



KAZAKHSTANI CONTENT DEVELOPMENT IN TENGIZCHEVROIL

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KAZAKHSTANI CONTENT DEVELOPMENT IN TENGIZCHEVROIL

TCO'S KAZAKHSTANI CONTENT DEVELOPMENT STRATEGY

A key aspect of TCO's Kazakhstani content development strategy is working with current and potential suppliers so that they understand the international quality and safety standards they must meet in order to do business with the oil and gas industry.

ABOUT TENGIZCHEVROIL



Tengizchevroil (TCO) is a major producer and marketer of crude oil in Atyrau Oblast, a region of Western Kazakhstan, where the company operates Tengiz and nearby Korolev fields. In 2008, TCO completed the Sour Gas Injection and Second Generation Plant (SGI-SGP) expansion, which increased daily crude oil production capacity to more than 75,000 tonnes (600,000 barrels). In addition to crude, TCO produces liquefied petroleum gas, butane, propane and elemental sulfur.

Established in 1993 as a joint venture between Chevron and the newly independent Republic of Kazakhstan; today, TCO is a partnership between Chevron, 50 percent; KazMunaiGas, 20 percent; ExxonMobil Kazakhstan Ventures Inc, 25 percent; and LukArco B.V., 5 percent.

Since its inception, TCO has been committed to safety and environmental protection. Due to this commitment and corporate social responsibility, TCO continues to focus on environmentally-friendly practices and strict adherence to the laws and regulations of the Republic of Kazakhstan.



\$ **121**
billion

Since 1993, TCO has made direct financial payments of \$121 billion to Kazakhstan, including Kazakhstani employees' salaries, purchases of Kazakhstani goods and services, tariffs and fees paid to state-owned companies, profit distributions to Kazakhstani shareholder and taxes and royalties paid to the government.

\$ **4.3**
billion

In the first half of 2017, direct payments to Kazakhstan totaled \$4.3 billion. In 2016, direct payments to the Republic of Kazakhstan exceeded \$4.7 billion.

\$ **22.9**
billion

TCO has been consistently increasing Kazakhstani Content in goods and services year by year. In 2002, the enterprise purchased goods and services from domestic producers for \$415 MM, and in 1H 2017 these expenses reached over \$1 billion. Since 1993, TCO has spent over \$22.9 billion to buy Kazakhstani goods and services.

3
billion
barrels

Produced since TCO formation in 1993.

TCO'S KAZAKHSTANI CONTENT DEVELOPMENT STRATEGY

The continued development of a Kazakhstani market for goods and services that meets high international standards, is a cornerstone of the company's sustainable development strategy – and creates significant benefit for Kazakhstan. TCO believes that if the company is to achieve its Kazakhstani Content objectives, it must generate long-term opportunities for the suppliers of goods and services. As such, TCO will continue to support the sustainable development of Kazakhstani suppliers, encouraging appropriate investments in infrastructure, Kazakhstani workforce training and the creation of jobs.



DOING BUSINESS WITH TENGIZCHEVROIL

Creating a Successful Partnership with TCO

TCO's Supply Chain Management and Domestic Market Development organizations work to strategically leverage, search and manage the company's supply base to ensure goods and services are delivered safely, reliably, at a competitive cost, and always on a platform of quality and integrity.

TCO seeks partnerships with suppliers who have a strong safety culture, reliable operations, quality goods and services, competitive pricing, strong cost-management skills, innovative business solutions, and a strong customer and Kazakhstani content development focus.

At TCO it is not only about delivering business results; we focus on delivering them in line with our values. We expect our suppliers to always adhere to the spirit and intent of these expectations.





Supplier Requirements

Suppliers that provide the high-quality goods and services used by TCO must demonstrate the following qualities:

- Excellent safety record and environmental performance;
- Internationally recognized quality standards and management systems;
- Commitment to developing and growing sustainable Kazakhstani Content;
- Cost competitiveness;
- Financial stability;
- Customer focus;
- Innovative business solutions.

Supplier Expression of Interest (SEOI)

Suppliers interested in doing business with TCO shall provide a Supplier Expression of Interest (SEOI) by submitting a SEOI Web Form through the SEOI web tool on the TCO external website: www.tengizchevroil.kz. With the SEOI web tool TCO and Suppliers will be able to communicate on a single platform with the following advantages:

- Suppliers can express their interest to work with TCO by submitting a SEOI Web Form;
- Suppliers will be able to update and maintain their own SEOI Profile created on the TCO SEOI web platform;
- TCO staff can go to one place to identify potential suppliers of goods and services.

Note: TCO also utilizes the O&G industry ALASH database (www.alash.kz) to identify prospective suppliers.

TENGIZCHEVROIL KAZAKHSTANI CONTENT SUCCESS

TCO is committed to the increase of sustainable Kazakhstani Content and takes the following actions to ensure Kazakhstani commitments are met:

- Identification, development, and utilization of local suppliers;
- Guiding major strategic suppliers to plan and develop local sources of goods and services;
- Encouraging the formation of joint ventures between international companies and local companies.

Due to these actions during the past year the following areas have seen the development of new, strong Kazakhstani companies in the following areas:

- Construction Materials;
- Electrical Equipment and Cables;
- IT and Telecom Equipment and Cables;
- Production Chemicals;
- Office Equipment;
- Logistics;
- Valve Service and Maintenance.





Region Level Activities

TCO has an agreement with the RoK regions to assess market capabilities of local manufacturers according to TCO requirements. There are over 40 companies that are under the process of assessment as per TCO needs and which could lead to potential Kazakhstani Content increase in the following regions:

- **Karaganda** – valves;
- **East Kazakhstan** – valves;
- **West Kazakhstan** – maintenance services, valves, gratings;
- **Atyrau** – flanges, gaskets, stud bolts, structural steel, fencing, automatic welding;
- **Pavlodar** – chemicals, rebar, cables and wires;
- **North Kazakhstan** – heat exchangers, maintenance services.

TCO will continue the current practice of regional site visits to learn about the suppliers' potential and study the markets.

Localization

TCO works with international suppliers and local companies to encourage the formation of joint ventures. TCO is currently focusing on the following areas:

- Maintenance services;
- Construction materials production;
- Chemicals;
- Fittings and flanges manufacturing;
- Pump maintenance services;
- Fasteners manufacturing.



Arcelor Mittal Aktau JV

Since the end of 2012, FGP-WPMP and ArcelorMittal in Aktau have explored opportunities to use their Aktau facilities for Dual Layer Fusion Bonded Epoxy (DLFBE) coating of pipe. A trial order for the coating of the pipe was set up together with TCO Base Business, witnessed by the Project staff and successfully executed by Arcelor Mittal qualifying them for this scope.

Further efforts were made to qualify Arcelor Mittal for double jointing of standard pipe lengths, which would greatly reduce the amount of field welds needed after delivery of pipe to site. For this, ArcelorMittal would have to develop a new facility and use a specialist sub-contractor to perform the welding. They explored various options and proposed 4 different potential sub-contractors to the Project for con-sideration. After technical review of the proposals and the different welding techniques these represent, Arcelor Mittal choose a partnership between KazTurboRemont (KZ) and Magnatech (NL) as their preferred sub-contractor.

ArcelorMittal was awarded the contract for the full Pipe Coating and Double Jointing scope, and awarded the double jointing sub contract to KazTurboRemont and Magnatech. KazTurboRemont has commenced development of their double jointing facility on the ArcelorMittal premises in Aktau.

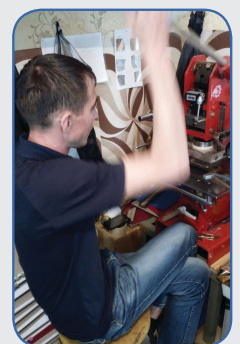


SUCCESS STORY



Zaman – Society of Disabled People

Zaman LLP (100% Kazakhstani company) produces printing products and garments (personal protective equipment, windsocks, etc.). Approximately 20 local people with disabilities are employed in this company.





CESS RIES

Akbarys LLP

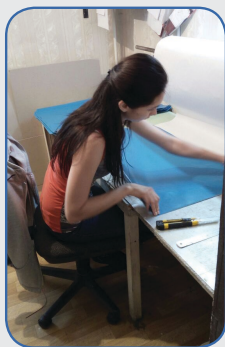
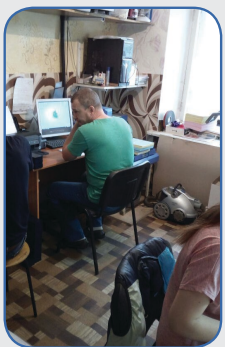
TCO's widely uses systems and devices for gas detection and signal transmission and cascade racks which are crucial for ensuring safety of people and environment at all TCO facilities.

Akbarys LLP has continuous and incident-free cooperation with TCO since 2015 and has expanded capabilities and increased personnel with TCO support. It currently competes with international service providers on a cost and quality basis being the first local entity providing these types of services to TCO.

The company received 1st contract in March 2015 for conducting small trial work on H₂S detection and Self-contained breathing apparatus equipment rental for SGP Turnaround needs and increased the personnel from 6 to 50 for this scope by arranging trainings required for execution of TCO contracts.

The company continues interactions with TCO on gas detection systems services including large projects as Future Growth Project where similar systems are installed. The same systems integration is planned at SGI area.

TCO's Kazakhstani Content team worked with Zaman to understand TCO specifications and requirements. Zaman has met TCO's expectations and over a dozen orders for windsocks have been placed by TCO since 2014. TCO's support for Zaman not only promotes Kazakhstani Content, but also provides support for a worthwhile and economically vulnerable population.



SUCCESS STORIES

KazCentreElectroProvod [KCEP]

KCEP is a fiber-optic cables producer which competes with international manufacturers on a cost and quality basis with TCO assistance. KCEP's pricing is much lower than other suppliers and delivery performance fully meets TCO requirements.

TCO worked with KCEP to understand the TCO specification for optic cables and related requirements for cooperation and the procurement process to make sure pricing is competitive.

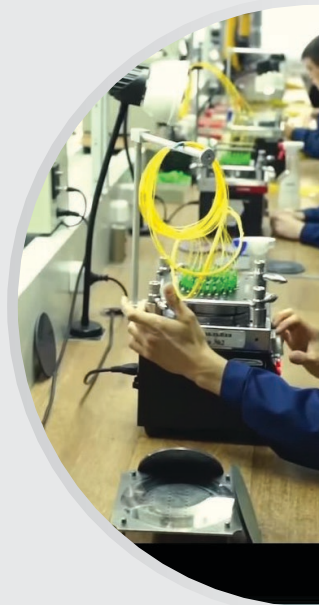
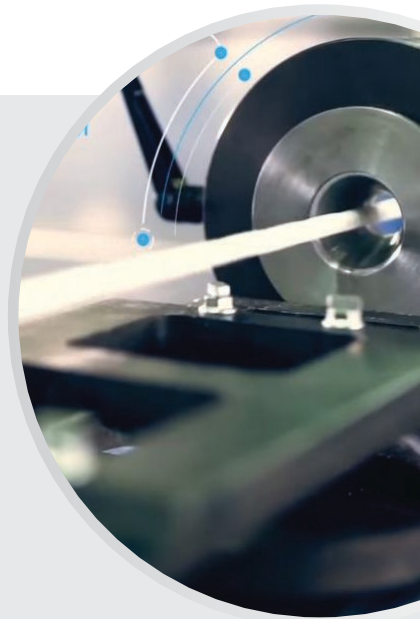
As a result of joint efforts, KCEP successfully passed TCO prequalification audit and HSE inspection and got admission to TCO supply chain. Negotiations on TCO specifications allowed KCEP engineers to gain new knowledge and increase the professional competence. Safety at industrial area was improved per expert recommendations.

Nasar Solutions LLP

TCO has high safety and environmental standards and expects its partners to help exceed them. One of TCO's key service providers is Nasar Solutions LLP which offers waste remediation services to TCO in the Zhyloi region. Their successful remediation of TCO waste is an environmentally critical service which allows TCO to operate in a safe and efficient manner.

In 2015, Nasar had accepted a significant amount of TCO waste and was unable to process in a timely manner. With the intervention of the TCO HES team and hard work by Nasar management and staff – over the past year Nasar could increase the throughput of their system and remove all backlog while meeting TCO's stringent safety and environmental standards.

Nasar Solutions could also improve high-H₂S content sludge safe handling and implement sand blasting equipment for cleaning plastic and metal containers and could process more than 6,000 tons of waste in 2016-2017.



Cooperation with European Bank for Reconstruction and Development for improving capabilities of local companies

In October 2015, TCO committed to partner with European Bank for Reconstruction and Development (EBRD) to strengthen SME's in Kazakhstan to grow into more successful businesses. TCO provided co-finance to support the EBRD's ongoing Kazakhstan Small Business Support Programme over initial period of 2 years (2015-2017). The Programme enables SMEs to access a diverse range of consulting services by facilitating projects with local consultants and international advisers on a cost-sharing basis. Suppliers to TCO will be included in the Programme along with SMEs with no current direct links to TCO. With support from TCO, EBRD targets to host at least 50 local SMEs at business clinics, seminars and informational events; train at least eight local consultants; and share the costs of business advisory projects for 12 SMEs. Increased capacity and capabilities among supported businesses will contribute towards raising competitiveness of Kazakhstan's SME sector and increase opportunities for SMEs to become suppliers to TCO.

Since the Programme's launch the EBRD team has been actively working on generation, implementation and completion of advisory projects. As of the end of the reporting period, the project advancement rate stands at 50% for all of projects, with 6 projects started/approved with local consultants and 1 project with international advisers is at the concept development stage. Market development activities were undertaken to strengthen the SME support infrastructure and to increase the awareness of the target group about the Programme launch. Also, various types of consultancy services addressed to meet the key needs of SMEs were introduced such as access to finance, cost reduction, quality management and safety, raise public visibility of the Programme and its donor.

On May 2017, the joint TCO/EBRD supplier development program won the European Business Association of Kazakhstan (EUROBAK) Corporate Social Responsibility Award for best program in the "Entrepreneurship Development" category.



STIMULATING KAZAKHSTANI CONTENT GROWTH IN PARTNERSHIP WITH MAJOR SUPPLIERS

There is significant potential for Kazakhstani content within the major contractors and suppliers to TCO. TCO enters long-term strategic relationships with these companies because they share TCO's values – one of which is a strong commitment to the development of Kazakhstani content. To do this, the supplier and TCO work together to develop a Kazakhstani Content Plan which outlines the investment, employment, training, and purchasing to promote Kazakhstani Content. TCO then works with and monitors the supplier over the life of the contract to support these goals or make corrective actions if necessary.

Developing Kazakhstani Content at Future Growth Project-Wellhead Pressure Management Project (FGP-WPMP)

The FGP-WPMP will deliver benefits to Kazakhstan using local goods, services and jobs; worker training programs; introduction of new oil field technology to the country and building the capacity and capability of local businesses.

A major objective of the Project is to leave a sustainable legacy that will support future, stronger and more capable Oil and Gas industry. The FGP-WPMP will leave a two-part legacy in both physical assets and a skilled work force for future projects.

The FGP-WPMP will deliver benefits to Kazakhstan through:

- Predicted project KC spend target, which is 32% of the Project budget.
- Estimated 20,000 national positions across the Project (at the peak of each category).

- Legacy:
 - Trained skilled craft.
 - Technology transfer through number of Partnerships with International companies.
 - New built facilities.
 - Upgraded Infrastructure in the region

FGP-WPMP will leave a legacy of new capabilities for our country's future - in engineering, high-tech equipment servicing, project management, construction and fabrication.

A preliminary assessment and registration of a



potential supplier is processed by Project KC Team. The process involves participation of the specific department, which places an order for certain goods and services and ensures Project requirements are met. Assessment criteria for supplier's capabilities cover all aspects of an enterprise's activity from labour conditions to quality management system implemented by a contractor. Companies passing this stage of evaluation and registering in the database have an opportunity to take part in TCO FGP-WPMP bids.

Currently, more than 1,800 Kazakhstani companies are registered in the FGP-WPMP database and many are providing engineering, procurement and fabrication services to FGP-WPMP.

In accordance with the established registration and pre-screening process on FGP-WPMP, any supplier wishing to register with FGP-WPMP database is requested to send their initiative to the following email: fgpinfo@tengizchevroil.com.

TCO FGP-WPMP proactively encourages Kazakhstani companies to participate in FGP-WPMP works and actively supports efforts on establishing joint ventures/ partnerships between

international and local companies via forums, workshops and introducing companies with TCO requirements.

The Project already conducted several KC Forums to allow potential Kazakhstani suppliers to present their capabilities to the Project.

- Workshop with Union of Service Companies of Kazakhstan (August 2013, Atyrau);
- Kazakhstani Suppliers Forum with participation of more than 150 Kazakhstani and international companies (April 2014, Astana);
- FGP-WPMP Construction Forum with participation of 80 Kazakhstani and international companies (November 2015, Astana);
- FGP-WPMP Construction Contractors Forum with participation of about 180 Kazakhstani and international companies (January 2017, Atyrau);
- FGP-WPMP Suppliers Forum with participation of more than 290 Kazakhstani and international companies (April 2017, Atyrau);
- FGP-WPMP Forum: "Craft Skills Assessment and Training" with participation of 85 Kazakhstani and international companies.





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БАРРЕЛЬ
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BARRELS
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