



International market headlines

- OPEC announced the plan to cut production to a level of 32.5-33 million barrels per day (bpd) from 33.47 billion, bpd in August, the International Energy Agency said. “We have had a very lengthy but historical meeting in Algiers,” said Qatari energy minister and OPEC meeting president, Mohammed bin Saleh al-Sada, who confirmed the planned cut. There are “very positive signs in the market... nevertheless we need to bring forward rebalancing of the market,” he told a press conference after the informal talks. The meeting agreed to establish a committee to determine how the cut will be shared between members and the quotas will be discussed at OPEC talks in Vienna on 30th of November.
- OPEC has raised its forecast for oil demand in 2016 to 30 thousand bpd – 94.26 mln bpd, said in its September report of the cartel. The growth forecast for world oil demand in 2017 maintained at the level of 1.15 mln bpd (up to 95.41 mln bpd). The demand for OPEC oil in 2016 will grow by 1.9 mln bpd and will reach 31.9 mln bpd in 2017 will increase to 33 mln bpd. In July, according to third party sources, members of the organization were produced by 33.11 mln bpd. While OPEC has improved expectations for oil production outside of the cartel this year. According to the new assessment it will be reduced to 790 thousand bpd and will be 56.13 mln b/d that by 90 thousand bpd above the previous forecast.
- Oil producers in the U.S. are proving more resistant to low prices, even as global supply is set to fall into a deficit next year. The Energy Information Administration increased its domestic output forecast for 2017 to 8.31 mln bpd from 8.2 mln projected in July, according to its monthly Short-Term Energy Outlook released Tuesday. Global oil consumption will exceed supply by an average 170,000 bpd next year, which compares with a 10,000 barrel surplus in July’s outlook.
- Global oil majors cut their capital expenditures by 21% in 2016, following a 19% cut in the past year, according to the monthly report by International Energy Agency (IEA).

Brent, WTI and Urals spot prices (1 August 2016 - 27 September 2016)



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	49,2	26	43,7
2017	57,7	22	53,5
2018	69,9	13	63,4
2019	71,6	9	62,0
2020	-	-	61,4

Source: Consensus Bloomberg, EIU

<http://gfs.eiu.com/Article.aspx?articleType=cf&articleId=1243614708&secl=0>

International market headlines (continued)

- The Russian government has issued the license for the Central Oil and Gas Company – a joint venture between Lukoil (25%), Gazprom (25%) and Kazakhstan's KazMunaiGaz (50%) – to develop the Central field. The field is within the Russian sector of the Caspian Sea, but its development must be conducted with the participation of Kazakh partners. The structure has been passed for prospecting, exploration and production of hydrocarbons without an auction for a period of 25 years. The geological exploration stage will last seven years.
- International Energy Agency (IEA) has lowered the forecast of the growth of the global demand for oil in 2016 by 100,000 barrels per day (down to 1.3 mln barrels per day), Caspian Energy News (www.caspianenergy.net) reports with reference to the monthly report of the International Energy Agency (IEA). Meanwhile, the IEA has preserved the global demand growth forecast for 2017 at the rate of 1.2 mln barrels per day, the monthly report of IEA said. The agency lowered the forecast on global oil demand for 2017 by 200,000 barrels – down to 97.3 mln barrels per day. IEA also lowered the forecast on global oil demand for 2016 by 200,000 barrels per day, (down to 96.3 mln barrels per day). It is 1.3 mln barrels higher than in 2015.
- Russia and Iran are considering the possibility of organizing swap shipments of gas to northern Iran through Azerbaijan and the construction of a liquefied natural gas (LNG) plant in southern Iran, Russian Energy Minister Alexander Novak told reporters. "In the gas sector, today we also considered the promising area of swap supplies of gas to northern Iran through Azerbaijan, with the possibility of building a liquefied natural gas plant in southern Iran. Accordingly, with the receipt of the equivalent amount of liquefied gas, which will go to markets in Southeast Asia, where there is the prospect, as you know, of higher rates of gas consumption growth," Novak said. "In regard to the oil sector, we talked today about the possibilities of using infrastructure, implementing joint projects, including in the Caspian Sea in Iran, in Azerbaijan. You know that our companies are also participating in these projects. Iran is willing to prepare a so-called Iran Petroleum Contract soon under which Russian companies and Azerbaijani companies can participate," Novak said.
- It resulted in a \$60 bln reduction in upstream spending for two years. While the drop is largely a function of significant cost deflation, a slowdown in activity and delay in projects are also factors.



- Global oil output will exceed demand at least through the first half of 2017, International Energy Agency (IEA) said. "With the price of oil at current levels, one would expect supply to contract and demand to grow strongly. However, the opposite now seems to be happening. Demand growth is slowing and supply is rising. Consequently, stocks of oil in OECD countries are swelling to levels never seen before," the IEA analysts say.
- Apache Corp. said it has discovered the equivalent of at least two bln barrels of oil in a new West Texas field that has the promise to become one of the biggest energy finds of the past decade. The discovery, which Apache is calling "Alpine High," is in an area near the Davis Mountains that had been overlooked by geologists and engineers, who believed it would be a poor fit for hydraulic fracturing. It could be worth \$8 bln by conservative estimates, or even 10 times more, according to the company. Shares rose by as much as 13% after U.S. markets. Apache started acquiring mineral rights in the area two years ago and subsequently discovered its potential. The company then quietly went about locking up more land in the field, believed to be up to 450,000 acres overall. Its position now exceeds 300,000 acres, or roughly two-thirds of the field, and is about 20 times the size of Manhattan.
- The number of operating oil and gas drilling rigs around the world has increased in August, according to the results of the third month in succession, the Baker Hughes Oil Service Company reports. Last month 1,547 rigs were operating as against 1,481 ones in July. However, the August figure is 679 rigs less as compared to August 2015.

International market headlines (continued)

- Five leading oil-producing countries in Asia will cut oil production in 2017, the analysts of the British Energy Aspect (EA) predict. According to the analysts, China, India, Malaysia and Vietnam, based on results of the current year, will cut oil production by 0.26 mln bpd up to 6.5 mln bpd, and during next year the production will be further decreased by 0.31 mln bpd.
- OPEC raised its forecast of oil supplies from non-member countries in 2017 as new fields come online and U.S. shale drillers prove more resilient than expected to cheap crude, pointing to a larger surplus in the market next year. Demand for crude from the Organization of the Petroleum Exporting Countries will average 32.48 mln bpd day (bpd) in 2017, OPEC said in a monthly report. That is down 530,000 bpd from the previous forecast. OPEC expects non-OPEC supply to rise by 200,000 bpd in 2017, versus a previously forecast 150,000 bpd decline. The revision is mostly due to Kashagan, OPEC said, as the long-delayed giant field finally starts up. On top of that, the forecast for this year was revised up by 180,000 bpd.
- A number of large shale oil producers in the US are set for increasing investments into production as crude oil prices are rising to march back toward \$50-a-barrel level, The Wall Street Journal reports. Devon Energy Corp., Pioneer Natural Resources Co. and other companies have already told the investors that this autumn they will boost spending to drill new wells.
- The first shipment of US shale gas to be delivered to the UK remains anchored in the Firth of Forth, unable to dock because of strong winds. It arrived amid a fierce debate about the future of fracking in Scotland and the rest of the UK. The tanker, carrying 27,500 cubic metres of ethane from US shale fields, is bound for the Grangemouth petrochemicals plant owned by Ineos. Ineos said the gas would secure the future of the plant's workforce.



- In 2015, was discovered only a tenth of the oil from the level reconnaissance company find annually since 1960. This year the volume of oil found is likely to be even less, against which, will increase concerns about ability to meet future demand. When oil prices fell by more than half, oil companies have reduced expenditures on geological-exploring works work to a minimum. As a result, in 2015, it produced 2.7 bln barrels – the lowest amount since 1947, according to consulting firm Wood Mackenzie Ltd. This year as at the end of last month it produced 736 mln barrels of oil.
- Russia and Saudi Arabia have agreed on measures - joint or in cooperation with other oil producers - with the aim of maintaining stability on the crude market and providing a sustainable level of long-term investment. That's according to a joint statement signed on Sept. 5 by Russia's Energy Minister Alexander Novak and Saudi Arabia's Minister of Energy, Industry and Mineral Resources Khalid Al-Falih. In the statement, the ministers recognized "the current challenges in the supply side of the global oil market, including major contraction of capital investments in oil extraction on a global scale, particularly in exploration, as well as mass deferrals of investment projects, which made the market, as a whole, more volatile and therefore unsustainable to both producers and consumers in the long term," as well as "an imperative to mitigate excessive volatility harmful to global economic stability and growth." "In this regard, the ministers noted that constructive dialogue and close cooperation among major oil producing countries is crucial to oil market stability to ensure sustainable levels of investment for the long term.

- Tengizchevroil (TCO) places 10-year Eurobonds maturing in August 2026, a source in banking circles told Interfax. Eurobonds are offered at 225 basis points over U.S. Treasuries. Investors have offered to buy \$4.2 bln. Joint bookrunners for the deal are Citi, HSBC and JP Morgan.
- S&P Global Ratings has its 'BBB' long-term corporate credit rating to Kazakhstan-based oil producer Tengizchevroil LLP (TCO). The outlook is negative. S&P also assigned its 'kzAA+' Kazakhstan national scale rating to TCO. "At the same time, we assigned our 'BBB' issue credit rating to the company's proposed \$1 bln senior secured bond to be issued by subsidiary Tengizchevroil Finance International Ltd. and guaranteed by TCO," S&P said.
- This year Kazakhstan GDP is expected to growth at 0.2%, Eurasian Development Bank says in its macroeconomic overview. The GDP annual average growth rate during 2017–2018 is projected to reach 1.5–1.7%, the report says.
- Wholesale price of liquefied petroleum gas to be KZT 23 thousand per tonne in Kazakhstan. In accordance with the Law of the RK "On gas and gas supply" marginal price of liquefied petroleum gas in the domestic market is set by the Ministry of Energy and operates throughout the country. "In order to ensure a stable supply of liquefied petroleum gas for the domestic market of the country, the Ministry of Energy has approved the marginal price of gas in domestic market till 30 September 2016, so it will be 23 106.45 tenge/tonne," the agency states.
- Fitch Ratings says in a new report that, over the medium term, the Kazakhstan oil and gas sector will be driven by ongoing and planned mega projects in upstream, oil & gas pipelines undergoing expansion, and planned disposals in downstream. In 2025 the projected share of production from Kazakhstan's top-three mega oil projects - Tengizchevroil (TCO), Kashagan and Karachaganak - is likely to exceed 75% of the country's total, up from 50% in 2015. Kazakhstan's over-reliance on a few mega oil fields makes it more exposed to single-project geological and technical risks and oil price volatility, as illustrated by the ongoing multi-bln dollar efforts to restart Kashagan.
- Tengizchevroil LLP will undertake a significant part of the financing of the Future Growth Project, Kazakh Energy Minister Kanat Bozumbayev has said. The TCO expansion project value is \$37 bln. He said that the project implementation will allow TCO to produce another 250 mln tonnes of oil until the end of the contract term (by the end of 2033). But the oil field will remain active beyond 2033 and the volume of post-contract oil production would amount to 420 mln tonnes, - the minister added.
- Kazakhstan has worsened its position in WEF Competitiveness Ranking prepared by the World Economic Forum (WEF). Kazakhstan fell 11 places and has been ranked 53rd.



- Asian Development Bank downgraded Kazakhstan GDP growth forecast from 0.7% to 0.4% in 2016. GDP growth forecast will remain at 1% in 2017. Inflation forecast for 2016 has been increased from 12.6% to 13.5%. Kazakh Government projects the GDP growth of 0.5% and inflation rate of 8% this year.
 - The World Bank forecasts slow recovery of Kazakhstan economy, the bank's report called "Kazakhstan: A Long Road to Recovery," published on July 22 said. Under the baseline scenario, GDP growth is expected to remain near zero in 2016, before rising to 1.9 percent in 2017 and 3.7 percent in 2018, as production commences at the Kashagan oilfield, global oil prices rebound, renewed consumer and investor confidence supports the recovery of the non-oil sectors, and inflation eases to an average of 6-8 percent per year. Meanwhile, both fiscal and external conditions are expected to improve, trend.az reports.
 - Kazakhstan produced 32.975 mln tonnes of crude oil and 5.815 mln tonnes of gas condensate in January-June 2016, down 2.4% and 9.9%, respectively, from the same period last year, the State Statistics Committee said.
- Kazakhstan produced 10.083 bln cubic meters of natural gas in a gaseous form, down 6.3%. Output of associated petroleum gas in January-June 2016 came to 12.658 bln cubic meters, 3.5% up from H1 2015.
- The Board of Directors of KazMunayGas Exploration Production JSC (KMG EP) has adopted the company's Innovative and Technological Development Program for 2016-2020, the company's Press Service said.

The Programme has been developed amid the global economic crisis as part of the set of measures aimed at mitigation of adverse economic impact in the form of cutdown in spending. As a part of the adopted Program the company is planning to carry out a technology audit that will focus mainly on review and assessment of specific innovation proposals and organisational measures that will enable KMG EP to use crisis to improve efficiency and performance of its assets.

Kazakhstan market headlines (continued)

- A new online database of goods and service supplies for the oil and gas industry was launched in Kazakhstan, said Niyaz Zhumat, the project manager at the Union of Oil Service Companies of Kazakhstan. "Alash is a unique platform for the mineral resource companies and suppliers, including Kazakh suppliers. The service companies that are registered in the database will have access to procurement programs of Tengizchevroil (TCO), Karachaganak Petroleum Operating B.V. (KPO) and North Caspian Operating Company (NCOC)," he told a briefing in Astana. The database was created at the initiative of the Kazakh Ministry of Energy with the direct involvement of the large oil and gas companies. Currently, the database contains 237 domestic and seven foreign service companies.
- S&P Global Ratings affirmed its 'BBB-/A-3' long- and short-term foreign and local currency sovereign credit ratings on the Republic of Kazakhstan. S&P also affirmed the Kazakhstan national scale ratings at 'kzAA'. The outlook on the long-term ratings is negative.
- In January-June 2016, KazMunayGas Exploration Production JSC (KMG EP) produced 6.78 mln tonnes of oil (246 thsd bpd), which is 0.7% less as compared to the same period of 2015, the company reported. This amount includes the interests in JV KazGerMunai (KGM), Karazhanbasmunai (CCEL) and PetroKazakhstan Inc. Ozenmunaigas JSC (OMG) produced 2,779 mln tonnes (112 thsd bpd), which is 2% more than in January-June 2015. EmbaMunaiGas JSC (EMG) produced 1,407 mln tonnes (57 thsd bpd), which is 2% more than during the same period last year. Totally OMG and EMG produced up 4,186 mln tonnes (169 thsd bpd), which is 2% more than during January-June last year.
- The oil company TengizChevroil (TSO) produced 14.4 mln tonness of crude oil (114.8 mln bpd) during January-June 2016, the TCO' Press Service reported. During the same period of 2015, TCO produced 14.07 mln tonness of crude oil. Thus, oil output increased by 2.3 % in the reporting period. In the first half of the current year, TCO realised 673 thsd tonness of liquefied gas and 3.67 bln cubic metres of dry gas (during January-June last year, 677 thsd tonnes and 3.64 bln cubic metres, respectively).
- Kazakhstan GDP growth at the end of 2016 will stand at 0.5%, the Minister of National Economy Kuandyk Bishimbayev said. As reported by Kuandyk Bishimbayev, in August last year, Kazakhstan economy grew by 0.1 %. According to the results for 8 months of current year, GDP has grown by 0.3%. Kazakhstan expects 1.9% GDP growth in 2017. Kazakhstan's GDP growth hit 0.1 % in 1H of 2016.
- International rating agency S&P Global Ratings affirmed Kazakhstan's long-term foreign- and local-currency ratings, with negative outlook, at BBB-, the agency stated. The agency affirmed at "A-3" Kazakhstan short-term ratings. S&P also affirmed at "kzAA" Kazakhstan's rating according to the national scale.
- JSC KazTransOil pumped 21.923 mln tonnes of oil through its pipelines in January-June 2016 or a decrease of 10% year over year, the company says in a press release. Consolidated oil transportation in the reporting period totaled 28.278 mln tonnes or a decrease of 10% year over year. In January-June 2016 the volume of oil transported by JSC KazTransOil alone amounted to 17.836 bln tonne-km or down 3% year over year, the consolidated volume of transportation by KazTransOil group came to 21.684 bln tonne-km or a decrease of 5%, respectively.
- JSC Ozenmunaigas (OMG), a subsidiary of KMG EP, has received approval of its application for a temporary reduced rate of Mineral Extraction Tax (MET) for the Uzen and Karamandybas fields in Mangystau region. "The reduced MET rate is set at 9.0% (compared to 13.0% in 2015) for the whole of 2016 on the condition that in 2016 Uzen and Karamandybas fields record losses under tax accounting," KMG EP said. "The maximum benefit available is expected to be approximately 17 bln tenge in 2016, which may ultimately be reduced in accordance with current legislation should the fields have taxable profit for 2016," the company said.
- Kazakhstan will calculate oil export prices using a uniform methodology, Kanat Dospanov, Deputy Chief of the Specialised Department of the State Revenues Committee under the Ministry of Finance, said. According to the methodology, the price will be calculated based on global crude oil prices, terms of supply, costs of transportation to the global markets, insurance costs, and inspection costs. According to Dospanov, the companies included in the structure of the National Company "KazMunayGas"; the company Vitol as well as the Reuters and Argus agencies took part in development of the methodology. The State Revenues Committee believes that the novelty will contribute to increasing of tax revenue, however, to what extent, it is hard to say so far.
- Kazakh Government has developed draft amendments to the law on the state budget for 2016-2018, which will introduce changes to current budget. "Average annual oil price was raised from \$30 to \$35 per barrel. Average annual US dollar exchange rate remained unchanged at KZT 360 per USD 1," K. Bishimbayev said at the Government session, presenting a proposed budget. Oil output forecast was revised upward from 74 mln tonnes to 75.5 mln tonnes for 2016 due to the rise of average annual oil price and expected launch of Kashagan," the Minister of National Economy added.

Top 10 countries by hydroelectricity consumption, 2015

No	Name of country	Mln tonnes
1	China	254.9
2	Canada	86.7
3	Brazil	81.7
4	US	57.4
5	Russian Federation	38.5
6	Norway	31.1
7	India	28.1
8	Japan	21.9
9	Venezuela	17.3
10	Sweden	16.9
	Total World	892.9

Other renewables consumption, 2015

No	Name of country	Mln tonnes of oil equivalent
1	US	71.7
2	China	62.7
3	Germany	40.0
4	United Kingdom	17.4
5	Brazil	16.3
6	India	15.5
7	Spain	15.4
8	Italy	14.7
9	Japan	14.5
10	France	7.9
	Total World	364.9

Biofuels production, 2015

No	Name of country	Thousand tonnes of oil equivalent
1	US	30983
2	Brazil	17636
3	Germany	3130
4	France	2592
5	China	2430
6	Netherlands	1749
7	Thailand	1508
8	Indonesia	1344
9	Canada	1059
10	Spain	1005
	Total World	74847

Top 10 natural gas reserves countries, 2015

No	Name of country	Trln cubic meters
1	Russia	1139.6
2	Iran	1201.4
3	Qatar	866.2
4	Turkmenistan	617.3
5	US	368.7
6	Saudi Arabia	294.0
7	UAE	215.1
8	Venezuela	198.4
9	Nigeria	180.5
10	Algeria	159.1
	Total World	65599.4

Top 10 natural gas production countries*

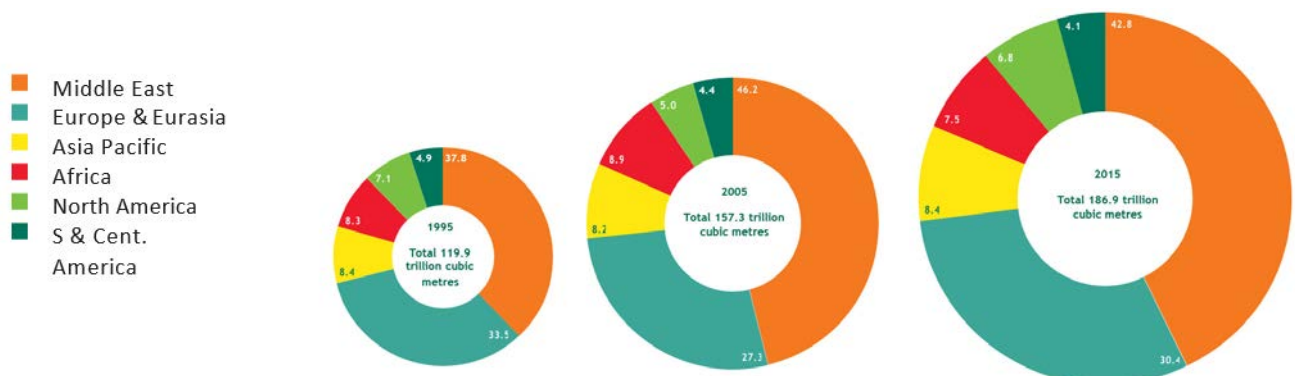
No	Name of country	Bln cubic meters
1	US	767.3
2	Russia	573.3
3	Iran	192.5
4	Qatar	181.4
5	Canada	163.5
6	China	138.0
7	Norway	117.2
8	Saudi Arabia	106.4
9	Algeria	83.0
10	Turkmenistan	72.4
	Total World	3538.6

Top 10 natural gas consumption countries

No	Name of country	Bln cubic meters
1	US	778.0
2	Russia	391.5
3	China	197.3
4	Iran	191.2
5	Japan	113.4
6	Saudi Arabia	106.4
7	Canada	102.5
8	Mexico	83.2
9	Germany	74.6
10	UAE	69.1
	Total World	3468.6

*Excludes gas flared or recycled. Includes natural gas produced for Gas-to-Liquids transformation.

Distribution of proved natural gas reserves in 1995, 2005 and 2015



Source: BP Statistical Review of World Energy June 2016

Contacts



Mukhit Kossayev
Partner,
Head of Oil & Gas
KPMG Kazakhstan
& Central Asia
T: +7 (727) 298 08 98
E: mkossayev@kpmg.kz



Vassily Savin
Partner
Head of Deal Advisory
KPMG Kazakhstan
& Central Asia
T: +7 (727) 298 08 98
E: vsavin@kpmg.kz



Rustem Sadykov
Partner,
Head of Tax & Legal
KPMG Kazakhstan
& Central Asia
T: +7 (727) 298 08 98
E: rsadykov@kpmg.kz



Eduard Yegay
Director,
Deal Advisory
Transaction Services
KPMG Kazakhstan
& Central Asia
T: +7 (727) 298 08 98
E: eyegay@kpmg.kz



Arman Nurkin
Associate Director,
Deal Advisory,
Corporate Finance
KPMG Kazakhstan
& Central Asia
T: +7 (727) 298 08 98
E: anurkin@kpmg.kz



Karlygash Kaltayeva
Head of Marketing
Department
KPMG Kazakhstan
& Central Asia
T: +7 (727) 298 08 98
E: kkaltayeva@kpmg.kz

Almaty office

180 Dostyk Avenue
Almaty 050051
T: +7 727 298 08 98
F: +7 727 298 07 08
E: company@kpmg.kz

Astana office

Samal 12
Astana 010000
T: +7 7172 55 28 88
F: +7 7172 55 28 00
E: company@kpmg.kz

Atyrau office

34A Satpayev Street
Atyrau 060011
T: +7 7122 55 62 00
F: +7 7122 55 62 02
E: company@kpmg.kz

www.kpmg.kz

Your feedback and input are important for us.

Please take some time to complete feedback form and send it via email to ru-fmkzenr@kpmg.kz.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.