KPMG

Oil & Gas

NewsFlash

January 2017

World news in brief

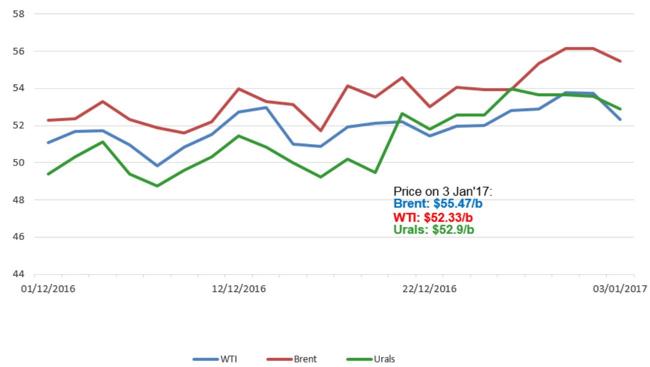
- During November OPEC increased oil production by 300 thousand bpd – to a record of 34.2 mln bpd, according to the monthly report of the International Energy Agency (IEA). The increase was due to Libya, as well as Angola and Saudi Arabia, where out reached the record of 10.63 mln bpd. Output in Kuwait, on the contrary, dropped by 100 thousand bpd. Production in non-OPEC countries decreased by 160 thousand bpd in November – up to 57.1 mln bpd due to the seasonal decline in the global supplies and cut of production by Norway as compared with the maximum output during October. Global oil supplies rose in November to a record of 98.2 mln bpd. The forecast for growth of production in non-OPEC countries for 2017 reduced by about 300 thousand bpd - to 0.2 mln bpd. Global oil demand in 2017, according to the IEA forecast, will grow to 97.6 mln bpd, which is higher than the agency's previous forecast by 120 thousand p/d. The forecast for oil demand in 2017 for OPEC countries increased up to 33.6 mln bpd.

- Saudi Aramco (Saudi Arabian Oil Co) has started to tell its customers it will reduce oil shipment from January, Bloomberg informs with reference to its sources. As Bloomberg notes, Saudi Aramco has the ability under long-term contracts to supply plus or minus 5 to 10 percent of the volume under so-called operational tolerance rules. The tolerance allows the company to fine tune supplies to the exact capacity of different oil tankers. But the tolerances can also be used to reduce supplies unilaterally. Kuwait also finishes preparation for oil supply reduction effective from January 2017 and notification of the customers, Bloomberg tells with reference to the National Information Agency. As agreed by OPEC member states, Saudi Arabia will reduce oil output by 500 thousand bpd.

- Non-OPEC countries agreed to trim output by 558 thousand bpd informed the journalists Khalid A. Al-Falih, the Minister of Energy, Industry and Mineral Resources of Saudi Arabia. According to Mohammed Bin Saleh Al-Sada, Minister of Energy & Industry of Qatar, Russia is ready to reduce production by 300 thousand bpd. "OPEC member states will reduce production by 1.2 mln bpd, while non-OPEC states will reduce production by 558 thousand bpd",- the Minister added.

Brent, WTI and Urals spot prices

(1 December 2016 - 3 January 2017)



Source: EIA; www.topoilnews.com

Brent Crude Oil Forecasts, $/barrel

Brent Crude Oil forecasts			
Year	Consensus Bloomberg	Number of Forecasts	EIU
2013	-	-	108,9
2014	-	-	98,9
2015	-	-	53,4
2016	47,4	24	43,7
2017	55,3	21	53,5
2018	67,0	15	63,4
2019	69,5	8	62,0
2020	-	-	61,4

Source: Consensus Bloomberg, EIU

World news in brief

- "At the meeting it was decided that the next OPEC meeting will be convened on 25 May 2017 in Vienna", states OPEC press-release. The President of OPEC Conference in 2017 will be Khalid A. Al-Falih, the Minister of Energy, Industry and Mineral Resources of Saudi Arabia.

- Russia and Oman will join the committee for monitoring of adherence to the terms and conditions of a deal for oil output reduction, tells Bloomberg with reference to the meeting delegate. OPEC is represented in the committee by Algeria, Kuwait and Venezuela. OPEC nations agreed to reduce oil output by 1.2 mln barrels – up to 32.5 mlm bpd. Non-OPEC states will reduce output by 600 thousand bpd. In this regard Russia will cut its output by 300 thousand bpd.

- State Oil Company of Kuwait - Kuwait Petroleum Corp. has officially notified its customers about cut of oil production effective January 2017, informs Bloomberg with reference to its sources.

- China, the world's fifth-biggest producer last year, has reduced output by about 300,000 bpd this year. The decline is expected to continue next year, with Chinese production shrinking as much as 200,000 bpd, according to consultant Energy Aspects Ltd.

- The oil average price will be $65-70 per barrel next year, if OPEC nations and other states will follow the plans of oil output cut by 1.8 mln bpd, forecasts Sushant Gupta, director of Asia Pacific refining at Wood Mackenzie Ltd. in Singapore. "If all of these cuts are realized in the market, we could see prices potentially rise from $57 to $65 per barrel", the expert says in his analytical report. Wood Mackenzie expects significant increase in demand for oil during 2017.

- Analysts at Goldman Sachs lowered the average price forecast for Brent crude in 2018 to $58 per barrel from the previously expected $63 per barrel. By their estimation, WTI will cost in average $55 per barrel, and not $60 per barrel as was projected before.

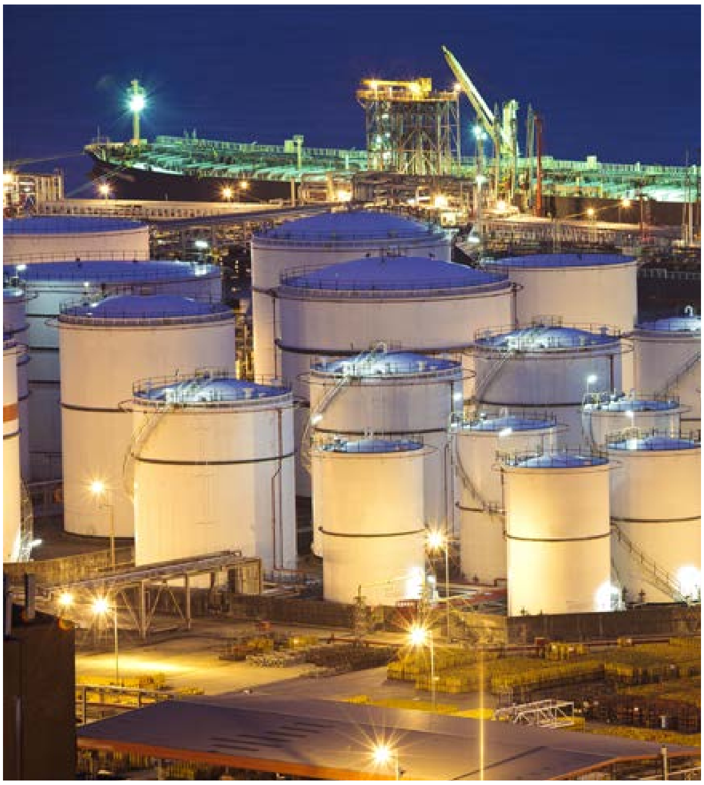
- The head of ExxonMobil Rex Tillerson, nominated for the position of the Secretary of State, resigns; Darren Woods will take position of the Chairman of the Board and Chief Executive Officer of ExxonMobil, informed the US oil and gas company.

- The world's largest oil and gas companies show positive cash flow in 2017 (cash flow) for the first three years, if the reduction of oil quotations measures will stay above $55 a barrel, according to Wood Mackenzie.

- Oil production agreement among OPEC and non-OPEC nations will be performed by 60% at the initial stage and then – by more than 70%, Bloomberg reiterates the words of Kuwait's Oil Minister Essam Abdulmohsen Al-Marzouq. He said that Kuwait is planning to host the first meeting of the group for monitoring of the agreement implementation.

- OPEC expects that demand for its oil in 2017 will amount to 32.6 mln bpd. According to OPEC monthly survey, oil output cut by non-OPEC countries by 0.6 mln bpd and high demand for OPEC oil will help to balance the market in the second half of 2017. OPEC raised its forecast for global oil demand in 2016 up to 94.41 mln bpd; during 2017 demfnd for oil may rise up to 95.56 mln bpd. Demand for OPEC oil in 2016 will be 31.9 mln bpd.

CIS news in brief



- "This year two oil fields under operation (by NC LUKOIL on the Caspian Sea - IF) have produced 2 mln tonnes of oil, which is by 25% more than last year", - said A. Zhilkin, while presenting his paper on the results of socio-economic development of the region in 2016.

- Russia's Ministry of Energy and Russian oil companies at the meeting held agreed that oil output cut will be proportional to production; in this case all companies will be treated on the equal basis, no special conditions will be considered, said the Russia's Minister of Energy Alexander Novak based on the results of the meeting. "We have held a regular meeting with 12 companies, whose production accounts for 90%. I told about those agreements that were reached in Vienna. The companies confirmed their commitment to implement the agreements", - the Minister said. He explained: "The cut will be proportional to the volume of output. Condensate will also be taken into account, we always account condensate in the CDA data. Agreements will be reached on the voluntary basis. Output will drop by the end of the first quarter." A. Novak also noted that the oil companies will decide at their own discretion on what areas to cut: for domestic market or for export.

- Oil output reduction probably will not affect the production plans of the oil companies, Minister of Energy Alexander Novak told in his interview to "Vedomosti" newspaper. "The cut by 300 thousand bpd means about 2.5-2.7% of the current oil production in Russia", - he said. "I do not think that such cut can affect significantly the production program of the companies. And with higher prices, output in 2018-2019 may appeared larger than we are planning now; however, under the circumstances all depends on how the market would develop," - said the Minister.

Kazakhstan news in brief

- Standard & Poor's Global Ratings affirmed the long-term corporate credit ratings "BB" of Kazakhstan oil company NC KazMunaiGas JSC (KMG) and its subsidiary – KazMunaiGas Exploration Production JSC, with "Negative" outlook, says S&P press-release. The Agency also affirmed KMG rating at the national scale at "kzA".

- NC KazMunaiGas JSC (KMG) and China CEFC Energy Company Limited signed a package of agreements in Bucharest on establishment, on the basis of KMG International N.V. (KMGI, former Rompetrol Group N.V.), of a joint venture, reported KMG Press Service. An initial package of agreements was signed in Astana on 29 April 2016. "The Parties required additional round of negotiations to settle the new legal circumstances arising in Romania between the Parties," stated in the message. The final stage of the transaction will be its approval by the competent authorities of Romania and European Commission, and obtaining the necessary approvals from the financial institutions. These procedures are expected to be completed in the first half of 2017, KMG reported. It is known that KMG and CEFC participate in the newly created joint venture on the 49% / 51% basis, respectively. As a part of the agreements reached, CEFC has a number of commitments, under which it will invest and develop projects together with KMG in the area of oil refining and gas station network development.

- GDP growth in Kazakhstan during January-November 2016 was 0.8%, said Minister of National Economy Kuandik Bishimbayev. "GDP growth for 11 months is 0.8%, we expect that it will be 1% for 12 months,"- he told reporters in Astana. "We have considerably increased production in the mining industry during October and November with the launch of Kashagan. Manufacturing industry and construction demonstrated growth. While during 10 months we had a growth of 6.9% in construction, the growth during 11 months will be 7.5%. We also have growth in the services, increase in production of goods, tax collection - all these factors in aggregate contribute to the growth,"- said K.Bishimbaev. According to him, the GDP growth forecast for 2017 has not changed. "You remember that the initial forecast for oil (for 2016 - IF-K) was 75 mln tonnes a year. Now, we expect that there will be over 77 mln tonnes," - he added.

- By the end of 2016 Pavlodar Petrochemical Plant (PPCP) will process 4,590 mln tonnes of oil, informed Interfax-Kazakhstan News Agency Shukhrat Danbay, the PPCP General Director. During 2015m PPCP processed 4, 810 mln tonnes of oil. Therefore, during the current year the processed volumes have decreased by 4.6%. According to PPCP, during 2017 it is planning to process 4.7 mln tonnes of oil.

- Once Kashagan oil field is commissioned, Kazakhstan will become one of ten top countries in terms of oil and gas reserves worldwide informed Kazakhstan's President Nursultan Nazarbayev. "We intend producing and exporting from 80 to 120 mln tonnes of oil", mentioned the Head of the State.

Kazakhstan news in brief

- Kazakhstan produced 59 mln 524.9 thousand tonnes of crude oil and 11,283 mln tonnes of gas condensate during January-November 2016, which, is by 1.1% and 4.2% less, respectively, as compared with January-November 2015, reported the statistics committee of the Ministry of Economy. Production of natural gas in gaseous state amounted to 19.321 blnn cubic meters (which is less by 1%). Production of associated oil gas in the reporting period was 22,491 bln cubic meters (increase by 3.9%).

- Kazakhstan is ready to reduce its oil output only by 20 thousand bpd due to the start of production at Kashagan oil field; partners from OPEC and non-OPEC nations understand the situation, told Kazakhstan's Minister of Energy Kanat Bozumbayev. He specified that reduction would be attained at the expense of other oil fields. "We have a number of different oil fields – in the west of the country, in the south, etc." noted K.Bozumbayev.

- KazMunaiGas Exploration Production JSC (KMG EP) expects a slight increase in output in 2021, informed the Company Press Service. The planned output in 2017 in Ozenmunaigas (OMG)) is 5.8 mln tonnes (117 thousand bpd) day) and that in Embamunaigas (EMG) – 2.8 mln tonnes (57 thousand bpd). "The total planned output at OMG and EMG is 8.7 mln tonnes in 2017 (175 thousand bpd), which is by 2% more than output expected in 2016, due to the complex measures aimed at dealing with current declining well stock and additional geological and technical arrangements", - the report says.

- Oil output cut will not affect major projects in Kazakhstan, said Kazakhstan's Minister of Energy Kanat Bozumbayev. "We have a number of oil fields in Aktobe and Kyzylorda Oblasts, where the natural decline in oil production is noted. In addition, there are two oil fields in West Kazakhstan Oblast – where production will increase but this will occur during the second half of the year. We will develop completely the balance and schedule in the second decade of December, and bring to the notice of each oil company. No restrictions are anticipated for the large projects of Karachaganak, Kashagan and TCO", he told the reporters in Astana. According to the Minister, the agreement to cut oil output by 20 thousands bpd is just "symbolic."

- In 2017 the subsidiaries of KazMunaiGas Exploration Production JSC (KMG EP) – Ozenmunaigas (OMG) and Embamunaigas (EMG) - will deliver about 33% of the total oil sales, or 2.9 mln tonnes (57 thousand bpd) to the domestic market, the Company informed. Out of 2.9 mln tonnes of oil 9 mln tonnes (38 thousand bpd) will be supplied to Atyrau Refinery and 1 mln tonnes (19 thousand bpd) to PPCP.

- A domestic gas pipeline 92.67 km long, Sholtobe-Ushtagan-Baskunduk-Zharma, was put into operation in the Mangistau region.
  The cost of the project is 898.576 mln tenge which was provided by the National Wealth Fund Samruk-Kazyna.

Kashagan

- Cost of the project for gas re-injection into reservoir (CC-01) at Kashagan will amount to $5 bln (at the current exchange rate of KZT 331.12 per $1), said Kazakhstan's Vice-Minister of Energy Magzum Mirzagaliyev. According to the Vice-Minister, the timing for CC-01 implementation will be about 5 years, from 2019 to 2024.

- Oil production at Kashagan is planned to increase up to 450 thousand bpd, informed Energy Minister Kanat Bozumbayev. Current output at Kashagan is 100-120 thousand bpd.

- 308 mln tonnes of oil and 211 bln cubic meters of gas are planned to be produced at Kashagan before the expiry of the Production Sharing Agreement (PSA), said Kazakhstan's Vice-Minister of Energy Magzum Mirzagaliyev. "Until 2041, we are planning to extract 308 mln tonnes of oil and 211 bln cubic meters of gas, one third of which or more than 60 bln cubic meters are intended for the domestic market", - said Vice-Minister of Energy Magzum Mirzagaliyev during his lecture at the Central Communications Service in Astana. "During first six months we will produce at the level of 120-140 thousand bpd. In the second half of 2017 we are planning to start gas re-injection," - he said. In addition, next year 1.67 mln tonnes of oil (a share of Kazakhstan and NC KazMunaiGas JSC) will be transported via the pipelines of Caspian Pipeline Consortium (CPC) to the port of Novorossiysk on the Black Sea coast. 1.1 bln cubic meters of gas (a share of Kazakhstan and NC KazMunaiGas JSC) will be transferred to the network of gas pipelines of KazTransGas JSC for export and domestic consumption.

- Oil from Kashagan field was loaded in "Altai" oil tanker owned by the National Maritime Shipping Company "Kazmortransflot" at the marine terminal of Caspian Pipeline Consortium (CPC) on the Black Sea. «The volume of the loaded oil was 115 thousand tonnes", informed sources from "Kazmortransflot". Then the tanker will proceed to the port of discharge, added the Company's representatives, though they did not specify the exact destination point.

- Major portion of Kashagan oil is now exported through CPC, said Minister of Energy Kanat Bozumbayev. "As for Kashagan oil, this year about 750 thousand tonnes thereof has been extracted. It is mainly exported through Caspian Pipeline Consortium", - said K. Bozumbaev to the reporters in Astana.

TAXATION

Cyprus Excluded from Tax Haven List

An order of the Minister of Finance, excluded the Republic of Cyprus from the list of countries with a concessionary tax regime. The order came into effect on 4 November 2016.

SUBSOIL USE

Reduction of Export Duties on Oil Products

An order of the Minister of National Economy reduced the customs duties on export of oil bitumen (code 2713 20 000 0 under the Classifier of International Trade Activities of the Eurasian Economical Union) from USD 60 to EUR 15 per tonne, with ongoing validity period. The order also establishes that the Ministry of National Economy approves the customs duties on export oil products with codes 2713 20 000 0 (oil bitumen) and 2715 00 000 0 (bituminous mixes) without applying a formula. The order entered into effect on 15 November 2016.

Crude Oil Pricing Methodology

In accordance with the provisions of the Transfer Pricing Law, the Government approved pricing rules for exported crude oil received as Kazakhstan share under the North Caspian Production Sharing Agreement of 18 November 1997. The resolution entered into effect on the signature date on 2 November 2016.

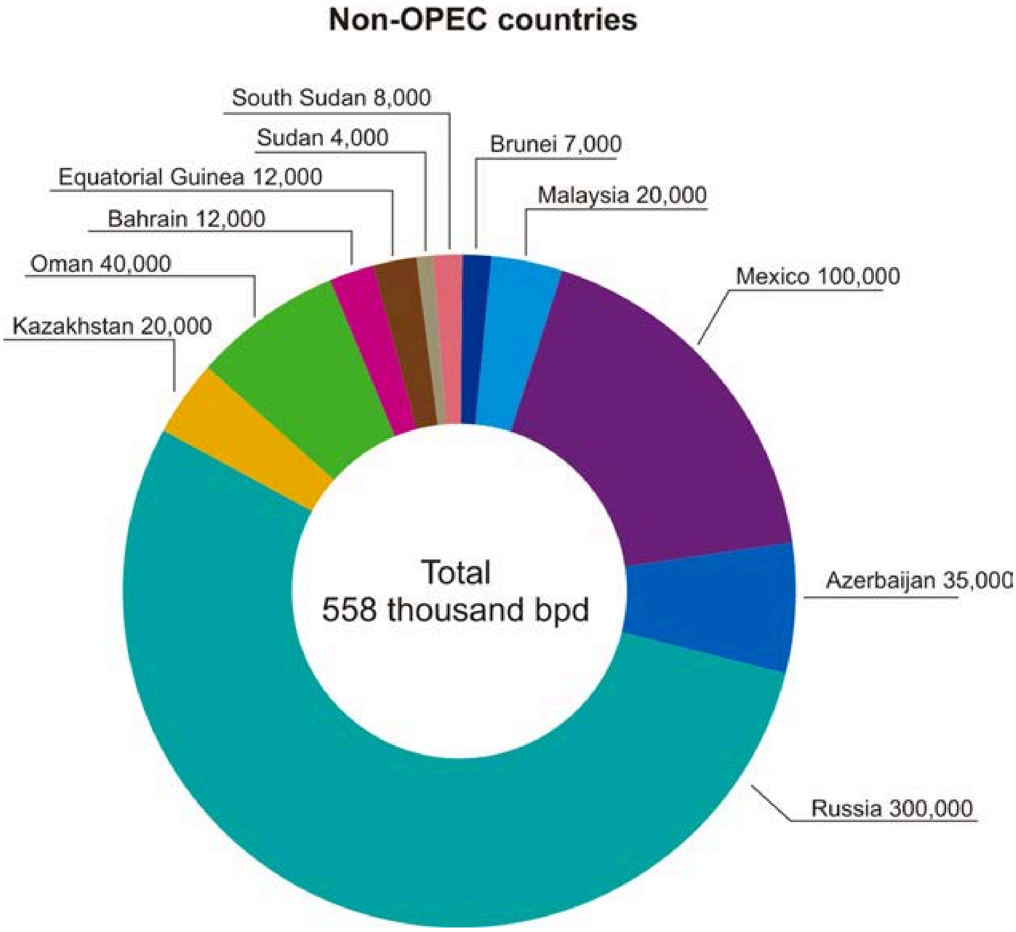
OTHER

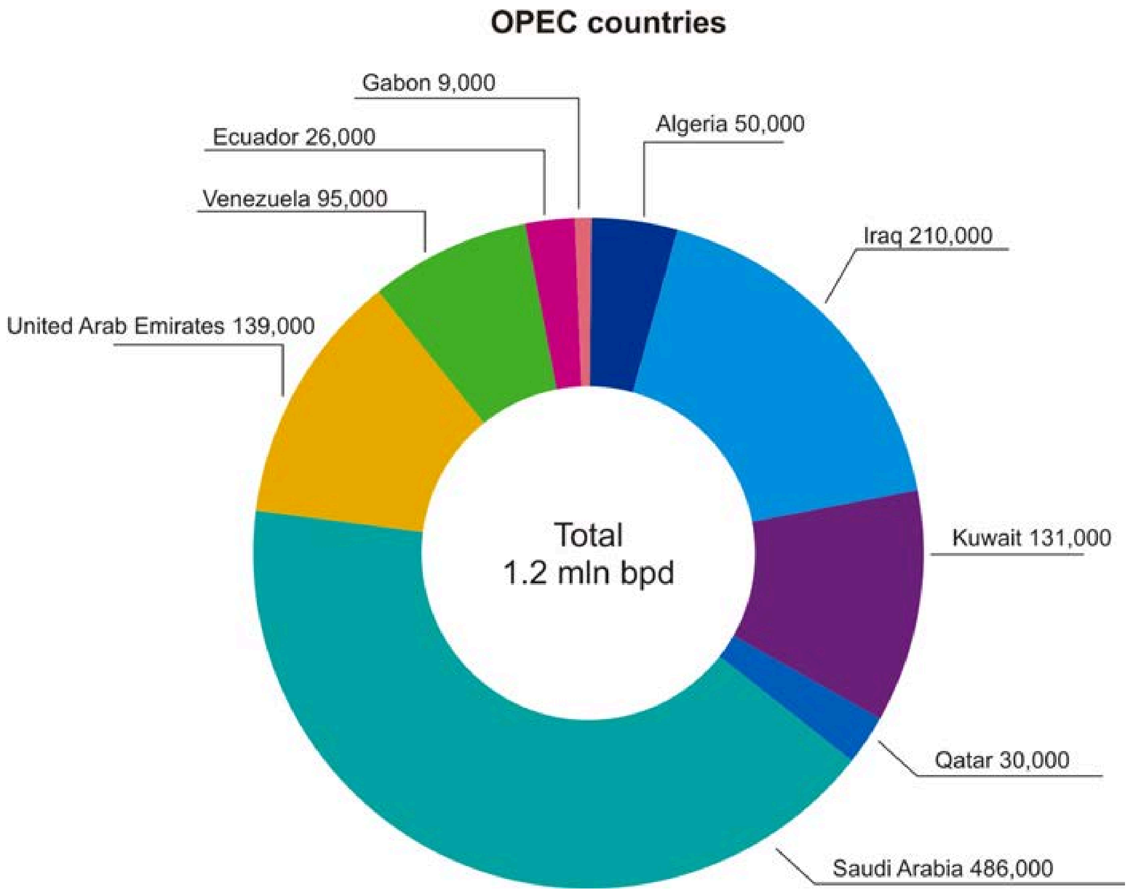
Index Factors for 2017

The law on the National Budget for 2017 - 2019 establishes the following index factors effective from 1 January 2017:

- Minimum wage is KZT 24 459;
- Basic pension payment in KZT 12 802;
- Minimum pension is KZT 28 148;
- Monthly index factor is KZT 2 269;
- Minimum subsistence level for calculation of basic social payments is KZT 24 459.

The agreed reduction of oil production by OPEC and non-OPEC countries (thousand bpd) starting from 1 January 2017





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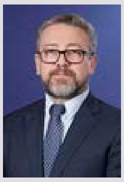

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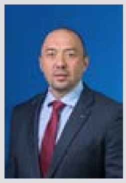

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