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CPC Owners Synchronize Watches in St. Petersburg

The Caspian Pipeline Consortium (CPC), the builder and operator of a 1,500 km trunk pipeline from Kazakhstan to Russia's Black Sea coast, has launched a de-bottlenecking program that will increase the line's capacity to 80 million metric tons per year (1.6 million b/d). General Director Nikolai Gorban told Energy Intelligence on the sidelines of the 24th St. Petersburg International Economic Forum how the investment is progressing and what issues are of concern for consortium shareholders.

Q: During the forum you've had meetings with governors of the regions along which the CPC pipeline runs and with the CPC key shareholders and crude oil exporters. What questions were at the center of the discussion?

A: Indeed, our agenda at the forum was very rich and varied. We traditionally discussed the charity program with the heads of the regions because in the process of its implementation issues often arise that require solution. The regions have requests for certain projects. We are exploring how we can help, whether our assistance could overlap with budget funding. This is the first traditional block of questions discussed within the forum.

The second block deals with financial issues. We are meeting with financial institutions and banks. CPC has no need for loans, but we are monitoring the situation with financial instruments, insurance, salary projects. And if any innovations appear on the market, then we want to be fully aware of them and apply them in our work.

At this forum we also met with the IC company. The meeting was planned in advance based on the understanding that we need transformation, updating the accounting system, programs. We hope to come to some agreement in the future for implementation within two years.

We certainly also had traditional meetings with the producing companies — the shareholders of the project: Chevron, Exxon Mobil, Lukoil and our largest shareholders — Transneft and Kazmunaigas. Shareholders are traditionally interested in how we live, what we achieve. This time special emphasis was placed on how we coped during the pandemic, what measures we took, how we managed to keep the team. You know that we managed to get through the pandemic rather gently, with practically no losses. But this was achieved through painstaking work. There were restriction measures

applied, and the transition to watches and observation and other protective measures — and vaccination.

To date, 420 people have been vaccinated in our team, of which 109 are in Kazakhstan. We see that the maximum number of company employees will be vaccinated by the end of the year, and then we will be able to breathe peacefully. Nevertheless, 100% of the consortium offices in all regions have been brought back from the remote operation.

Q: When you had a meeting with oil companies did they confirm their shipping plans for this year, or were there any changes?

A: The initial requests from oil companies were quite high — at about 67 million tons. Today, after five months, we see that the real volumes will most likely be at some 60 million tons.

Q: What is the reason for the deviation from the original plan?

A: Most likely this is due to a certain volatility in the oil market. Demand is growing, but not in leaps and bounds, but rather smoothly. Therefore, we have achieved a certain stability. We ship about 5.5 million tons per month. This figure guarantees an annual volume of 60 million tons, unless there is another drop in demand or external restrictive decisions.

Q: In mid-March, the consortium began implementing the de-bottlenecking program that will bring the pipeline's capacity to 80 million tons/yr. How is the project progressing?

A: Work is progressing according to the schedule. The contractor has been mobilized and has already started the main construction and installation work. At the end of last year there were certain nuances with the supply of foreign equipment, but today the situation has returned to normal. For example, gas turbine units have already been delivered. In Kazakhstan pumps were delivered. We regularly receive shut-off valves and pipe products. In April, the pipeline was shut down for 72 hours, and priority work was completed to connect to the existing stations. Our further work can be carried out without stopping the system.

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Q: In March you also changed the contractor at the marine terminal. Swiss Lamnalco transferred its functions to Transneft-Service.

A: On the night of Mar. 15-16, there was a change of contractor at the marine terminal. Since Mar. 16, Transneft-Service has loaded more than 100 tankers. The work is stable.

Q: There was a shareholders meeting recently. What decisions were made?

A: Decisions on dividends are probably of main interest. We came up with a proposal to pay dividends for the first time in the CPC's history. The shareholders supported us and took a decision to pay dividends for the fourth quarter of 2020 and the first quarter of 2021. The total amount is \$665 million for the specified period. And these payments have already begun.

Q: Will payments be made on a quarterly basis in the future?

A: Our dividend policy states that dividends should be calculated on a quarterly basis. But determining the payout period: one, two or three quarters is the prerogative of the shareholders. The decision will be taken at the next meeting in September.

Q: What will the size of the dividends depend on?

A: Everything will depend, first of all, on the shipping volumes, which form the free cash flow. Our costs for the de-bottlenecking project and our ongoing costs are clear and planned. Therefore, the more pumping is, the more cash flow will be, and the more the shareholders will have the opportunity to make a decision to increase dividends. Our dividend policy states that dividends are paid not from revenue but amount to 100% of what remains after deducting expenses from income. The management makes an offer, and the shareholders decide whether to pay the entire amount or leave a part for certain investment projects.

Q: Does the green agenda affect the company's activities?

A: We are monitoring the green agenda and are reducing emissions. It is important to take into account that our system is technically as closed as possible. For example, CPC tanks are designed in such a way that 90% of emissions are cut off automatically. We will definitely continue to optimize our business taking into account the stricter environmental requirements, while we do not see the need for any global initiatives in this direction at this stage.