX60 pipe MAOP 67 Bar
 - Included in FPSA Nov 1997
 - Presented for approvals in Full Field Development Design



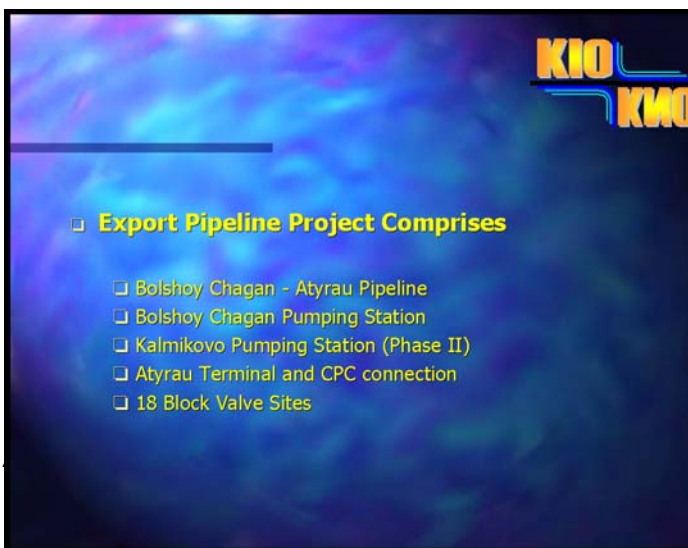
Section 2:

- Bolshoy Chagan - Atyrau:
 - 450 km 24" diameter pipeline - API 5LX65 pipe
MAOP 75 Bar
 - Amendment to FPSA agreed Dec 1999



Pipeline Design -

- ILF & Caspimunaigas Design Institute
- KazNipiEnergoProm - Electrical
- KazTransOil - Consultant
- Design to SNIP / API and GOST standards
- State Expertise and Ecology Expertise



□ Export Pipeline Project Comprises

- Bolshoy Chagan - Atyrau Pipeline
- Bolshoy Chagan Pumping Station
- Kalmikovo Pumping Station (Phase II)
- Atyrau Terminal and CPC connection
- 18 Block Valve Sites

ROUTE OF THE NEW PIPELINE :

- Category III Pipeline - 100% x-ray
- Follows existing Atyrau - Samara Pipeline Corridor (20 - 30m from existing pipeline some deviation at restricted points)
- Allows some sharing of Utilities, power, communications, access roads etc.



Bolshoy Chagan Pump Station: Comprises the following main components:

- Pump station (2+1 parallel pumps for Phase I; 3+1 for Phase II)
- Scraper receiver / launcher
- Connection for A-S p/l, including pressure control and fiscal metering
- Pump Station bypass, including Block Valve
- Auxiliary and ancillary systems, buildings, etc.

Kalmikovo Pump Station: Comprises the following main components:

- Scraper receiver / launcher
- Pump station bypass, including Block Valve
- Pump station (3+1 for Phase II)
- Auxiliary and ancillary systems, buildings, etc.

In Phase I, only the scraper area, bypass block valve and closed drain system will be installed.

Atyrau Terminal : Comprises the following main components:

- Scraper receiver, inlet pressure control
- 2-off Condensate storage tanks
- Booster pump station (2+1 parallel pumps for Phase I; 3+1 for Phase II)
- Connection to CPC, including flow control
- Terminal bypass line
- Pressure relief system
- Auxiliary and ancillary systems, buildings, etc.

Control system:

- Control Centres KPC and Atyrau
- SCADA / Telemetry system (fibre optic and RTU) (Supervisory control and data acquisition)
- Communications Facilities (enables local control with manual intervention)

Protection Systems:

- Emergency Shut Down (ESD) system
- Leak detection and leak location
(It is proposed to install at least 2 independent methods for leak detection and 1 method for leak location.)
- High Quality coating and wrapping
- Impressed current C.P. System
- Fire and gas detection/fighting systems at facilities

Construction Schedule:

- ❑ Permitting and Approvals 2000/2001
- ❑ Preparatory works Early 2001
- ❑ Start main construction MID 2001
- ❑ Completion End 2002

Construction Contractor:

- ❑ **CCC - Saipem Consortium:**
 - ❑ World Class Construction Companies
 - ❑ Very Experienced in Pipeline Construction
 - ❑ Committed to High level of Local Involvement
 - ❑ Use advanced construction materials and techniques

H.D.D. Equipment River & Rail crossings

Rail crossing by H.D.D.


Camps and work sites:

- ❑ Single Pipeline Spread
- ❑ Mobile Camps
- ❑ Fabrication and storage areas
- ❑ Facilities construction sites



Construction Labour Requirements:

- Total labour up to 1000 direct & indirect.
- Over 50% Kazakhstan Nationals
- CCC-Saipem Specialists carry out management and supervision for construction works
- Skilled National workforce required for all disciplines
- Unskilled Labour sourced locally along route.



Operation:

- Negotiations are in progress with Kaztransoil for Operating Agreement
- Control rooms and pump stations manned
- Maintenance and inspection program to be agreed
- Environmental monitoring program
- Pipeline cleaning and Intelligent pig inspection



KARACHAGANAK PETROLEUM OPERATING BV

24" Condensate Export Pipeline

Bolshoi Chagan to Atyrau



PUBLIC HEARING MINUTES, VILLAGE OF FYODOROVKA, NOVEMBER 14, 2000
RE: KARACHAGANAK-B.CHAGAN PIPELINE

The meeting objectives:

- Discuss the assessed environmental impacts with the community;
- Discuss comments and questions raised by the attendees with respect to the proposed Karachaganak-B.Chagan Pipeline project; and
- Record questions/comments made during the meeting and hand them over to the State Peer Review Bodies.

Participants:

Presenters:

1. E. Sacco, Project Senior Manager, KIO
2. R. Davidson, Pipeline Project Manager, KIO
3. A. Skakov, Director General, Kazecology
4. Yu. Popov, Project Senior Manager, Kazecology
5. E. Poznyak, Project Senior Manager, Kazecology

Attendees:

A. Savran, Akim (Governor), Terektin District,

A. Manashev, Deputy Akim, Burlinsky District,

Deputy Akim of the Zelyonovsky District,

R. Suerbayev, Head, West Kazakhstan Ecological Department,

Specialists of West Kazakhstan Ecological Department,

Representative of SES, Oblast Department of Health, and Public Prosecutor's Office (namely, Environment Protection Subdivision),

Community/public body representatives from the Terektinsky, Zelyonovsky and Burlinsky districts.

Agenda:

1. Addresses by E Sacco, KIO representative, and A. Savran, Akim, Terektinsky District
2. Agenda approval and other arrangements (procedures and time limits). A. Skakov, Director General, Kazecology
3. KIO presentation: a 20-minute film on Karachaganak (outline of the field future development and current operations, as well as of the Karachaganak-B.Chagan Pipeline project), R. Davidson, Pipeline Project Manager

4. Presentation on the EIA findings/implications and measures to be taken to mitigate the impact, Yu. Popov, Project Senior Manager, Kazecology
5. A documentary depicting directional drilling to be used at water body crossovers
6. Presentation on Environmental Monitoring Program worked out for construction and operation period of the Karachaganak-B.Chagan Export Pipeline, E. Poznyak, Project Senior Manager, Kazecology
7. Question and answer session
8. Draft Resolution of the Public Hearing: discussion, finalizing and approval
9. Final discussion and closing procedure

Q & A Session

Question 1: Chairperson, Terektinsky Council of Veterans and Invalids:

- What guarantees will be provided to the communities exposed to the pipeline environmental impact? How the people will be indemnified in the event they are adversely affected? What are the social benefits to be brought to us (Terektinsky District residents) by this pipeline?

Akim:

- It is the RK government who decides how foreign investors' money would be allocated in order to develop the social sector in Kazakhstan. If the governmental social program does not incorporate the needs of this region, it is the public authorities in charge of money allocations that should be blamed, rather than the alliance. KIO allocates US\$10,000,000 annually. Oblast Administration and Oblast Maslikhat are in charge of this money further allocation. They approve the program of the region development. Such program for the next two years has already been approved. The only project included into this program for the region in question is the water supply line to be built next year to bring water to the village of Fyodorovka. In addition, I started discussing in Akimat the issue of building Kazakh schools in the villages of Podstepnoye and Fyodorovka. The point I want to make is that all social issues can be tackled at the local level. Taxes: upon commissioning of the pipeline, KIO will annually pay about 30 to 40 million tenge as taxes to the district budget. On top of this amount, compensation must be paid for land. In particular, this spring, we received 13 million tenge from the venture to conduct spring and summer agricultural campaign.

A. Skakov:

- There is no doubt that the environment is affected during every stage of any construction work. Degree of such impact is determined by carrying out projects similar to this one. All pipelines are a kind of "advantageous" for having environment protection in place, since the environment is impacted mainly during the construction stage as it has been demonstrated in our presentation. As you might know, operations like this one are going on all around the world and are regulated by environmental requirements. Such requirements have been taken into consideration in this project. Every contractor is bound to meet certain requirements throughout the construction period. It goes without saying that there are impacts and impacts. Will oil transportation be a safe operation or not? It is also important to plan for emergencies. In our presentation, we showed some examples of potential emergency situations. Their probability is low; nevertheless, emergency response plans do exist. Such plans ensure that impacts caused by an emergency are

localized. As it was highlighted in the presentation, SCADA system will be installed to provide an early warning in case of an emergency.

Question 2. Correspondent of TDK-42 (TV Channel, city of Uralsk):

- Will any compensatory payment be provided to the people living near the pipeline for being exposed to the risk of a pipeline accident? And, what measures with respect to the exposed communities will be taken by the companies engaged in the project in case of an emergency?

A.Skakov:

- The society development process is governed by legal standards. There are, for example, State Standards (GOSTs), which stipulate certain guarantees, provided for emergencies. There is also a piece of legislation on emergency situations, which specifies emergency response measures. Of course, there is a certain risk, and we are discussing now the risk minimization measures that need to be taken while building the pipeline. As to the compensatory payment, we have already touched upon this issue by saying that an annual bonus would be paid to develop the social sector. In addition, all enterprises operating in the region shall pay taxes that are to be apportioned to the Oblast budget, too. And, certainly, Kazakhstani legislation provides for the damages to be paid in the event of emergencies and, more specifically, those that cause harm to people's health and property. Thus, all these issues are covered and stipulated in detail by the existing legislation.

Question 3. A. Popov (a pensioner, ex-Akim of the Terektinsky District).

- As far as I know, there are only two areas in the region that still do not have any gas supply lines, as was stated recently by Oblast Akim Mr. Dzhakupov. Frankly speaking, we have been looking forward to this meeting to solve the problem of gas supply to the village of Fyodorovka, as we have been promised for a long time. As I understand, this issue remains open. We'd like to know if KIO has any plans to have this issue resolved?

Akim:

- Right, this is the sore point not only for the Terektinsky District. It's vexing for the communities to have no gas supply while residing in close vicinity of the field. We submitted Soyuz Pipeline Tie-in Project to Akimat for their consideration. However, the project has not been approved yet.

E. Sakko:

- We are committed to earmark a certain amount of money for social sector development in the oblast. However, we do not have a right to further allocate this money from the oblast budget. It is the business of the RK government, central and local public authorities. The amount of US\$10,000,000 is earmarked each year for social projects. We have been meeting these commitments ever since 1998. We started supplying gas to several villages last year, built a district hospital in Aksai and completed major overhauls of hospitals in Uralsk and the village of Kaztalovka. Next year, we are planning to build a school in Uralsk and continue building the Cultural Centre. Unfortunately, no gas supply project for this region was included into the Social Project Program as approved by the RK government for the next two years. We shall take your problem into consideration. We are planning to build a gas supply line in the future, but it will be feasible only upon completion of the Karachaganak-B. Chagan - Atyrau pipeline.

A.Skakov:

- I suggest that the issue of gas supply to this area be included in the Public Hearing Minutes in order to have it further discussed with the oblast authorities.

Question 4. Mr. Nauanov (President of JSC “Akzhaik”, Akimat’s invitee):

- Certain acreage of land currently possessed by the Oblast will be withdrawn to build the pipeline. When shall we receive a compensatory payment for the withdrawn area? New jobs will become available in the course of project implementation. Will you explain why the salary level of local specialists is so different from that of expats? Our specialists are as good as the expat ones, but their salary is 5-6 times lower.

Akim:

- I am not going to advocate for anyone. Full compliance with the RK legislation shall be provided. I always take my people's side and shall be supportive of any demands put forth either by services or land owners, provided such demands are backed up by law.
As to the right-of-way issue: the pipeline will run through the oblast area (8 rural districts). There are no questions as to the farmers' lands. Farmers will be paid certain compensations based on the contracts signed. Governmental regulations stipulate the state land withdrawal procedures. The Karachaganak contract was signed with the RK government; it is not an ordinary business deal. Therefore, I have a right to give a one-year notice to a farmer saying that 5 or 6 hectares of land will be withdrawn from him for the “state needs” and, if needed, allot same acreage somewhere else to such farmer's satisfaction. But we don't do it; we took a loan of 13 million tenge and purchased grain. In future, farmers will settle their accounts between themselves, and foreign companies do not have anything to do with that. In addition, a number of farms were newly established in the district, and each of them got for free a land parcel of 300 to 400 hectares pursuant to the RK Land Code. To our regret, they moved out of this area several years ago and abandoned their land parcels. Having learnt about the pipeline construction project, they now claim for compensatory payments though they got their land parcels free of charge. Currently, I seek legal grounds in order to avoid paying compensations to individual farmers, so that this money would go to the budget.

A.Skakov:

- I'd also like to remind of the basic law of the country, i.e. RK Constitution. Pursuant to Constitution, State is the owner of all natural resources in the country, including land. At present, the draft Land Code is being discussed by the government. When passed, this Code will govern land tenure and private ownership issues. Therefore, many questions raised will be answered only after the bill will become a law.

E. Sakko:

- I would like to answer the question on wages/salaries. KIO is the alliance of four companies, namely: Agip, British Gas, Texaco and LUKoil. All of us represent one of the four parent companies. KIO does not establish salary levels for expat specialists, as it is done by their parent companies. It should be taken into consideration that the cost of living is much higher in the west in comparison to Kazakhstan, and this fact can account for higher wages paid to foreign experts working on the project. KIO establishes pay levels only for the local personnel, which are adequate to the duties performed by local staff and far from being low. The 2000 data showed that 94% of locals were hired for the project through contractors and subcontractors, and we do not have a right to control salary/wage levels for such companies.

Question 5. Mr. Tulegenov (Deputy Akim of the District):

- The people here today have a certain idea about the topic of this meeting. Everybody understands that any industry development is accompanied by man-made effects that bring damage to the environment. We live 100 km apart from Aksai and hear the rumor that expats working in the field keep bringing water from abroad even for technical and household consumption. So, my question is as follows: what is the radiation background and general state of the environment within this area? We voice this concern particularly with regard to the proposed pipeline.

A.Skakov:

- As to the pipeline, I can assure you that no radiation hazard is involved here. As to the area adjacent to the field, I would note that "Lira" Nuclear Centre is located in Aksai, which monitors radiation environment in the region.

Question 6. Mr. Zhubanshaliyev (Representative of the Kargalinsky District):

- Where will the construction contractor office be located? How many local environmental specialists does the venture plan to involve into the project and what will be the selection criteria?

E. Sakko:

- Until now, the bulk of our contractors were Kazakhstani companies who were involved in ground breaking work, such as building foundations, driving piles, etc. Their offices were usually located either in Aksai or in Uralsk. We plan to finish these types of work by the end of this year. Currently, CCC/Saipem (Main Contractor for Construction Work) is mobilizing their personnel and equipment. The main contractor will start its operation by setting up the field offices. Last week, CCC/Saipem held a public hearing to discuss involvement of local specialists and companies. The office of this company is in Aksai now.

Now I'd like to tackle the issue of imported foodstuff. I know that we purchase drinking water in Russia and Kazakhstan. But as to the foodstuff, if we are to buy it locally, we must make sure that all products meet the international quality standards. To have such assurance, we have to check whether all required quality certificates are in place for the local produce. This procedure is excessively time-consuming. Therefore, the venture management believes that it is more appropriate for the time being to bring foodstuff from abroad, rather than to waste time on getting required certificates for local produce. On the other hand, we, the venture staff, do our best to persuade the management to start buying foodstuff from local vendors.

R. Suyerbayev:

- Today's public hearing is held at the urgent request of environmental authorities and the state environmental peer review body. Pursuant to the Environmental Peer Review Act, such public hearing is a must as part of the state peer review procedures. This meeting is considered a "grass root" level of the expert examination process for the Karachaganak-B.Chagan pipeline. Therefore, I ask you to stick to the point and ask questions related only to the environmental issues. We discussed the horizontal/directional drilling method during a development-planning meeting. Now we would like to have your opinion on this and other issues related to the pipeline. And then, having incorporated all your comments, we will be able to give our final opinion on this project.

Question 7. Akim of Podstepnoye community:

- The Tukpai fresh water deposit is located within the Podstepnoye area. Therefore, the community is concerned about potential contamination of the fresh/drinking water that might be caused by oil leakage from the pipeline, which will run through this very area. Will it be possible to move the pipeline route a little bit southward to bypass this protected area?

R. Suyerbayev:

- Per RK law, KIO pays money for nature use. The Cabinet of Ministers has established certain rates, according to which the venture makes annual payments to the oblast budget. The law provides for certain compensations that the venture will be obligated to pay in case of accidents/emergencies. The pipeline will be buried at the depth of 1.6 m, and you can understand yourself whether it will be impacting the water deposit or not.

B. Davidson:

- We know all obstacles or barriers, through which the pipeline will go. The project provides for certain measures that will help to avoid accidents, including leakage. I mean here that a SCADA system will be installed, which will be gathering all necessary data for the pipeline in operation, such as pressure, temperature, flow rate and equipment status. SCADA will help us to identify and locate any problem in the pipeline system before it fails. But we still hope that no accident will ever happen.

8. Mr. Satdykov:

- What is the estimated service life of the pipeline? Will local staff be employed at least to render some services along the pipeline route?

B. Davidson:

- The estimated service life of the pipeline is 40 years. The pipeline will be inspected annually according to a special procedure to check its operational status and further useability. In the event any defects are found, relevant pipe sections will be replaced. Given the fact that British Gas, which I belong to, has quite an experience of building pipelines all over the world (many pipelines built by BG elsewhere have a similar design), I can assure you that this pipeline will be in operation for a long time, so that our grandchildren will be still using it.

Question 9. Deputy Akim of the Zelenovsky District:

- I have several questions.
The pipeline routing has not been agreed on or approved either by the land users or by the District Akim.
Who will operate the pipeline?
As far as I know, a lot of heavy equipment and machinery will be used during the construction period. Has the access road route been agreed on and approved?

T. Bisaliyev:

- All approvals required for the project have been received and they can be made available to you if you wish to have a look at them.

E. Sakko:

- As to the access road routing, it has not been defined yet. Our primary construction contractor will have to map the access road routes; such road routing map will be subject to our approval

prior to construction. We anticipate that railroad will be mainly used to move equipment and machinery. Relevant planning will be done to meet Kazakhstani regulations.

Question 10. Chief Medical Officer of the Zelenovsky District SES:

- My question is about the Pumping Station (PS) in the village of Bolshoy Chagan. As said before, it will play an important role. The PS will be operated at higher loads in future. Do you plan for any refurbishment of the station itself and the related treatment facilities?
Next, the Bolshoy Chagan community will provide labor force for the PS. Does the project include any costs to improve the quality of health care or general services provided to the B.Chagan community?
Who will carry out the environmental monitoring for soil, water and air samples?

E. Sakko:

- Of course, we plan to refurbish the Bolshoy Chagan PS prior to its operation.

A.Skakov:

- With regard to your third question: KIO will select a contractor to do the environmental monitoring. We have been working only on the EIA under the project.

The hearing was wrapped up by discussing the meeting resolution on the proposed Karachaganak-Bolshoy Chagan Pipeline Project.

The resolution was read out by A. Skakov:

As required by the existing environmental regulations of the Republic of Kazakhstan, Public Hearing was held in the village of Fyodorovka, the Terektinsky District center of the West Kazakhstan Oblast, on November 14, 2000 to discuss Karachaganak-Bolshoy Chagan Export Pipeline Project. The public hearing has been held on the initiative of the Karachaganak Integrated Organization.

The hearing was attended by experts from KIO, Republican R & D and Information Center "Kazecology", as well as by representatives of local executive and environmental authorities, SES, and other stakeholders, including representatives of Burlinsky, Terektinsky and Zelyonovsky communities.

Having heard and discussed the presentations by KIO and Kazecology, the participants have agreed on the following:

- The Karachaganak-Bolshoy Chagan Export Pipeline Project has been designed in compliance with existing Kazakhstani law and legal standards related to the environment protection.
- New technologies given in the project as possible scenarios for crossing over natural and man-made barriers (rivers or highways) are in line with the world best practices and ensure that the pipeline environmental impact is minimized. Environmental management will be used to further mitigate impacts.

Resolution:

1. Scrutinize closely all proposals and comments made during the hearing and take them into account while finalizing the project documents.
2. Per required procedure, furnish local executive bodies with information on substantive matters discussed during the hearing.
3. Provide the public hearing materials to the state peer review bodies.
4. Recommend public executive authorities of the oblast that they pay special attention to gas supply issues while planning development of the districts, through which the export pipeline will be built.
5. Study the issue of Tukpaisky water deposit conservation, given the fact that the pipeline will run through the Tukpaisky District.

E. Sakko and Akim of the Terektinsky District made closing speeches. They thanked all participants for the interactive dialogue.

Chairman



A. Skakov

EDimaandal

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