



Koninkrijk der Nederlanden

Special Energy Issue on Kazakhstan

| April 2016

CONTENTS

GENERAL	1
OIL & GAS PRODUCTION	5
OIL & GAS EXPORT & TRANSPORTATION	6
PROCESSING & REFINERY	6
CONTACTS	8
INDUSTRY EVENTS IN 2016	8

The Economic Section of the Embassy of the Kingdom of the Netherlands in Kazakhstan intends to distribute this newsletter as widely as possible among Dutch institutions, companies and persons from the Netherlands. The newsletter summarises economic news from various Kazakhstani and foreign publications and aims to provide accurate information. However, the Embassy cannot be held responsible for any mistakes or omissions in the bulletin.

GENERAL

Kazakhstan wants to become one of top 10 oil producers

Kazakhstan, which has 30 billion barrels of proven crude oil reserves (as of January 2014, according to Oil & Gas Journal), expects to become one of the top 10 oil exporters by 2020 — producing 130 million tons of oil per year.

Askar Kenzhekhanov, deputy director general at the Information Oil and Gas Center under the Kazakh Energy Ministry made the announcement during the SOCAR conference titled — The Caspian Basin and Central Asia: Trade, Logistics, Oil Processing and Oil and Chemistry in Baku on April 26.

He said Kazakhstan plans to produce 77 million tons of oil in 2016, while adding that a slowdown in oil production occurred in the country during 2015 amid falling oil prices.

“In 2015, around 79.4 million tons of oil was produced in Kazakhstan, which is 0.5% more than the forecasted amount,” he noted. “Gas production totaled 45.3 billion cubic meters, which is 7% more than the forecasted figures, as well as 5% higher than in 2014. The forecast for production in 2016 is 77 million tons of oil.”

Kenzhekhanov added further that Kazakhstan is working to differentiate oil supply chains and expects a production growth after operations are resumed at the Kashagan field.

“This will contribute to a growth in exports,” he stressed.

Kazakhstan, as the second largest endowment in Eurasia after Russia, and the twelfth largest in the world, just behind the U.S., exported 60.9 million tons of oil in 2015, which accounts for 76.7% of the total production given the planned export volume of 65 million tons.

The largest volume of oil - 38 million tons was exported via the Caspian Pipeline Consortium, 12.4 million tons of oil - via the Atyrau-Samara pipeline, and 4.8 million tons in the Chinese direction.

Export by sea totaled 3.1 million tons, while 0.8 million tons of oil was exported by rail. A significant reduction in export by rail is due to the rising cost of oil transportation.

In 2016, Kazakhstan plans to sell 74 million tons of oil versus 80 million tons sold in 2015.

Earlier, the then Energy Minister, Vladimir Shkolnik said that the Kazakh government plans to compensate for the projected decline in oil production in 2016 by relaunching the Kashagan field.

The government was also instructed by President Nursultan Nazarbayev to implement all promising projects in the energy sector, including the launch of the Kashagan field, the project to expand the Tengiz field, and the second phase of the expansion of the Karachaganak project.

Tengiz, Karachaganak and Kashagan are Kazakhstan's largest oil fields.

Karachaganak field is one of the world's largest fields. Its oil and condensate reserves stand at 1.2 billion tons, and gas reserves exceed 1.35 trillion cubic meters. As of today, almost 45% of gas and 16% of all liquid hydrocarbons produced in Kazakhstan are being extracted from this field.

The Tengiz field in the west of Kazakhstan is one of the deepest and largest oil fields in the world. Total estimated reserves amount to three billion tons (26 billion barrels).

Another large Kazakh oil and gas field is Kashagan, which is located in the north of the Caspian Sea. Oil production at Kashagan started in September 2013, but its operation was suspended after a gas leak appeared from the ground pipeline stretching from the Island D to the Bolashak plant, according to Azernews.

Kazakh gas prices rise

Prices for natural gas in Kazakhstan transported via gas distribution networks rose by 16.7% on average - to 15.35 tenge (333.81 tenge = 1 dollar) per cubic meter since March 2015 to March 2016, according to a review of the country's Energyprom.kz analytical service.

Prices for liquefied gas in the country transported via gas distribution networks, for the year, on the contrary, fell by 1.6% - to 133.35 tenge per cubic meter, according to the review.

Prices for liquefied gas in cylinders also dropped by 6.4 percent to 2,109 tenge per 50-liter cylinder, the service said.

The volume of gas production and distribution in Kazakhstan jumped from 25.3 billion tenge to 51.7 billion tenge in the first quarter of 2016.

This continues the trend for the industry to reinforce its growth.

In 2015, production output in value terms grew by 46.8% by 2014. Indicators for the 2014 exceeded those of 2013 by 33.7%, Trend.az reports.

Kazakhstan resumes Kashagan, files claims for Karachaganak

Kazakhstan, a major oil producer in the Central Asia is keen to resume oil production in the Kashagan oil field in fall of 2016, stated the Caspian Pipeline Consortium (CTC), a pipeline system that was planned to transport Caspian oil from this field to Novorossiysk, Black Sea.

The Kashagan field is located in the northern part of the Kazakh sector of the Caspian Sea.

Oil production in this field was launched in September of 2013. Prior to this, the beginning of the field development work was postponed several times since 2005.

The production was stopped due to the detection of gas leaks in one of the main pipelines in October 2013. The analysis conducted for several months revealed the presence of numerous micro cracks in the pipeline which was emerged as a result of exposure of the metal to the associated gas with high sulfur content.

Following the restart of the oil field, the commercial production can reach 75,000 barrels of oil per day in 1.5 months, Kazakh Deputy Energy Minister Uzakbai Karabalin said earlier. However, many analysts believe that oil production in the Kashagan field will be unprofitable due to low crude prices in the market.

Kazakhstan also has filed a \$1.6 billion claim against a group led by BG Group Plc and Eni SpA which is developing the Karachaganak gas condensate field, Russian company LUKoil said in its IFRS report for 2015, which is one of the shareholders of this deposit.

The dispute is related to the formula for cost recovery and calculation index in the final production sharing agreement (PSA) on the Karachaganak field.

Currently, negotiations are being held on the peaceful settlement of the dispute, the report says.

The Karachaganak field is located in western Kazakhstan and holds 1.2 billion tons of oil reserves and over 1.35 trillion cubic meters of gas.

It is one of the world's largest oil and gas fields.

Almost 45% of gas and 16% of all liquid hydrocarbons produced in Kazakhstan come from Karachaganak.

Karachaganak Petroleum Operating (KPO) under BG Group which is part of Royal Dutch Shell (29.25%), Eni (29.25%), Chevron (18%), LUKoil (13.5%) and KazMunayGas (10%) have been engaged in the development of this fields, Azernews reports.

Kazakhstan plans to replace pipes at Kashagan field

The replacement of pipes at the Kashagan oil field is taking place as scheduled, as message from the Energy Ministry says.

"The package of measures to replace the pipelines between the islands, the Bolashak ground complex and the marine complex are being taken on schedule," a message released after the visit on part of Energy Minister Kanat Bozumbayev to the field said.

Officials from the Kazakh Energy Ministry, project operator – the North Caspian Operating Company (NCOC) and the local authorities visited islands 'D' and 'A' and EPC2, EPC3, EPC4 satellite islands.

NCOC said it plans to resume production at Kashagan in late 2016, according to the ministry. Kashagan is located in the northern section of the Caspian Sea.

The field's geological reserves are estimated at 4.8 billion tons of oil. Total oil reserves are 38 billion barrels; around 10 billion of these are recoverable reserves. There are large natural gas reserves at the Kashagan field - over one trillion cubic meters.

Production at Kashagan started in September 2013, but it was suspended in October after a gas leak was found in one of the main pipelines, according to Azernews.

Kazakhstan expects decision on Eurasia Caspian exploration project this summer

Kazakhstan expects to receive a response from the partners in the potential Eurasia on the survey and exploration of the hydrocarbon reserves in the Caspian Depression by late May, Kazakh Energy Minister Kanat Bozumbayev told RIA Novosti.

Bozumbayev noted the Kazakh government had approved a list of discounts and preferences as its starting negotiating position with the potential Eurasia partners in October 2015.

"We are well aware that a decision to participate in such a complex project requires a certain amount of time, so addressing the potential participants in the consortium, I want to say that we look forward to your decision before the end of spring, which is before the end of May," he said at a roundtable.

The energy minister noted the state-owned KazMunayGas company, was in preliminary talks with potential participants on a range of issues together with the government geology and subsoil use committee.

"We are open for discussion and proposals from the potential Eurasia project participants. We are in an active dialogue with our Russian partners, the Ministry of Natural Resources and Environment. As recently as yesterday, I spoke on this subject with the leadership of the ministry, Minister (Sergei) Donskoi," Bozumbayev said.

The Eurasia project will explore over 3 miles of land and sea of the Caspian Depression in Kazakh and Russian territory to study the region's deep geological structure and hopefully locate vast hydrocarbon reserves.

The project also aims to develop innovative drilling technology for the exploration of ultra-deep wells at a depth of up to 9.3 miles, Akipress reports.

KazMunayGas denies it plans to issue debt to buy out subsidiary

Kazakh national oil company KazMunayGas said it had no plans to issue debt to finance the buyout of minority shareholders of its upstream subsidiary KazMunayGas Exploration & Production (KMG EP), contradicting an earlier statement by one of its executives.

Ardak Kassymbek, KazMunayGas managing director in charge of economics and finance, had said earlier that the company could borrow on the market in order to do the buyout, which may be worth about \$1 billion.

The company, however, later said in an emailed statement to Reuters that it did not plan to raise money or buy out KMG EP minorities.

"The issue of a buyout with a premium was discussed in 2014, for which we considered the possibility of attracting short-term financing that was to be repaid using the funds of our subsidiaries," it said.

"But now there is no need to raise funds ... The issue of a buyout and delisting (of KMG EP) is not on the agenda."

At the same time, KazMunayGas, which is preparing for its own initial public offering expected within the next few years, said "it is not entirely logical to have two public companies in one group".

Cash-strapped Kazmunaygaz has long sought to regain full control over its subsidiary which has a \$3 billion cash pile, but the parent company's offer last November to carry out a share buyback using KMG EP's own money has not been implemented.

KMG EP has come under financial pressure from its parent and the government this year after its request for tax relief was denied and it was forced to switch to a less profitable scheme for domestic oil sales, according to Reuters.

Atyrau Oblast's akim calls on TCO to boost local content

Newly appointed Atyrau Oblast Akim Nurlan Nogayev has had a meeting with Director General of Tengizchevroil LLP, Theodore Etchison during which he asked the company to increase the percentage of local content in its projects.

"In 2015, the share of local content in TCO projects was as following: 5.9% in the purchase of goods, 50.9% in the purchase of work and 50.8% in the procurement of services. Please note the percentage of local content should be increased. Domestic companies are ready for this. They want to work," Nogayev noted.

The meeting also focused on upgrading the qualifications of Kazakh employees at TCO, according to Kazinform.

OIL & GAS PRODUCTION

Kazakhstan plans to sell 74 million tons of oil in 2016

The meeting of OPEC and non-OPEC countries that was held April 17 in Doha (Qatar) did not give the results expected by Kazakhstan, said Rashid Zhaksylykov, chairman of the presidium of KazService Union.

He made the remarks during the briefing of the Central Communications Service under the President of Kazakhstan, Kazinform reports.

"All of us are concerned about the oil prices, and what impact it will have on our country's development," said Zhaksylykov. "Also there is an issue about the future of companies that operate in the oil services sector."

The meeting in Doha didn't give the expected results due to Iran's disagreement to reduce the oil output, he said.

Iran started the year with oil output of 500,000 barrels per day and has brought the oil production up to 1.5 million barrels per day, noted Zhaksylykov. He also added that Iran intends to bring the oil output up to 4 million barrels per day by the end of the year.

There is still hope that one more meeting will be held in a month and the work to stabilize the oil prices will continue, said Zhaksylykov.

Kazakhstan has reduced the oil production in 2016. The country plans to sell 74 million tons of oil versus 80 million tons sold in 2015.

"This is a great loss," said Zhaksylykov adding that the further decline in oil output will lead to a shortage of funds for the development of the country's production, regional development, and social programs, Trend reports.

OPEC expects Kazakhstan's oil output to fall

Kazakhstan's oil output will decline by 40,000 barrels per day to 1.56 million barrels per day in 2016, according to OPEC's Monthly Oil Market Report, April 2016.

In its March report, OPEC forecasted oil production in Kazakhstan would be at 1.55 million barrels per day in 2016.

Kazakhstan's oil production declined in 2015 by 30,000 barrels per day to an average of 1.60 million barrels per day, according to OPEC, Trend.az reports.

So far in 2016, crude oil output in January and February was steady at 1.62 million barrels per day, which is lower than the production in November and December of 2015.

Kazakhstan's proven oil reserve stood at 30 billion barrels as of early 2015, according to BP. Kazakhstan's largest oil fields are Tengiz, Karachaganak and Kashagan, according to Kazinform.

US forecasts decrease in Kazakhstan's oil output

The US Energy Information Administration (EIA) forecasts that Kazakhstan's oil output will drop from 1.73 million barrels per day in 2015 to 1.71 million barrels per day in 2016 and 2017, according to the EIA Short-Term Energy Outlook April 2016.

The oil production in Kazakhstan stood at 1.73 million barrels per day in the first quarter of 2016, according to the EIA.

This is while this figure is forecasted to reach 1.71 million barrels per day in the second quarter of 2016, 1.7 million barrels per day in the third quarter and 1.69 million barrels in the fourth quarter.

The EIA expects that the country's oil output will be 1.71 million barrels per day in the first quarter of 2017, 1.7 million barrels per day in the second and third quarters each and 1.72 million barrels per day in the fourth quarter of 2017, Trend reports.

Kashagan oil output to restart next autumn

Oil production in Kazakhstan's Kashagan oil field should restart in the autumn of 2016, a message from the Caspian Pipeline Consortium (CPC) has said.

The top leadership of Kazakhstan's oil and gas sector have received the plans.

The geological reserves of Kashagan are estimated at 4.8 billion tons of oil.

Total oil reserves total 38 billion barrels; some 10 billion out of them are recoverable reserves. There are large natural gas reserves at the Kashagan field of over one trillion cubic meters.

The production at the Kashagan field started in September 2013, but in October, production was ceased after a gas leak on one of the main pipelines. Production at Kashagan is expected to resume in late 2016, Trend reports.

KazMunayGas Exploration & Production produced 3.043 million tons of crude oil in first quarter of the year

KazMunayGas Exploration & Production said it produced a total of 3.043 million tons of crude oil over the first quarter of the current year.

Production volume includes the company's stakes in KazGerMunai (KGM), CCEL (KarazhanbasMunai) and PetroKazakhstan Inc. (PKI).

OzenMunaiGas JSC (OMG) produced 1.387 million tons, an increase of 48 thousand tons or 4% over the first quarter of 2015.

EmbaMunaiGas JSC (EMG) produced 702 thousand tons, up 20 thousand tons over the first quarter of 2015.

In the first quarter of 2016, OMG and EMG sold 2.050 million tons of crude oil.

Additionally, 3 thousand tons of oil products were sold on the domestic market.

The company's share in crude oil sales from CCEL, KGM, and PKI was 965 thousand tons.

Crude oil sales to the domestic market were 406 thousand tons, Akipress reports.

OIL & GAS EXPORT & TRANSPORTATION

CPC boosts oil exports by 8.7% in the first quarter

The Caspian Pipeline Consortium (CPC) exported 11.932 million tons of oil in January-March 2016, 8.7% up year-on-year, a message from the consortium says.

According to reporting data, oil exports totaled 4.21 million tons in March of this year against 3.932 million tons in March 2015, KazTAG reports.

Gas supply via Turkmenistan-China pipeline rises

About 10.6 billion cubic meters of natural gas was supplied via Central Asia-China gas pipeline, which begins in Turkmenistan, in January-March 2016 that is by 33% more than in the same period of 2015, Xinhua reports.

The Central Asia-China gas pipeline starts in Turkmen-Uzbek border city of Gedaim, runs through Uzbekistan and Kazakhstan and crosses the Chinese-Kazakh border in Khorgas (also known as Khorgos, Chorgos and Gorgos) city.

The pipeline's length is 1,830 kilometers and its total capacity will reach 55 billion cubic meters a year, said the agency.

In recent years, the tendency of sustainable growth has been maintained in natural gas supply volume, which is being supplied to China via Central Asia-China gas pipeline. It is the first transnational gas pipeline in China.

The project will be completed by 2020, Trend reports.

PROCESSING & REFINERY

Kazakhstan to complete modernization of Shymkent refinery by end-2017

The modernization of the Shymkent Oil Processing Plant will be completed by the end of 2017, CEO of Sovereign Wealth Fund Samruk-Kazyna, Umirzak Shukeyev, said during a visit to the fund's facilities in the South Kazakhstan Oblast.

The Samruk-Kazyna group's projects are part of the State Accelerated Industrial and Innovative Development program. The project for the modernization of the Shymkent refinery (PetroKazakhstan Oil Products LLP) is being implemented by KazMunayGas, and the project for modernization of technological equipment of Shardara HPP by Samruk-Energy, Samruk-Kazyna said.

The fund's group of companies also implements another priority project in the South Kazakhstan region — construction of the Transport and Logistics Center of national railway company Kazakhstan Temir Zholy in Shymkent.

The modernization of Shymkent refinery will significantly improve the quality of its production, its ecological compatibility and ensure the production of supergrade fuel that meets the the K5 (analogue of Euro-5 in the EEU countries) ecological class requirements.

After the modernization, the refinery will increase its oil refining from 5 to 6 million tons per year. The modernization of all three refineries in Kazakhstan will provide substitute imports on the market for automotive fuel by 2018, according to the Times of Central Asia.

3rd oil refinery to be built at Tengiz oil field

Tengizchevroil LLP is now preparing documents for the launch of the construction of the third oil refinery at the Tengiz oil field, Akim of the Atyrau Oblast, Nurlan Nogayev said at a briefing dedicated to the implementation of the national 100 Specific Steps plan.

Tengizchevroil LLP produces 26.5 million tons of oil annually.

Oil production is set to grow by 12 million tons, and reach 37 million tons a year upon completion of the project.

"This project is very resource-consuming. However, all the expenses will paid off," Nogayev said, according to Kazinform.

CONTACTS

Embassy of the Kingdom of the Netherlands

62, Kosmonavtov str.
Chubary mcrd, 3rd floor
010000 Astana
T: +7 7172 555450
F: +7 7172 555474
ast@minbuza.nl

Embassy Office in Almaty

103, Nauryzbai Batyr Str.
050022 Almaty
T: +7 727 2503773
F: +7 727 2503772
alm@minbuza.nl

Comments

The Special Energy Issue on Kazakhstan appears every month on the Embassy's website:
<http://kazakhstan.nlembassy.org/>.

INDUSTRY EVENTS IN 2016



KIOGE

Kazakhstan International Oil & Gas Exhibition and Conference
4 – 7 October 2016, Almaty
Organizer: Iteca
www.kioge.kz



Mangystau Oil, Gas and Infrastructure

Mangystau Regional Exhibition on Oil, Gas and Infrastructure
8 – 10 November 2016, Aktau
Organizer: Iteca
www.mangystau.oil-gas.kz