



Kazakhstan Highlights

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Country Regions



Reserves

900 th. sq km of the territory of the country is explored for oil and gas reserves

Total forecasted recoverable reserves of hydrocarbons - 17 bln tonn, including 8 bln tonn – in the Kazakh part of Caspian

Kazakhstan – top 15 world countries with the largest proved hydrocarbons reserves.

Kazakhstan possesses 3.3% of the world hydrocarbons' reserves
recoverable oil reserves – 4.8 billion ton
recoverable gas reserves - 3.7 trillion cub m
(estimated additional reserves of 6 - 8 trillion cub m)

Reserves

Oil and gas bearing zones occupy more than 62% of the country's territory.

15 largest fields - more than 90% of reserves

- Tengiz, Kashagan, Karachaganak,
- Uzen, Zhetybai, Zhanazhol,
- Kalamkas, Karazhanbas, Kumkol and others.

50% of reserves – Tengiz and Kashagan.

Oil&Gas fields are located on the territory of 6 out of 19 regions of Kazakhstan (70% on the West

- Atyrau
- Mangistau
- West Kazakhstan
- Aktobe
- Kyzylorda
- Karagandy

Reserves

Extractable gas deposits as of 01.01.2010 г. – 3.7 trln. cub. m



Production

More than 70% of production volumes – are currently secured by foreign investors from the USA, China, Russia, EU and large multinationals ExxonMobil, Chevron, Agip, BG, BP/Statoil, Shell, Total, INPEKS, Philips, Lukoil, Oman Oil, Eni and other.

In 2009 production was – **76.5** mln tonn (8.3% increase, export 68,1 mln tonn – 8.4% increase).

Major producers (2009):

TengizChevroil” LLP (TCO) (22.5 mln ton),
Karachaganak Petroleum Operating BV” (KPO bv.) (11,9 mln ton),
Kazmunaigas Exploration & Production (KMG (8.9 mln ton),
JSC “CNPC-Aktobemunaigas” (6 mln ton), and
MangistauMunaiGas (5.7 mln ton).

2014 Production Plans

Oil production increase to 85.0 mln ton (111.1%);
Export of oil increase to 75.0 mln ton (110.1%);
Increase gas production - 55.8 mlrd cub m (155.0%);
Explored reserves – would be around 300 mln ton.

Industry Development plans

- Shore infrastructure
- Increase processing volumes of crude oil
- Increase quality of processed hydrocarbons
- Develop legislative base;
- Enhance local content – acquisition of goods - 16%, works and services - 85% local employees
- Utilization of contemporary gas - not less than 95% in 2012

Hot Non-tax Issues

Local content

to increase LC to ensure development of other sectors and increase employment

2009 new “local content” definition – an entity with local employees of not less than 95% citizens of the RK

LC shall be increased from 5 to 16% (goods) , 79 – 85% (works and services)

Exploration rights

state control over fulfillment of contractual obligations

monitoring

State participation in main projects (Kazmunaihas – National Oil company)

Enhance investments to the processing enterprises

Solve ecology problems

Budget revenues from Oil&Gas producers

State revenue share – 40.5%

Payments to the Oil&Gas National Fund 36,3% of state revenues

Investments to resources sector 21.4 bln USD.

Although major tax rates were reduced:

- CIT 20%
- VAT 12%
- Property tax imposable on immovable property only at 1.5%
- Social tax 11%
- Personal income tax – 10% and etc

Budget revenues from oil gas constitute significant amounts.

Export duties

Raw oil - 40 USD per 1 ton;

Light processed hydrocarbons 99.71 USD per 1 ton;

Dark processed hydrocarbons 66.47 USD per ton.

Corporate Income Tax

CIT calculation is based on the IFRS accounting

Many references to IFRS but tax treatment is not always like IFRS

Tax Policy requirements

Starting from 2009 - No stability for tax regimes, any more;

New rules on ring fencing

deep processing – non contractual

calculation of income for contractual activities (COP*1.2)

Mining expenses capitalization and amortization rules

Thin Capitalization – restricted deductions of interest on related parties
loans

Rent tax

Rent tax on exportable oil

Payers of rent tax on exports shall be individuals and legal entities exporting crude oil, gas condensate

The tax base for calculating rent tax on the export of crude oil and gas condensate shall be the value of the exportable crude oil and gas condensate calculated based on the actual volume of exportable crude oil and gas condensate and the world price

World price shall be identified for each tax period (a calendar quarter). The reference for the world price is made to the official site of the Tax Committee of the Ministry of Finance www.salyk.kz.

The rate of the rent tax varies from 0 to 32 USD per barrel depending on the price of crude oil.

Mineral Extraction Tax

The taxable base equals the production volume at a sales price/ COP *1.2 or world price effective at each day.

Rates vary from 5 to 18% depending on the annual production volume:

5% applies to annual production of 250 th ton

18% applies to annual production in excess of 10 mln ton of crude oil.

Excess Profit Tax

Calculation **Excess Profit Tax (“EPT”)**:

EPT liability arises when the ratio of net income to deductions allowable for EPT purposes is more than 25% for the reporting tax period (which is calendar year).

Taxable income for EPT purposes = gross annual income (“Contractual income”) less deductions (including capital expenditure from the current financial period).

EPT only applies to income earned directly from the SSUC and does not apply to income from non-contractual activities (“Non-Contractual Activities”).

Transfer pricing

All foreign trade transactions are subject to transfer price scrutiny.

However mainly applies to companies exporting mineral resources

Any deviation from a price from the official source shall be confirmed by source documentation or the price information from the official source

No deviation is allowed to a sales price to countries with concessional tax regime.

Each major company shall develop policies and procedures document to prove its pricing methodology

Transfer pricing

The key areas of the new transfer pricing legislation are as follows:

New transfer pricing law introduces the concept of the “arm’s length principle”. Under the “arm’s length principle”, the terms of transactions between related parties should be compared with the terms of transactions between unrelated parties in comparable economic conditions.

In order to bring transaction prices and market prices (prices used between unrelated parties) into comparable economic conditions, a so-called “differential” is used, which represents the amount of adjustment applied for this purpose. A list of components of the differential is very restrictive, that contradicts the “arm’s length principle” applied in the international practice.

Transfer pricing

According to the law, differential may include the following components:

Direct distribution costs required for delivery of goods to the appropriate market (e.g. freight, insurance, custom clearance, banking costs, etc.);

Adjustment for quality;

Broker's margin (compensation for sales and marketing activities);

Other factors, such as seasonal demand fluctuations, marketing policy for new products, existence of a trade mark, etc.

However, differential does not include other comparability factors, such as pricing risks, country risks, credit risks and other factors, which may affect the price, but which are difficult to measure.

The new law stipulates that the moment of sale of goods for purposes of determining the market price shall be recognised as the date when transfer of the ownership rights to the buyer takes place (spot prices).

Withholding tax on non residents income

- **Service income – 20%**
- **International transportation – 5%**
- **Capital gain, dividends, interest, royalty -15%**
- **Any income payable to residents of countries with concessional tax regime – 20%**

Taxation of capital gains

Capital gain income from Kazakh sources includes:

capital gain from sales of shares issued by a non resident or share participation in a nonresident legal entity if 50 and more percent of value of such shares and share participation represents property located in the RK.

However, the taxable gain arises only if the property is subject to registration with the state bodies, or shares and share participation directly or indirectly involve property of a subsoil user.

A double tax treaty may prevent from the above taxation – however the 50% or more percent immovable property rule (mainly comprise of) shall be applied, as established by some treaties.

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Tax treaty countries:

in total 40 with various countries