



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

Opec says Iraq, UAE, Kazakhstan affirm commitment to cuts

Opec said Iraq, the United Arab Emirates and Kazakhstan - who have lagged in their implementation of a deal to cut production - affirmed their commitment to the accord at a meeting in Abu Dhabi.

"All expressed their full support" for the system to monitor the cutbacks "in order to achieve the goal of reaching full conformity", Opec said in a statement on its website. Malaysia also attended and made the same pledge.

The meeting, co-chaired by Kuwait and Russia, was scheduled after several nations faltered in their pledges to reduce output.

Twenty-four producers, from among the Organization of Petroleum Exporting Countries and beyond, agreed to cut production late last year to try to end a global glut.

Oil prices have lost 8% this year on concern the agreement is failing to drain the world's bloated oil stockpiles.

Saudi Arabian Energy Minister Khalid Al-Falih promised last month to intensify pressure on cheating countries.

Iraq and the UAE said at the meeting that Opec's estimates of their production - based on data from external sources - were at fault for any apparent failures to comply, according to two people familiar with the matter who asked not to be identified because the discussion was confidential.

Iraqi compliance slumped to 29% in June, its lowest so far, while the UAE made just 60% of its cuts, according to data from the International Energy Agency.

Iraq has complained that the estimates Opec uses to monitor compliance are inaccurate, and that it has actually made the full reduction required.

Kazakhstan, rather than reduce its output as promised, has steadily increased it, with the expansion of its Kashagan oilfield.

Compliance with agreed oil-production cuts through March will probably falter, CME Group Senior Economist Erik Norland said in a phone interview.

"It's really a question of how quickly it will deteriorate rather than if it deteriorates," he said. Opec uses supply estimates compiled from six external entities, known as secondary sources, to monitor adherence to the deal.

These include media outlets and institutions like the Paris-based IEA and the US government's Energy Information Administration.

While the committee met, there were further signs of the diplomatic push to ensure full compliance.

Iraq's oil minister, Jabbar al-Luaibi, is flying to Saudi Arabia at the invitation of Al-Falih, Iraq's oil ministry said.

The two officials will discuss coordination to achieve Opec's goals, Asim Jihad, a spokesman for the Iraqi oil ministry, said.

The agreement, which came into effect at the start of the year, brings together Opec and non-Opec nations in an effort to take as much as 1.8 million barrels of oil a day off the market.

Russia and Kuwait are two of the five nations that sit on the board that oversees the implementation of supply curbs. Saudi Arabia, which currently holds Opec's rotating presidency, also attended the meeting.

Iraq, the UAE, Kazakhstan and Malaysia have also been invited to the full technical committee's next meeting on August 21 in Vienna, where the panel's conclusions will be discussed, according to two people familiar with the matter who asked not to be identified because the information is private.

Some of those invited nations expressed interest in attending, one of the people said, Bloomberg reported.

Kazakhstan: US sanctions will not affect oil projects

New US sanctions against Russia will not affect multi-billion dollar oil projects in Kazakhstan backed by Chevron, ExxonMobil and other western energy majors, the country's economy minister has said. Fresh sanctions against Moscow signed into law by President Donald Trump this

week directly target Russian energy export pipelines, raising fears that oil from Kazakhstan, which is exported along the Caspian Pipeline Consortium (CPC) pipeline that runs through Russia to the Black Sea, could be affected.

"The pipeline, which links our oil to the seas, in particular, to Novorossiysk, is not covered by the sanctions. American companies, such as Chevron, who are also shareholders of the CPC, have themselves obtained from their parliament that such transit pipelines be excluded from sanctions," minister of national economy Timur Suleimenov told reporters.

"Therefore, in this case, the delivery of our oil to foreign markets will not be affected." Chevron last year led a \$37 billion investment in Kazakhstan's Tengiz field, in which it holds a 50% stake. Exxon, Kazakhstan's state-run oil company and Russia's Lukoil also hold stakes in the project.

Italy's Eni, France's Total, Exxon and Royal Dutch Shell all hold stakes in Kashagan, another Kazakh oil field. Both Tengiz and Kashagan export crude along the CPC.

The new sanctions, which Mr Trump reluctantly signed, were in retaliation for Moscow's alleged meddling in the US election.

The decision to expand sanctions to cover companies financing or supporting Russian energy export pipelines was taken to primarily target Gazprom's under-construction Nord Stream 2 gas pipeline to Germany, which is being partially funded by EU energy companies Shell, Engie, Wintershall, Uniper and OMV, Financial Times reported.

OIL & GAS EXPLORATION & DEVELOPMENT

Caspian Sunrise progresses with Kazakhstan oil project

Oil and gas company Caspian Sunrise PLC said wells at its project in western Kazakhstan have spudded.

Well 144 in the MJF field at the 99% owned interest in the BNG contract area spudded in May and started production in July flowing at a rate of 700 barrels of oil per day, while well 145 spudded in July and has reached a depth of 1,150 meters.

Aggregate production from the MJF field is running at about 1,693 barrels of oil per day and the company said income from the MJF structure alone, even taking into account selling oil at domestic prices, allows it to cover all general, administrative and shallow drilling costs.

London-listed Caspian said it was aiming to move from an appraisal license, where oil produced must be sold at domestic prices which is currently some \$16 per barrel, to a production license, where the majority of oil produced can be sold at world prices in July 2018, subject to regulatory approval.

Meanwhile, for well 808, Caspian said there may be a leak in the well casing resulting water inflow. Well 808 spudded in January and was drilled to a depth of 3,200 metres in March. Executive Chairman Clive Carver said: "we continue to be extremely pleased with progress at the MJF structure, which now even at domestic prices, funds the day to day costs of the group and our shallow drilling operations."

"We are continue working to seek to get A6 flowing and are now close to finishing the planned work at deep well A5, after which the rig involved will be released to tackle deep well 801," Carver added, according to Alliance News.

OIL & GAS PRODUCTION

Kazakhstan increased oil production in January-July by 10%, exceeded quota of OPEC+

Kazakhstan increased oil and gas condensate production in January-July 2017 to 49.907 million tons from 45.409 million tons in the same period last year, the data of the analytical center of the Ministry of Energy of the Republic showed.

According to the center, daily oil production in Kazakhstan in January-July this year amounted to 235.411 tons, or 1.724 million barrels (with a barrel ratio of 7.32).

Thus, oil production in Kazakhstan in January-July 2017 by 44.036 barrels per day exceeded the level approved in the OPEC + pact, according to which Astana promised to reduce production by 20,000 barrels per day from the figure of 1.7 million barrels per day in November 2016.

The extraction of raw materials in Kazakhstan in July increased to 7.378 million tons (1.743 million barrels per day), which is 0.4% more than in June, according to the analytical center.

Earlier, Kazakhstan promised to adhere to its obligations under the OPEC + pact to limit oil production until April 2018.

In 2017, oil production in Kazakhstan is projected at 81-85 million tons, of which at least 5 million will be at Kashagan.

The production of oil at the giant Kashagan field in Kazakhstan increased by 2.6% in June in the daily terms relative to June – to 767,766 tons from 724.487 tons, according to the analytical center.

The production of Kashagan oil last month increased in barrels to 194.666 per day from 189.816 per day in June.

In total for January-July of 2017 on Kashagan it was extracted 4,286 million tons of oil.

Kazakhstan resumed oil production on Kashagan on September 28, 2016 and plans to increase the production of raw materials to 370,000 barrels per day by the end of 2017.

The volume of investment in the development of Kashagan has already reached \$ 55 billion. The North Caspian Operating Company (NCOC) consortium, the operator of the field, unites the Italian Eni, the US Exxon Mobil, the Chinese, the British-Dutch Royal Dutch Shell, the French Total, the Japanese Inpex Holdings Inc and the Kazakh state holding Kazmunaigaz, Reuters reported.

Kazakhstan's Tengizchevroil increased oil production by 1.3% in the first half of 2017

Tengizchevroil produced 14.59 million tons of oil in January-June 2017, or 116 million barrels of crude oil, 1.32% up year on year, reads the message of the company.

According to the message, the company sold 710 000 tons of liquefied gas in the first half year (5.49% up year on year), 3.73 billion cubic meters of natural gas (+1.63%) and 1.27 million tons of sulfur (+13.39%).

The sum of direct payments of the oil company to the state amounted to \$4.3 billion (1.65 times growth).

In the first half year 2016 TCO produced 14.4 million tons, or 114.8 million barrels of crude oil, sold 673 000 tons of liquefied gas, 3.67 billion cubic meters of dry gas and 1.12 million tons of sulfur. In the same period the oil company transferred \$2.5 billion of direct payments in the budget of Kazakhstan.

Chevron, ExxonMobil, Lukoil and KazMunaiGas are partners in the venture, the Central Asian nation's biggest oil producer, KazWorld reported.

OIL & GAS EXPORT & TRANSPORTATION

Kazakh oil export revenues have increased 53% in 2017

Almost 80% of all oil produced in the country is exported. The revenues of the Kazakh budget from the export of crude oil increased 53% this year. Oil export increased 46%, according to Energyprom.

In the last six months, the prices for crude oil increased 27.2% in comparison with the same period last year. At that, physical volume of exports increased 3%. In total, the value of exports of crude oil and gas condensate increased 46%. The positive balance of the country's trade balance increased 79%.

Approximately 33.2 million tons of crude oil worth \$12.8 billion was exported in the last six months, which is 51% of annual oil production in the state, according of the annual forecast of Ministry of Energy. Oil production increased 10%, reaching 42.6 million tons.

About 78% of all extracted oil was exported this year and approximately 83% of oil was exported last year. The volume of crude oil used in the domestic market increased 38%, reaching 9.4 million tons. Price for oil in the domestic market is 2.5 times lower than its export price. Sale of this volume will make 466 billion tenge (\$1.5 billion).

Over the year, the share of oil exports in total exports increased from 59% to 62%.

According to the Kazakhstan 2050 strategy, the country should move from simple supplies of raw materials to cooperation processing energy resources and the exchange of the latest technologies. The government plans to decrease the share of oil exports to 30% by 2050.

About 73% of all exported oil is delivered to five European countries: Italy \$4.3 billion (growth of 45%), the Netherlands \$1.9 billion (growth of 58%), France \$1.5 billion (growth of 83%), Switzerland \$1.2 billion (growth of 31%) and Spain \$0.6 billion (growth of 10%).

The growth of oil exports positively affected the budget balance. The budget deficit for the six months decreased to 98.1 billion tenge (\$295 million). It was 457.5 billion tenge (\$1.4 billion) in the same period last year.

The budget revenue from oil exports increased 53 percent in the first half of 2016, reaching 477.2 billion tenge (\$1.4 billion). Fees for export customs duty on crude oil increased 33 percent (379.2 billion tenge or \$1.1 billion). Rent tax on exports, going to the National Fund, increased almost 3.5 times (98.1 billion tenge or \$295 million). The share of the country's revenues from oil exports increased from 11% to 15% this year, Astana Times reported.

Where Kazakhstan's oil goes

Practically 80% of all the oil produced in the country goes abroad. RK budget revenues from crude oil export this year increased by 53%, and export itself increased by 46%, Kazpravda.kz reports.

Over the elapsed six months, the prices of crude oil exports increased by 27.2% on-year, physical volume of exports -by 3%. In total, the value of crude oil and gas condensate exports increased by 46%, and the country's trade surplus increased by 79%.

In the 6 months, 33.2 million tons of crude oil worth \$12.8 billion was exported, which is 51% of the annual forecast of the RK Energy Ministry. Oil extraction increased by 10% and made 42.6 million tons, fulfilling in half a year 53% of the annual plan.

About 78% of all the extracted oil was exported, and 83% last year. The volume of crude oil in the domestic market increased by 38% and amounted to 9.4 million tons. Oil price in the domestic market is 2.5 times lower than the export price. Sales of this volume will make 466 billion tenge or \$1.5 billion.

Over the year, the share of oil export in total exports has grown from 59% to 62%. According to Kazakhstan-2050 Strategy, the country should move from simple raw materials supplies to cooperation in processing of energy resources and exchange of the latest technologies. The share of oil exports will decrease to 30% by 2050.

About 73% of all the exported oil goes to five European countries: Italy \$4.3 billion (+ 45%), the Netherlands \$ 1.9 billion (+ 58%), France \$1.5 billion (+ 83%), Switzerland \$1.2 billion (+ 31%), Spain \$0.6 billion (+ 10%).

The growth of oil exports had a positive effect on the budget balance. The budget deficit in the six months amounted to 98.1 billion tenge - 457.5 billion tenge in the same period last year.

The budget revenues from oil exports increased by 53% vs 2016 H1 and amounted to 477.2 billion tenge. Including fees for export customs duty on crude oil increased by 33% and made 379.2 billion tenge. Rent tax on exports, going to the National Fund, has grown almost 3.5 times and amounted to 98.1 billion tenge. The share of the country's revenues from oil exports over a year increased from 11% to 15%, Kazakhstanskaya Pravda reported.

Vitol wins right to export Kazakhstan share of Kashagan output

The world's largest oil trader Vitol has won the right to export Kazakhstan's share of output from the giant Kashagan field, further strengthening its position in the central Asian nation as it prepares for an oil production jump.

Vitol has been the dominant force of Kazakhstan's oil exports for over a decade, taking barrels mainly to Russian ports and shipping them to European refineries.

The country is now preparing to start commercial output at Kashagan – one of the world's biggest discoveries of the past decades – in October following years of delays caused by the project's technical complexity.

Kashagan's output will be modest at the start at between 50,000 and 1 million tons this year, 3 million to 5 million tons next year but rising to 7 million tons in 2018, Kazakh Energy Minister Kanat Bozumbayev said in May.

The first phase is designed to produce as much as 20 million tons at its peak, possibly rising to as much as 50 million tons if new investment is approved.

Kazakhstan holds 16.88% in Kashagan via KMG Kashagan (KMG), a subsidiary of Kazakh national oil company KazMunaiGas.

The Kashagan consortium also includes Eni, Exxon Mobil, Royal Dutch Shell, Total, China's CNPC and Japan's Inpex.

KMG said in a statement on its website it had chosen Vitol to arrange a prepayment for KMG's share in the Kashagan field oil worth \$1 billion. It said the tender closed on August 3 without providing other details. Vitol declined to comment, Reuters reported.

OIL & GAS INFRASTRUCTURE

Topaz wins 'critical' \$100 million Dragon Oil contract

Topaz Energy and Marine has clinched a new \$100 million contract with Emirates National Oil Co upstream unit Dragon Oil in the Caspian.

Under the contract Topaz will supply Dragon Oil Caspian with six vessels, comprising five anchor-handlers and one Emergency Recovery and Response Vessel.

Ramp-up and mobilisation are already underway for the five-year contract with a two year option. The contract brings Topaz's order backlog to \$1.5 billion.

"This is a critical contract win for Topaz. It not only increases our revenue backlog above \$1.5 billion – the highest in the industry – but it also demonstrates the trust that Dragon Oil has placed in our ability to deliver the technology and safety capabilities our clients increasingly require," said René Kofod-Olsen, ceo of Topaz.

"Our solid funding also means that we are able to structure long-term commercial terms which offer predictability and value to our clients at very low counterparty risk."

The wider Caspian region is key to Topaz's business with 62 of its OSVs deployed in the region servicing the exploration, development and production needs of major companies such as BP, Chevron, ExxonMobil and Saipem in Azerbaijan, Russia, Kazakhstan and Turkmenistan, Seatrade Maritime News reported.

RENEWABLE ENERGY

Kazakhstan's Akmola Region prepares to host 100 MW solar power plant

The government of Kazakhstan's Akmola Region has announced in a press release that the Kazakh investment company KBEnterprises is planning the construction of a 100 MW solar power plant near Kabanbay, Tselinograd District, in the north of the country.

The government said the \$165 million project will be built on a 300 hectare surface by the EPC contractor Sumec Clean Energy International Co. Ltd., and that construction works will be implemented with the support of Switzerland-headquartered power electronics company ABB.

Astana-based KBEnterprises is an investment firm specializing in the development of solar, wind, hydro and biomass projects. According to the Astana Times, the company is a Kazakh-Dutch-German joint venture whose largest shareholder is Global Solar Investments from the Netherlands, which owns 51% of the company.

This project will likely compete in the energy auctions expected to be held in the future, as recently announced by Kazakhstan's Minister of Energy, Kanat Bozumbayev. The minister, in fact, has said that he plans to introduce an auction scheme for renewable energy. Furthermore, Bozumbayev has signed a memorandum of understanding (MoU) with the European Bank for Reconstruction and Development (EBRD), opening the country's renewable energy market to a wider range of investors working under the EBRD's dedicated framework.

The EBRD is also financing the construction of three more 50 MW solar parks in Kazakhstan: the Baikonur Solar park in the Kyzylorda region in the south of the country, close to the border with Uzbekistan and the the Burnoye Solar-1 and the Burnoye Solar-2 projects, both in the southern region of Zhambyl. Overall, the EBRD has agreed to provide around €200 million in funds for renewable energy financing in Kazakhstan.

Moreover, another 12 MW PV plant was announced by the central government for the Mangystau Region in May. This project is being developed by French industrial vacuum furnace manufacturer ECM Technologies, which also serves the PV industry, in partnership with unnamed Chinese partners. In mid-May, the ministry also announced the launch of Solar Resources Atlas – atlassolar.kz, a new online application for the mapping of Kazakhstan's solar energy potential, PV Magazine reported.

Zhambyl region promotes renewable energy projects, expands production at 50MW solar park

Burnoye Solar – 2, the first large-scale solar plant in the country with a capacity of 50 megawatts, will be constructed in the Zhualynsky district of the Zhambyl region.

The project, implemented by Samruk Kazyna United Green Energy, is a joint venture of the UK-registered private investment company UG Energy and Samruk Kazyna Invest, reported the regional administration press service in early August. The European Bank for Reconstruction and Development (EBRD), in partnership with the Clean Technologies Fund, will finance plant construction.

As an environmentally-friendly project that meets world standards, the solar plant is expected to lead to a significant reduction in carbon dioxide emissions in the region. It may also cover energy shortages in the southern regions.

"Twelve investment projects for the construction of hydro, wind and solar power plants with a capacity of seven-300 megawatts have been implemented and are planned for launch with the adoption in 2009 of the law on Renewable Energy Sources Support in Kazakhstan. There are plans to implement seven renewable energy projects with a total capacity of more than 230 megawatts. The development of renewable energy sources is becoming increasingly urgent due to hydrocarbons' falling prices. This will be our contribution to the development of the green economy," said Zhambyl Region Akim (Governor) Karim Kokrekbayev.

The Zhambyl region is one of the leaders among the regions in developing renewable energy sources. The list of projects includes the first 1.5-megawatt industrial wind power plant at Kordai pass, the small 9.2-megawatt hydropower station at Tasotkel reservoir, the 1.5-megawatt Merken hydroelectric power station and the 2.3-megawatt Karakystak hydropower plant in the Ryskulovsky district.

The share of green energy in the region's total electricity production will increase to 40%.

The Otar, the first solar power plant in Kazakhstan and Central Asia with a capacity of seven megawatts, was put into operation in the Kordai district in 2012 using \$1.3 million in private investments.

The 50-megawatt Burnoye Solar – 1 solar power station, situated on 150 hectares with approximately 192,000 energy-producing solar panels, was built in the Zhualynsky district in 2015. The plant, which is able to produce 73 million kilowatt-hours of electricity per year, has created nearly 250 jobs, Astana Times reported.

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INDUSTRY EVENTS IN 2017



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