

# NewsFlash

## Oil & Gas

May 2017

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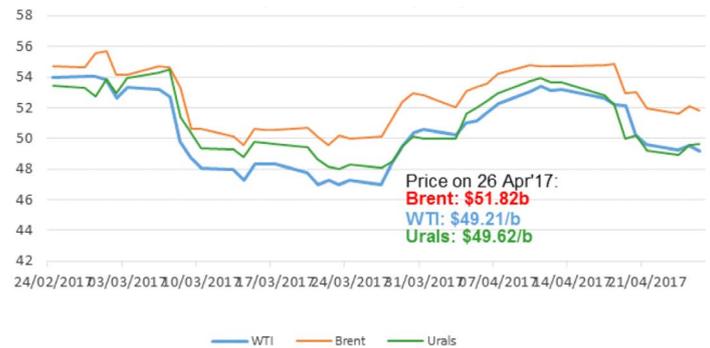
### International market headlines

- OPEC member-states are close to complete fulfilment of the terms and conditions of the agreement to reduce oil production, which was reached at the last year end: the average level of oil production by the OPEC member-states during January-February 2017 shows that the agreements have been performed by 98.5% (91% in January) – this fact is confirmed by the results of the analysts' opinion poll held by S&P Global Platts. 10 member-states of OPEC participating in the agreement for reduction of oil production have reduced their output in February up to 32.03 mln bpd from 32.16 mln bpd in January.
- World oil demand will grow by an average 1.2% per year until 2022, predicts the International energy Agency (IEA). The increase in oil demand will contribute to accelerating the pace of global economic recovery, noted in the IEA. Moreover, demand growth in this period will be provided by countries outside the Organization for economic cooperation and development (OECD), particularly in China and India. In 2022, the global demand for oil will amount to 103.8 mln bpd compared to 96,6 mln bpd in 2016, the IEA predicts. According to Agency estimates, demand will exceed 100 mln bpd in 2019. According to the forecast of the Agency, investment in the sector will grow in 2017, after declining by 25% to 433 bln dollars in 2016.
- OPEC increased its forecast for growth of global oil demand in 2017 by 70 thousand bpd due to high expectation of oil demand in the European OECD member states and in the countries of Asia-Pacific Region, says the cartel review. Global oil demand is expected to grow by 1.26 mln bpd in 2017 and will be as high as 96.31 mln bpd.
- Exxon Mobil Corp, the US and world largest oil company in terms of capitalization, is planning to increase production of shale oil in the USA by 20% per year, within nine years, up to 2025 inclusive, states the Company press release. Within two coming years Exxon will commission five projects that would increase output by 340 thousand barrels of oil equivalent. The Company has drilled more than 5.5 thousand wells on shale oil deposits in Permian basin and Bakken Formation, return on investment in which exceeds 10%, with oil price being USD 40 per barrel. Before the end of 2025, the total increase of production of these wells may be up to 750 thousand barrels of oil equivalent per day, or about 20% a year.
- An important statement has been made at the CERAWEEK oil and gas conference, which is currently taking place in Houston, the USA. The OPEC secretary general Mohammed Barkindo, who has been holding the position since last summer, said that the application of Equatorial Guinea to join the cartel had been officially submitted and the consideration process had started.
- President Donald Trump announced the granting of a permit for construction of the controversial Keystone XL pipeline, calling it "the first of many infrastructure projects" that he would approve in order to put more Americans to work. Trump said that "government too often failed its citizens and companies over the past long period of time. Today we begin to make things right." The \$8 bln project would span 1,200 miles, connecting Alberta's massive tar sands crude with pipelines and refineries on the Texas gulf coast that are particularly well-suited to handling the thick oil. TransCanada, the Calgary-based firm that has rigs as compared with March 2016. A number of rigs in the USA in March increased by 45 compared with the preceding month and was 798, which is the

maximum for a period that started in October 2015. At the same time, the number of rigs in Canada decreased by 89 – up to 253. According to results of 2016, the average monthly number of oil and gas producing rigs in the world was minimum during last 17 years and was 1593. In 2015 there were 2337 rigs worldwide.

- Iran hits record increase in exports of oil and gas condensate. The volume of export of oil and gas condensate Iran has set a new record, reaching 3.5 mln bpd, announced the Ministry of oil of the Islamic Republic. For the last month of the Iranian year that ended 20 March, the oil exports amounted to 2.265 mln bpd, while the share of gas condensate – 785 thousand bpd, reported the Iranian media, citing the Ministry. The main buyers of Iranian oil are China, India, Japan, South Korea, Britain, France, Greece and Italy.
- Most crude oil producers in the Middle East, Africa and the emerging economies of Europe (EEMEA) won't be able to patch up their budgets this year, Fitch Ratings warned, forecasting an average price of \$52.50 a barrel for the commodity in 2017, up from \$45.10 a barrel for 2016. The exceptions are Kuwait, Qatar, and the Republic of Congo, all of which sport breakeven prices around the forecast 2017 average, with Kuwait actually having a breakeven level significantly below \$52.50 a barrel at \$45. For Qatar, the figure is \$51 a barrel and for Congo it is \$52 a barrel. For Russia it is \$72 a barrel and for **Kazakhstan - \$71 a barrel**. Still, Fitch notes that the low breakeven price enjoyed by Kuwait is related not just to low production costs, but also to the high oil production rate per capita and the projected investment income from its sovereign wealth fund.
- Qatar, the world's largest LNG exporter could see a rise in export volumes as state-owned Qatar Petroleum revealed intentions to develop a new gas project in the country's North Field. According to the company's statement, the work in the southern sector of the giant North Field will start over the next few months, effectively lifting the moratorium on North Field development that has been in place since 2005. The development in the southern section of the North Field will have a capacity of 2 bln cubic feet per day, or 400,000 barrels of oil equivalent, and increase production of the field by about 10 percent, when it starts production in five to seven years.
- Countries outside OPEC will increase oil production from 57,32 mln bpd in 2016 to of 57.89 mln bpd in 2017, according to a new monthly report OPEC. The previous forecast showed an increase of production from 57.34 mln bpd to 57.74 mln bpd. Thus, the production forecast in 2017, improved by 180 thousand bpd. In particular, said OPEC, the US will show growth of oil production from 13.62 mln bpd in 2016 to 14.16 mln bpd in 2017 (540 thousand bpd), follows from the monthly report of OPEC. Earlier, the cartel predicted that the United States will increase production from 13.61 mln bpd to 13.95 mln

## Brent, WTI and Urals spot prices (24 February 2017 - 26 April 2017)



Source: EIA; [www.topoilnews.com](http://www.topoilnews.com)

## Brent Crude Oil Forecasts, \$/barrel

| Year | Consensus Bloomberg | Number of Forecasts | EIU   |
|------|---------------------|---------------------|-------|
| 2013 | -                   | -                   | 108,9 |
| 2014 | -                   | -                   | 98,9  |
| 2015 | -                   | -                   | 53,4  |
| 2016 | 48,2                | 25                  | 43,7  |
| 2017 | 55,0                | 22                  | 53,5  |
| 2018 | 67,3                | 17                  | 63,4  |
| 2019 | 69,5                | 11                  | 62,0  |
| 2020 | 70,1                | 8                   | 61,4  |

Source: Consensus Bloomberg, EIU  
<http://gfs.eiu.com/Article.aspx?articleType=cf&articleId=1243614708&seclD=0>

- bpd (340 thousand bpd). Russia, says the report, in 2017, will increase production to 11.1 mln bpd to 11.14 mln bpd, while a month ago, the cartel predicted that Russia will reduce production to 11.1 mln bpd to 11.08 mln bpd.
- China showed a record level of oil imports in the month of March 2017. Up by 19.4% year-on-year and 10.7% from the month of February, China's oil imports in March stood at 9.21 mln bpd (38.95 mln mt). The rise in demand for crude oil is attributed to the fear of rising global oil prices, which have prompted oil importers to up the storage of the precious commodity. Leaving behind USA, China became one of the largest importers of oil in the January-March 2017 period. Chinese imports during the three month period stood at 8.53 mln bpd, exceeding USA's 8.17 mln bpd. Both the March and the first-quarter import levels were above those of the United States according to data from the U.S. Energy Information Administration (EIA), making China the world's top crude oil buyer so far this year.

## CIS market headlines

- Russia currently reached the oil production reduction more than 200 thousand bpd as a part of the agreement with OPEC, Russia Minister of Energy Alexander Novak informed the journalists on 7 March. "Up to date we have reached the reduction of more than 200 thousand bpd", said A. Novak. "Our plans for reduction of oil production do not change. By the end of April reduction of oil production will be more than 300 thousand bpd, and during May-June we'll keep this level", noted the Minister.
- Currently Russia is not considering the possibility to join OPEC; however, the recently signed agreement for reduction of oil production has demonstrated the practicability of cooperation, the RF Minister of Energy Alexander Novak said during CERAweek conference in the USA (12 April), responding to the moderator's persistent question whether Russia is planning to join the cartel.
- Russia's oil production will reach a record high of 549 mln tonnes in 2017 despite a planned output reduction, the country's Energy Minister Alexander Novak said.



## Kazakhstan market headlines

- Western oil service companies in Kazakhstan will cooperate with subsoil users only as a part of consortiums with local companies, informed Kazakhstan Minister of Energy Kanat Bozumbayev on 1 March. "We say to our three large subsoil users operating Tengiz, Kashagan and Karachaganak oilfields: western companies will not be contractors any more. Western companies may operate in our country through establishing joint ventures and consortiums with local business", the Minister said at the collegium of the Ministry of Energy in Astana. He explained that western companies would work directly with the subsoil users only in the exceptional cases, when local oil service companies and producers do not have sufficient competence.
- Kazakhstan will considerably reduce oil production in May-June 2017 and, therefore, fulfill the commitments to OPEC to reduce oil production in the first half of the year, said energy Minister Kanat Bozumbayev reporters after the government meeting. "Kazakhstan did not take a commitment every month to hold on to something in production volume. Kazakhstan has made commitments for six months from 1 January to 1 July, below the average production was not more than 1.7 mln barrels minus 20 thousand per day", said K. Bozumbayev. According to him, in January, production decreased on average by 30 thousand barrels per day in February, the figures rose slightly, and in March the volume of production exceeded 1.7 mln tonnes of barrels.
- Kazakhstan extracted 11.466 mln tonnes of crude oil and 2.227 mln tonnes of gas condensate in January-February 2017 or an increase of 3.8% and 0.7%, respectively, compared with the same period last year, the Statistics Committee of the National Economy Ministry said. In the reporting period Kazakhstan produced 3.933 bln cubic meters of natural gas or an increase of 3.4% year-on-year. The output of associated petroleum gas in January-February 2017 came to 4.856 bln cubic meters or up 8.3%.
- Oil products in Kazakhstan will be sold using the electronic trading, said Kazakhstan Minister of Energy Kanat Bozumbayev. "We offer to sell all types of oil products in the nearest future through the electronic trading. We would like to start with selling of liquefied gas, as it is one of the areas where the export prices in Central Asia and Russia and prices per tonne in the internal market differ by 5-7 times. Therefore, it is clear why the local market faces problems from time to time and is running hot, shadow export is increasing, and so on", said K Bozumbayev at the collegium of the Ministry of Energy in Astana.

- The International Rating Agency S&P Global Ratings affirmed its 'BB' long-term corporate credit ratings on Kazakhstan-government-controlled vertically integrated oil company KazMunaiGas (KMG) and its core subsidiary KazMunaiGas Exploration Production (KMG EP), the rating agency said in a message. The outlook remains negative.
- The Novorossiysk port handles the first tanker shipment of Kashagan oil mixed with light Siberian oil, KazTransOil said. Since January 2017 transportation of Kashagan oil has been conducted through the Atyrau-Samara pipeline with the quality of transported crude maintained for its further transportation through Transneft's pipeline system as part of sweet Siberian Light crude to Russia's port of Novorossiysk. Earlier, Kazakh oil (including Kashagan oil) was shipped through the Atyrau-Samara pipeline to be transported further through Transneft's pipeline system after being mixed with Russian Urals crude. Shipping Kazakh oil with a low-sulfur Siberian Light is much more beneficial for Kazakh oil companies and Kazakhstan, in general, compared with Urals mixture, the company said. The new route that maintains crude quality is expected to ship light oil from other Kazakhstan's fields as well.
- The total volume of oil refined at three Kazakh refineries - Atyrau Refinery, Shymkent Refinery (PetroKazakhstan Oil Products LLP) and Pavlodar Petrochemical Plant in January-March 2017 increased by 24.3% to 3.504 mln tonnes, KazMunaiGaz - Processing and Marketing said. In January-March, production of gasoline increased by 20.4% to 804,258 tonnes, diesel fuel by 27.3% to 1,019 mln tonnes and aviation kerosene by 11.6% to 53,812 tonnes.
- The economy of Kazakhstan grew 3% in the 1st quarter of 2017, President Nursultan Nazarbayev said at a meeting with Prime Minister Bakytzhan Sagintayev, the president's press office says in a press release. "In the first quarter, the economy of the country expanded by 3%. This is the result of our ongoing programs. We need to continue in this direction, to maintain the [economic] indicators at the achieved level or even improve them by the end of this year," the president is quoted as saying.
- The IMF expects 2.5% Kazakh GDP growth in 2017 and 3.4% growth in 2018, the fund said in an April World Economic Outlook update. It is expected that the Kazakh economy will grow 2.5% in 2017 thanks to increased oil production and stronger external demand, according to the IMF experts. Inflation in Kazakhstan is projected to rise to 8% in 2017, to 7.2% in 2018, according to the IMF forecast.



- Kazakhstan's energy ministry plans to deregulate wholesale prices for liquefied gas by 2020 and proceed with sales at market prices, Ziyash Kiyakbayev, director of the gas development department, said. "We plan to start in 2018. In the first half of the year, about 80% of liquefied petroleum gas will be traded in accordance with the prices set by the ministry, and with regard to 20% of the volume the price will be formed on market terms.
- Board of directors of JSC Kazmunaigas Exploration Production (KMG EP) approved an increase in crude processing fees from 1 April 2017, the company says in a press release. "As per the approved budget for 2017 and the company's previous guidance, the board of directors agreed an increase of processing fees starting from 1 April 2017. The processing fee will stand at 24,512 tenge per tonne at Atyrau Refinery (20,501 tenge previously) and 16,417 tenge per tonne at Pavlodar Refinery (14,895 tenge previously)," the press release says.
- Евразийский банк развития (ЕАБР) прогнозирует Eurasian Development Bank (EDB) is projecting a 2.3% GDP growth in Kazakhstan in 2017, EDB states in its overview. According to EDB forecast, GDP growth in Kazakhstan will be 2.1% in 2018 and 2.2% in 2019
- The Kazakh government prepared a draft order allowing the small refineries to resume their operation, the Ak Zhol Party says in a statement. "The Ministry of Energy has developed a draft order which will reduce the number of processed products to a level which will not hinder operation of small refineries any longer," the government says in a letter in reply to the question

from the Ak Zhol faction in the parliament. In April 2016, Kazakhstan adopted the Law on Regulation of Petroleum Products Sales which banned the refineries whose processing capacity is below 800,000 tonnes a year from selling the so-called “processed products” that were later specified by the Ministry of Energy in an order issued in summer 2016, the statement says. This led to shutdown of all small refineries in Kazakhstan, except for the three large ones: Atyrau, Shymkent and Pavlodar.

## Taxation

### *Special Investment Contract*

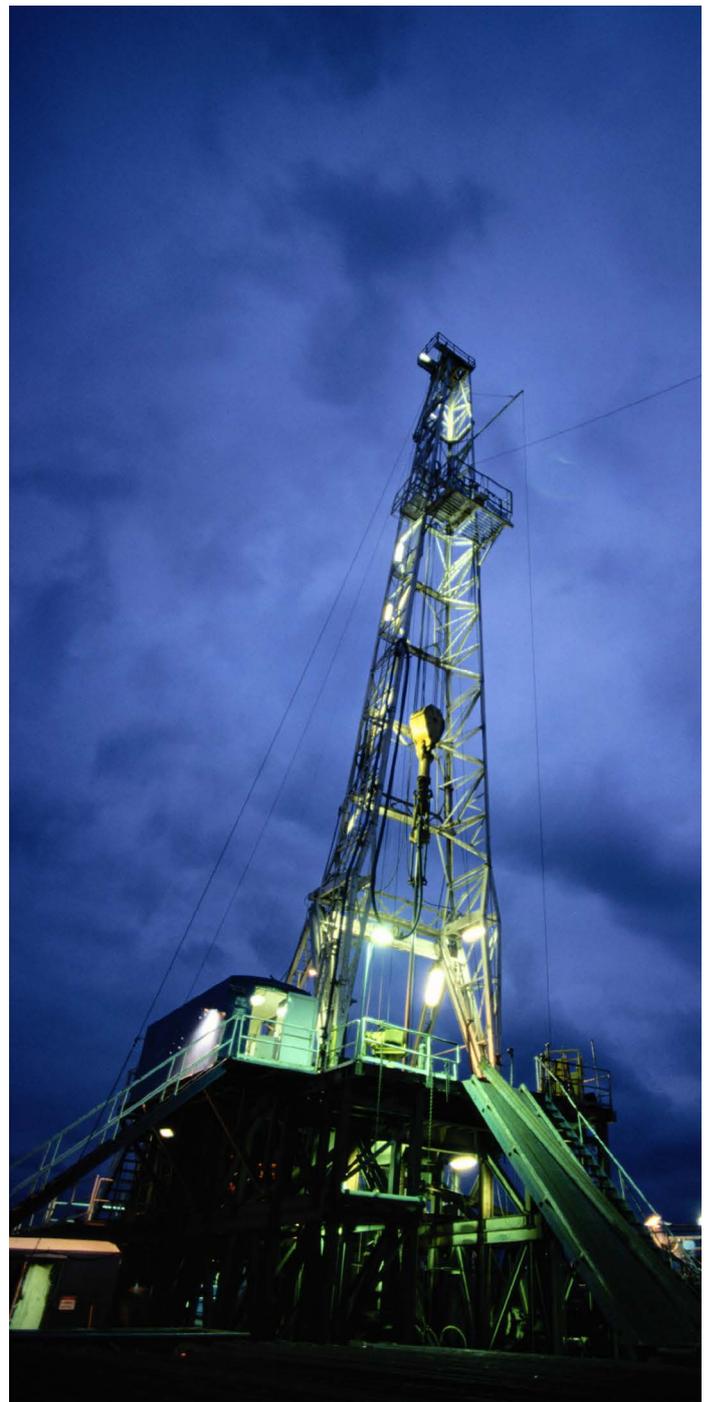
To implement the provisions of Articles 292 and 295-1 of the Business Code related to special investment contracts, the Ministry of Investments and Development of Kazakhstan approved the following documents:

- Rules and requirements for the conclusion and termination of a special investment contract;
- Standard special investment contract template;
- Application form for the provision of investment preferences under a special investment project and rules for the application’s submission and registration.

The contract and application templates entered into effect on 22 February 2017. The rules and requirements for the conclusion and termination of a special investment contract came into force on 23 February 2017.

### *Customs Payments Rates*

Starting from 1 March 2017, customs payment are nominated in tenge (previously in euros). The government applied exchange rates from 402 to 455 tenge per one euro to convert the customs rates from euro to tenge. The corresponding governmental resolution was signed on 13 February 2017.



### Top 10 oil production companies of Kazakhstan, 2016

| No            | Company                           | thousand tonnes |
|---------------|-----------------------------------|-----------------|
| 1             | Tengizchevroil                    | 27,556          |
| 2             | Karachaganak Petroleum Operating  | 11,629          |
| 3             | KazMunayGas EP                    | 8,417           |
| 4             | Mangystaumunaigas                 | 6,290           |
| 5             | CNPC-Aktobemunaygas               | 4,121           |
| 6             | Kazgermunay                       | 2,936           |
| 7             | Karazhanbasmunay                  | 2,127           |
| 8             | Buzachi Operating                 | 1,526           |
| 9             | Petro Kazakhstan Kumkol Resources | 1,468           |
| 10            | North Caspian Operating Company   | 957             |
| <b>Total:</b> |                                   | <b>78,040</b>   |

### Top 10 gas production companies of Kazakhstan, 2016

| No            | Company                           | thousand cubic meters |
|---------------|-----------------------------------|-----------------------|
| 1             | Karachaganak Petroleum Operating  | 17,659                |
| 2             | Tengizchevroil                    | 15,081                |
| 3             | CNPC-Aktobemunaygas               | 5,779                 |
| 4             | Zhaikmunay                        | 1,265                 |
| 5             | KazMunayGas                       | 1,132                 |
| 6             | Mangystaumunaigas                 | 757                   |
| 7             | Kazakhoil-Aktobe                  | 615                   |
| 8             | Kazgermunay                       | 598                   |
| 9             | Petro Kazakhstan Kumkol Resources | 366                   |
| 10            | Amangeldy Gas                     | 327                   |
| <b>Total:</b> |                                   | <b>46,405</b>         |

Source: Petroleum Journal

### Countries With The Largest Proven Oil Reserves (bln barrels)

1 — 20 positions



Source: <http://www.worldatlas.com/articles/the-world-s-largest-oil-reserves-by-country.html>

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