National transformation
Sauat MYNBAEV
Chairman
KAZMUNAYGAS

Steep increase after modernisation
Kairat URAZBAYEV
General Director
ATYRAU REFINERY

From public to private
Marat K. ORMANOV
General Director
KAZMORTRANSFLOT
We are proud to contribute to the country prosperity

We are proud to develop the region

We are proud to minimize environmental risks

We are proud to be responsible for our staff

We are proud to implement new technologies

We are proud to be a leader in the oil & gas industry

We are proud
Diplomacy & Politics

As Kazakhstan, Russia, Belarus and Armenia move to an operational Eurasian Economic Union (EEU) in January 2015, Kazakhstan seeks to keep lucrative trade with the EU and other large importers. The new EEU zone should help increase trade participation between its members. However, it remains to be seen whether the new union will ultimately hurt the Kazakh economy once the EEU begins in earnest.

Exploration & Production

Kashagan, the largest oil discovery in the past 30 years and most expensive to date, continues to be a thorn in the side of project developers. Bad management, skyrocketing costs and major delays have plagued development, and the field shows no signs of resuming production until sometime in 2016. However, Chinese energy demand continues to surge upwards and will consume Kazakhstan’s otherwise healthy hydrocarbons output for the foreseeable future.
Sharing core values such as:

- The development of modern technology
- Excellent health and safety record
- Effectiveness and efficiency
- Attention to client needs

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We are a group of professionals united by a common corporate culture.

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The Year’s Focus: Enhancing Production in the Caspian Region

Heavy investment in mature oilfields is now a primary focus for operators in Kazakhstan as oil production declines year on year. Significant portions of funding will be directed towards the Tengiz and Karachaganak fields over the coming 13 years, but the languishing Kashagan field will absorb the lion’s share of reserved funds. Innovative extraction technologies are now being used in an attempt to maintain production at maturing fields.
Marine & Logistics

The Kazakh government's New Silk Road initiative promises to boost trade, diversify the economy and create jobs. To this end, portions of state-owned companies will be offered for sale to private investors. Despite these plans, the country's marine and logistics sectors remain heavily dependent on the oil and gas industry and face hardship after project delays at Kashagan. However, new offshore developments offer hope for growth in the sector.

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National transformation

National oil and gas company KazMunayGas (KMG) is heavily involved in the exploration, production, refining and transportation of Kazakhstan’s hydrocarbons. Sauat Mynbayev, chairman of KMG, talks to TOGY about the company’s plans – both domestic and global – and its coming transformation under Kazakhstan’s new programme for improving corporate governance.

The expectations of the country’s oil and gas industry centre on its three major fields: Tengiz, Karachaganak and Kashagan. What are the prospects for these operations? The development plans of these three projects have a direct influence on the long-term macro-economic indicators of Kazakhstan.

Due to KMG’s recommended expansion projects, annual oil production from these fields is expected to increase to around 283 million barrels by 2022, with KMG’s share of this totaling an estimated 56.5 million barrels.

An expansion project for the onshore Karachaganak operation is being considered. This would envision an annual stable production of more than 73 million barrels of liquid hydrocarbons when the Karachaganak field is further developed and expanded as planned. Furthermore, total natural gas production from these fields by 2022 is likely to increase to 61.7 bcm (2.18 tcf) per year. This uptick would mainly be due to more drilling activities in Karachaganak and the resumption of production in the offshore Kashagan field.

Could you outline KMG’s development goals? KMG’s main objectives are to maximise our shareholders’ value by increasing our assets’ worth in the long term and to contribute to the modernisation and diversification of the economy of Kazakhstan. Our central tasks are to increase the scope and success of exploration activities with the purpose of incrementally growing our reserves, expanding oil and gas production, improving the transportation of hydrocarbons, modernising the country’s refineries, upgrading the quality of petroleum products and ensuring greater access to them in the domestic market.

Furthermore, KMG aims to develop the oilfield services sector and increase its levels of innovation and technology, in addition to establishing an effective and transparent system of assets management in the sector. KMG’s development strategy involves plans to increase the production of oil and gas until 2022.

Will KMG expand its activities abroad? Kazakhstan produces around 607 million boe of oil and gas condensate annually. More than 80 percent of its hydrocarbons are exported. The country’s oil exports could grow substantially once production restarts in the super-giant Kashagan oilfield, as is anticipated for early 2016. Kazakhstan is developing two major export routes to China and Europe, a necessary move for balanced growth. We are considering development possibilities for our international division in the areas of refining and marketing.

Recently, Samruk-Kazyna, the national welfare fund, announced a programme to modernise and transform corporate governance. Has KMG created a plan for this transition? In 2012, President Nursultan Nazarbayev set a goal for Kazakhstan to become one of the 30 most developed countries in the world by 2050. With this objective, Samruk-Kazyna began working on transforming the KMG group of companies.

The aim of the modernisation and transformation programme is to implement the best practices, technologies and standards in the company’s management. KMG is constantly working to improve its corporate leadership.

In particular, a divisional management structure is going to be implemented, allowing the transition to a centralised management based on common standards, unified business procedures and shared tools to help the flow of information from the bottom up.

What levels of hydrocarbons production did KMG see in 2013 and 2014? Almost all of our indicators, including the exploration of oil and gas, illustrate positive tendencies in 2013 and the first half of 2014.

In comparison to 2012, the consolidated volume of oil and gas condensate produced by the KMG group of companies rose by 9.8 percent in 2013, or 166 million boe, while production of natural and associated gas increased by 25.3 percent, or 6.9 bcm (244 bcf).

KMG’s share of the country’s oil and gas production reached 27.7 percent in 2013. Kazakhstan saw an upward trend in hydrocarbons production during the first eight months of 2014.

The volume of oil and gas condensate output reached 109 million boe in this time, an increase of 1 percent when compared to the same period in 2013. Comparing the same two periods, production of gas also rose by 5 percent in 2014.

KAZAKHSTAN 2014

IN FIGURES

KMG’s 2013 share of oil and gas production in Kazakhstan 27.7 percent

The country’s oil and gas condensate production in the first eight months of 2014 109 million boe
THE YEAR’S AWARDS – KAZAKHSTAN 2014

MAN OF THE YEAR

XINGYUN Sun

Since the appointment of Xingyun Sun as general director of Mangistaumunaigas in November 2012, the company has become the third-largest producer of hydrocarbons in Kazakhstan. Jointly owned by KazMunayGas and China National Petroleum Corporation, Mangistaumunaigas is a key example of China-Kazakhstan co-operation, and highlights how modern technologies are being used in maturing fields such as Kalamkas and Zhetybai to maintain and increase output. Xingyun advocates increasing oil production alongside Kazakh content. He believes that market liberalisation will develop the domestic oil and gas industry through knowledge transfer and the introduction of advanced equipment.

UPSTREAM PROJECTS OF THE YEAR

Chevron-led consortium Tengizchevroil (TCO) is the largest oil and gas producer in Kazakhstan. It is working on a major expansion project that will increase output at the Tengiz field to 800,000 barrels of oil per day by 2019. The Future Growth Project aims to expand production, while the associated Wellhead Pressure Management Project will maintain production at existing facilities. More than 800 kilometres of pipelines will be installed and 125 new wells will be drilled in 2014-2017. TCO plans to spend $7.8 billion on local goods and services for the projects.

DOWNSTREAM PROJECT OF THE YEAR

To develop Kazakhstan’s downstream industry, President Nursultan Nazarbayev’s administration decided to invest heavily in the modernisation of the country’s three refineries: Atyrau, Shymkent and Pavlodar. The reconstruction of the Atyrau Refinery, owned by KazMunayGas Refining and Marketing, is expected to raise output to 1.5 million tonnes of high-quality petrol yearly after it is completed in 2016. The cost of the Atyrau upgrade will be at least $2.9 billion. The initiative to upgrade the ageing refineries will provide Kazakhstan with Euro 4 and Euro 5 standard fuel.

JOINT VENTURE OF THE YEAR

The Kazakhstan Project Joint Venture comprises Fluor (30 percent) WorleyParsons (30 percent), KazMunayGas subsidiary Kazakh Institute of Oil and Gas (20 percent) and local engineering design firm KazGiproNefteTrans (20 percent). The participation of the two local companies will accelerate development of the engineering and construction skills of the Kazakh workforce. The transfer of knowledge from the multinational corporations to the local design engineering firms is essential for the long-term development of the country’s engineering and construction industries.

MARITIME PROJECT OF THE YEAR

KazMorTransFlot (KMTF), the soon-to-be-semi-privatised national maritime company, is in the process of building two LNG-fuelled railway ferries, which will be used for the Aktau-Baku ferry line in 2016. These vessels will benefit KMTF financially while meeting international environmental standards. This project contributes to Kazakhstan’s Future Energy initiative and the additional vessels will be conducive to the company’s goal of developing its presence in the open sea. KMTF expects to increase its load-carrying capacity to at least 1 million tonnes in the near future.

LOGISTICS PROJECT OF THE YEAR

The Kazakh government has prioritised the expansion of the Port of Aktau, especially regarding the diversification of imports and exports of dry cargo. The construction of three dry cargo terminals in Aktau began in July 2014 and will expand the capacity of the port and attract foreign investment. In November 2013, the Emirati marine terminal operator DP World agreed to provide management advisory services for the Port of Aktau. DP World’s assistance will harmonise the logistics chain from China to Aktau, benefiting both oil and non-oil industries in Kazakhstan.
KAZAKHSTAN AT A GLANCE

**GEOGRAPHY**
- Area: 2,724,900 square kilometres
- Capital: Astana
- Climate: low of -54 degrees Celsius and high of 46 degrees Celsius
- Official languages: Kazakh, Russian
- Population: 17.4 million (January 2014)

**POLITICS**
- Political system: Presidential republic
- President: Nursultan Nazarbayev

**ECONOMY**
- Currency: Tenge ($1: KZT181.080)
- GDP: $224.4 billion (2013)
- Inflation: 5.8 percent (2013)

**COMMERCE**
- Petroleum net liquids exports: Around 1.4 million barrels per day (2012)
- Proven crude oil reserves: 30 billion barrels (2013)
- Total oil production: 1.79 million barrels of oil per day (2013)
- Proven gas reserves: 1.5 tcm (53 tcf) (2013)
- Natural gas production: 18.5 bcm (653 bcf) (2013)

Sources: Ministry of the National Economy of the Republic of Kazakhstan, CIA World Factbook, World Bank, EIA, Observatory of Economic Complexity, Tengizchevroil
With a rating of 67.95, down from 88 in 2013, oil and gas executives in Kazakhstan expressed mixed feelings towards the economic environment of the industry. Business confidence was hampered due to further delays in the Kashagan block, devaluation of the Kazakh tenge and falling oil prices.

The expansion of major fields such as Tengiz and Karachaganak, and the government’s promise to reinvest a significant percentage of the National Oil Fund back to the industry has maintained some positivity in the country’s hydrocarbons industry.

Major challenges, including retaining an adequately skilled local labour force and a lack of transparency, are more openly discussed. Furthermore, proposals for a new subsoil use law highlight the government’s intention to further liberalise the energy industry for foreign and local investors.

**BUREAUCRACY:** Nearly half of the index respondents said that while the government’s policies were pro-business, restrictions hindered progress within the energy business. Around 34 percent of respondents claimed that doing business in Kazakhstan was still difficult. Problems such as financing issues, renewal of subsoil contracts and lack of efficiency are major concerns for senior personnel.

In August 2014, President Nursultan Nazarbayev merged several government departments together and downsized the number of ministers holding Cabinet posts to accelerate the decision-making process. Vladimir Shkolnik, having served twice as a minister, was appointed minister of energy.

The decision to reshuffle the Cabinet and decrease its size could help create a more transparent oil and gas market. Only 58.62 percent of oil and gas executives responded that the oil and gas market in Kazakhstan was either very transparent or transparent.

**STILL STABLE:** Only small and localised protests erupted after the devaluation of the tenge by 19 percent in February 2014 and the increase of petrol prices at filling stations across the country in August 2014. Close to 80 percent of respondents believe the political and economic environment in the market is highly stable or stable. Although GDP growth declined in comparison to 2012 and 2013, the Kazakh economy is still growing more than 4 percent annually, and there are worries that the current crisis in Russia, one of the country's largest trading partners, could negatively impact the domestic economy.

**ABOUT THE INDEX:** The TOGY Investors Index is designed to measure confidence among oil and gas investors as expressed in their level of spending in a given market. The index is valued based on responses to a survey, conducted by TOGY, of the local market. A score above 50 percent on the index shows a positive perception among oil and gas industry investors, while a reading below 50 indicates pessimistic outlooks.

**How would you describe the policies of Kazakhstan’s government vis-à-vis the oil and gas industry?**

- Pro-business: 31.03%
- Pro-business, but restrictive: 48.28%
- Anti-business, but accommodating: 20.69%
- Anti-business: 0%

**How would you describe the ease of doing business in Kazakhstan?**

- Very easy: 17.24%
- Easy: 44.83%
- Difficult: 34.48%
- Extremely difficult: 3.45%

**How would you rate the level of transparency in the Kazakh oil and gas market?**

- Very transparent: 3.45%
- Transparent: 55.17%
- Not transparent: 41.38%
- Corrupt: 0%

**How would you rate the level of political and economic stability in the Kazakh oil and gas market?**

- Highly stable: 13.79%
- Stable: 65.52%
- Unstable: 20.69%
- Highly unstable: 0%

**Source:** The survey was conducted by The Oil & Gas Year in Kazakhstan between June and November 2014
Structure of the Ministry of Energy

Minister
Vladimir Shkolnik

- The Audit and Control Department
- Safety of State Secrets Administration
- Press Centre
- Administration of Mobilisation Training

First Deputy – Uzakbay Karabalin
Vice-Minister – Magzum Mirzagaliyev
Vice-Minister – Bakytzhan Dzhaksaliyev
Vice-Minister – Taigat Ahsambiyev
Executive Secretary – Kanatbek Safinov

Departments & committees
- Department of Subsurface Use
- Department of Oil Development
- Committee on Environmental Regulations, Control, State Inspection in the Oil Sector
- Department of Petrochemical Industry Development and Technical Regulation
- Department of Gas Development
- Department of International Co-operation and Integration Processes
- Department of Electric Power Industry
- Department of Coal Industry Development
- Department of Nuclear and Energy Projects Development
- Committee on Nuclear and Energy Supervision and Control
- Department of Waste Management
- Department of Climate Change
- Department of Renewable Energy
- Department of Green Energy
- Department of Ecological Monitoring and Information
- Department of Strategic Planning and Analysis
- Department of Administrative Work
- Department of Financial and Budget Procedures
- Department of Informational Technologies
- Legal Department
- Committee on the Development of Employees

Associations and state enterprises
- PSA LLP
- Oil and Gas Informational and Analytical Centre
- Public Institution – Kapitalneftegaz
- Management Company of the Special Economic Zone of Kazakhstan
- Nuclear Technologies Park
- Dostyk Energo
- State Enterprise – Karagandakvishdaukhst
- State Enterprise – National Nuclear Centre of Kazakhstan
- State Enterprise – Nuclear Science Institute
- State Enterprise – Geophysical Study Institute
- Research and Production Association Eurasian Water Centre
- Kazarservice
- Zhaysyl Damu
- State Enterprise – Kazgidromet
- State Enterprise – Centre of Information and Analysis on Environmental Safety
KazTransGas borrows $700 million from the Development Bank of China to complete the Beineu-Bozoi-Shymkent pipeline, which will transport natural gas from Turkmenistan to China.

China National Petroleum Corporation and KazMunayGas sign a memorandum of understanding to build an oilfield equipment plant at Aktau Seaport Special Economic Zone.

China National Petroleum Corporation and KazMunayGas sign a memorandum of understanding to build an oilfield equipment plant at Aktau Seaport Special Economic Zone.

JAN

Munaimash launches a project to modernise machine production for oil and gas equipment.

FEB

The Central Bank of Kazakhstan devalues the tenge by 19 percent, triggering small-scale social unrest.

MAR

Sauts Oil, Maten Petroleum and Tengizchevroil decide to increase employee salaries by 10 percent due to the devaluation of the tenge.

APR

2014

01 The Agency for Regulation of Natural Monopolies increases diesel fuel prices in the country, but decides against a rise in petrol prices.

06 The Aktyubinsk Herald reports that labour disputes disrupt operations at Batys-Munai, Vostokneft and Service, Great Wall and CNPC-ATK, with drilling activities at a standstill.

07 Baltabek Kuanykov, president of the Association of Petroleum Geologists, says Kazakhstan will drill a well to a depth of 14 kilometres in 2015.

08 A case brought by the then-Ministry of Environmental Conservation concludes with a penalty of more than $700 million against Kashagan consortium members.

11 The Central Bank of Kazakhstan devalues the tenge by 19 percent, triggering small-scale social unrest.

16 Sinopec agrees to pay $1.2 billion to acquire Lukoil’s 50 percent share of Caspian Investment Resources.

20 Former Minister of Oil and Gas Uzakbay Karabalay announces oil flow at Kashagan may not restart until early 2016 due to the lengthy procedure of replacing kilometres of pipes.

20 Talpar Energy Services workers call for strike action after wages pending from December 2013 were not paid to employees.

23 China National Petroleum Corporation and KazMunayGas sign a memorandum of understanding to build an oilfield equipment plant at Aktau Seaport Special Economic Zone.

25 Deputy Minister of Oil and Gas Magzum Mirzagaliyev announces that the offshore Abay oil block has been offered to ONGC Videsh.

25 The Kazakh government approves the draft of the gas provision programme, which will help improve access to gas for around 56 percent of the country by 2030.

28 KazTransGas borrows $700 million from the Development Bank of China to complete the Beineu-Bozoi-Shymkent pipeline, which will transport natural gas from Turkmenistan to China.

29 Russia and Kazakhstan decide to prolong their intergovernmental agreement in the oil and gas industry until 2025, extending the initial deadline of 2019.

Max Petroleum completes the drilling of the SAGW-11 appraisal well at Sagiz West and reports that the well is not commercially viable for production.

Deputy Minister of Oil and Gas Magzum Mirzagaliyev announces that the offshore Abay oil block has been offered to ONGC Videsh.

KazMunayGas decides to conclude a withdrawal from KMG Kashagan BV shareholders structure. The deal is equivalent to more than 25 percent of all assets held by the national oil company.

Former Minister of Oil and Gas Uzakbay Karabalay announces oil flow at Kashagan may not restart until early 2016 due to the lengthy procedure of replacing kilometres of pipes.

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THE YEAR IN ENERGY
Local company Roxi Petroleum announces the discovery of oil at its BNG asset 40 kilometres southeast of Tengiz in the Pre-Caspian Basin. Oil and gas shows were detected at depths of 4,332 metres.

KazMunayGas decides to privatise Romanian subsidiaries Palplast, Zalau and Global Security System along with 49 percent of shares of national marine company KazMorTransFlot.

KazMunayGas and Eni sign a co-operation agreement to construct a ship-building plant near Aktau.

Minister of Energy Vladimir Shkolnik announces that by 2020, oil production in Kazakhstan will exceed 2 million barrels per day while gas production is expected to increase five-fold.

President Nursultan Nazarbayev reshuffles his Cabinet, reducing the number of ministries and creating a large Ministry of Energy with Vladimir Shkolnik as the new minister.

President Nazarbayev reveals during a summit in Dushanbe that around 20 percent of Kazakh oil is extracted by Chinese companies.

The Zharkum gasfield experimental-industrial operation is launched. The field has 833 mcm (29.4 bcf) of dry gas and 26,000 tonnes of condensate reserves.

First Deputy Minister of Energy Uzakbay Karabalin says AI-92 petrol and diesel prices will drop due to the decline in global oil prices.

President Nazarbayev reveals during a summit in Dushanbe that around 20 percent of Kazakh oil is extracted by Chinese companies.

KazMunayGas and Eni sign a co-operation agreement to construct a ship-building plant near Aktau.

KazTransGas began construction on a $127 million pipeline connected to the Beineu-Bozoi-Shymkent pipeline to provide gas to the city of Baikonur.

KazMunayGas extends the deadline for completing the sale of its three assets to HanHong, a Chinese investment firm, until May 1, 2015.

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First Deputy Minister of Energy Uzakbay Karabalin says AI-92 petrol and diesel prices will drop due to the decline in global oil prices.

Minister of Energy Vladimir Shkolnik confirms that it will correct its forecasts from $80 per barrel to as low as $50 per barrel due to the fall in oil prices.
15  A bridge between East and West

18  New hires ride an energy wave
    Yedil ZHANGBYRSHIN
    Mayor of Aktau

19  Maximise opportunities
    Daurzhan AUGAMBAY
    General Director
    KAZSERVICE