

# OIL&GAS

If we look at countries as a kind of business structure, the year 2020 has become a litmus test, exposing all the problems of oil and gas producing countries. The new-fangled trend of anti-fragility suggests that logically we should become stronger and tougher in these difficult times. During OPEC's latest meeting on December 3rd, an agreement was reached to increase oil production by 0.5 million bpd instead of the planned 2 million bpd. Also at this meeting for the third time in a row, the cartel worsened the forecast of global oil demand.

There are 51 oil-producing countries in the world, according to OPEC's Annual Statistical Bulletin 2020. Kazakhstan's total oil reserves amount to

about 30 billion barrels or 1.7% of the world's reserves. According to this indicator, Kazakhstan ranks 12th in the world in terms of oil and condensate reserves, behind the countries of the Middle East, Latin America, as well as Russia and the United States.

According to EDIN and Vantage Data as of January 18, 2020, with the exception of unconventional reserves in North America (such as continental oil in the US and oil sands in Canada), Kazakhstan is among the top 5 non-OPEC countries by remaining 2P oil reserves (probable reserves – PRB) according to PRMS classification

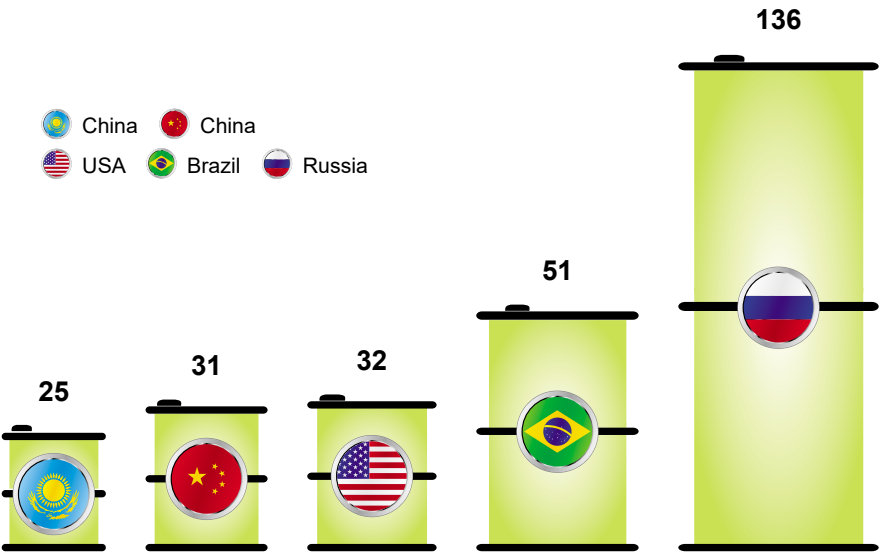
In turn, it is no secret that the oil and gas industry is the leading sector of Kazakhstan's economy. The oil and gas sector generates a significant portion of the country's total tax revenues, as well as export earnings, and is the sector of interest for most foreign direct investment. Over the last decade, foreign direct investment in Kazakhstan's oil and gas industry has totaled more than \$70 billion. The wide presence of world leaders in the energy industry testifies to the region's attractiveness to investors.

The fuel and energy complex is one of the key factors of Kazakhstan's socio-economic development and

integration of the country into the global economy, and the oil industry in particular is of paramount importance for Kazakhstan's economy. The FEC accounts for about 20.4% of Kazakhstan's total GDP and about 60% of all export revenues.

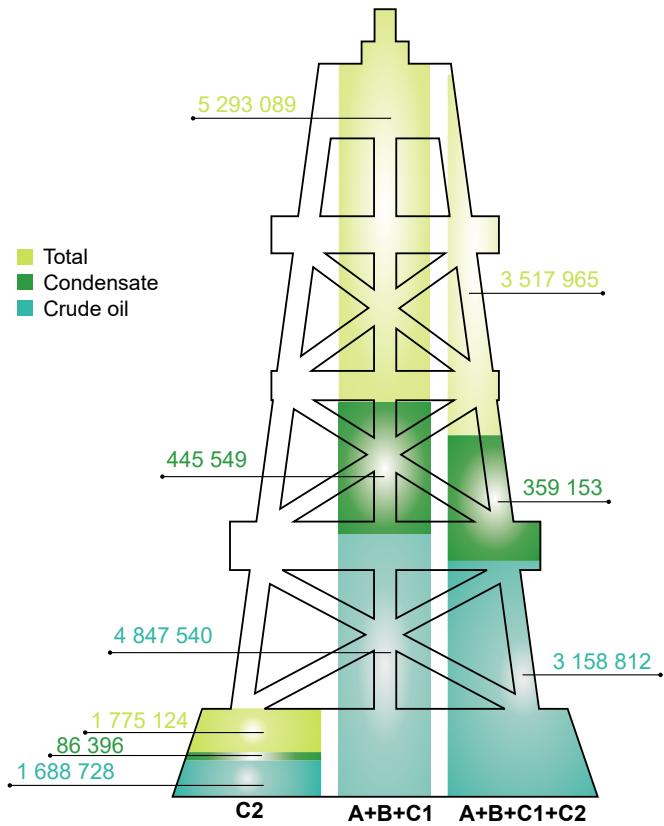
According to the State Commission on Mineral Reserves, liquid hydrocarbons (oil and gas condensate) in Kazakhstan amount to 5.3 billion tons, of which 4.8 billion tons are oil reserves and the rest (445 million tons) are gas condensate reserves. Officially, Kazakhstan has 332 fields (271 oil fields and 61 gas condensate fields)

POSITION IN THE TOP 5 NON-OPEC COUNTRIES BY CONVENTIONAL OIL RESERVES.  
AVAILABLE 2P OIL RESERVES, BLN BARRELS (2019)



Source: IHS Markit, KMG Annual Report 2019

PROVED AND PROBABLE OIL AND GAS CONDENSATE RESERVES  
IN KAZAKHSTAN, TH. TONS



Source: National Energy Report, IHS Markit

There are more than 250 oil and gas fields operating in Kazakhstan, with 104 producing enterprises. Annual production growth over the past 10 years has been from 1% to 5% per year, producing about 90 million tons of oil per year for the last two years, including gas condensate. These production volumes are almost 2.5 times higher than in the 2000s. As of November 2020, production was 78.5 million tons.

If we extract more, we earn more: according to the IHS Markit baseline scenario, Kazakhstan's production of crude is expected to rise to 148.3m tons in 2040.

The overall dynamics of oil production in Kazakhstan will still largely depend on three large-scale projects: Tengiz, Karachaganak and Kashagan. In addition to the above-mentioned fields, the three “mega projects” operated by TCO, KPO and NCOC are the main centers of crude production growth in Kazakhstan.

IHS Markit's forecast assumes growth in the number of new projects of relatively small scale during the forecasted period, as well as a relatively slow decline in production at Kazakhstan's old operating fields, due to the wider application of new technologies and operating methods.

Crude oil and gas accounts for about 60 % of export revenues, with Italy, the Netherlands and France being the leading importing countries of Kazakhstani oil in 2019. Abstracting and comparing, all things being equal, what these countries produce from our oil and what we do in Kazakhstan, a niche horizon of capital-intensive industries and investment opportunities open

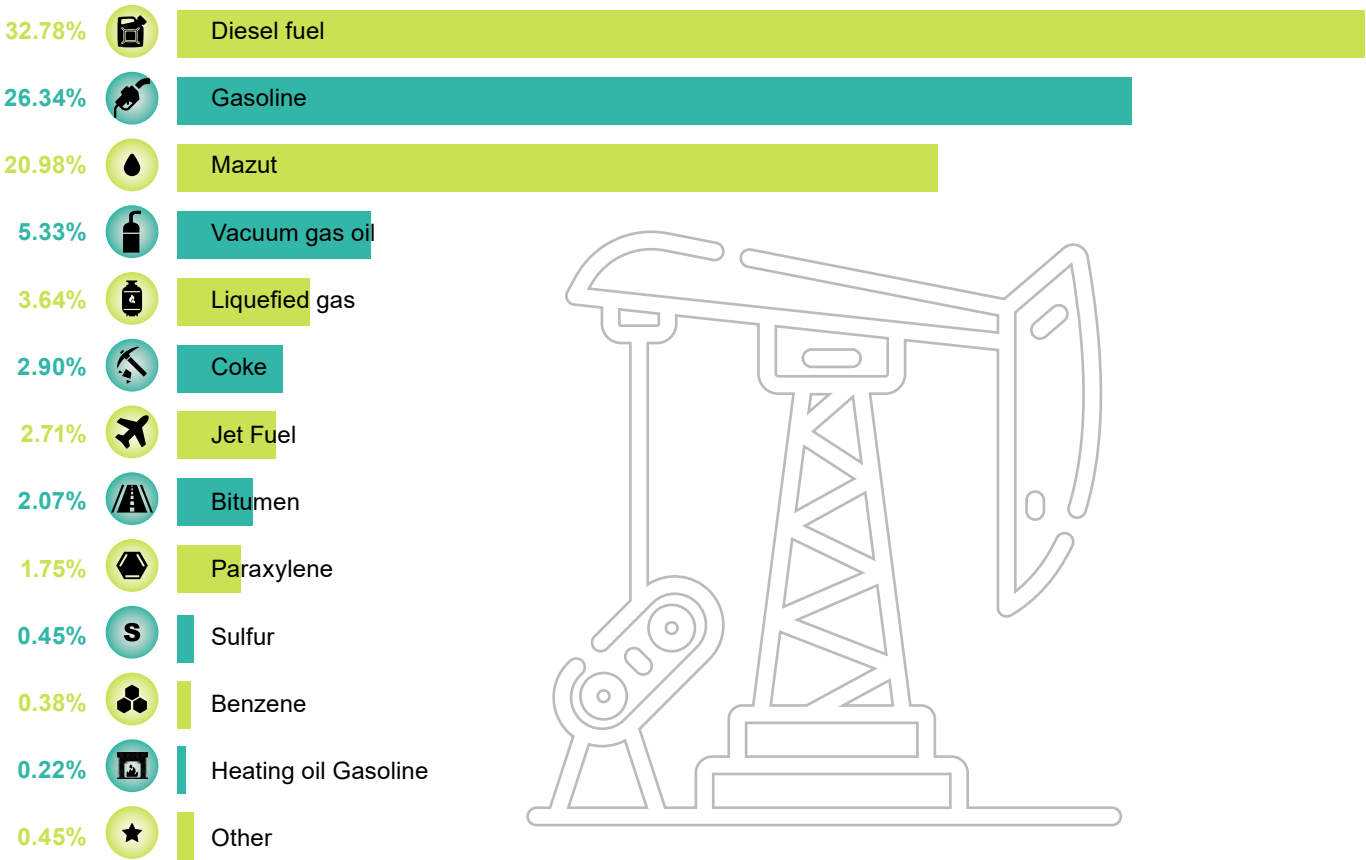
up for development of new final products of oil refining in our country.

Right now, there are three refineries in Kazakhstan, Atyrau, Pavlodar and Shymkent. All of them were built during the Soviet era, and just a couple of years ago they did not meet the country's needs for oil products. Then the authorities decided to modernize the existing refineries, which was completed last year. This transformation costed \$6.3 billion. After the modernization in 2018, the Atyrau refinery processed 5.27 million tons, the Pavlodar petrochemical plant – 5.34 million tons, and the Shymkent refinery – 4.73 million tons of oil.

According to studies conducted by Rosneft specialists, the most common oil products are fuels. These are diesel fuel, mazut, jet fuel, and, of course, gasoline, the most popular oil product among the people. It accounts for 50 % of the total volume of oil products produced in the world. The second most popular product, perhaps, is plastics. Currently about 180 million tons of plastics are produced in the world each year.

In Kazakhstan, the situation is as follows, the main share of sales of refined petroleum products also accounts for petroleum products, in particular diesel fuel. But in general, goods produced from oil components are used for industrial purposes, mainly in the manufacturing of household items and consumer goods, medicine, cosmetology, and in almost all spheres of human life. We live among oil, we sell oil, we wear clothes made of it.

WHOLESALE OF REFINED PRODUCTS



Source: KMG data 2019

At the conclusion of a series of analytical reviews of business areas, with significant experience in consulting, valuation services and well positioned to act as an external advisor. The team at Baker Tilly is pleased to provide a fresh perspective on investments in this industry; by carrying out a market study of the project or develop a feasibility study in order to attract funding. We have significant experience in industry valuation consulting, asset valuation, subsoil use rights, evaluation of stakes in the manufacturing sector, as well as the large mining and processing sector.

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*Baker Tilly  
Aigerim Mamaeva, Daniel Tufaili*