

Tengiz Effect 2025 – Road to (Re)negotiations

Introduction

Last (2024) year, we conducted [a comprehensive analysis of Tengizchevroil](#) [TCO], Kazakhstan's largest oil company by far and a cornerstone of the entire upstream sector, representing a significant portion of the country's crude oil production and reserves. With FY2024 financials now available, it is time to update our TCO review.

Significant developments have occurred since our last coverage, most notably the completion of the Future Growth Project [FGP], which has substantially boosted the company's oil production. With these increased production volumes, TCO's footprint in Kazakhstan's economy is poised to expand further. However, TCO represents a formidable asset for both parties. Chevron's latest quarterly earnings release revealed that TCO remains the company's primary organic growth driver, with production operating at nameplate capacity and generating exceptional cash flow. The facility is now running three generations of processing plants with integrated control systems, and management has indicated potential for future capacity optimization, though no formal guidance has been provided.

Negotiations between Chevron and Kazakhstan over the concession extension (which expires in 2033) remain the central topic and create significant uncertainty. While discussions are underway at the highest levels, with Chevron's CEO meeting Kazakhstan's President multiple times in 2025, both parties acknowledge this will be a complex, lengthy process given the strategic importance of the asset to both the country and TCO's shareholders. Moreover, Lukoil's recent announcement regarding the sale of its international assets due to U.S. sanctions adds more complexity to the concession extension negotiations. The Russian oil giant holds a stake in TCO, and its potential exit could reshape the consortium's ownership structure and influence the terms of any new agreement.

TCO – Brief Recap

Tengizchevroil is a joint venture established in 1993 to manage the development and operation of the Tengiz oilfield, one of the world's largest and deepest oilfields, located in the southern Pre-Caspian basin of Kazakhstan. The venture is a collaboration among Chevron (50%), ExxonMobil (25%), KazMunayGas (20%), and Lukoil (5%).

Since its inception as a joint venture, the company has produced 589 million tons of oil between 1993 and 2024, which accounts for 29% of the country's total oil production over

the same period. Since TCO invests heavily in expanding its production capacity, its importance for Kazakhstan's economy is poised to remain very high for the next decade. As a result of these efforts, TCO is poised to solidify its dominance in Kazakhstan's oil industry, with its share of the country's total oil output projected to expand to 40% by 2033 when current concession for Tengiz expires.

	Projection (current concession expires in 2033)		
Description	2025, mln tons	2033, mln tons	2035, mln tons
TCO's oil output	37.7	40.0	33.9
Kazakhstan's oil output	98.4	99.3	94.2
TCO's share	38%	40%	36%

Source: Analytical platform EXia by ENERGY Insights & Analytics

TCO's impact on Kazakhstan is difficult to overestimate. The project fueled the creation of crucial infrastructure facilities, such as [the Caspian Pipeline Consortium \[CPC\]](#), and will continue to be the foundation for the development of Kazakhstan's economy in the future, including initiatives like petrochemical projects¹.

According to TCO's FY2024 financial statements, crude oil is the major revenue stream, accounting for around 94% of total sales. The company's FY 2024 revenue accounted for around 6.5% of [the country's GDP](#). TCO's oil is exported via the CPC pipeline, which has undergone several debottlenecking projects to increase its capacity to accommodate future production increases.

Tengizchevroil LLP

Notes to the Summary Financial Statements (continued)

3. Crude Oil and Other Product Revenue

	2024	2023	2022
	US \$000	US \$000	US \$000
Crude Oil			
Pipeline	17,810,199	18,658,382	22,473,725
Rail	-	-	3,176
Total Crude Oil Revenue	17,810,199	18,658,382	22,476,901
Other Products			
Natural gas	473,464	16,003	317,120
LPG	408,772	410,389	542,492
Sulfur	171,707	203,519	458,302
Total Other Products Revenue	1,053,943	629,911	1,317,914
Total Crude Oil and Other Products Revenue	18,864,142	19,288,293	23,794,815

Source: TCO's FY2024 audited financial statements

¹ Global trend for enlargement of the crude oil value chain toward high-value chemicals in the article ["NOCs \(Re\)diversification – Petrochemistry in Focus"](#) by ENERGY Insights & Analytics

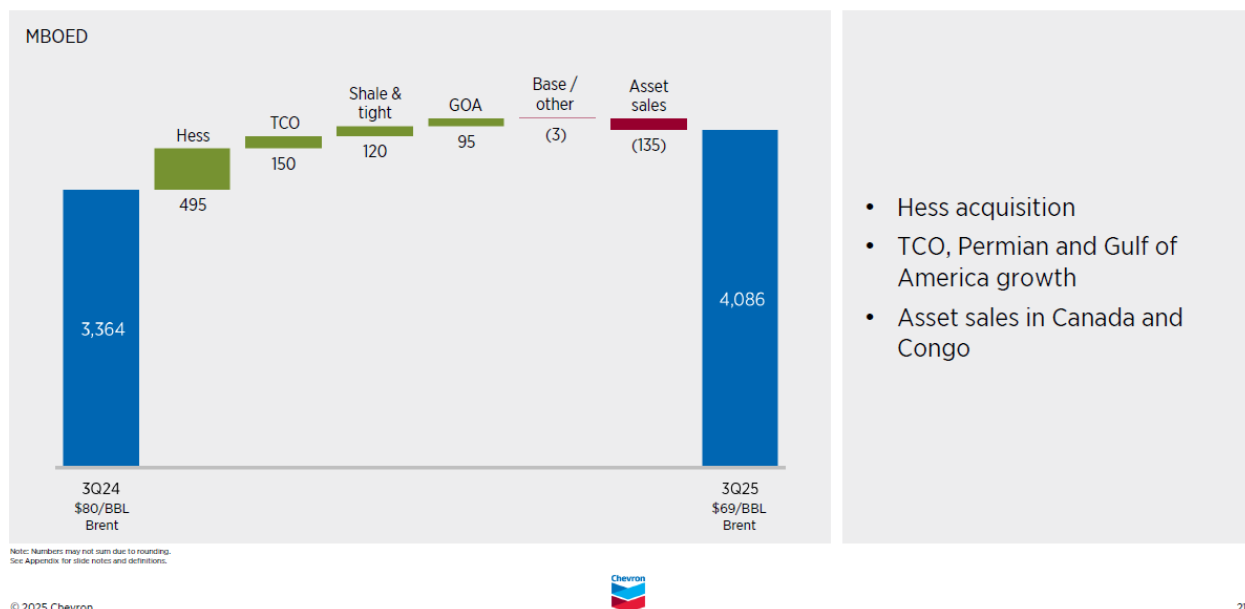
The [company's website](#) reports that direct financial benefits for Kazakhstan since 1993 totaled \$206.3 billion and \$5 billion year-to-date in 2025. The note from the company suggests that this amount includes Kazakhstani employees' salaries, purchases of Kazakhstani goods and services, tariffs and fees paid to state-owned companies, profit distributions to Kazakhstani shareholders and taxes and royalties paid to the government. We will explore TCO's taxation in greater detail later.

FGP – the major organic growth driver for Chevron

In early 2025, TCO achieved a significant milestone with the complete startup of the Future Growth Project, marking the culmination of a multi-billion-dollar expansion that began years earlier. The FGP, combined with the Wellhead Pressure Management Project [WPMP], represents a total investment of approximately \$46.7 billion and has successfully delivered on its promise to expand TCO's production capacity significantly.

By Q3 2025, the results exceeded expectations. During [Chevron's third-quarter earnings call in late October 2025](#), management highlighted TCO's exceptional performance, noting that the facility is now operating at nameplate capacity and delivering record production levels. Chevron's CEO Mike Wirth emphasized the remarkably smooth startup process, noting that the new complex processing trains have avoided the reliability challenges that historically plague such large-scale facilities. Operational performance was exceptionally reliable, exceeding internal expectations.

Worldwide net oil & gas production: 3Q25 vs. 3Q24



Source: Chevron's fiscal Q3 2025 earnings call presentation

The FGP's success has positioned TCO as Chevron's primary organic growth driver for consolidated oil production, trailing only the [Hess Corporation acquisition](#). In Q3 2025, TCO's liquid production grew 5% sequentially in quarter-over-quarter, contributing significantly to Chevron's record worldwide production of over 4 million barrels of oil equivalent per day. Chevron's CFO Eimear Bonner (ex-General Director of TCO) specifically attributed the company's affiliate dividend performance, which exceeded guidance by approximately \$700 million per quarter, primarily to TCO's outstanding operational results since the FGP startup earlier in the year. The facility now operates three generations of processing plants with integrated control systems: the original Complex Technological Lines area, the second-generation plant from the previous decade, and the newly commissioned third-generation FGP facilities. Chevron is utilizing advanced information technology and automation to optimize stream routing across all three facilities, allowing operators to maximize plant performance with greater flexibility than ever before.

TCO and Government Take

As we mentioned above, the company claims that the direct financial benefits for Kazakhstan since TCO's inception totaled above \$200 billion. The amount is massive, but we believe any figure becomes more valuable when we add context and forward-looking analysis by simulating different scenarios for the future.

Before we simulate a forecast, let us briefly recap some crucial details about TCO's tax regime. The fiscal regime for TCO includes two types of royalties and a corporate income tax [CIT] of 30%. According to TCO's [FY 2022 financial statements](#), there are Base Royalty and Incremental Royalty.

Base Royalty is calculated at the rate of 25% on the Dollar Value Equivalent, as defined in the Partnership Agreements, as revenue from crude oil and other product sales after deducting transportation and marketing expenses, all non-well operating costs and depreciation of non-well facilities using a five-year straight-line depreciation method.

Incremental Royalty is calculated at the rate of 15% on the Net Cash Position as defined in the Partnership Agreements. In accordance with the Partnership Agreements, Net VAT [as defined in the Partnership Agreements] and certain taxes, fees, duties and government exactions in excess of the amounts prescribed in the Partnership Agreements [known as Applicable Taxes] are offset against Royalty Payable and can also be offset against Income Tax, if necessary.

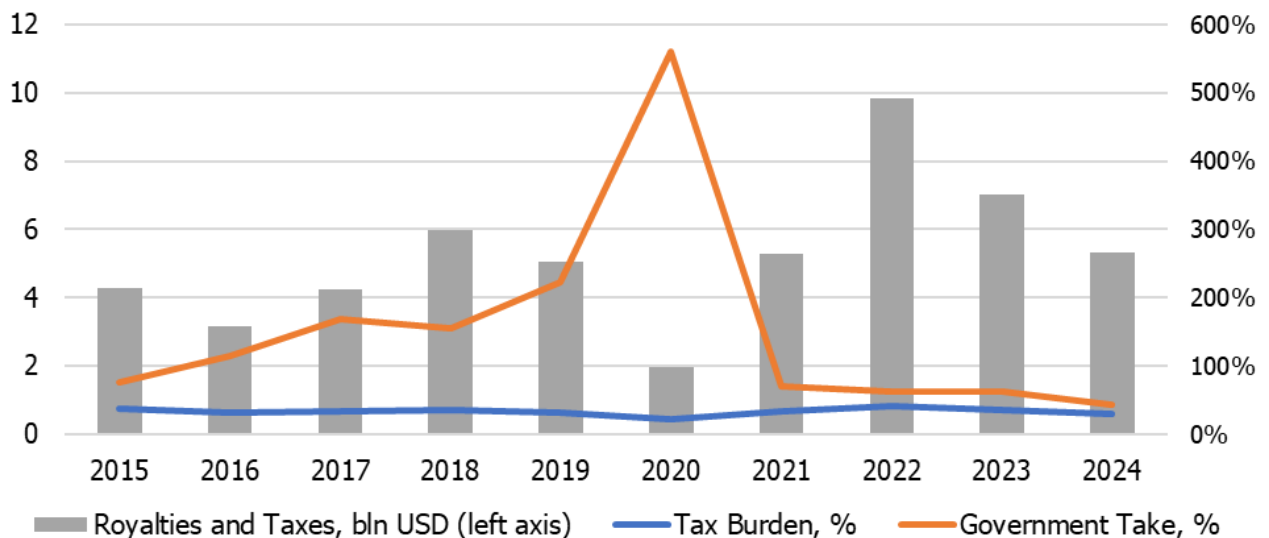
The fiscal regime governing relationships between the country and TCO is designed to balance the interests of the Kazakhstani government and the international investors involved in the project. By tying royalties to production and export revenues, the regime ensures that

the government benefits from the field's success while providing incentives for continued investment and production. CIT further aligns the interests of the government and investors, ensuring that both parties share in the project's success.

Looking at historical trends is also crucial to better understand context. Therefore, let us examine the trend of Kazakhstan's cash inflows from TCO over the past decade. Two key metrics provide valuable insights: Tax Burden and Government Take. Tax Burden is calculated as the sum of royalties and taxes divided by revenue. At the same time, Government Take is the sum of royalties and taxes divided by the divisible cash flow [Revenue – OpEx – CapEx].

The chart below underscores the high sensitivity of total royalties and taxes to crude oil prices, with the highest levels observed in 2022. The period between 2015 and 2021 saw much lower average crude oil prices, resulting in significantly lower royalties and taxes. Government Take grew exponentially between 2015 and 2020 due to a dip in divisible cash flow caused by lower crude oil prices, and this adverse effect was exacerbated by heavy capital spending on the FGP/WPMP project. Following the 2022 price spiking, crude oil prices declined steadily throughout 2023-2024, and total royalties and taxes moderated back toward historical levels². With crude oil prices continuing their downward trajectory in 2025 and a cautious outlook prevailing for 2026, near-term government revenues will face headwinds from the price environment.

TCO Royalties and Taxes - Past Periods

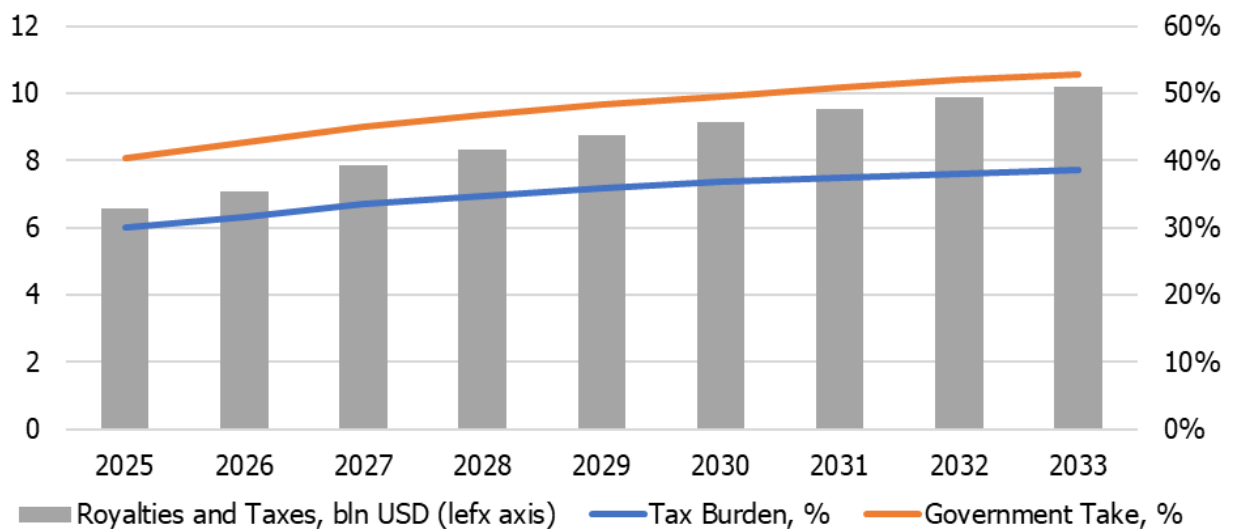


Source: ENERGY Insight & Analytics

² Tax Burden and taxes per unit of leading Kazakhstan's oil producers are covered in the article ["Upstream Tax burden – Order of Merit 2024"](#) by ENERGY Insights & Analytics

However, the early post-FGP/WPMP operational period has demonstrated robust performance with no negative surprises, suggesting that the production-volume factor will likely outweigh the crude oil price effect and deliver net growth in total royalties and taxes over the longer term. If TCO achieves an oil production level of approximately 40 million tons per year by 2027, and crude oil prices stabilize within the \$70-\$83 per barrel range, Government Take is projected to reach approximately 50% of divisible cash flow. The chart below outlines projected TCO inflows from 2025 to 2033.

TCO Royalties and Taxes - Forecast



Source: ENERGY Insight & Analytics

The above forecast's horizon ends in 2033, which is the termination year of TCO's concession for the Tengiz oilfield. It is unlikely that the fiscal regime will change until the current concession expires. The expiration is less than a decade away, and the question is already vital to our country and to TCO's investors beyond KazMunaiGas³ [KMG]. The Q3 2025 earnings call clearly demonstrates the importance of TCO not only for Kazakhstan but also for Chevron's financial success as the major stakeholder in the project⁴. As the company's primary organic growth driver and a cornerstone of its cash generation strategy, TCO's performance will remain central to Chevron's ability to deliver shareholder returns and maintain its competitive position in the global energy market. The concession extension emerged as a central topic of interest among Wall Street analysts during the Q3 earnings call, underscoring that it is a top priority not just for Kazakhstan but also, critically, for Chevron's long-term strategic planning. The fact that Chevron's CEO, Mike Wirth, has already

³ National Company KazMunayGas and its role in Kazakhstan oil and gas industry in the article ["KazMunayGas and Peers - Scale and Performance"](#) by ENERGY Insights & Analytics

⁴ About investors strive toward "advantaged barrels" in the article ["Global Megaprojects – Energy Pragmatism and Advantaged Barrels"](#) by ENERGY Insights & Analytics

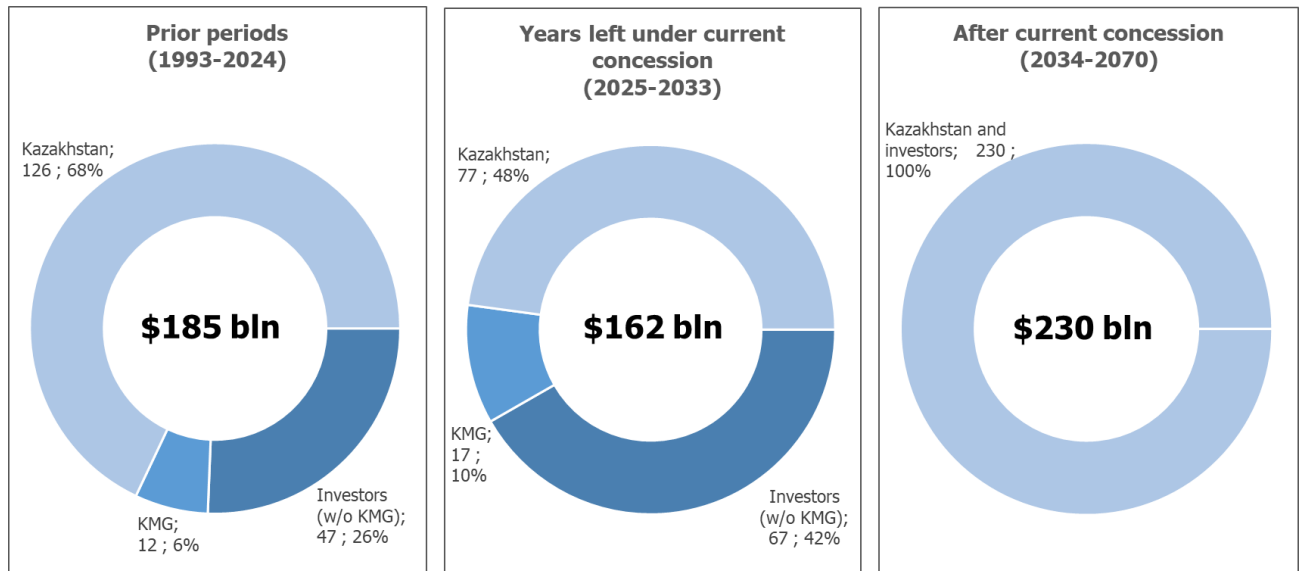
met with President Kassym-Jomart Tokayev multiple times over recent months suggests that this is an essential question for Chevron's future growth strategy as a global oil and gas conglomerate.

In our [previous TCO article](#), we conducted a theoretical exercise examining how Government Take could change if TCO were operating under Kazakhstan's general tax regime rather than the current tax and legal framework. That analysis suggested potential for significantly increased state revenues under alternative fiscal terms, a consideration that will undoubtedly factor into the extension negotiations.

It is vital to emphasize that another major American oil company, ExxonMobil, is also represented in TCO and serves as the lead investor in [the Kashagan project](#). The government has recently reopened talks with ExxonMobil to expand the Kashagan oilfield. This massive Caspian Sea development was once hailed as the world's most significant oil discovery in 30 years. These discussions [reportedly include tapping undeveloped western sections](#) of the reservoir and, significantly, could be linked to ExxonMobil's Tengiz license, which also expires in 2033. This is unfolding against a backdrop of legal tensions, as Kashagan investors have faced multi-billion-dollar lawsuits from the government of Kazakhstan over the past few years. This legal environment signals that the government will likely seek to expand its benefits from these projects, reflecting Kazakhstan's evolution since independence.

Another layer of uncertainty for TCO investors stems from the recent U.S. sanctions against Lukoil, which holds a 5% stake in TCO. The Russian oil giant has announced plans to sell all its international assets due to these sanctions. While Lukoil initially sought buyers such as Gunvor Group (a deal subsequently blocked by the U.S. Treasury), various legal configurations for divesting its TCO stake remain possible in theory. These could include an asset exchange with existing TCO partners, potentially involving stakes in other regional projects, such as the CPC pipeline, where both Lukoil and Chevron hold interests. However, any such arrangement would need to navigate complex sanctions compliance and obtain necessary approval from other stakeholders.

By “Kazakhstan’s evolution”, we mean that the country has made significant improvements in fiscal and political stability and predictability for investors compared to the early years of independence following the dissolution of the Soviet Union. The country now offers substantially reduced political risk, improved regulatory frameworks, and greater economic stability. With these reduced risks and uncertainties in large-scale projects, it is reasonable to expect investors returns to moderate as part of a recalibrated risk-reward equation. The government requires revenue to maintain and further enhance this favourable investment climate. The 2033 concession renewals represent a natural inflection point to reset fiscal terms to reflect the country's maturation as an investment destination.



Source: Analytical platform EXia by ENERGY Insights & Analytics

Negotiations between Kazakhstan and TCO investors on the terms and conditions for a new concession effective after 2033 are a vital strategic priority for the country, with profound economic implications extending for decades into the future. The robust operational performance following the FGP/WPMP project completion is poised to substantially enhance future benefits for both Kazakhstan and KMG compared to previous periods, as illustrated in the pie charts above. Moreover, it is important to keep in mind that the project is inherently capital-intensive, and our model forecasts that it will require approximately \$23 billion in capital spending and decommissioning costs through 2070. With production now operating at nameplate capacity and potential for further optimization, the revenue base from which the government will negotiate its enhanced share has expanded significantly, creating a larger pie from which both parties can benefit. ENERGY Insights & Analytics assesses the Net Present Value [NPV] of TCO operations for \$70.8 billion⁵.

The Bottom Line

The future of the Tengiz project is critical to Kazakhstan's economic and strategic interests. Negotiating a new contract requires balancing the interests of multiple stakeholders: Chevron, KMG, ExxonMobil, and other consortium partners. Success will ensure that the

⁵ Assessment of investment potential (sum of NPV of the Kazakhstan's major oil producers) of upstream sector in the article ["Investment Potential 2025 – Oil Production in Kazakhstan"](#) by ENERGY Insights & Analytics

Tengiz field continues contributing to Kazakhstan's economic growth and development for decades to come.

The geopolitical context adds another vital dimension. The President Trump administration's return to power in the United States may create a favorable framework for concession extension discussions, as this administration has historically supported American oil majors' international operations.

With both Chevron and ExxonMobil holding significant stakes in Kazakhstan's flagship oil projects, these negotiations could become a matter of bilateral strategic interest between Washington and Astana. The potential linkage between the Tengiz and Kashagan concession extensions is also significant, suggesting that negotiations may be approached as part of a broader package deal. Such an approach could provide flexibility for structuring mutually beneficial terms that address Kazakhstan's desire for increased revenues while preserving the investment climate necessary to attract continued capital and expertise.

ENERGY Insights & Analytics

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The key tool and product of ENERGY Insight & Analytics is internally developed software - [the Analytical Platform EXia](#), aimed to identify, localize, format, and present data most efficiently for the specified use cases.

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