



Greeting from General Director on the RoK Independence Day

Dear Colleagues,

On behalf of the KPO management team, I would like to congratulate you on the forthcoming 20th Anniversary of Independence of the Republic of Kazakhstan.

On the eve of this historic Day, we are especially proud that in the large-scale achievements reached by Kazakhstan over the years of Independence, there is a significant contribution from the development of Karachaganak.

Karachaganak today means the record production levels, innovative technologies, development of local content, social infrastructure, and improvement of potential of Kazakhstani employees and contractors. The success of KPO is the result of the enthusiasm and dedication of all company employees, and I thank each and every one of you for your effort.

In recognition of this momentous Day, KPO management have made a decision to award KPO employees a bonus payment equivalent to 100% of the monthly salary as per the Individual Employment Agreements.

On the eve of the Independence Day, I would like to extend my best wishes of good health, peace and wellbeing to you and your families. Sincerely,
Giuseppe Pasi
KPO General Director

KPO receives an award on the eve of 20th Anniversary of Kazakhstan's Independence



On 6 December 2011 Karachaganak Petroleum Operating B.V. (KPO) received the prestigious commemorative medal "For the 20th Anniversary of RoK Independence" at the official ceremony that was held at the WKO Akimat in Uralsk.

Commenting on the occasion KPO General Director, Giuseppe Pasi, said: "It is a great privilege for me to receive this commemorative award. I regard it as recognition of the input that KPO and the Partners have made to the development of the Western Kazakhstan region and the country as a whole.

"On the eve of the 20th Anniversary of Independence, we are especially proud that in the large-scale achievements reached by Kazakhstan over the years of Independence, there is a measure of Karachaganak's contribution. The success of KPO is largely the result of the fruitful cooperation between the Akimat of Western Kazakhstan oblast, the Authority and the Partners in the Karachaganak venture", added Giuseppe Pasi.

The prestigious medal "For the 20th Anniversary of RoK Independence" is assigned to the companies that have demonstrated commitment to development of the national economy, advancement of local potential and social responsibility.

KPO is contributing to the sustainable development of the Republic of Kazakhstan in a number of domains, such as enhancement of safety, protection of environment, introduction of modern technologies, engagement with local communities, implementation of social infrastructure projects and partnership with local suppliers.



President Nazarbayev received representatives of Karachaganak consortium

On 14 December Kazakhstani President Nursultan Nazarbayev received representatives of foreign companies' consortium on Karachaganak project in Astana, the Kazakh capital.

"Welcome to Kazakhstan. You have come in a very important time for us. Kazakhstan is celebrating the 20th anniversary of its Independence. As I was reported by the Prime Minister, you have reached agreement on the issue you had been working on for a long time," Nazarbayev said.

He marked, "the work wasn't easy".
"Our Ministry, Samruk-Kazyna, you- our partners had been working hard. I am grateful to you. For all these years we have been working together, meeting at the Council of Foreign Investors. I have always been trying to help you. Karachaganak project is developing very well. It is the biggest oil and gas field for Kazakhstan and it has great significance," he said.



KPO presents Train 4 Project during TV Bridge with RoK President

On 9 December 2011, Karachaganak Petroleum Operating B.V. (KPO) took part in a nationwide TV satellite Bridge with the RoK President Nursultan Nazarbayev. The TV Bridge was dedicated to presentation of projects launched as part of the RoK industrialization map in the second half of 2011.

Reporting live from KPC Power Station, WKO Akim Bakhtykozha Izmukhambetov and KPO General Director Giuseppe Pasi have presented the Train 4 Project, which will enable the stabilization capacity of the KPC plant to increase by 2.57 million tonnes of condensate per year.

The total volume of investments by KPO into Train 4 Project has exceeded \$1 billion. The major works were conducted by 14 Kazakhstani contractors employing over 2,900 people with \$650 million spent in the Republic of Kazakhstan.

WKO Akim Bakhtykozha Izmukhambetov said that Train 4 Project will enhance a technological and environmental safety at the Karachaganak field.

Giuseppe Pasi, KPO General Director, said: "The start-up of this facility, has once again demonstrated the commitment

of the Karachaganak Venture to continue investing into the development of the Karachaganak Field." The RoK President Nursultan Nazarbayev has congratulated the residents of the Western Kazakhstan with the forthcoming 20th Anniversary of Independence and mentioned the importance of energy independence that has been gained by the region.

As it was reported during the TV Bridge, 389 industrial projects have been implemented in the Republic of Kazakhstan within the national program on accelerated industrial-innovation development.

On the completion of the nationwide TV satellite Bridge General Director of KPO Giuseppe Pasi expressed his gratitude to all KPO employees for the excellent and professional job they have done to organise this particular important event with Nursultan Nazarbayev, President of the Republic of Kazakhstan.

"We are proud that reporting live from KPC Power Station, Bakhtykozha Izmukhambetov, Akim of the West Kazakhstan Oblast, has presented the Train 4 Project as the major industrial-innovation project of the WKO launched in the second half of 2011."

"The TV Bridge demonstrated

once again the importance of the Karachaganak Venture for the RoK economy and KPO commitments to continue investing into the development of the Karachaganak Field."

"This excellently organised event could happen only because of your dedication and professionalism. My special appreciation goes to the personnel of the KGNK Field and KPC Field Administration Building for their great contribution to the success of the TV Bridge. They did their best conducting all the preparation works."

"Bakhtykozha Izmukhambetov, WKO Akim, has also asked me to extend his personal gratitude to KPO employees for excellent organisation of the TV Bridge. Thank all of you again."

KPO Acting Operations Director Paul Meech also congratulated KPO staff for the event well organised. In particular, he said: "May I take this opportunity to thank personally those of you who took part from the drivers and catering staff right up to the directors of our company. Over three days our staff meticulously planned and practiced to make this event a successful and memorable one and the end result, I hope, was a special moment for all of the participants."



HSE Awards - Winners in Quarter 3, 2011

KPO is pleased to announce the winners of the HSE incentive scheme for the third quarter 2011:

1. Best Individual Proactive observation – Artur Akhtayev (KPO, Chemical Laboratory Department, Sampling Operations Technician).

Artur revealed that the BCPS (Bolshoi Chagan Pump Station) laboratory personnel performing work duties in chemical laboratory do not hear the outside Emergency Alarms when the ventilation is working.

Actions taken

- Artur suggested to install a fire alarm inside the building of the BCPS chemical laboratory.

- Based on the proposal, the MOC-145 (by WO 11/1155510) has been raised for installation of emergency alarm in the laboratory.

2. Best Individual HSE performance of a KPO employee – Vadim Kudoyarov (KPO, Unit 2 Department, Instrument

Supervisor), Mazhit Amangaliyev (KPO, Unit 2 Department, Production Duty Supervisor).

Vadim and Mazhit revealed that the reading errors of the detector for indication of wind direction installed on the building rooftop are significant (up to 45 degrees). These readings are used in ICC (Incident Command Centre) team's activity. This may possibly lead to personnel being directed to unsafe muster points.

Actions taken

- Functional check of the equipment was carried out to exclude a possible defect.

- It was decided that at ICC work the final decision must be taken relying on the wind detectors visible from windows.

- The detector for indication of wind direction was relocated to an open space at the required height.

3. Best Individual HSE Performance of a Contractor

or Sub-Contractor employee – Karganbek Sovparov (Expro, Well Operations Department, slick line supervisor).

During the well handover Karganbek has noticed that there were no gratings on the well cellar. Because of that there was no safe access to a rig up hydraulic pump for operating a safety valve.

Actions taken

- Karganbek immediately informed KPO Slickline Supervisor about his observation and together with KPO Slickline Supervisor they suspended the work and covered the cellar with metal gratings.

- Karganbek suggested that special fixed gratings should be further installed.

4. Best Individual Driver Performance – Rustam Murzabekov (AksaiAutoTrans, Transport Department, driver).

Rustam Murzabekov is a professional driver who has good



driving skills and excellent attitude to his job duties. His performance is always high. Rustam pays much attention to observance of the Traffic Rules of RoK and the KPO Road Safety requirements.

General Director of KPO Giuseppe Pasi congratulated the winners and all the participants of

the third quarter 2011. He also said that safety remains KPO's primary concern. "We apply every effort in order to make KPO a safer place to work and implement a highly visible recognition for HSE performance throughout the organisation. Thank you very much again and please accept my congratulations!"

KPO successfully completes reconstruction of school in Priuralnoye village on the eve of 20th anniversary of Kazakhstan's Independence

On the eve of the 20th anniversary of Kazakhstan's Independence, Karachaganak Petroleum Operating B.V. (KPO) has announced the successful completion of reconstruction of a secondary school in the Priuralnoye village of the Burlin District in the West Kazakhstan Oblast.

This project was agreed upon with the West Kazakhstan Oblast Akimat and the Priuralnoye Village Council. Thanks to the reconstruction, the newly-renovated school will make it possible to educate 464 schoolchildren. There are 14 classrooms, one gymnasium, a conference room, a mini-centre and canteen at the school.

The renovations were completed by the local firm - Stroitel'naya Initsiativa. The large scope of work including the full reconstruction of the existing building, the boiler house, the rehabilitation of the water and sewage systems was performed in less than four months.

At the ceremony of inauguration of the completion of reconstruction of the school in Priuralnoye Village KPO General Director Giuseppe PASI said, "On the eve of the 20th Anniversary of Kazakhstan's Independence, we are proud once again to mark the outcome of the successful relationships achieved between the village communities, local authorities and KPO. Through the Village Councils mechanism we work together to progress sustainable development of the Burlin District and the Western Kazakhstan Oblast."

KPO Corporate Governance Controller Cesare Alberti Di Catenaja said, "We are delighted to be able to complete the reconstruction of Priuralnoye Village school on the eve of the 20th anniversary of the country's Independence. Thanks to the cooperation between the village councils, the local authorities and KPO's social investments, local communities can see benefit from a renovated school now."

"Village councils are working in full cooperation with KPO to identify priorities for KPO's social investment in their villages. This constructive dialogue enables KPO to respond to issues as they emerge and develop opportunities, which benefits both KPO and the neighbouring communities", added Cesare Alberti Di Catenaja.

Talgat Raimkulov, the Priuralnoye rural district akim expressed his appreciation to KPO for its continued support for the development of the Priuralnoye Village and gave a letter of gratitude to KPO General Director Giuseppe PASI. Talgat Raimkulov expressed his hope that such fruitful cooperation will continue.

Zulfiya Muzafarova, Sustainability Department Manager, noted the important role of the village councils in preparing the social performance plans for neighbouring communities. Thanks to the close cooperation and dialogue of KPO and the local communities, a number of socially-significant projects have been implemented, including the reconstruction of a village school in Dimitrovo (2009) and the Karachaganak Village School (2010), the heat insulation of the village clinic in Zhanatalap (2009), the reconstruction of the Berezovka Village Clinic (2010), and the replenishment of the potable water supply for the Uspenovka Village School (2009) were implemented as

part of KPO's community development projects.

The funding allocated by KPO for community development projects also helped to purchase equipment for schools, houses of culture and medical institutions. For example, in 2009 water pumps for the water supply system in the Uspenovka Village and four boilers were purchased for the Priuralnoye Village School. In 2010, KPO donated new buses for the six rural schools of Berezovka, Uspenovka, Zhanatalap, Priuralnoye, Kzyl-Tal and Burlin villages prior to the start of the new school year.

The village councils covering the eight villages closest to the field have been set up in the Berezovka, Uspenovka, Priuralnoye and Zharsuatski rural districts surrounding the Karachaganak field. These consultative bodies were established in 2005 within a Memorandum of Understanding.

Locally trusted village residents, officials from the local authorities and KPO's experts meet regularly and on an ad-hoc basis to discuss issues of interest of concern and to receive updates on KPO's current and planned activities.

In 2011, KPO approached the akimat of the West Kazakhstan Oblast with a proposal to implement certain infrastructure projects in the four rural districts of the Burlin District. The proposals were agreed upon with the village councils of the four rural districts. As a result of negotiations, \$ 2.5 million was allocated for the execution of infrastructure projects.

The 2011 social projects proposed by village councils include the rebuilding of schools in the Priuralnoye and Uspenovka villages, the rehabilitation of a school workshop in the Zharsuatski Village and the reconstruction of potable water supply system in Berezovka and the water supply equipment in the Uspenovka Village.

Under the village councils, projects are proposed to KPO by local community representatives to improve the most important social infrastructure of villages and their standards of living. KPO then evaluates the proposals received in terms of their alignment with communities' needs, overall priorities, their technical feasibility and the associated budget.

Local communities praise KPO's contribution to the development of rural districts surrounding the field. In addition to projects being implemented in cooperation with the village councils, as part of its sponsorship programme, KPO purchases New Year gifts for children and backpacks filled with school supplies for children from low income families for the new school year. On the eve of 2012, 1,240 village children will receive gifts from KPO.



Kazakhstan acquired 10% stake in Karachaganak (addition)

On 14 December Karachaganak consortium agreed to transfer 5% stake in the project to Kazakhstan for disputes regulation in the period until December 31 2009 and sell 5% stake for market price in the project. Thus, Kazakhstan has become 10% shareholder of the project.

"Talking about Kazakhstani interest, we received 5% in exchange for claims regulation by the government: both tax and customs. We also bought 5% for \$1 bln without tax, thus, KazMunayGas has become 10% shareholder in the project," said Sauat Mynbayev, Minister of Oil and Gas.

"KazMunayGas received a loan for these 5% and the sides withdrew all the arbitrary claims," he said.

"The consortium presented \$1 bln loan for 3 years ... for the national company KazMunayGas. KMG will service and repay the loan on account of the financial flows, guaranteed by the 10% stake," Mynbayev said.

He marked the agreement has become a result of 2.5 years work. "We are satisfied and the consortium has also confirmed the agreement is in their interests," he added.

"You know we had disputes concerning customs payment, the consortium will not cover them. At the same time it does not mean reduction of inflows into the budget of the National Fund. The agreement is a kind of justice index, and these payments will be compensated by oil profit," he said.

"There are a number of suspensive conditions now which are supposed to be performed until June 30 (2012-KazTAG). They concern some legislation corrections, VAT issues," he said.

"The result of the agreement is not only in economic benefits for the sides, it will also bring clear understanding how stabilized tax legislation works," said Finance Minister Bolat Zhamishev.

"Out of the total sum of tax claims over three, \$500 mln, concerns claims connected with transfer pricing on the deliveries to Orenburg gas plant. The sides agreed that deliveries cannot be carried out on market prices," he said.

"As for other disputes, out of \$400 mln of tax claims, \$100 will be covered," he said.

On behalf of Services Director, Operations Director, and Finance Director

Colleagues,

We are pleased to inform you that the SAP Project is completing the final preparation activities required before the system goes live.

We would like to thank all of you who have supported the project up to now. Many of you have been involved in the design and testing of the system, and in the extremely complicated job of preparing our legacy data for migration into SAP. Many more of you have attended training in the use of the new system.

The SAP system will replace the existing SUN and MAXIMO systems in KPO. It is a strategic project for KPO, and will implement industry standard business processes supported by an integrated IT system. These processes support the financial and accounting control of our Company, work management in Field Operations including planned maintenance activities, and the Contracting and Procurement processes on which the Company heavily depends.

As we have said before, SAP will bring significant changes to KPO. It will mean not just a new IT system, but new ways of working. When SAP goes live it is likely that there will be some challenges as the system settles in. It will take the Company some time to get used to the new system and ways of working, and this transition will only be successful with the patience, engagement and support of everyone in KPO.

Starting from 28th December access to SUN and MAXIMO will be made read-only to enable the final migration of data to SAP to take place. Access to SAP will be made available in early January when the data migration is completed, which will be from 7th January for most users.

More details of the transition process, and the procedures that have been developed for working during this time, will be made available in the coming days.

We look forward to your continued support in making this important project a success for KPO.

Regards,
Paolo Repetti,
Graham Scotton
Tony Mulgrove