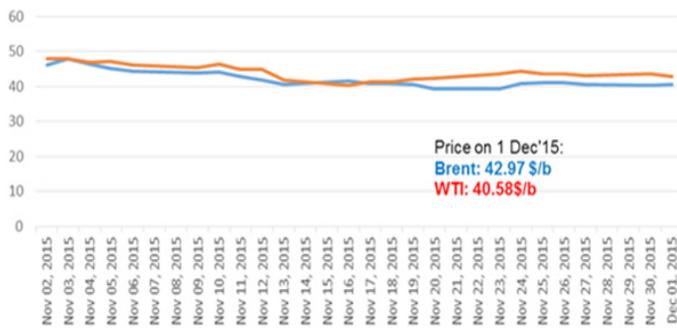




### Executive summary

- Kazakhstan occupies 56th place in the Legatum Institute’s 2015 Prosperity Index, being one position down since the previous year. Kazakhstan is the leader amongst Central Asian republics. It is followed by Uzbekistan (57th), Kyrgyzstan (66th) and Tajikistan (91st). Turkmenistan is not included in the rating.
- Russia, Kazakhstan and Belarus are supposed to create a common market for oil and oil products by 2024, the draft concept for forming common markets for oil and oil products in the Eurasian Economic Union. The countries are supposed to develop and approve programs to form a common market in 2016-2017. The second step, in 2018-2023, will be to develop unified rules for access to oil and oil product transportation systems and carry out other measures of the developed programs.
- Russia, Belarus and Kazakhstan disagreed in their approaches to oil pricing when creating a single market of oil and oil products in the territory of the Eurasian Economic Union (Russia, Belarus and Kazakhstan). The concept implies to preserve the existing oil pricing mechanisms. “Pricing mechanisms in the EAEU common markets of oil and oil products are formed with due consideration of the pricing mechanisms that have been already existing in the markets of the EAEU member states and stages of formation of the EAEU common markets of oil and oil products” - the document says.

### Brent and WTI spot prices (2 Nov - 1 Dec 2015)



— WTI — Brent Source: EIA

### Brent Crude Oil Forecasts

	Year	Brent US\$/b	Number of Forecasts	EIU
Av.	2013	108,6	-	108,9
	2014	99,07	-	98,9
Consensus Forecasts	2015	59,85	26	53,4
	2016	71,0	23	60,0
	2017	78,11	17	72,7
	2018	82,84	16	80,2
	2019	84,12	15	77,2
	2020			79,9

Source: Consensus Economics Oct 2015, EIU

### Kazakhstan market headlines

- Kazakhstan plans to introduce mineral reserves international reporting standards. A memorandum between the Ministry of Investment and Development of Kazakhstan and the Committee for Mineral Reserves International Reporting Standards was signed in London during the second session of the Kazakh-British Intergovernmental Commission on trade, economic, technical and cultural cooperation.
- Oil shipments at the Caspian Pipeline Consortium (CPC) sea terminal in January-October 2015 were 34.708 mln. tonnes of crude oil, which is 6.3% higher than the amounts in 2014, the CPC said. In October the CPC pumped 3.205 mln. tonnes of oil, which is 3.5% higher than the October 2014 indicators and 5.4% lower than the September figures.
- KazTransGas has put into service in the village of Shayan in Baidibek district of South Kazakhstan region an automated gas distribution station and a 32-km pipeline branching off from the Beineu-Bozoi-Shymkent main gas pipeline. The gas distribution project will secure gas supplies to 52 populated areas with a total population of 55,000 people in this district and in addition, the newly commissioned station will cover the neighboring district - Sozak district – with a population of over 50,000 people, according to the statement.
- In January-October 2015, Kazakhstan extracted 55.13 mln. tonnes of crude oil and 10.637 mln. tonnes of gas condensate, or down 1.5% and 0.1%, respectively, compared to the same period last year. In the reporting period, Kazakhstan produced 17.752 bln. cubic metres of natural gas in a gaseous form or an increase of 1.4% year-on-year.

- In January–October 2015, Kazakhstan produced 2.325 mln. tonnes of gasoline, including aviation fuel, or a drop of 8.2% compared to the same period last year, the Statistics Committee of the Ministry of National Economy said. In the reporting period, diesel production decreased 10.1% to 3.792 mln. tonnes, and production of heating oil went down 3.5% to 3.089 mln. tonnes.
- Standard & Poor's Ratings Services said today that it had affirmed its long-term corporate credit rating on Kazakhstan-government-controlled vertically integrated oil company NC KazMunayGas JSC and its core subsidiary KazMunaiGas Exploration Production JSC at 'BB+'. The outlook remains negative. S&P also affirms its 'kzAA-' Kazakhstan national scale rating on KMG.
- Production of oil in Kazakhstan will decrease by 1.5 mln tonnes in 2015 against the forecast, Minister of National Economy Yerbolat Dossayev reported on Wednesday, 18 November. Decrease by 1.5 mln. tonnes of the planned oil output, amounting to about 0.22 % will negatively affect the GDP growth this year. Due to considerable drop in prices of main export goods of Kazakhstan, Kazakhstan export and import for 9 months reduced by 42.5%, and 23.8%, respectively.
- The developer of a feasibility study for the fourth oil refinery in Kazakhstan has been determined. Magzum Mirzagaliyev, Vice-Minister of Energy, informed that a feasibility study for the fourth oil refinery in Kazakhstan would be developed by Nexant international company.
- Tengizchevroil (TCO) has cleared its sulphur inventory two years ahead of plan. The Tengiz field is a high temperature, high pressure, and high hydrogen sulphide (H<sub>2</sub>S) field. Crude oil and associated gas produced by TCO contains approximately 13% of H<sub>2</sub>S. Peak storage volume was reached in 2006 when over 9 million metric tonnes were in storage on open-air pads. Completing this target two years in advance was the result of TCO and responsible government entities working together to develop and successfully execute marketing and sales strategy.
- On 23 October KazMunayGas Exploration Production JSC (KMG EP) announced its operating results for the first 9 months of 2015. During this period, KMG EP, taking into account its shares in JV Kazgermunai LLP, CCEL (Karazhanbasmunai) and PetroKazakhstan Inc. (PKI), has produced 9,245K tonnes of oil (251K barrels per day), which is by 0.3% more than the oil volume produced during the same period of 2014.
- Kazakhstan has started production of modified bitumen - a component of asphalt concrete, which makes a road payment resistant to dynamic and thermal stress, renders elasticity, and prevents deformation during road traffic. The Aktau bitumen plant of JV Caspi Bitum LLP has started up production of modified bitumen with a capacity of 120K tonnes per annum and produced the first pilot batch of products.
- KazTransGas has put into service the second phase of the Beineu-Bozoi-Shymkent main pipeline, the company press office has said in a statement. The pipeline passes through Mangystau, Aktobe, Kyzylorda, South Kazakhstan regions, its overall length is 1,477 km with throughput of up to 10 bln cubic metres of gas per annum. The commissioning of the

pipeline will allow Kazakhstan to hook up all the following main pipelines that pass through its territory forming the united gas transportation grid: Soyuz, Central Asia – Centre, Bukhara –Ural, Bukhara Gas Bearing Area – Tashkent – Bishkek – Almaty, Gazli – Shymkent, Kazakhstan – China.

- Tengizchevroil (TCO) has completely suspended oil export via Aktau seaport. Decline in oil deliveries started as early as in January 2013, once the uniform rates for railway transportation of "black gold" throughout the EAEU member states were introduced. Because of the heavy expenditures on oil delivery to Aktau seaport, TCO has sharply reduced the transportation volume and redirected its products to other routes. And from the beginning of the current year not only Tengiz grade but also Kumkol grade stopped to be shipped from Aktau seaport. Moreover, CNPC-Aktobemunaigas does not use the seaport services any longer. After exit of the major shippers, the private service companies of Mangystau region, including Kazmortransflot and Aktau seaport, have faced significant problems.
- A governmental resolution increased excise tax rate for gasoline (except for aviation gasoline) as follows:
  - Wholesale of gasoline by producers – KZT 10.5K per tonne (previously – KZT 4.5K);
  - Retail realisation of gasoline by producers - KZT 11K per tonne (previously – KZT 5K);
  - Transfer of gasoline processed from raw materials provided by customers - KZT 10.5K per tonne (previously – KZT 4.5K).

The new rates came into effect on 25 November 2015.

## Finance arrangements and deals

- KazMunaiGas – refinery and marketing and Air Liquide SA agreed to establish a joint venture for production of industrial gases. The agreement provides for the outsourcing of existing hydrogen, nitrogen and other industrial gases plants from Atyrau, Pavlodar and Shymkent refineries to Air Liquide and construction of new facilities for production of industrial gases.
- The KazMunaiGas (KMG) stakes in three major refinery plants and petrol station chain with the same KMG name as well as its stakes in foreign assets will be partially privatised, Omirzak Shukeyev, the Chairman of the Board of Samruk-Kazyna JSC reported on Wednesday, 18 November. KMG made a decision to leave 75 companies of 206. The entire refinery and marketing business line inclusive of all oil refineries and petrol station chains will be privatised through selling 51% stake of KMG – refinery and marketing, and at least 51% stake of KMG International inclusive of RomPetrol, is proposed to be offered for sale.
- KazTransGas JSC and UK company Independent Power Corporation PLC have signed a memo of understanding aimed at building gas turbine power plants along the main pipeline Saryarka. The memorandum was signed at a meeting of the Kazakh British Intergovernmental Commission for Trade, Economic, Scientific, Technical and Cultural Cooperation which was held as part of Kazakh President Nursultan Nazarbayev's official visit to the UK, according to the statement issued on Wednesday.

- Karachaganak Petroleum Operating (KPO) has announced its half-year performance results. Over this period, KPO has produced 70.8 mln. barrels of oil equivalent in the form of stable and unstable liquids, sour gas for export, and sweet gas for use as fuel. 4.34 bln. cubic metres of sour dry gas were re-injected to maintain reservoir pressure, a volume equivalent to approximately 47.5 percent of the total gas produced. Over the first half of 2015, KPO has achieved a world-class gas utilisation rate of 99.9 percent.
- It is unreasonable for KazMunayGas to have two pipeline companies in its structure, Samruk-Kazyna CEO Omirzak Shukeyev said at a Wednesday, 18 November meeting of the Cabinet in Astana. KazTransGas, which is carrying out a transformation program, created a centralised service company and a centralised operator of gas pipelines, Shukeyev said. As a result, the current expenses were cut down by KZT 7.3 bln and capital expenditures by KZT 9.4 bln. The transformation will also affect the issued shares of KazTransOil.
- The modernisation projects at the Pavlodar and Shymkent refineries may fall behind schedule over financial issues, Minister of Energy Vladimir Shkolnik said. The modernisation projects are slated to be completed at the Pavlodar and Shymkent refineries in 2017 and at the Atyrau refinery in 2016. According to KazMunayGas – refinery and marketing JSC, the cost of modernisation projects is US\$ 3.1 bln for the Atyrau refinery, US\$1.8 bln for the Shymkent refinery and US\$0.7 bln for the Pavlodar refinery or a total of US\$5.65 bln.

attributes it to the global oil demand growth, which is not expected to exceed 1 mln bpd in the years to come. During the period till the end of 2020, world oil consumption will have increased by 900K bpd, and by 2040, demand for oil will have reached 103.5 mln bpd compared to 94.5 mln bpd in 2015.

- The Organisation of Petroleum-Exporting Countries (OPEC) left the oil demand forecast for 2015 and 2016 unchanged at 92.86 mln bpd. The forecast for 2016 was confirmed at 94.14 mln bpd, which implies growth against current year by 1.25 mln bpd. During 2015, oil deliveries by the non-OPEC countries are expected at 57.24 mln bpd (plus 720K bpd against 2014). In 2016, it will grow to reach 57.11 mln. bpd. OPEC production in October dropped off by 256K bpd to reach 31.38 mln bpd.
- Global crude oil stocks grew highest ever, to reach up to 3 bln barrels, despite the price collapse brought demand growth rate to the maximum of the 5 years, stated in the report by the International Energy Agency (IEA). According to the IEA estimates, significant oil stocks will keep oil prices down in the foreseeable future.
- Saudi Arabia has regained the title of the world largest oil-producing country for the first time since 2003, gaining the lead in production of “black gold” following the results of the first nine months of the current year. Saudi Arabia’s average daily production during the nine months have been 10.19 mln bpd. Russia that fell to the second place worldwide in production of hydrocarbons, has been producing daily, in average, 10.12 mln bpd during the same period.

## International market

- According to the forecasts of the analysts from US JP Morgan bank, OPEC oil production will increase from 32 mln barrels per day (bpd) in Q4 2015 to its seasonal peak of 32.6 mln bpd in Q3 2016. The analysts expect that in 2016 OPEC will produce, in average, 32.2 mln bpd. Analysts believe that further growth of oil production in OPEC will be mainly due to additional volumes of Iranian oil, which, according to their expectations, will be produced at the level of 300K bpd, and also due to increase in oil production in Iraq and Saudi Arabia. Moreover, the analysis believe that the UAE also has a potential to increase oil production.
- Turkmenistan President Gurbanguly Berdimukhamedov signed a decree ordering to start construction of Turkmenistan-Afghanistan-Pakistan-India (TAPI) section of gas pipeline, which will run across the territory of Turkmenistan. State Entities Turkmengaz and Turkmennebitgazgurlushyk have been assigned to proceed to designing and construction of that section of TAPI gas pipeline, which runs across the territory of Turkmenistan and will have pipeline capacity of 33 bln cubic metres per annum, as well as its ground support infrastructure. According to the decree, the construction works should start in December 2015 and all fully operational facilities will be commissioned by December 2018.
- According to the International Energy Agency (IEA) forecast, it is unlikely that oil price will reach US\$80 p/b earlier than by the end of the decade, while by 2040 it will have grown only up to US\$85 p/b, in spite of the unprecedented industry-wide investment reduction. In the annual World Energy Outlook published on Tuesday, 10 November, the IEA

## Subsoil Taxes in Kazakhstan

Applicable taxes	Rate
Signature bonus	Variable
Commercial discovery bonus	0.1% of the value of proven extractable reserves
Reimbursement of historical costs	Variable
Excess profits tax	0% to 60%
Mineral Extraction Tax	5% to 18%
Rental tax on exports	0% to 32%
Crude oil export duty	\$60 per tonne
Other taxes and payments	Variable

# Legal part

## Taxation

Starting from 1 January 2016, a Kazakh entity's realisation of own-produced goods to a subsoil user operating under a Product Sharing Agreement (PSA) is subject to VAT at zero percent, if under the PSA import of these goods is exempt from VAT. Similar Tax Code provisions were applicable to a realisation of Kazakhstan-made goods to subsoil users working under subsoil use contracts.

## Legislation

The President signed a law introducing amendments to certain legislative acts of Kazakhstan to bring the national legislation in line with the WTO requirements. The amendments change local content requirements with respect to goods, works and services acquired by subsoil users:

- Local content obligations for procurement of goods established in subsoil use contracts signed before 1 January 2015 will be effective until 1 January 2021 or the contract expiration date, whichever comes earlier. Newly signed subsoil use contracts will not contain local content requirements for goods purchases.
- Local content in works and services should be not less than 50 percent. The law continues to grant a conventional 20-percent discount to Kazakh entities providing works and services to subsoil users.

In September 2013, the government started to work on the new Code on the Subsoil and the Use of the Subsoil. At present, the government approved a concept of the document. It is expected that the new Code on the Subsoil and the Use of the Subsoil will be signed in December 2016.

Government officials report that the law will:

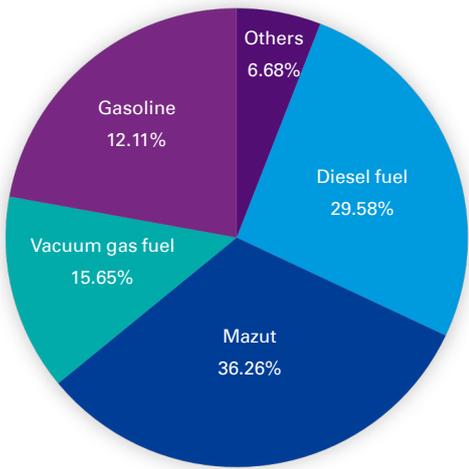
- eliminate the state's priority right to acquire alienated subsoil use rights or related assets;
- introduce the international reporting system with respect to reserves;
- simplify a contracting procedure;
- provide more guarantees to investors;
- introduce an Australian method of regulations of subsoil use relationships;
- provide subsoil users a full access to the state geological information.

The government anticipates that the new law will take out from the shadow the crew mining, increase the investment attractiveness of the industry and attract new technologies in exploration work.

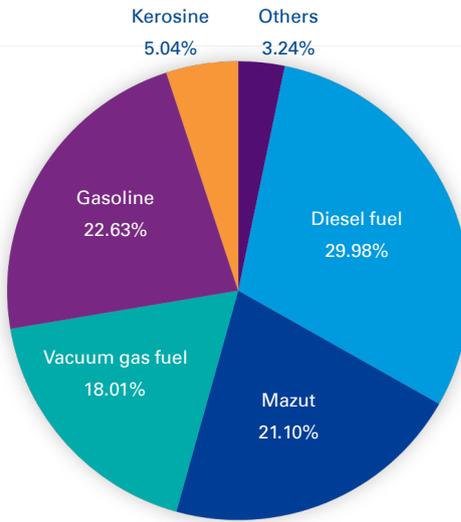
## Major oil refineries in Kazakhstan

	Shymkent Refinery	Atyrau Refinery	Pavlodar Refinery
Start date	1985	1945	1978
Modernisation dates	2017	2014	2016
Units under modernisation	Reconstruction of a vacuum fuel oil distillation plant; reconstruction electric lighting on the oil loading and unloading trestle	Construction of the complex for production of aromatic hydrocarbons; construction of the oil deep refining complex	Enhancement of process control automation; application of up-to-date facilities of equipment and pipeline diagnostics; sustainable use of natural resources and efficiency analysis of nature conservation measures.
Processing depth	75%	65%	up to 85%
Designed capacity (tonnes)	5.25 mln	5 mln	6 mln
Planned capacity for 2016 (tonnes)	6 mln	5.5 mln	5.755 mln
Planned capacity for 2017 (tonnes)	6 mln	5.5 mln	7mln

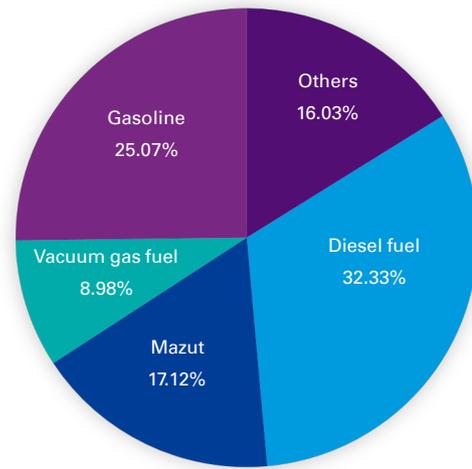
### Atyrau refinery oil products



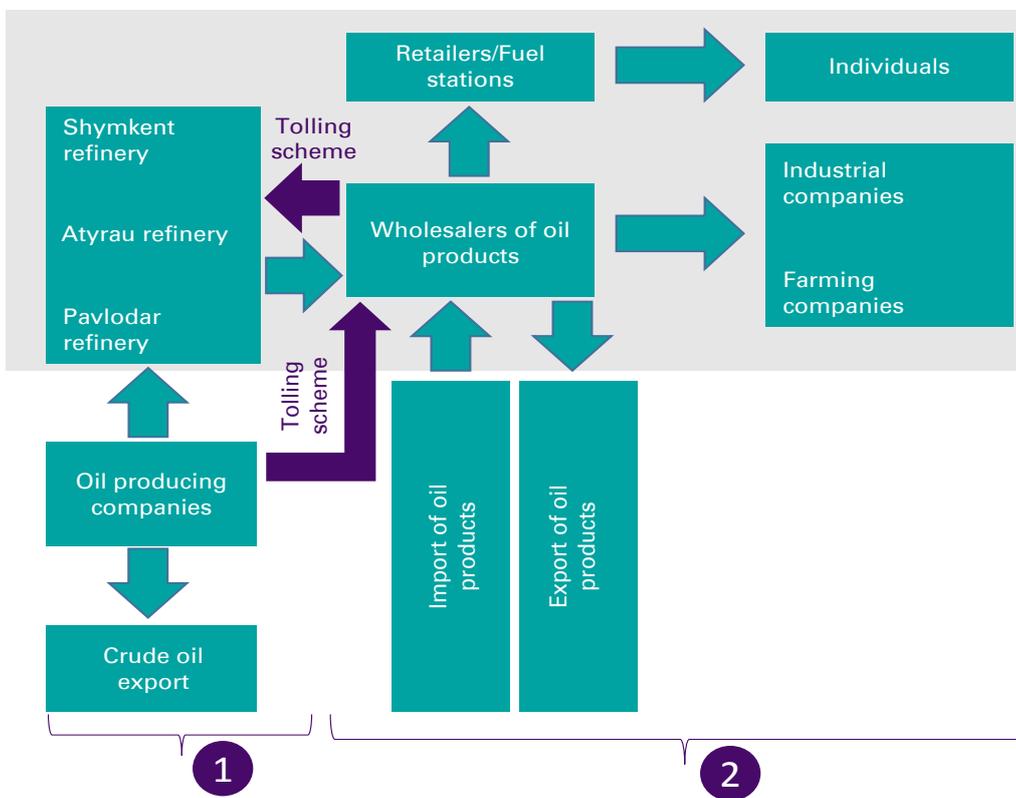
### Shymkent refinery oil products



### Pavlodar refinery oil products



### How the downstream business operates in Kazakhstan



**Note:** — the stages for oil production, processing and sale to ultimate users

**Sources:** [http://rfcaratings.kz/uploads/kratkiy\\_odzor\\_neftedobyvaiushei\\_otraski\\_rk\\_092010.pdf](http://rfcaratings.kz/uploads/kratkiy_odzor_neftedobyvaiushei_otraski_rk_092010.pdf); KPMG analysis



## Consumption\*

	Country	2014, mln tonnes
1	US	836.1
2	China	520.3
3	Japan	196.8
4	India	180.7
5	Russian Federation	148.1
6	Brazil	142.5
7	Saudi Arabia	142.0
8	Germany	111.5
9	South Korea	108.0
10	Canada	103.0
	Kazakhstan	13.0
	<b>Total World</b>	<b>4211.1</b>

\*Inland demand plus international aviation and marine bunkers and refinery fuel and loss. Consumption of biogasoline (such as ethanol), biodiesel and derivatives of coal and natural gas are also included.

## Refinery capacities

	Country	2014, thousand barrels daily
1	US	17,791
2	China	14,098
3	Russian Federation	6,338
4	India	4,319
5	Japan	3,749
6	South Korea	2,887
7	Saudi Arabia	2,822
8	Brazil	2,235
9	Germany	2,060
10	Italy	1,984
	<b>Total World</b>	<b>96,514</b>

## Regional consumption by product group (Light distillates, middle distillates, fuel oil, others)

	Region	2014, thousand barrels daily
1	US	19,035
2	Europe	13,809
3	China	11,056
4	Middle East	8,706
5	Japan	4,298
6	Former Soviet Union	4,443
	<b>Total World</b>	<b>92,086</b>

## Refinery throughputs

	Region	2014, thousand barrels daily
1	Europe & Eurasia	18,858
2	US	15,844
3	China	9,986
4	Other Asia Pacific	7,253
5	Middle East	6,656
6	South & Central America	4,721
7	India	4,473
8	Japan	3,289
9	Africa	2,255
10	Canada	1,735
	<b>Total World</b>	<b>76,833</b>

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