

Oil & Gas

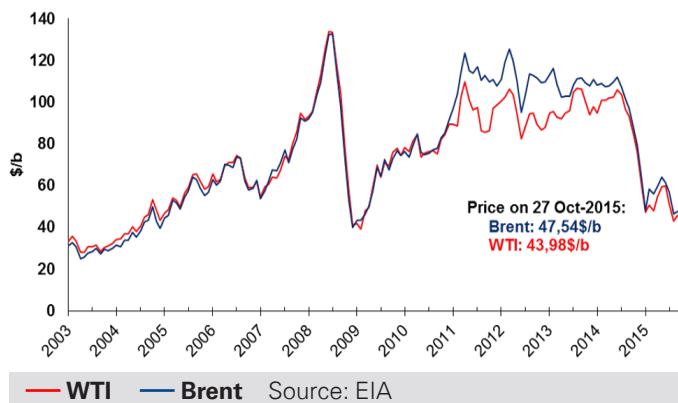
NewsFlash

November 2015

Executive summary

- Kazakhstan climbed up in World Bank and International Financial Corporation's Doing Business Index 12 notches this year to 41st place from 53rd place last year.
- Rating Agency Standard & Poors (S&P) has stopped taking into consideration oil production estimates under the Kashagan oilfield project when issuing outlooks on Kazakhstan's GDP growth. In recent years the Kashagan prospects propped up Kazakhstan's economic growth prospects but now the project implementation is beyond S&P's rating horizon at least in the next 1-2 years.

Brent and WTI spot prices (Jan 2003 - Oct 2015)



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

Oil prices vs. Tenge

- The government and the National Bank of Kazakhstan made a decision - starting from 20 August 2015, to start implementing a new monetary policy in the country, which is based on inflation targeting regime. This implies the abolition of the exchange rate band and the transition to a free floating exchange rate. Here is a decrease in the world prices for basic export products of the Republic - metals and oil, which has a negative impact on GDP growth.

Kazakhstan market headlines

- The government of Kazakhstan made a decision to discontinue regulation of prices for RON-92/93 gasoline. The Kazakh government only regulates retail sales of petroleum products by setting ceiling prices. After Kazakhstan introduced a market-determined exchange rate on 20 August 2015, it has become unprofitable to import petroleum products from Russia
- The government budget will allocate 3.26 billion tenge in 2015 to finance oil and gas exploration projects in new areas where no exploration has been done so far and where it is a big problem to find investors. There were 203 subsoil use contracts in the oil and gas sector registered with the Ministry of Energy. This includes 59 exploration contracts, 64 production contracts, 68 exploration and production contracts and 12 production sharing agreements.
- The Kazakh law will be amended to limit the number of agents acting as marketing intermediaries for crude oil supplies to the domestic refineries.
- The Kazakh government plans to reduce the mineral extraction tax for 39 low-profit oil and gas companies. The extraction tax will be reduced for those 39 until 1 October. This will reduce the overall tax burden on these companies by 8% in monetary terms, or 146 billion tenge". At the moment, the company Karazhanbasmunai JSC obtained the subsoil tax advantages. Tandai Petroleum LLC was granted an approval at the intergovernmental commission and is awaiting for the order to be signed. Applications from SNPC-Aktobemunaigas JSC, TurgaiPetroleum JSC and UzenMunaiGas are under the consideration now.

- The government of Kazakhstan expects oil output to decrease to 77 million tonnes in 2016. The revenue to the National Fund from the oil companies will amount to 1.633 trillion tenge in 2016, with the oil output coming to 77 million tonnes. The forecast is based on the assumption that the global oil price will be at \$40 per barrel and the exchange rate will be 250 tenge per one USD.
- Eurasia Project will allow Kazakhstan to annually produce 100 million tonnes in the long term. In September 2015, the Russian and Kazakh presidents launched a joint project called Eurasia to drill a 15-kilometer-deep well in the Caspian Depression. The goal of the project is to discover hydrocarbon reservoirs at a depth of approximately 7-9 kilometers in the Caspian Depression area. Eurasia is a six-year project that will be launched in 2016. Such companies as Lukoil, Rosneft, Shell and Chevron have already demonstrated interest in the project.
- Before the year-end, a progressive scale of oil export customs duties (ECD) will be introduced. The proposed scale sets the ECD at 40 dollars per a ton if oil price stands at \$40 per barrel. In March this year, Kazakhstan has reduced ECD for crude oil from \$80 to \$60 per ton.



Finance arrangements and deals

- JSC National Company KazMunayGas (NC KMG) intends to sell a 50% stake in KMG Kashagan B.V. to State Fund Samruk-Kazyna for \$4.7 billion. NC KMG said the purchase of the stake in KMG Kashagan by State Fund Samruk-Kazyna would allow NC KMG to exclude nearly \$2.2 billion in debts from consolidated financial statements related to the North Caspian Project and accordingly the national company's net consolidated debt by the same amount.
- Lukoil and Chinese Sinopec have signed an agreement concerning sale of the Russian oil major's 50% stake in Caspian Investment Resources Ltd in Kazakhstan. Lukoil said that under a substitute transaction the sale price of the asset is \$1.067 billion, down from \$1.2 billion contained in the agreement the two companies concluded on 15 April 2014, according to Lukoil's first quarter US GAAP financials. Closing of the deal, which must receive consent from state bodies, is expected before 1 December 2015.
- A contract of sale of a 100 % shares of the Kazakh Oil and Gas Institute to the subsidiary of the National Company KazMunayGas JSC has been signed. The asset value according to the on-line bidding results amounted to about 7.5 billion tenge.
- Eni SpA oil and gas company sells a part of its stake in Saipem SpA oilfield service company to Fondo Strategico Italiano (FSI), an Italian state investment fund, reported Eni in its press release. Eni, which owns 43% stake in Saipem, divests 12.5% of shares in the company worth EUR 440.9 million.
- At the moment, Kazakhstan is not considering the possibility of acquiring the BG Group plc' stake in Karachaganak Project, thereby increasing its holding in the Project. In yearly April, the oil and gas major, Royal Dutch Shell, reported to have reached an agreement on acquiring its smaller "fellow", BG Group, for \$70 billion. It is expected the deal will be completed early in 2016. Later, BG Group stated in its report for 2014, that if merging with Royal Dutch Shell, it may lose its 29.5 % stake in Karachaganak Project, as following change in control of BG Group, Kazakhstan may exercise its preemptive right to buy out the company's share in the Project.
- JSC KazTransOil approved tariffs on oil transportation through pipelines. The tariff on oil transportation for export is set at 5,817 tenge per 1,000 tonne-km exclusive of VAT starting from 1 July 2015. The tariff on oil transportation through the Tuimazy-Omsk-Novosibirsk-2 is at 1,727 tenge per 1,000 tonne-km exclusive of VAT starting from 26 June 2015.
- JSC KazTransOil pumped 36.073 million tonnes of oil through its pipelines in January-September 2015 or a decrease of 3% year over year. Consolidated oil transportation in the reporting period totaled 46.218 billion tonnes/km or a decrease of 3% year-on-year.

Kazakhstan - Key Facts

	2016 (forecast)	2015 (Actual) Jan-Sept 2015	2015 (forecast)	2014	2013	Change, %
Oil production, mln tons	-	49,9	67,5	67,9	69,5	-2,3%
Gas condensate, mln tons	-	9,5	12,0	12,9	12,3	4,9%
Total production, mln tons	77,0	59,5	79,5	80,8	81,8	-1,2%
Export of oil, mln tons	-	-	60,0	68,2	70,7	-3,5%
Domestic use of oil, mln tons	-	-	14,3	14,9	14,3	4,2%
Gas production, bln cub m	-	33,9	42,2	42,9	42,4	1,2%

Sources: Statistics Committee of Kazakhstan, www.primeminister.kz, www.thkmg.kz

Transportation, oil	2016	2015	2014
Kaztransoil, mln tons	-	36,7 (9 months)	46,1
CPC-K, mln tons	~40	38 (forecast)	35,2
Kazakh China Pipeline, mln tons	~20	4,8 (1 quarter 2015)	17,9
Asia Gas Pipeline, bln cub m	~55	~40	

Source: www.kazinform.kz, www.kcp.kz, www.agp.com.kz

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 ton
Other taxes and payments	Variable

Excess profits tax

Excess profits tax is payable annually on the net profits earned under each subsoil use contract, if in any reporting year the ratio of a subsoil user's gross annual income to tax deductions is more than 1,25.

Mineral Extraction tax

The tax base is the market value of crude oil extracted in a reporting period. The rate of mineral extraction tax on oil depends on the annual volume of extracted oil. Mineral extraction tax applies at half the applicable rate on crude oil to be sold in domestic market and crude oil used for a subsoil user's own needs. Preferential reduced tax rates (0,25% to 9%) could apply for oil fields regarded as low-margin, high-viscosity, flooded, marginal or worked-out. The application of the reduced tax rates is subject to a governmental approval.

Rental tax on exports of crude oil and gas condensate

The tax rate is based on the market price per barrel of exported oil and applies at the progressive rates ranging from 0 to 32 percent. The tax rate is 0% if the market price for crude oil is less than \$40 per barrel.

Crude oil export duty

The state authorities consider introducing progressive export duty rates that will depend on the market prices for crude oil. In the proposed scale, export duty of \$40 per ton corresponds to the crude oil price of \$40 per barrel.

Top 10 Kazakhstan Oil and Gas Companies, two quarters of 2015

№	Name of company	mln tons
1	Tengizchevroil	14,1
2	Karachaganak Petroleum Operating	5,9
3	EP KazMunayGas	4,1
4	Mangystaumunaigas	3,1
5	CNPC-Aktobemunaygas	2,3
6	JV Kazgermunay	1,5
7	Karazhanbasmunay	1,1
8	Petro Kazakhstan Kumkol Resources	0,9
9	Buzachi Operating	0,9
10	South-Oil	0,5

Source: www.petroroleumjournal.kz

Top 10 Global Oil and Gas Companies, 2014

№	Name of company	bpd, mln
1	Saudi Aramco	12.7
2	Gazprom	8.1
3	NIOC (National Iranian Oil Company)	6.1
4	Exxon Mobil	5.3
5	Rosneft	4.6
6	Royal Dutch Shell	4
7	Petrochina	3.9
8	Pemex	3.6
9	Chevron	3.5
10	KPC (Kuwait Petroleum Corporation)	3.4

Source: www.australianmining.com.au

Top 10 Oil and Gas Countries, 2015

№	Name of company	bpd, mln
1	Russia	10,6
2	Saudi Arabia	9,7
3	United States (US)	9,0
4	China	4,4
5	Canada	3,9
6	Iraq	3,8
7	Iran	3,5
8	United Arab Emirates (UAE)	3,1
9	Venezuela	3,0
10	Mexico	2,9

Source: www.toptenscentral.com

Top 10 Oil Reserves Countries, 2015

№	Name of company	bln barrel
1	Venezuela	297,74
2	Saudi Arabia	268,35
3	Canada	173,2
4	Iran	157,3
5	Iraq	140,2
6	Kuwait	104,0
7	UAE	97,8
8	Russia	80,0
9	Libya	48,0
10	Nigeria	37,2

Source: www.bp.com

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