



Special Energy Issue on Kazakhstan

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CONTENTS

GENERAL	1
OIL & GAS PRODUCTION	3
OIL & GAS INFRASTRUCTURE	5
CONTACTS	7
UPCOMING INDUSTRY EVENTS IN 2016	7

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

KazMunaiGas Exploration and Production's profit in the first half of 2016 soars on weak tenge

KazMunaiGas Exploration and Production (KMG EP) reported a jump in first-half net profit to 17.2 billion tenge (\$50 million) from 2.9 billion tenge helped by a weaker currency, the Kazakh oil producer said.

The tenge's sharp depreciation helped Export sales while KMG EP also benefited from a change in the domestic oil sales scheme and lower rent tax, it said in a statement.

Revenue for the London-listed company rose by 30% to 313 billion tenge (\$904 million).

Kazakhstan, central Asia's biggest oil Exporter, abandoned its dollar peg in August 2015.

The tenge has lost nearly half of its value against the greenback since, Reuters reports.

KazMunaiGas plans no new proposals to buy back KMG EP shares

KazMunaiGas has no plans to buy shares in its subsidiary KazMunaiGas Exploration Production (KMG EP), KazMunaiGas Chairman Sauat Mynbayev told reporters on August 25, Novosti-Kazakhstan reports.

"We already come out with such a proposal, but now we have no proposals," Mynbayev said.

On August 3 KMG EP's independent shareholders voted against the amendments to the agreement on mutual relations with KazMunaiGas and the company's charter, proposed by KazMunaiGas, which is its main shareholder.

KazMunaiGas also proposed purchasing the company shares owned by independent minority shareholders in the event of an alteration of KMG EP's Charter.

Since KMG EP shareholders voted against the alteration of the company's charter, the purchase offer did not enter into force.

KMG EP is among the top three Kazakh oil producers. The overall production in 2015 was 12.4 million tons of oil, including the company's share in joint ventures, Trend reports.

KazMunaiGas deal in danger of failing

Kazakhstan's state oil company looks increasingly likely to be defeated in its attempt to tighten control over its London-listed subsidiary, after investors voiced their concerns about the motives behind the deal.

The proposals from KazMunaiGas (KMG), the parent group, which include a potential buyback worth up to \$1.3 billion, go to a vote of minority shareholders in its subsidiary, KazMunaiGas Exploration Production.

A vote against the proposals would mark the latest twist in a tussle for control of Kazakhstan's third-largest oil company. It would also be a blow to KMG, Kazakhstan's state oil champion, in which the government is hoping to float a stake under its ambitious privatisation plans.

KMG has already sweetened its offer once, removing one of the most contentious of a set of proposed changes to the agreement that governs its relations with its subsidiary, and raising the price of a proposed share buyback to \$9 per global depository receipt.

But many minority shareholders are still planning to vote against the deal, according to investors and people close to KMG EP. Shareholder advisory services ISS and Glass Lewis have recommended that investors vote against KMG's proposals.

"Effectively it's about ridding the company of its independence and reducing our rights as shareholders," said Ivan Mazalov, director of Prosperity Capital, one of the largest minority shareholders in KMG EP with a stake of about 2 percent, who is voting against the proposals. "I think a few investors share our frustration."

A crucial role in the vote will be played by China Investment Corporation, the largest minority shareholder with an 11% stake, or a third of the free float. The Chinese sovereign wealth fund, which bought its stake in 2009 at a price of just over \$20 per GDR, has privately voiced its dissatisfaction with elements of KMG's proposal, according to several people briefed on the conversations.

Frank Kuijlaars, KMG chairman, told the Financial Times in July that CIC's displeasure had prompted the changes to the parent company's offer.

“They have invested at a price which is higher than the one currently on the table — that was something they felt was disappointing,” Mr Kuijlaars said. He argued that the parent company’s proposals were necessary to help lift the share price: “We agree with them. [But] by doing nothing it’s not going to get better.”

Analysts at Sberbank CIB argued that CIC was unlikely to vote for the proposals. “Probably no one at a Chinese state-owned holding would want to take responsibility for approving a realized loss on an asset,” they wrote. “That suggests [CIC] would have no incentive to vote in favor of the proposed changes.”

CIC declined to comment.

Should the proposals be defeated, it would be a blow for KMG, which has presented them as essential to improving efficiency at its subsidiary.

Mr Mazalov said that a defeat of the proposals should force KMG to return with a better offer. The parent company attempted to buy out minority shareholders in its subsidiary for \$18.50 per GDR in 2014 but the deal was shelved amid falling oil prices.

“We should be able to agree on the buyout price which is closer to fair value of the shares,” Mr Mazalov said, the Financial Times reports.

OIL & GAS PRODUCTION

Kazakh oil production down

Oil and gas condensate production in Kazakhstan, which is the largest oil producer of the Central Asian region, decreased by 3.6% to 38.8 million tons in the first half of 2016 as compared to the same period in 2015, Energyprom.kz reports.

The volume of oil production in the country amounted to 32.97 million tons in the reported period, recording a decrease of 2.4% as compared to 2015. Production of gas condensate faced a decrease of 9.9% to 5.8 million tons.

Overall volume of oil and gas condensate extraction totaled 6.4 million tons in June 2016, which saw a growth of 0.3% as against the rate fixed in the same period of 2015. Some 5.3 million tons of the overall volume fell to a share of oil, facing a decrease of 1.3%, while the volume of gas condensate stood at 1.1 million tons recording an increase of 8.6%.

Oil production in Kazakhstan fell by 30,000 barrels per day to average 1.6 million barrels per day in 2015, according to OPEC. Output is expected to reach 1.5 million barrels in the third and fourth quarters of 2016.

Proven oil reserves in Kazakhstan as of early 2016 stood at 30 billion barrels, according to BP Statistical Review of World Energy.

The largest oil fields of the country are Kashagan, Tengiz, and Karachaganak.

Kashagan, located in the north of the Caspian Sea, possesses geological reserves, which are estimated at 4.8 billion tons of oil. The total oil reserves amount to 38 billion barrels, and some 10 billion out of them are recoverable reserves.

Tengiz field, located in the Western Kazakhstan is one of the world's deepest producing super giant fields.

The project’s license area includes the Tengiz field and the Korolevskoye field, which is smaller, but has significant reserves. Recoverable reserves of the Tengiz and Korolevskoye fields are estimated between 750 million to 1.1 billion tons of oil.

The Karachaganak field’s oil and liquid condensates are estimated at around 1.2 billion tons. About 18% of its produced oil is extracted from this field.

Kazakhstan serves as key transit route for oil and gas from the smaller nations of Central Asia, maintaining a key role in the region’s future energy landscape, according to Azernews.

EXPLORATION & DEVELOPMENT

Russia, Kazakhstan to develop new hydrocarbon field in Caspian Sea

The Russian government has granted a license to the Tsentralnaya oil and gas company for exploration and production at the Tsentralnaya geological structure in the Caspian Sea, a government website says.

Tsentralnaya is owned by KazMunaiGas (50%), and Russia's Gazprom and LUKoil (25% each).

The company was granted the right to use the field for 25 years, including up to seven years of geological survey.

Once the geological survey is completed, the company will be allowed to work on the field in line with the existing tax code or sign a production sharing agreement with Russian government. A large oil, gas and condensate field was discovered in the Tsentralnaya structure in 2008. The field's C1 and C2 reserves are estimated at 20.2 and 149 million tons of fuel equivalent, respectively, according to Trend.

KNOC in talks with Kazakhstan to drop oil field project

State-owned Korea National Oil Corp (KNOC) is in talks with the Kazakhstan government to pull out of an oil field project due to disappointing exploration results, a KNOC spokesman said.

KNOC heads a Korean consortium which holds 27 per cent of Kazakhstan's Zhambyl oil block on the coast of the Caspian Sea. The group has invested a total of about \$250 million on acquiring the stake and exploration since 2008.

"After discovering less oil reserves than expected, we are in discussions with our Kazakhstan counterpart to drop out of the oil field project," the spokesman said.

KNOC is currently waiting for approval from Kazakhstan's government to finalise its pullout, he added.

According to its website, KNOC and its Korean consortium owns a 27% stake in the Zhambyl block, with the remainder owned by Kazakhstan's national oil company KazMunaiGas. KNOC holds a 9.45% interest in the joint operation for the oil field.

KNOC's spokesman said the consortium would abandon its stake if the talks were finalised, having initially acquired it for \$85 million.

Korea, Asia's fourth-largest economy, imports almost all of its oil and gas and has engaged in overseas exploration and production projects since 2008 in a bid to secure its fuel needs. In recent years, the country's state-run energy firms have been come under pressure over loss making overseas assets, prompting them to sell some of their overseas projects as part of a broad debt-cutting and restructuring plan, the Indian Express reports.

OIL & GAS EXPORT & TRANSPORTATION

Kazakhstan exports 6.4 billion cubic meters of natural gas over the first half of 2016

Kazakhstan exported 6.4 billion cubic meters of natural gas in the first half of the year, the Kazakh government said.

"Kazakhstan sent abroad 6.4 billion m³ of natural gas in the first half of 2016. Last year, the republic Exported 12.7 billion m³ of gas," Kazakh Energy Minister Kanat Bozumbayev said.

The biggest buyers of Kazakh gas are Russia and Kyrgyzstan, the energy minister said during a meeting with Prime Minister Karim Massimov in the Western Kazakhstan region to discuss gas industry development.

In 2015, Kazakhstan produced 45.3 billion cubic meters of natural gas and energy companies produced a total of 22.7 billion cubic meters of the fuel in the first six months of this year, Bozumbayev said.

Kazakhstan has the 22nd largest gas reserves in the world and ranks third among Commonwealth of Independent States members, EFE reports.

Consortium to transport Tengiz modules via Caspian Sea

A consortium led by Blue Water Shipping has won another contract with TCO in Kazakhstan to provide transport and logistics services in the Caspian Sea.

Blue Water and partner Kazmortransflot (KMTF) will be responsible for transporting 75 modules and cargo weighing up to 1,600 tons on the Caspian Sea from Kuryk to the port of Prorva close to the Tengiz oil field onshore in Kazakhstan.

While Blue Water is in charge of transportation and project management, KMTF will supply and operate three specially designed module carrying vessels (MCVs).

The new vessels, which will be built by Vard in Romania, will be 113 m (371 ft) long and 21 m (69 ft) wide and will be owned and operated by KMTF, with Topaz Energy and Marine providing technical management.

Tengizchevroil LLP is a Kazakhstani partnership exploring, developing, producing and marketing crude oil, LPG, dry gas and sulfur. Partners are: Chevron Overseas Co., 50%; KazMunayGas NC JSC, 20%; ExxonMobil Kazakhstan Ventures, 25%; and LUKARCO, 5%, Offshore Mag reports.

New LNG transport line opens between China and Kazakhstan

The first train carrying liquefied natural gas from Kazakhstan to China has arrived at the border crossing at Xinjiang.

Its arrival is being hailed as the next step in greater energy transport connections between China and central Asian countries.

The new rail link for Liquefied Natural Gas is expected to help shore-up LNG resources, which have been coming up short in China due to growing demand and the limited capacity at the sea ports to transfer LNG onshore.

Wang Xinchun, director of the Alashankou Free Trade Zone's economic development bureau in Xinjiang, says their port of entry is going to significantly increase energy transport options for China.

"There will be one train each week, which will transport 300-thousand tons year. In the future, we expect to be able to increase the annual LNG imports to 800-thousand tons or more according to market demand and the needs of domestic companies."

The border crossing at Alashankou in Xinjiang has seen over 8.7 million tons of goods worth over \$3.5 billion pass through so far this year, according to Xinhua.

OIL & GAS INFRASTRUCTURE

Wood Group helps get Kazakh oil flowing

Following three years of activity there, oilfield services company Wood Group said a \$700 million contract in Kazakhstan will support the launch of a major oil field.

Wood Group announced it secured a contract with Tengizchevroil, a venture formed between the Kazakh government and Chevron, to provide automation and control support for the Tengiz oil field.

Robin Watson, the chief executive of Wood Group, said in a statement the contract supports "one of the world's largest industrial automation projects and we are pleased to be providing the solution that will help to enable Tengizchevroil to meet its vision of a 'flawless startup.'"

In July, Chevron, its consortium partners and the government of Kazakhstan announced support for a \$36.8 billion plan to expand production at the Tengiz oil field. One of the largest fields in the region, the investment could boost expected production by around 40% to 850,000 barrels per day by the start of the next decade.

Wood Group, which lists its headquarters in Scotland, secured a "multi-million dollar contract" in October from engineering giant Bechtel to provide some of the engineering components for a tank farm at the Tengiz oil field in Kazakhstan.

The company reported a first half profit of around \$45 million, down 60% year-on-year. In the past year, as spending on exploration and production waned in response to market pressures, Wood

Group has cut about 10% of its payroll. Watson said there were early, but clear, indications of a market recovery “in some areas,” according to UPI.

RENEWABLE ENERGY

EBRD plans \$26 million solar loan for Kazakhstan

The European funding bank is considering releasing the funds to ACME Cleantech Solutions Pvt Ltd, an Indian developer eyeing a 29 MW solar farm in the country.

The European Bank for Reconstruction and Development (EBRD) is planning to release financing of \$26 million to Indian solar developer ACME Cleantech Solutions for the development of a 29 MW solar PV plant in Kazakhstan.

Worth an estimated \$51 million in total, the EBRD loan would meet half of the development costs, with ACME footing the remainder of the bills.

The proposed Kulan solar power plant is to be located in Kazakhstan’s Zhambyl region, in the southern portion of the country.

According to the EBRD, the 29 MWp installation would become one of the largest in the country, and add to Kazakhstan’s growing clean energy portfolio. The fossil fuel-rich country has set a target of 3% renewable penetration by 2020, with areas of the north set to see solar and wind supplant the more traditional, carbon-intensive power generation sources.

The EBRD was previously involved in plans to develop solar in the country, co-financing in June last year a 50 MW solar project to the tune of \$78 million, according to PV Magazine.

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Comments

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

UPCOMING 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