
Caspian Pipeline Consortium

WHAT ARE THE GEO-POLITICAL IMPLICATIONS FOR KAZAKHSTAN?

Today the CPC pipeline is the main route for exports of oil from Kazakhstan, which pumps over 2 million metric tons of oil per month. Timely expansion of the pipeline capacity to at least 52 million metric tons for Caspian oil per year will allow major oil field developments to proceed in Kazakhstan and will bring with them substantially increased royalties and taxes, ensuring through a Quality Bank that Kazakhstan receives full value for its light oil, and reducing the cost of transportation relative to alternative transportation methods.

The CPC project serves as an important example of international partnership between Russian, Kazakhstan, and foreign oil companies. Eleven companies from seven different countries are demonstrating the ability to complete a world-class investment project in Russia and Kazakhstan and build successful partnerships between government and the private sector.

CPC is often seen as a Bellwether project for the Caspian region — involving as it does so many shareholders from so many countries. The investment in CPC was made on the basis of commitments and guarantees given at the highest levels of the hosting governments. Kazakhstan has consistently demonstrated that it will uphold these commitments and that in turn has given future investors in Kazakhstan's energy and other sectors the confidence to move forward.

THE STRUCTURE OF CPC SHAREHOLDER CAPITAL

The deal that was struck at that time was that founding members, the Governments, would transfer existing assets at an agreed value into the new structure — pipeline and partially constructed facilities — as well as guarantee certain rights to CPC, including the right to set tariffs and determine access. These rights were guaranteed in the Shareholder Agreement signed by all parties, including the Governments and subject to international law and arbitration, as well as to Presidential Decrees issued at the time.

For their part, the Producing Companies agreed to 100% fund the construction of the initial phase of the pipeline, the pump stations and a new marine terminal and tank farm. The funding mechanism was through loans directly from the producing company shareholders — high risk loans with no collateral and no repayment guarantees with the loans being drawn down at a time when there was considerable uncertainty over investing in Russia.

Altogether, therefore, CPC took on debt that was made up of the value placed on the existing assets plus the cost of constructing the new facilities.

In 1998, a TEOC was agreed with the Russian Government that set out the full scope of the Project — not only the Initial Construction Project (or ICP), but also what the pipeline would look like when all of its pump stations and terminal facilities were complete. The ICP saw an initial capacity of 28mm tons (around 560,000 bopd) progressively rising to 67mm tons (1.4mm bopd). 75% of the oil would originate in Kazakhstan; 25% from Russia. Construction commenced in May 1999 and in October 2001 the first oil was loaded onto a tanker at the new terminal North of Novorossiisk.

WHY AND HOW WILL CPC BE EXPANDED

CPC is the principal export route for Caspian region oil and will remain so for the foreseeable future. Our Kazakhstan customers today include Tengizchevroil, Karachaganak, LUKoil-Kumkol, CNPC-Aktobe, Kazmunaigaz-Aktobe, EmbaMunaigas, and Oryx-Arman. Our Kazakhstan customers today include Tengizchevroil, Karachaganak, CNPC-Aktobe, Kazakhoil - Aktobe, KMG Exploration and production, Trade House JSC, Matin JV, Arnaoil LLP, South-Oil LLP. In Russia, CPC has begun shipping oil from several of Russia's major oil companies through the quota of the Russian Government as well as Shareholder Oil from Russian Producing Companies, LUKArco and Rosneft-Shell.

Collectively, our shareholders are participants in all of the Caspian Region's largest oil field developments and CPC's capacity is driven by our shareholders' forecasts of future production. Not only does this include existing producing fields with major expansion projects underway, but also the giant Kashagan field.

CPC is already operating well beyond its initial intended capacity and, therefore, should expand its capacity in order to meet the forecasted demands of our shareholder shippers from 2006 and beyond. Caspian developments in both the Russian and Kazakh sectors will see demand for CPC capacity from the Caspian rising to well over 50 million tons a year — an additional million barrels a day taking volumes to over 1.5 million barrels per day.

The CPC Shareholder Agreement makes clear that „If pursuant to such volume forecasts the existing capacity is reasonably projected to be oversubscribed such that capacity increases are required, it is agreed by the Parties that construction and financing of the necessary future expansions by CPC-R and CPC-K shall be carried out.”

CPC's shareholders have made it clear that they are ready to proceed and in 2004 authorized the award of a contract for Front End Engineering and Design to a consortium of contractors from Kazakhstan, Russia, the USA and UK. The contractor has been charged with designing

a full build out of the system and providing us with options for sequencing construction of these facilities to meet the timing of the production requirements of our shippers.

The expansion of CPC is a substantial project in and of itself. Over the next 5 years, CPC will be designing and constructing the following:

- 10 new pump stations — trebling the existing number;
- 6 tanks to provide an additional 640,000 tons or 5 million barrels of storage - again, trebling existing capacity;
- Replacement of pipeline in Kazakhstan;
- Adding a third offshore mooring facility;
- Additional pumps at existing pump stations.

This is a large and complex project representing a very substantial investment comparable to cost of a new pipeline system.

CURRENT OPERATING FACTS

Following the ICP, CPC today consists of 1,510 kilometers of pipeline, 5 pump stations, a tank farm with four 100,000 cubic meter tanks, a shore base and 2 off-shore loading buoys. CPC employs over 600 staff and has a contract work force of a further 1,300 people. Head Office is in Novorossiisk with regional offices in Astrakhan, Atyrau and Krasnodar plus a Branch Office in Moscow.

Since May 2004, CPC has been operating at or above its design capacity from the Caspian Region. CPC is designed to ship 1.8mm tons a month or 460,000 bopd from the Caspian; in fact with chemical flow improvers, by October 2004, CPC was shipping 2.17mm tons per month from Atyrau, or 550,000 bopd.

Meantime, in Russia, work was completed in November 2004 of a rail off-loading facility near Kropotkin in Krasnodar Krai allowing Russian oil to enter the CPC system. August 25, 2006- Caspian Pipeline Consortium (CPC) today announced it had loaded out at its Marine Terminal near Yuzhanaya Ozereevka, Novorossiysk, 100 MMT of crude oil since the beginning of CPC pipeline operations in October 2001.

In 2005, 30.5 MMT was moved through CPC, or 36% more than a year before. The plan for 2006 is to achieve the same volumes. CPC has reached its Phase 1 design capacity.

HOW DOES CPC MANAGE ENVIRONMENTAL RISK?

Construction and operation of the pipeline complies with the highest international standards. CPC allocated 12 percent of the total amount of construction costs for environmental protection.

Since operations began in October 2001, CPC has consistently met or exceeded international standards with regards to all aspects of safety and environment.

CPC is a fully automated system. Valves are opened and closed by computer commands in the Control Center at the Marine Terminal. Operation pressure, oil receipt in the pipeline system and loading systems are centrally managed. This technology, which was new to the region, helps to protect the environment in the communities near all pipeline facilities.

FINANCIAL BENEFITS TO KAZAKHSTAN

In addition to taxes, duties, fees and charity donations which are paid to the Republic of Kazakhstan, CPC is the main export pipeline for Kazakhstan's successful and growing oil production industry. By September, 2006, CPC had exported over 100 million tonnes (or about 700 million barrels) of oil.

After expansion, the 67 million tons a year at present tariff rates will generate approximately \$2 billion a year in tariff revenues. Taxes and dividends will provide both host governments with a high level of secure income for the next 35 years.

AND THE SOCIAL AND ECONOMIC BENEFITS?

All general contractors for CPC have been and will continue to be determined by international tenders. International bidders are required to have a Russian or Kazakhstan partner to participate in these tenders.

The expansion of the CPC pipeline system will create additional stable jobs for at least a 35-year period.

Participation of specialists from Kazakhstan and Russia in CPC's construction and operation has allowed them to master new advanced technologies and to acquire new professional skills.

CPC has trained dozens of highly qualified specialists in pipeline design, construction and operation from Kazakhstan and Russia.

CPC PUBLIC CHARITY ACTIVITIES

Caspian Pipeline Consortium and its Shareholders are well aware of their moral obligations to people of the regions along the crude oil pipeline route and arrange various charity activities aimed at support to low-income population and educational, creative and spiritual development of the society.

CPC Shareholders and executives realize that, with the current high level of the society stratification, businesses may not remain indifferent to the tight situation of socially disadvantaged people, because the well-balanced development of both business and its social environment is critical for steady, longtime and successful operations of any company.

CPC is keen to see its activities being humane and society-friendly.