

On approval of the Rules (methodology) for natural gas pricing

Unofficial translation

Decree of the Government of the Republic of Kazakhstan dated November 12, 2015 No. 892.

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In accordance with subparagraph 3) of paragraph 10 of Article 10 of the Law of the Republic of Kazakhstan “On transfer pricing” dated July 5, 2008 the Government of the Republic of Kazakhstan **RESOLVES**:

1. To approve the attached Rules (methodology) for natural gas pricing.
2. This resolution shall come into effect upon expiry of ten calendar days after the day its first official publication.

*Prime Minister
of the Republic of Kazakhstan*

K. Massimov

Approved by
Resolution No. 892 of the
Government of
the Republic of Kazakhstan
dated November 12, 2015

The Rules (methodology) for natural gas pricing

1. General provisions

1. These Rules (methodology) for natural gas pricing (hereinafter referred to as the Rules) are developed in accordance with the Law of the Republic of Kazakhstan “On transfer pricing” dated July 5, 2008 (hereinafter referred to as the Law) and shall establish the procedure for determining (calculating) selling prices of natural gas for all transactions concluded in accordance with contracts for the sale of natural gas, which are subject to control during transfer pricing, with the exception of gas exchange deals.

2. The following terms and definitions shall be used in these Rules:

1) long-term contract – the contract for sale and purchase of natural gas, concluded under agreements between the Government of the Republic of Kazakhstan and the Government of the Russian Federation on cooperation in the gas industry dated November 28, 2001 and on cooperation in the creation of a business entity based on the Orenburg Gas Processing Plant dated October 3, 2006;

2) transaction price – selling price of natural gas, expressed in United States dollars (hereinafter referred to as the USA) and calculated in accordance with the provisions of these Rules;

3) price from sources of information – price expressed in USD, published under the European products heading, FOB Med (Italy) in the European Market Scan Basic Service of The McGraw-Hill Companies (Platts) publishing house.

2. The order for determining the price of transaction (sale) for natural gas

3. For natural gas sale and purchase contracts, the transaction (sale) price shall be calculated using the following formula:

$$P_n = P_0 \times \left(0,40 + 0,60 \times \left(0,15 \times \frac{G}{G_0} + 0,45 \times \frac{LSFO}{LSFO_0} + 0,40 \times \frac{HSFO}{HSFO_0} \right) \right) - D$$

where:

P_n – natural gas transaction price;

P_0 - base price for natural gas, determined in a long-term contract at the date of conclusion, multiplied by a coefficient determined by legal entities appointed by authorized organizations in agreements between the Government of the Republic of Kazakhstan and the Government of the Russian Federation on cooperation in the gas industry dated November 28, 2001 and on cooperation in the creation of a business entity based on the Orenburg Gas Processing Plant dated October 3, 2006;

G – price from gas oil information sources (0,1 %);

G_0 – base price for gasoil (0,1 %), defined in long-term contract;

$LSFO$ – price from information sources for low-sulfur fuel oil (1 %);

$LSFO_0$ – base price for low-sulfur fuel oil (1 %), defined in long-term contract;

$HSFO$ – price from information sources for high-sulfur fuel oil (3,5 %);

$HSFO_0$ – base price for high -sulfur fuel oil (3,5 %), defined in long-term contract;

D - the differential, taken into account depending on the conditions for the supply of natural gas, defined in purchase and sale of natural gas contract, used to bring the transaction prices for natural gas into comparable economic conditions in accordance with the legislation of the Republic of Kazakhstan on transfer pricing and determined taking into account the provisions of paragraphs 5 and 6 of these Rules.

Quantities G , $LSFO$ and $HSFO$ shall be the arithmetic average of prices from information sources for each month for 9 months immediately preceding January 1, April 1, July 1 or October 1.

Upper and lower limits of price fluctuations (P_n) make up plus or minus 12,5 % of P_0 .

Footnote. Paragraph 3 with amendments introduced by Resolution of the Government of the Republic of Kazakhstan No. 829 dated 20.12.2016 (shall come into effect from 01.01.2016).

4. The provisions of these Rules shall be applied to all transactions concluded in accordance with contracts for the purchase and sale of natural gas, which are subject to control during transfer pricing, arising from the date of conclusion of long-term contract, with the exception of gas exchange deals.

5. For the purposes of insuring the price of natural gas transactions into comparable economic conditions, the differential shall include reasonable and confirmed by documents and (or) by sources of information the costs on transporting natural gas from the delivery basis defined in the long-term contract to the delivery basis where the natural gas sale (transfer of ownership) takes place. During the sale of natural gas on the basis of the DAP supply, the border of the Republic of Kazakhstan/Russian Federation, "Aleksandrov Gai gas measuring station", the differential value shall be zero.

Footnote. Paragraph 5 as amended by Resolution of the Government of the Republic of Kazakhstan No. 829 dated 20.12.2016 (shall come into effect from 01.01.2016).

6. The components of the differential shall be confirmed by the primary documents related to delivery of natural gas to the basis of supply, where the sale (transfer of ownership) takes place, as well as with its sale, and (or) information sources in the sequence established by Article 18 of the Law.

Footnote. Paragraph 6 as amended by Resolution of the Government of the Republic of Kazakhstan No. 829 dated 20.12.2016 (shall come into effect from 01.01.2016).