



Special Energy Issue on Kazakhstan

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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 meets OPEC obligation by taking 20,000 barrels per day off oil market

The Organisation of the Petroleum Exporting Countries (OPEC) agreed with non-member states last month to reduce its oil output by 1.2 million barrels a day in exchange for 600,000 barrels that would be taken off the global market in countries outside the OPEC, including Kazakhstan.

"Kazakhstan is delivering on its commitment to the OPEC... Since the start of January the country has already cut oil production by 20,000 barrels a day, as agreed at the oil cartel's meeting," the ministry confirmed to RIA Novosti. Kazakhstan agreed to cut its oil output by 20,000 barrels a day, although Kazakh Energy Minister Kanat Bozumbayev called the move symbolic as it would not affect big oil fields. The nation launched a Kashagan oil field last October, one of the world's largest. Its recoverable reserves are estimated at 9-13 billion barrels of oil, Sputniknews reported.

Kazakhstan, Shell-Eni group continue talks over tax dispute

Kazakhstan has agreed to continue talks about a tax dispute with the Karachaganak consortium of oil majors led by Shell and Eni despite beginning arbitration proceedings, the Kazakh Energy Ministry said.

Quoting Minister Kanat Bozumbayev, a ministry spokesman said the sides had agreed in December to extend talks by nine months and Kazakhstan might stop the arbitration if it was satisfied with the consortium's offer.

Russia's Lukoil said last April Kazakhstan had filed a \$1.6 billion claim against the consortium developing the Karachaganak gas condensate field.

The energy ministry has said the dispute was about calculations of the parties' shares in the field's output.

Eni and Shell each own 29.25% of the Karachaganak project in northwest Kazakhstan, which they jointly operate. State-owned KazMunaiGas owns 10%, Chevron Corp 18% and Lukoil 13.5%.

Karachaganak produced 78.8 million barrels of liquid hydrocarbons in the first half of 2016, up 11.3% from the same period a year earlier.

The field contains 1.2 billion tons of oil and gas condensate and more than 1.35 trillion cubic metres of gas, making it one of the world's largest oil and gas deposits, Reuters reported.

Caspian Sea legal status can be determined at next summit

The Caspian Sea's legal status can be determined at the next Caspian States summit, Khalaf Khalafov, Azerbaijani deputy foreign minister, said at a session of the ad hoc working group on the Caspian Sea's legal status in Baku on 25 January.

"A lot of work on the draft convention on the Caspian Sea's legal status has been conducted," he said.

"It is necessary to unite efforts to reach agreements on a number of issues regarding the final status of the Caspian Sea," Khalafov said.

"We intend to agree on a number of uncoordinated issues as part of the negotiations," he added.

"The full approval of the draft convention will create the preconditions for determining the status of the sea at the level of heads of state," he said.

He added that Azerbaijan hopes for the speedy delimitation of the Caspian Sea and proceeds from the agreements reached among Azerbaijan, Kazakhstan and Russia.

"A mechanism will be created for effective cooperation of the Caspian states as a result of rapid solving of existing issues," Khalafov said. "In particular, it is necessary to agree on the aspects of the access of the Caspian countries to other seas and ocean, the right for passage of warships through the territorial waters of other countries and rules of laying cables and pipelines."

Khalafov added that Baku is interested in the speedy coordination of issues on the central and southern parts of the Caspian Sea.

"I hope that the issues to be discussed in Baku today as part of the negotiations in accordance with international maritime law, respect for the sovereign rights of the Caspian countries and for the sake of mutually beneficial cooperation, stability and security in the Caspian Sea, will be solved through building confidence," Khalafov said.

Khalafov added that the confidence-building measures among the sides must ensure the safety of all Caspian countries equally.

“The Caspian countries must contribute to the strengthening of stability in the Caspian region,” he said. “These measures must be based on the principles of respect for territorial integrity, sovereignty and independence of the countries. The interests of all sides must be taken into account.”

“We must continue to work together to preserve the Caspian Sea as a zone of peace, tranquility, stability and security,” he said.

The Caspian littoral states - Azerbaijan, Kazakhstan, Russia, Turkmenistan and Iran - signed a Framework Convention for the Protection of the Marine Environment of the Caspian Sea in November 2003. Russia and Kazakhstan signed an agreement on the delimitation of the northern part of the Caspian Sea in order to exercise sovereign rights for subsoil use in July 1998. The two countries signed a protocol to the agreement in May 2002.

Kazakhstan and Azerbaijan signed an agreement on the delimitation of the Caspian Sea and a protocol to it on November 29, 2001 and February 27, 2003, respectively. Kazakhstan, Azerbaijan and Russia signed an agreement on the delimitation of adjacent sections of the Caspian Sea on May 14, 2003.

Summits of heads of the Caspian states were held in 2002 in Ashgabat, in 2007 in Tehran, in 2010 in Baku and in 2014 in Astrakhan, as posted by Kazinform.

Malaysian company to invest \$146 million in Kazakhstan oil and gas project

Nakamichi Corp Bhd is set to invest \$146 million in an oil and gas project in Kazakhstan.

Nakamichi, a Practice Note 17 company, said on it would team up with Aktau Transit LLP and Aktau's parent company Caspian Oil Project LLP (COP) to undertake the venture.

It signed an agreement with Aktau Transit and COP to jointly monitor and oversee the exploration, development and production activities of Aktau Transit's two oilfields as part of its plan to regularise its financial position.

Nakamichi and its unit Nakamichi Oil and Gas Sdn Bhd (NOGSB) also inked a deal with Aktau Transit and COP appointing NOGSB as Aktau Transit's agent to monitor and oversee the exploration, development and production activities.

Nakamichi will have to fork out \$60 million to Aktau Transit for upcoming and historical capital expenditures at the oilfields as well as \$86 million in refundable performance deposit, to be offset against a performance bonus payable by Nakamichi to Aktau Transit of \$3.40 per barrel of oil produced.

Nakamichi will receive 90% of the distributed profit, which is defined as earnings before interest, taxation, depreciation and amortisation less Aktau Transit's corporate income tax. NOGSB will be paid an agent fee of 15% of the total amount of the capital and operational expenditures paid by NOGSB on behalf of Aktau Transit or paid by Aktau Transit.

Aktau Transit has a 22-year concession for onshore O&G exploration and production in the republic until 2038.

Its only producing oilfield, Zhangurshy Oilfield, produces 71,400 barrels of oil in the first 11 months of last year.

The other oilfield, Tyubedzhik Oilfield, is still at the exploratory stage, but Aktau Transit has not carried out any exploration activities there since 2013 due to financial constraints, as reported by KazWorld.

ACQUISITIONS & MERGERS

KazMunaiGas EP may acquire new assets in 2017 due to low profitability of old deposits

The exploration and production subsidiary of KazMunaiGas (KMG EP) may acquire new assets in 2017, said Rasul Rysmambetov, financial analyst.

“The company has good financial reserves and I don't exclude that KMG EP may attempt to acquire a stake in Ansagan field from Almex Plus Ltd in 2017,” he said to KazTAG.

In his words, KMG EP has demonstrated positive operational profit by the results of three quarters 2016. "Only the loss caused by the exchange rates fluctuation following the tenge's strengthening frustrated the positive tendency as the company most likely holds its major reserves in US dollars. The company is stable in other terms", he said.

"For this moment KMG EP holds the loan disbursements under control many of which are in dollars. Under a conservative approach the profit in the 3rd quarter 2015 looks unusual- as it was high due to tenge rate jump. In the financial report we can see KMG EP was actively depositing its funds on its accounts in 2016, while there was money withdrawal in 2015," said R. Rysmambetov. In his words low labour productivity in the company is explained by the fact that the majority of the deposits overstepped their peak production and tend to get unprofitable following drop of oil prices to \$40-\$52 per barrel. Due to social functions of oil production in many regions KMG EP cannot afford a classical market approach to expenses on its deposits. Aidarkhan Kusainov, head of Almages consulting company, supports the opinion.

"KMG EP has old deposits with declining oil production volumes. Consequently the cost price of hydrocarbons is growing as it needs stimulation. As for the new wells, roughly speaking, insert a pipe and the oil flows. It is an objective reason, because of this the company cannot be highly efficient and profitable," he said, as reported by KazWorld.

OIL & GAS EXPLORATION & DEVELOPMENT

Roxi Petroleum reports on new well

Roxi Petroleum PLC on 17 January reported the spudding of a new well at its BNG Contract Area in the west of Kazakhstan, in which it has a 58.41% stake.

Roxi said new well 808 has been spudded on a potentially new structure north of the South Yelemes portion of the BNG contract area. This well is expected to take two months to drill, and is planned for a total depth of 2,750 meters at a cost of \$2.5 million.

At Well 142 in the MJF structure, which Roxi said is to date "the most promising of the shallow areas of interest at BNG", an interval between 2,201 meters and 2,208 meters has been perforated and from which the well is testing at rates between 215 and 290 barrels of oil per day. This well is a material step out well, which means it has the potential to confirm "significantly larger scale for the MJF structure".

As the interval perforated is in the same horizon as those producing at previously drilled wells 141 and 143, Roxi therefore believes the structure at MJF extends to an around of approximately 10 kilometres squared.

"These results from 142 and previously from 141 are exactly as the company had hoped for. At an appropriate juncture these results will be passed onto Gaffney Cline so that they may review their reserves estimate attributable to the MJF structure," said Executive Chairman Clive Carver in a statement, Alliance News reported.

OIL & GAS EXPORT & TRANSPORTATION

Possible destinations named for Kashagan oil supply

The Kazakh Energy Ministry named the main directions for the transportation of oil from the giant Kashagan offshore field.

"Each contractor organization -a project shareholder, independently makes a decision on the supply route and sale point. Currently, the Kashagan oil is transported by KazTransOil and CPC pipeline systems," Kazinform reported citing the ministry.

Kazakhstan's share of the produced oil is transported via the CPC system.

Potential supply route in the western direction is Atyrau -Novorossisk (through the CPC), Atyrau-Samara in the northern direction (entering the Transneft system) and Atyrau-Alashankou in the eastern direction.

Kashagan, first discovered in 2000, is considered to be the world's largest discovery in the last 30 years, combined with the Tengiz Field.

The field is developed by Kazakhstan's state oil company, KazMunaiGas, and a consortium of some of the world's biggest oil companies, including ExxonMobil and Royal Dutch Shell.

Oil extraction at Kashagan, a large oil and gas field located in the north of the Caspian Sea was re launched in autumn 2016. The volume of production and export from the field has already exceeded 1 million crude oil and condensate. LS website reported that the figure of 1 million in export was reached on January 8, 2017.

Currently, the production rate is estimated at 180,000 barrels per day.

Kazakhstan enters the top 15 countries in the world when it comes to essential oil reserves, having 3% of the world's total oil reserves. There are 172 oil fields, of which more than 80 are under development. More than 90% of oil reserves are concentrated in the 15 largest oil fields - Tengiz, Kashagan, Karachaganak, Uzen, Zhetybai, Zhanazhol, Kalamkas, Kenkiyak, Karazhanbas, Kumkol, North Buzachi, Alibekmola, Central and Eastern Prorva, Kenbai, Korolevskoye. Oil fields can be found in six of the fourteen provinces of Kazakhstan, as reported by Trend.

Rosneft to increase oil supplies to China through Kazakhstan

Russian Rosneft and Chinese CNPC signed an amendment to the agreement envisaging additional oil supplies to China via Kazakhstan, the Russian company said.

Moreover the contract on oil supplies from June 21, 2013 was prolonged till December 31, 2023. Deliveries since 1 January 2017 till 31 December 2023 will amount to 70 million tons, the company said.

The total volume of the supplies within the 10 years contract will reach 91 million tons including 21 million tons delivered previously.

Rosneft has a successful track record of implementation of oil supply contracts to China. In 2005-2016 within the long-term contracts Rosneft delivered to China more than 186 million tons of oil worth over \$95 billion.

The total volume of deliveries within long-term contracts will exceed 700 million tons. Rosneft is one of the leading suppliers of oil products to the Chinese market: in 2009-2016 the company delivered about 30 million tons of oil products worth over \$19 billion, as reported by KazWorld.

Tengizchevroil to supply 7 billion cubic meters of dry gas to new Gas Chemical Complex in Atyrau

After completion of the construction project of Kazakhstan's first integrated Gas Chemical Complex the raw material will be supplied from Tengiz field. Each year the Gas Chemical Complex will receive 7 billion m³ of dry gas, 550 thousand tons of propane and 380 thousand tons of butane.

According to the Ministry of Energy of Kazakhstan, the commitment of Tengizchevroil to supply gas to the gas chemical complex, once it is built, is based on the project agreement dated April 2, 1993. In May 2007 Tengizchevroil and Kazakhstan Petrochemical Industries (KPI) signed a memorandum of mutual understanding for conclusion of long-term agreements for supply of the resources. On February 15, 2008 the supply agreement was signed between Kazakhstan, Tengizchevroil and partners, Kazinform reports.

OIL & GAS INFRASTRUCTURE

Kazakhstan won't compensate replacement of pipelines on Kashagan

Kazakhstan will not compensate the costs of replacement of the cracked pipelines from Kashagan field.

"The costs incurred by the contractor of the North Caspian project for the repair of 28 inch pipelines are non-reimbursable, which is stipulated by the Settlement Agreement as of 2014. There is also an arrangement between shareholders and the Kazakhstan party to classify the costs for initial pipelines and their installation as non-reimbursable as per the Production Sharing Agreement", the press service of the Ministry of Energy of Kazakhstan told.

Production of Kashagan oil started in autumn 2013, but was suspended due to cracks in the pipelines partially routed on the sea bottom and overland from the artificial island “D” to Bolashak oil and gas treatment unit. It was decided to completely replace almost 200 km pipelines. Reportedly, the estimated cost of the replacement scope was more than \$2 billion. Oil production was resumed after replacement of the pipelines in September 2016. In January 2017 NCOC b.v. informed of production and export of the first million tons of offshore oil, Kazinform reports.

Fluor selected as engineering services provider by NCOC in Kazakhstan

Fluor Corporation announced that it was awarded a two-year engineering services framework agreement with North Caspian Operating Company (NCOC) for conceptual studies and front-end engineering for its projects in the Caspian region.

NCOC operates oil and gas activities under the North Caspian Sea Production Sharing Agreement, including Kashagan, one of the world’s largest offshore oil fields located in the Kazakhstan zone of the Caspian Sea, as well as the Kalamkas, Aktoty and Kairan fields in Kazakhstan.

“Fluor is delighted to have been selected by NCOC for these important projects,” said Al Collins, president of Fluor’s Energy & Chemicals business in Europe, Africa and Middle East. “Through early involvement, we can work with our client to optimize design and construction solutions to deliver capital efficiency. We will leverage our extensive knowledge of executing oil and gas projects in Kazakhstan by applying our unique integrated solutions approach.”

Engineering teams from Fluor’s offices in Atyrau, Kazakhstan and Farnborough, UK will undertake the studies.

Fluor began working in Kazakhstan in 1982. Since then, the company has executed ongoing work in projects ranging from conceptual studies and front-end engineering design to mega undertakings.

Fluor Corporation is a global engineering, procurement, fabrication, construction and maintenance company that designs, builds and maintains capital-efficient facilities for its clients on six continents. For more than a century, Fluor has served our clients by delivering innovative and integrated solutions across the globe. With headquarters in Irving, Texas, Fluor ranks 155 on the FORTUNE 500 list with revenue of \$18.1 billion in 2015 and has more than 60,000 employees worldwide.

PROCESSING & REFINERY

Kazakhstan’s Atyrau refinery to build new sulphur plant

A combined plant for sulphur production will be constructed at Kazakhstan’s Atyrau Refinery by July 2017, the refinery’s press service said on 27 January.

Construction work is ongoing. The plant will produce sulphur through a Claus process. Its capacity will reach 58 tons of solid sulphur per day.

KazStroyService and 17 subcontractors are engaged in the plant’s construction. The Atyrau Refinery is one of the three largest refineries in Kazakhstan.

Sulphur is used for production of sulphuric acid, the vulcanization of rubber, as a fungicide in agriculture and for road-building materials, paint and fertilizer production, Inform.kz reports.

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Comments

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

INDUSTRY EVENTS IN 2017



Global Oil & Gas Atyrau

Atyrau Regional Oil and Gas Technological Conference
11 – 12 April 2017, Atyrau
Organizer: Iteca
www.oil-gas.kz



Atyrau Oil & Gas

North Caspian Regional Exhibition on Oil and Gas
11 – 13 April 2017, Atyrau
Organizer: Iteca
www.oil-gas.kz



KIOGE

International Oil & Gas Exhibition and Conference
3 – 6 October 2017, Almaty
Organizer: Iteca
www.kioge.kz



Global Oil & Gas Mangystau

Mangystau Regional Exhibition on Oil, Gas and Infrastructure
7 – 9 November 2017, Aktau
Organizer: Iteca
www.moge.kz