



# MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL AND OPERATING PERFORMANCE OF JSC NC “KAZMUNAYGAS”

*for the six months ended March 31, 2018*



The objective of the following document is to assist in understanding and assessment of trends and material changes in the Group's operating and financial results. This overview is based on the Interim Condensed Consolidated Financial Statements of the Group and should be read in conjunction with the Interim Condensed Consolidated Financial Statements and accompanying notes. All financial data and their discussion are based on Interim Condensed Consolidated Financial Statements, prepared in accordance with International Financial Reporting Standards ("IFRS"). In accordance with the Group's accounting policy, investments into joint ventures and associated companies shall be accounted using the equity method, and therefore, are not consolidated line-by-line ("enterprises at equity").

All KZT amounts are in billions, except as expressly provided for herein. The figures are rounded, however, actual indicators before rounding are taken to calculate rates per unit.

## TABLE OF CONTENTS

<b>1.</b>	<b>GENERAL INFORMATION.....</b>	<b>4</b>
<b>2.</b>	<b>KEY MACROECONOMIC FACTORS.....</b>	<b>6</b>
2.1.	Change in Oil and Oil Products Market Price .....	6
2.2.	Change in the Foreign Exchange Rate .....	6
2.3.	Oil and Gas Transportation Tariffs.....	7
2.4.	Refining Tariffs .....	8
2.5.	Taxation .....	8
<b>3.</b>	<b>GROUP'S OPERATING PERFORMANCE.....</b>	<b>10</b>
3.1.	Oil and Condensate Production .....	10
3.2.	Gas Production.....	10
3.3.	Oil Transportation by Trunk Pipelines .....	11
3.4.	Oil Transportation by Sea .....	12
3.5.	Gas Transportation.....	12
3.6.	Raw Hydrocarbon Processing .....	12
3.7.	Oil and Gas Sale .....	13
<b>4.</b>	<b>GROUP'S FINANCIAL PERFORMANCE.....</b>	<b>15</b>
4.1.	Revenues .....	15
4.2.	Expenditures .....	16
4.3.	Liquidity and Capital Expenditures .....	19

## 1. GENERAL INFORMATION

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JSC NC “KazMunayGas” is a vertically integrated company that performs geological exploration and production of oil and gas, as well as transportation, refining, marketing and sale of oil, gas and oil products in Kazakhstan and beyond.

JSC NC “KazMunayGas” is the state oil and gas enterprise of the Republic of Kazakhstan established on the basis of Decree of the President of the Republic of Kazakhstan No.811 dated February 20, 2002 and Resolution of the Government of the Republic of Kazakhstan No.248 dated February 25, 2002. JSC NC “KazMunayGas” was established as a result of the merger of the National Oil and Gas Company CJSC “Kazakhoil” and the National Company “Oil and Gas Transportation”. As a result of the merger, all assets and liabilities, including interests in all enterprises owned by these companies, were transferred to JSC NC “KazMunayGas”.

The KMG shareholders are JSC “Sovereign Wealth Fund “Samruk-Kazyna” (90%) and the National Bank of Kazakhstan (10%+1 shares). The Group occupies more than a quarter of the market of the Republic of Kazakhstan for oil and gas condensate production, as well as the dominant position in oil refining, pipeline transportation of oil and natural gas in the country.

Today the largest companies of the Group (group of companies) are:

- JSC “Exploration & Production “KazMunayGas” (oil and gas exploration and production)
- JSC “KazTransOil” (oil transportation)
- JSC “KazTransGas” (transportation and sale of gas)
- JSC “KazMunayTeniz” (sea oil operations)
- Atyrau Refinery LLP (oil refining)
- Pavlodar Oil Chemistry Refinery LLP (oil refining)
- KMG International N.V. (refining, marketing of oil and oil products in Romania and countries of Black Sea and Mediterranean basins).

Kazakhstan ranks 12<sup>th</sup> in the world for confirmed reserves of oil and gas condensate, 22<sup>nd</sup> - for natural gas reserves and 17<sup>th</sup> - for oil and gas production.

### Significant Events during the Reporting Period

#### Production

In the first half 2018, oil production in the Kashagan field increased by 76% compared to the same period in 2017 and amounted to 6,173 Kt of oil (the NC KMG share is 511 Kt), or at the average in the first half year – 268 kbpd. This growth was due to the commissioning of the sour gas re-injection system in August 2017, as well as an increase in the equipment operation factor.

#### Transportation

In January 15, 2018, JSC NC “KazMunayGas” and PetroChina reached an agreement on increase in the export of Kazakh gas to China up to 10 bcm/a.

On January 3, 2018, the Consortium Agreement was signed between KMTF, KMG Systems & Services LLP and Professional Militarized Emergency Rescue Service RSE to provide services for Zhambyl Petroleum LLP for oil spill response operations of levels 1, 2 and 3 for the ZT-2 appraisal well.

Within the KMTF’s participation in the implementation of the TCO Future Growth Project, the construction of the MCV 854 “Sunkar” vessel was completed on 16 January 2018 in the VARD shipbuilding plant in Braila, Romania.

In May 2018, JSC “KazTransOil” and JSC “CPC-K” signed the service agreement for maintaining CPC pipeline facilities in Kazakhstan for a period of 5 years.

#### Refining

In January 2018, POCH and PKOP switched to K4 and K5 fuel emission standards.

Completion of commissioning operations and reaching the full project capacity at AR within modernization are planned in the second half 2018.

Regarding the second stage of PKOP modernization, commissioning operations are in progress. Their completion is planned in September 2018.

#### Financial and Corporate

In January and April of 2018 NC KMG received two additional tranches of advance payment for a total amount of USD 500 million in accordance with the supplementary crude oil supply agreement signed in December 2017.

In January 2018, 50% of the share in the Authorized Capital of KMG Ustyurt LLP of Union Field Group Ltd (British Virgin Islands) was sold.

In April 2018, NC KMG received dividends from TCO in the amount of USD 102 million.

On May 10, 2018, KMG EP announced the expulsion from the London and Kazakhstan stock exchanges. As of today, NC KMG and KMG EP in total own approximately 99.6% of ordinary shares.

In May 2018, NC KMG completed the work within the liability management transaction with a full repayment of four series of Eurobonds with an aggregate nominal value of USD 3.1 billion, which was financed by issuing Eurobonds at the amount of USD 3.25 billion in three series consisting of USD 500 million with a coupon rate of 4.75% maturing in 2025, USD 1,250 million with a coupon rate of 5.375% maturing in 2030 and USD 1,500 million with a coupon rate of 6.375% maturing in 2048.

In June 2018, Philip John Dayer was elected a member of the Board of Directors of JSC NC “KazMunayGas” - an independent director.

A transaction for acquisition of a 51% of interest in KMG International N.V. between JSC “National Company “KazMunayGas” and CEFC China Energy will not be completed. This decision does not affect the activities of the KMG International N.V. group of companies and it will continue its activities in the JSC “National Company “KazMunayGas” asset system.

## 2. KEY MACROECONOMIC FACTORS

Key factors, which have influenced the Company's performance, are as follows:

- fluctuations in the prices for crude oil and refined products and oil presales by the Company;
- effect of the exchange rate changes;
- changes in the tariffs for oil and gas transportation;
- taxation;

Below are macroeconomic indicators for 6 months of 2018, which influenced the group's operations.

Name	UoM	6 months of 2018	6 months of 2017	Change	
				abs	%
End-of-period inflation (CPI, in % to the corresponding months of the preceding year)	%	5.9	7.5	-1.6	-21.3
Oil export customs duty	USD per ton	63	49	14	28.5
Monthly calculation index (MCI)	KZT	2,405	2,269	136	5.9
Minimum wage amount (MWA)	KZT	28,284	24,459	3,825	15.6

### 2.1. Change in Oil and Oil Products Market Price

The prices for crude oil and oil products on the international and Kazakhstan market have a significant impact on the Company's performance.

Change in world prices for crude oil (USD/bar)	6 months of 2018	6 months of 2017	Δ, %
Brent oil	71	52	36.5
Urals oil	69	51	35.3

Source: PLATT'S

In general, the change in raw material prices is based on a number of reasons not depending on the Company, and the Company's management is unable to predict the degree of volatility in oil prices.

The behavior of oil product prices on international and Kazakhstan markets is determined by a number of factors, the most important of which are crude oil prices, the supply-and-demand balance for oil products, competition, remoteness of sales markets from enterprises that refine oil into finished or intermediate petroleum products, seasonal deficit in oil product supplies, particularly in urban areas, in connection with seasonal agricultural work and corresponding redistribution of supplies from urban to agricultural areas.

Average world prices for oil products	UoM	6 months of 2018	6 months of 2017	Δ, %
Fuel oil	USD per ton	378	299	26.4
Naphtha	USD per ton	601	449	33.8
Jet fuel	USD per ton	676	488	38.5
Vacuum gas oil	USD per ton	489	372	31.5
Gasoil 0,1	USD per ton	612	492	24.4

Source: PLATT'S

Average retail prices for oil product in the RoK	UoM	6 months of 2018	6 months of 2017	Δ, %
AI-95/96 Gasoline	(KZT per liter)	177	155	14.2
AI -92/93 Gasoline	(KZT per liter)	161	142	13.4
AI -80 Gasoline	(KZT per liter)	89	89	-
Diesel fuel	(KZT per liter)	163	133	30.0

### 2.2. Change in the Foreign Exchange Rate

The change of the exchange rate of KZT against the US dollar has significantly affected, and will, most likely, continue to affect the consolidated results of the Company's operations, since a significant share of the Company's revenues from sales of crude oil and petroleum products is denominated in US dollar, while a significant part of the Company's expenses is denominated in KZT. Also, the most of the Company's borrowings and accounts payable are denominated in US dollar.

	Average rate for the period	As of the end of the period
For 6 months, as of June 30, 2018 (Kazakhstan tenge for 1.00 US dollar)	327	341
For 6 months, as of June 30, 2017 (Kazakhstan tenge for 1.00 US dollar)	319	322

Source: National Bank of the Republic of Kazakhstan

### 2.3. Oil and Gas Transportation Tariffs

#### Oil Transportation by Trunk Pipeline

Since most of the regions of oil production in Kazakhstan are located far from the main sales markets for oil and petroleum products, oil companies depend on transportation infrastructure development, as well as on its accessibility.

The Group transports high volumes of crude oil supplied for exports and domestic market by main pipelines in Kazakhstan owned by JSC “KazTransOil”, subsidiary company. Furthermore, the Group owns 20.75% of share capital in Caspian Pipeline Consortium, including 19% is owned by KMG and 1.75% by Kazakhstan Pipeline Ventures Ltd.

Crude oil is transported through trunk oil pipelines by JSC “KazTransOil” and its subsidiaries and jointly-controlled entities in accordance with the oil transportation services agreements concluded by them with consumers in accordance with the standard agreement approved by the order of the Minister of National Economy of the Republic of Kazakhstan No.266 dated March 27, 2015. These agreements stipulate oil transportation rights and obligations of the parties. The Group’s oil is transported through trunk oil pipelines of JSC “KazTransOil” Group of Companies to the domestic market and is exported mixed with oil of other producers.

Pursuant to amendments to the Law of the Republic of Kazakhstan “On Amendments to some Natural Monopolies and Regulated Markets Legislative Acts of the Republic of Kazakhstan” made in May 2015, transportation of oil, which transit through the territory of the Republic of Kazakhstan and is exported outside the Republic of Kazakhstan, is not any more a scope of natural monopolies. In June 2015, JSC “KazTransOil” approved (order No.46, order No.47) the following tariffs for oil transportation services by trunk oil pipelines:

- for export outside the Republic of Kazakhstan – KZT 6,398.92 per 1 ton per 1,000 km (excluding VAT) effective as of April 1, 2018;
- for transit through the territory of the Republic of Kazakhstan, by Kazakh section of the Tuimazy-Omsk-Novosibirsk-2 – KZT 4,292.4 per 1 ton per 1,000 km (excluding VAT) effective as of April 1, 2018.

Cap tariffs 2015-2019 for oil transportation within the domestic market of the Republic of Kazakhstan by trunk pipelines of JSC “KazTransOil” subject to legislative regulations have been approved effective as of October 1, 2015 by the Committee on Regulation of Natural Monopolies and Protection of Competition (order No. 347-OD dated August 21, 2015) as follows:

- in 2015 – KZT 3,225.04 per ton per 1,000 km (excluding VAT);
- in 2016 – KZT 3,547.46 per ton per 1,000 km (excluding VAT);
- in 2017 – KZT 3,902.13 per ton per 1,000 km (excluding VAT);
- in 2018 – KZT 4,292.40 per ton per 1,000 km (excluding VAT);
- in 2019 – KZT 4,721.72 per ton per 1,000 km (excluding VAT).

#### Gas Transportation

Gas is transported by trunk gas pipelines and gas distribution systems of the JSC “KazTransGas” Group. Gas is transported by trunk pipelines of JSC “Intergas Central Asia” and joint ventures of Asian Gas Pipeline LLP, Beineu-Shymkent Gas Pipeline LLP. Gas is transported by distribution systems by JSC “KazTransGas Aimak”.

#### International Transit and Export Tariffs

In accordance with the amendments to the Law on Natural Monopolies made in May 2015, gas transportation for export is not now subject to governmental regulation. Tariffs for gas transit and export are established on a contractual basis without approval of the Committee on Regulation of Natural Monopolies and Protection of Competition.

#### Tariffs for Domestic Gas Transportation by Trunk and Distribution Gas Pipelines

Tariffs for domestic gas transportation are subject to regulation by the Committee on Regulation of Natural Monopolies and Protection of Competition as prescribed by law.

Tariffs for commercial gas transportation by trunk pipelines to consumers of the Republic of Kazakhstan were approved as follows:

- Intergas Central Asia JSC from January 1, 2017 – KZT 2,212.7 per TCM (thousand cubic meters) (excluding VAT);
- Asia Gas Pipeline LLP from March 1, 2016 – KZT 3,494.4 per TCM (excluding VAT);
- Beineu-Shymkent Gas Pipeline from March 1, 2016 – KZT 18,071 per TCM (excluding VAT).

## 2.4. Refining Tariffs

Since April 2016, three major Kazakhstan oil refineries (Atyrau Refinery, POOR, PKOP) have started operations under a new refining business model, according to which refineries provide only oil refining services at established tariffs, do not purchase oil for refining and do not sell oil products. These obligations are borne by oil suppliers, who sell finished petroleum products independently. By the aid of the vertically integrated structure of the KMG Group and its new refining business model, each business line manages to focus on its specific specialization, increasing the operational efficiency of the entire KMG Group. As part of the KMG transformation from the strategic manager of its assets to the operational manager, the refining business model helps refineries to focus only on production issues, resulting in optimized refining activities and reduced costs.

In accordance with the law “On Amendments to some legislative acts of the Republic of Kazakhstan on entrepreneurship in the Republic of Kazakhstan” No.376-V dated 29.10.15, starting from January 1, 2017, refining prices are not subject to state regulation.

Weighted average tariffs effective within 1<sup>st</sup> half 2018 and the same period of the previous year are given below:

Plant	UoM	6 months of 2018	6 months of 2017
AR	KZT per ton	31,473*	22,477**
POOR	KZT per ton	17,250	14,895
PKOP	KZT per ton	16,302	11,454

\* Tariff growth to KZT 37,426 per ton is expected from August 1, 2018.

\*\* Weighted average tariff for the period subject to increase from KZT 20,501 per ton to KZT 24,512 per ton from April 1, 2017.

## 2.5. Taxation

Below are the established tax rates used by the Group during the relevant periods:

Tax	30.06.2018	30.06.2017	Tax Base
Corporate income tax (CIT)	20%	20%	Taxable income
Value added tax (VAT)	12%	12%	Sale of goods, works, services
Property tax	1.50%	1.50%	average annual book value of taxable items, determined by the accounting data
Land tax	variable value, rate depending on the purpose and quality of the land plot	variable value, rate depending on the purpose and quality of the land plot	land plot area
Environmental emissions fee	variable value, depending on the type of emissions	variable value, depending on the type of emissions	actual volume of emissions within and (or) exceeding the standard emission
Export rent tax	0%-32% On a scale linked to the world oil price	0%-32%	crude oil and oil products export volume
Commercial discovery bonus	0.1%	0.1%	Cost of reserves (crude oil, gas condensate, natural gas), approved by an authorized state body
Mineral Extraction Tax (MET)	0%-18%	0%-18%	value of produced crude oil, gas condensate and natural gas
Excess profits tax (EPT)	0%-60%	0%-60%	A part of the subsoil user net income, defined as a difference between the total annual income and deductions (in terms of fixed assets - in the



Tax	30.06.2018	30.06.2017	Tax Base
			amount of actual Capex, less depreciation costs) and CIT, exceeding the amount equal to 25% of the sum of these deductions. The EPT is calculated for each individual subsoil use contract.
Crude oil and gas condensate excise tax	KZT 0 per ton	KZT 0 per ton	Volume of produced, sold crude oil and gas condensate

Excise rates per 1 ton (in KZT) and duties					
	30.06.2018		30.06.2017		Tax Base
Oil products excise tax	Gasoline (except for jet fuel)	Diesel fuel	Gasoline (except for jet fuel)	Diesel fuel	volume of produced, sold and imported petroleum products
Wholesaling of own gasoline (except for jet fuel) and diesel fuel by manufacturers (June - October)	10,500	9,300	10,500	9,300	
Wholesaling of own gasoline (except for jet fuel) and diesel fuel by manufacturers (November - May)	10,500	540	10,500	540	
Wholesaling of gasoline (except for jet fuel) and diesel fuel by individuals and legal entities	0	0	0	0	
Retailing of own gasoline (except for jet fuel) and diesel fuel by manufacturers, utilization for own operating needs (June - October)	11,000	9,360	11,000	9,360	
Retailing of own gasoline (except for jet fuel) and diesel fuel by manufacturers, utilization for own operating needs (November - May)	11,000	600	11,000	600	
Retailing of own gasoline (except for jet fuel) and diesel fuel by manufacturers, utilization for own operating needs	500	60	500	60	
Imports	4,500	540	4,500	540	
Transfer of excisable goods specified in Article 462 (5) of the Tax Code, which are the product of toll refining (June - October)	10,500	9,300	10,500	9,300	
Transfer of excisable goods specified in Article 462 (5) of the Tax Code, which are the product of toll refining (November - May)	10,500	540	10,500	540	
Crude oil export duty	On a scale linked to the world oil price		On a scale linked to the world oil price		Export volume

Mineral extraction tax, rental export tax and export duty rates for oil and oil products depend on the world oil price and change accordingly. If crude oil and gas condensate is sold and (or) transferred within the domestic market of the Republic of Kazakhstan, including in kind, to pay mineral extraction tax, rental export tax, royalties and share of the Republic of Kazakhstan under the production sharing to the beneficiary on behalf of the State, or if used for own operating needs, a 0.5 decreasing factor is applied to the established rates.

Mineral extraction tax rate for natural gas is 10 percent. When natural gas is sold in the domestic market, the mineral extraction tax is paid at rates, depending on the production volume for the relevant year.

In February 2016, the Ministry of National Economy of the Republic of Kazakhstan introduced a progressive scale for export duties on crude oil. According to the new scheme, export duties are calculated based on the average market price for crude oil established on the world Brent and Urals markets. Additionally, from March 1, 2016, export customs duties for residual oil were reduced to USD 30 per ton. Based on the oil prices scale, rate of export duties, given the world prices below USD 25 per barrel, is 0, while rate of export customs duties, given the world oil price above USD 25 per barrel, is determined in accordance with the scale.

Rental export tax is calculated based on the rate scale, given the world oil price is above USD 40 per barrel.

### 3. GROUP'S OPERATING PERFORMANCE

<i>Operating Results</i>	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
Oil and condensate production, taking into account share in joint ventures (Kt)	11,769	11,617	152	1
Gas production, including share in joint ventures (MCM)	4,123	4,032	91	2
Refining of oil at own refineries and refineries of joint ventures, taking into account operating share (Kt)	9,829	8,822	1,008	11
Oil transportation by main pipelines (Kt)	33,661	33,408	253	1
Crude oil circulation (MMt*km)	31,157	30,810	347	1
Transportation of oil by sea (Kt)	3,446	3,096	350	11
Gas transportation by trunk gas pipelines (MCM)	54,877	47,666	7,211	15
Gas transportation operations (BCM*km)	28,284	21,784	6,500	30

#### 3.1. Oil and Condensate Production

Consolidated Oil and Condensate Production (Kt)	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
	11,769	11,617	152	1
Ozenmunaygas JSC	2,728	2,707	20	1
Embamunaygas JSC	1,399	1,399	0	0
Karazhanbasmunay JSC (CCEL)(50%)	536	528	8	2
Kazgermunay JV LLP (50%)+(50%*33%)	885	945	-60	-6
PetroKazakhstan Kumkol Resources JSC (100%*33)	239	262	-23	-9
Turgai-Petroleum JSC (50%*33)	40	47	-8	-16
Tengizchevroil (20%)	2,948	2,918	30	1
Mangistaumunaygas (50%)	1,580	1,566	13	1
Karachaganak Petroleum Operating B.V. (10%)	565	566	-1	0
Kazakhoil-Aktobe (50%)	141	175	-34	-19
Kazakhturkmunay	187	201	-15	-7
KMG Kashagan B.V. (50%)	511	291	220	76
KazTransGas (Amangeldy Gas)	11	11	0	4

Consolidated oil and condensate production for the reporting period was 11,769 Kt, which is by 152 Kt more than the same period of last year, mainly due to stable production level of Kashagan project, as well as growth of production in Tengizchevroil due to improved plant reliability and performance. This growth was partially offset by a decrease in production at the PKI and KGM fields due to natural depletion of reserves, at the KOA fields due to the limit on gas combustion.

#### 3.2. Gas Production

During the reporting period, the Group's consolidated production of gas (associated and natural) amounted to 4,123 MCM. In comparison with the same period in 2017, the increase was 91 MCM or 2%.

Consolidated gas production (associated and natural), MCM	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
	<b>4,123</b>	<b>4,032</b>	<b>91</b>	<b>2</b>
Ozenmunaygas JSC	307	311	-4	-1
Embamunaygas JSC	105	98	7	7
Karazhanbasmunay JSC (CCEL)(50%)	11	8	3	32
Kazgermunay JV LLP (50%)+(50%*33%)	175	194	-20	-10
PetroKazakhstan Kumkol Resources JSC (100%*33)	49	57	-8	-14
Turgai-Petroleum JSC (50%*33)	4	4	-1	-15
Tengizchevroil (20%)	1,615	1,627	-12	-1
Mangistaumunaygas (50%)	197	192	5	3
Karachaganak Petroleum Operating B.V. (10%)	978	956	21	2
Kazakhoil-Aktobe (50%)	109	149	-40	-27
Kazakhturkmunay	73	95	-22	-24
KMG Kashagan B.V. (50%)	297	170	127	75
KazTransGas (Amangeldy Gas)	204	170	34	20

The increase was mainly due to the stable production level of Kashagan project, while the same period last year was characterized by the beginning of the production renewal. Furthermore, the Ayrakty field at KTG and new wells at the Amangeldy field were put into pilot operation in September 2017. The reduction in the KOA fields is due to the limited gas combustion, for KTM - due to the limited well production at the Vostochny Saztobe field, in connection with gas utilization problems.

### 3.3. Oil Transportation by Trunk Pipelines

The main export routes for Kazakh oil by pipelines are as follows:

- Atyrau-Samara pipeline (KazTransOil JSC - 100%);
- Atasu-Alashankou pipeline (KazTransOil JSC - 50%);
- Caspian pipeline consortium (JSC NC "KazMunayGas" - 20.75%).

KazTransOil JSC provides oil transportation services to the domestic market, for export, as well as transit operations.

Consolidated oil transportation by trunk pipelines by companies (Kt)	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
	<b>33,661</b>	<b>33,408</b>	<b>253</b>	<b>1</b>
KazTransOil JSC	22,427	22,732	-305	-1
MunayTas North-West Pipeline Company LLP (51%)	1,078	1,023	55	5
Kazakhstan-China Pipeline LLP (50%)	3,864	3,992	-128	-3
Caspian Pipeline Consortium JSC (20.75%)	6,292	5,660	631	11
<b>Crude oil turnover (MMt*km)</b>	<b>31,157</b>	<b>30,810</b>	<b>347</b>	<b>1</b>
KazTransOil JSC	18,817	18,958	-141	-1
MunayTas North-West Pipeline Company JSC (51%)	430	409	21	5
Kazakhstan-China Pipeline LLP (50%)	3,597	3,731	-134	-4
Caspian Pipeline Consortium-K JSC (20.75%)	8,313	7,712	601	8

The growth in oil transportation volumes is due to the increase in oil deliveries from the Kashagan field. The decrease in the volumes of oil transported through the KazTransOil JSC's pipelines is due to re-distribution of the Kashagan oil to the CPC system. The decrease in the volumes of oil transported through the Kazakhstan-China Pipeline LLP's pipelines is due to re-distribution of oil from the Aktobe fields to the oil-pipeline system of the MunayTas NWPC LLP.

### 3.4. Oil Transportation by Sea

The main operational routes for sea oil transportation are:

- Routes in the water area of the Caspian Sea.
- Routes in the Black and Mediterranean Seas.

Consolidated volume of oil transportation by sea in terms of directions (Kt)	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
	3,446	3,096	350	11
Aktau-Baku	-	182	-182	-100
Aktau-Makhachkala	948	155	794	513
Black Sea	646	1,283	-637	-50
Mediterranean Sea	1,009	770	239	31
Turkmenbashi-Baku	-	116	-116	-100
Makhachkala-Baku	842	591	251	42

Growth in comparison with the 6 months of 2017 was 350 Kt, or 11%, and was mainly due to the growth in volumes in the direction of Aktau-Makhachkala. In 2017, due to the reinforcement of the normative standards of PJSC “Transneft”, there was a significant decrease in oil shipments from the port of Aktau to Makhachkala. In 2018 the normative standards were relaxed, for which reason Kazakh suppliers agreed to ship around 2 mn tons of heavy grades. Also, the growth was in the directions of Mediterranean Sea and Makhachkala-Baku due to reorientation of tankers.

The decrease at the Black Sea is associated with a decrease in oil supply volumes from KMG’s resources to refineries in Petromidia.

### 3.5. Gas Transportation

Gas is transported in the following directions: international gas transit, gas transportation for export and gas transportation for domestic consumers.

Consolidated volume of gas transportation (MCM)	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
	54,877	47,666	7,211	15
International transit	32,349	30,549	1,800	6
Gas export transportation	12,700	7,906	4,794	61
Gas transportation for domestic consumers	9,828	9,211	617	7
<b>Consolidated volume of gas transportation (MCM)</b>	<b>54,877</b>	<b>47,666</b>	<b>7,210</b>	<b>15</b>
Intergas Central Asia JSC	39,171	35,520	3,651	10
KazTransGas-Aimak JSC	1,380	1,282	98	8
Asia Gas Pipeline LLP (50%)	12,335	9,958	2,378	24
Beineu-Shymkent Gas Pipeline LLP (50%)	1,991	907	1,084	120

The total volume of gas transportation increased by 7,211 MCM. due to:

- increase in gas production by oil producing organizations: KMG Karachaganak, KMG Kashagan and JSC “CNPC-Aktobemunaigas”;
- increase in gas flows of PJSC Gazprom;
- increase in the volume of imported gas from Uzbekistan due to commissioning of the Kandym field;
- redirecting export gas flows from the Tengiz field to the domestic market.

### 3.6. Raw Hydrocarbon Processing

- Atyrau Refinery (99.49% share of JSC NC “KazMunayGas”): the designed refining capacity is 5.5 MMtpa, the refining depth in the reporting period was 68.8 %;
- Shymkent Refinery (PetroKazakhstan Oil Products, 49.73% share of participation of JSC NC “KazMunayGas”): project capacity is 5.1 MMtpa, the refining depth in the reporting period was 73.67%;

- Pavlodar Oil Chemistry Refinery (100% share of JSC NC “KazMunayGas”): the balanced refining capacity is 5.1 MMtpa, the refining depth in the reporting period was 78.2%.
  - CaspiBitum- (50% share of JSC NC “KazMunayGas”): a plant for the production of road bitumen from heavy Karazhanbas oil. The project capacity for refining is 1.0 MMtpa.
  - KMG International N.V. (Rompotrol Rafinare) includes two refineries, Petromidia and Vega, and the Petrochemicals petrochemical complex (PCC):
  - Petromidia Refinery - (100% share of Rompotrol Rafinare S.A.). The project capacity is 5.0 MMtpa.
- The PCC is integrated with the Petromidia Refinery;
- Vega Refinery - (100% share of Rompotrol Rafinare S.A. The project capacity - 500 Ktpa. The Vega Refinery is the only company in Romania which is specialized in processing of alternative raw materials (naphtha, heavy hydrocarbon fractions, fuel oil).

Consolidated volume of raw hydrocarbon processing taking into account the operating share (Kt)	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
	<b>9,829</b>	<b>8,822</b>	<b>1,008</b>	<b>11</b>
Atyrau Refinery LLP	2,604	2,508	96	4
Pavlodar Oil Chemistry Refinery LLP	2,785	2,649	137	5
PetroKazakhstan Oil Products LLP (50%)	973	948	25	3
CASPI BITUM (50%)	186	143	43	30
KMG International N.V. (Rompotrol Rafinare)	3,281	2,574	707	27

The volume of processing at RoK’s refineries is regulated through the Production Program approved by the Ministry of Energy of the Republic of Kazakhstan.

Growth of processing at KMG International N.V. (Petromidia and Vega refineries) is caused by low volumes in 2017 due to: a decrease in the capacity of the Petromidia refinery due to weather conditions in the first quarter, the shutdown of the Reforming unit in February, the repair of the refinery in May, and the implementation of the initiatives to optimize the refinery operations in the first half of 2018.

### 3.7. Oil and Gas Sale

#### Oil Sales

In the reporting period oil was sold by Cooperative KazMunayGas U.A., KMG Karachaganak LLP and KMG International N.V..

Объем реализации нефти (тыс. тонн)	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
<b>Cooperative KazMunaiGaz U.A., KMG Karachaganak LLP, Kazakhturkmunay LLP</b>	<b>4,477</b>	<b>4,459</b>	<b>19</b>	<b>0</b>
Sales of produced oil	135	102	33	33
Oil trading	4,342	4,357	-15	0
<b>KMG International N.V.*</b>	<b>6,250</b>	<b>5,527</b>	<b>723</b>	<b>13</b>
incl. oil sales in KMG Sub. B.V.	1,397	1,463	-66	-5
Sale by KMG International N.V. on the level of KMG group	4,853	4,064	789	19
<b>Total</b>	<b>10,727</b>	<b>9,986</b>	<b>742</b>	<b>7</b>

\* before deduction of intracompany transactions

Since April 2016, the Group has begun selling oil as part of the oil advance transaction, which stipulates the preliminary sale of crude oil and liquefied petroleum gas (LPG) for the amount of up to USD 3 billion over a 48-month period from May 2016. The volume of oil which is the subject of transaction is attributable to the Group’s participation in Tengizchevroil LLP, Mangystaumunaygas JSC and Karazhanbasmunay JSC. Besides, in July 2017, KMG N.V. was appointed as an “affiliated trader” of the Republic of Kazakhstan and KMG for procurement processes and oil sale from the Karachaganak field.

## Gas Sales

Natural gas is mainly sold by JSC “KazTransGas”. The company’s functions include the wholesale purchase of natural gas for the domestic market, transportation of gas through regional gas distribution networks, operation of gas distribution facilities and networks and sale of natural gas in the domestic market.

Commercial Gas Sale Volume (MCM)	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
Sale of gas for export	4,414	1,988	2,427	122
Sale of gas to the domestic market	7,589	6,749	840	12
<b>Total</b>	<b>12,003</b>	<b>8,736</b>	<b>3,267</b>	<b>37</b>

The increased volume of gas sales for export is due to additional gas sales to PRC, in the absence of sales in the same period last year (export agreement between KTG and PetroChina International Company Limited was signed on 30.09.2017), as well as growth in gas sales to Uzbekistan and Russia. The volume of gas sales to the domestic market has increased due to the growing number of consumers and increased production in the regions.

#### 4. GROUP'S FINANCIAL PERFORMANCE

(KZT mln)	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
Income from sales of goods and rendering services	3,356,260	2,070,922	1,285,338	62
Cost price of sold products and rendered services	-2,614,525	-1,573,867	-1,040,658	66
<b>Gross profit</b>	<b>741,735</b>	<b>497,055</b>	<b>244,681</b>	<b>49</b>
General and Administrative Expenses	-109,023	-53,987	-55,036	102
Transportation and selling expenses	-303,924	-193,030	-110,894	57
Depreciation of fixed assets, exploration assets and intangible assets, net	-39,701	-3,399	-36,302	1,068
Income / (loss) from fixed assets retirement, net	-1,463	-1,021	-443	43
Miscellaneous income/(expenses)	1,271	-6,241	7,511	-120
<b>Operating profit</b>	<b>288,895</b>	<b>239,378</b>	<b>49,517</b>	<b>21</b>
Foreign exchange loss, net	1,665	18,720	-17,055	-91
Financial income	111,354	56,994	54,361	95
Financial expenses	-277,526	-143,370	-134,156	94
Depreciation of investment in JCEs	0	14,686	-14,686	-100
<b>Share of the profit/(losses) of the equity-accounted entities</b>	<b>3,249</b>	<b>-3,249</b>	<b>6,499</b>	<b>-200</b>
<b>Operating profit</b>	<b>337,319</b>	<b>179,682</b>	<b>157,637</b>	<b>88</b>
<b>Profit/(Loss) before taxes</b>	<b>464,956</b>	<b>362,841</b>	<b>102,115</b>	<b>28</b>
Corporate income tax expenses	-108,812	-89,836	-18,975	21
Profit/(loss) from discontinuing activities	3,562	-715	4,277	-598
<b>Net income/(loss)</b>	<b>359,707</b>	<b>272,290</b>	<b>87,417</b>	<b>32</b>

##### 4.1. Revenues

Income from sales of goods and rendering services (KZT mln)	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
Oil product sales	1,025,016	567,327	457,689	81
Crude oil sales (taking into account the crude oil quality bank)	1,611,807	1,022,760	589,047	58
Marketable gas sales	350,547	163,249	187,298	115
Oil transportation	81,067	78,843	2,225	3
Gas transportation	73,899	73,219	679	1
Oil and gas processing	86,696	68,154	18,542	27
Oilfield services	35,156	33,121	2,035	6
Miscellaneous	92,071	64,249	27,822	43
<b>Total revenues</b>	<b>3,356,260</b>	<b>2,070,922</b>	<b>1,285,338</b>	<b>62</b>

Volumes of goods sold and services rendered	UoM	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
Oil product sales	Kt	5,830	3,883	1,948	50
Crude oil sales	Kt	9,330	8,523	808	9
Marketable gas sales	MCM	12,003	8,736	3,267	37
Oil transportation by trunk pipeline	Kt *km	18,317	18,519	-202	-1
Oil transportation by sea	Kt	3,446	1,456	1,989	137
Gas transportation	MCM * km	27,758	26,805	953	4
Oil refining	Kt	6,498	5,760	738	13

Average Sales Prices	UoM	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
Oil product sales	KZT per ton	175,813	146,121	29,693	20
Crude oil sales	KZT per ton	172,752	120,006	52,746	44
Marketable gas sales	KZT per TCM	29,204	18,687	10,518	56
Oil transportation by trunk pipeline	KZT per ton	4,125	4,027	98	2
Oil transportation by sea	KZT per ton	1,600	2,930	-1,330	-45
Gas transportation	KZT per TCM	2,662	2,732	-69	-3
Oil refining	KZT per ton	13,342	11,832	1,510	13

Income patterns showed a significant increase in fraction of incomes from the sale of crude oil. Revenue growth was caused by increased sale volumes and world oil prices in the reporting period.

The increase in revenues from oil product sales is caused by an increase in export prices, due to the growth of price quotations on the world market (Brent price for the reporting period is USD 71 per barrel, for the first half 2017 - USD 52 per barrel) as well as an increase in sales volumes of Petromidia's oil products for KMG int, due to more favorable weather conditions, increased trading of oil products mainly in the Asian market in view of higher demand.

The increase in revenues from the sale of commercial gas is due gas sale to PRC in the reporting period, in the absence of sales last year, growth in sales volumes to Kyrgyzstan and Russia, growth in the domestic market in the number of consumers and production volumes in the regions, as well as an increase in the weighted average selling price and the USD-KZT exchange rate.

The increase in revenues from oil and oil product refining is due to the growth in refining volumes, in accordance with the production plans approved by the RoK's MoE, and the increase in refining tariffs at POGR and AR.

The increase in oil transportation revenues was due to the increase in transportation tariffs (export tariff increase from KZT 5,817.2 to 6,398.9 per 1 ton per 1,000 km (excluding VAT), to the domestic market by 10% from January 1, 2018), as well as the increase in the USD-KZT exchange rate.

## 4.2. Expenditures

### Cost price of sold products and services rendered

(KZT mln)	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
Materials and reserves	682,109	416,223	265,886	64
Crude oil and gas	1,453,296	697,161	756,136	108
Payroll expenses	146,221	146,949	(728)	(0)
Ageing, depletion and amortization	117,056	102,357	14,699	14
Minerals extraction tax	58,041	42,380	15,662	37
Repair and maintenance	15,286	15,334	(48)	(0)
Electric power	28,237	30,717	(2,480)	(8)
Other taxes	33,932	28,475	5,457	19
Transportation expenses	7,003	6,851	153	2
Miscellaneous	73,343	87,420	(14,077)	(16)
<b>Total</b>	<b>2,614,525</b>	<b>1,573,867</b>	<b>1,040,658</b>	<b>66</b>

Consolidated cost price for the reporting period increased by 66% compared to the first half 2017.

The main reasons for cost increase:

- the rise in expenses for materials and reserves is due to an increase in the purchase of oil products for resale in the Asian market due to a higher demand. Besides, due to the growth of quotations for gasoline and diesel fuel in comparison with the last year;
- the rise in crude oil, gas and refined products expenses is associated with an increase in the volume of oil purchases for resale and refining, as well as due to changes in the oil price (Brent price for the reporting period was USD 71 per barrel, for the first half 2017 - USD 52 per barrel). The growth of trading operations was due to the appointment of KMG N.V. as an "affiliated trader" of the Republic of Kazakhstan in July 2017 and KMG for procurement processes and oil sales from the Karachaganak field. In turn, the rise in expenses for oil purchase for refining is due to the fact that in the first half 2017, the Petromidia refinery operated at a minimum capacity because of bad weather conditions in January-February (the Media



marine terminal was closed, railway and road transportation was limited). In addition, preventive maintenance of the Petromidia refinery was carried out in May 2017 instead of October;

- the growth in depreciation is associated with the acquisition of new operating systems and the commissioning of new units at refineries;

- the growth in Mineral Extraction Tax expenses (MET) was due to the growth in the oil world price (Brent price for the reporting period was USD 71 per barrel, for the first half 2017 - USD 52 per barrel);

- growth of other taxes in 1<sup>st</sup> half 2018 include the accrual of expenses for the commercial discovery bonus of KZT 2.6 billion for Uzen-Karamandybas, as a result of the recalculation of reserves for this field and an increase in excise expenses of KZT 1.3 billion in connection with the growth in oil product sales in 2018 compared with 2017.

### General and Administrative Expenses

(KZT mln)	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
Payroll expenses	33,272	32,421	851	3
Depreciation of VAT reclaimed	1,126	-26,414	27,540	-
Consulting services	10,378	5,985	4,393	73
Depreciation and amortization	11,259	13,426	-2,168	-16
Taxes	5,176	4,338	838	19
Charity	295	325	-31	-9
Penalties, fines and charges	70	0	70	-
Allowance for impairment of trade accounts receivable	1,861	1,052	809	77
Allowance for fines, penalties and tax provisions	6,472	-633	7,106	-1,122
Allowance for/(recovery of) impairment of other current assets	2,273	166	2,107	1,266
Allowance for depreciation of SMI	763	1,376	-614	-45
VAT that cannot be offset (proportional method)	370	1,078	-708	-66
Social payments, not included in LCF (including taxes and NPF contributions)	11,544	2,410	9,134	379
Miscellaneous	24,166	18,457	5,708	31
<b>Total</b>	<b>109,023</b>	<b>53,987</b>	<b>55,036</b>	<b>102</b>

General administrative expenses for the reporting period amounted to KZT 109 billion, which is 102% more than the same period last year.

The rise in expenses for VAT impairment to recovery is due to KMG EP reversal provisions for VAT recovery in the amount of KZT 30 billion in the same period last year.

The increase in consultancy services is due to the involvement of KMG EP delisting services from the London Stock Exchange and the technical stock assessment.

The increase in provisions for taxes, fines and penalties is due to a negative amount in 2017 due to KMG EP reversal provisions for CIT and EPT on the basis of the positive decision of the court of Astana to appeal the results of the tax audit for 2009-2012, and as well as additional charge for the KMGO reserve for the comprehensive tax audit of Astana for 2012-2015 in the reporting period.

The growth in social payments that are not included in the payroll is related to accrual of compensations and the corresponding social tax to employees of oilfield service companies OSC, OCC, OTC, MEM, MT in connection with the termination of employment contracts under the 5/50 program by agreement of the parties, reflected in the GAE as per the auditors' recommendation.

The increase in other expenses is associated with an increase in expenses for the maintenance of the KMG EP BD, due to the involvement of consulting for independent directors of KMG EP on the repurchase of shares and Global Depositary Receipts, as well as the delisting of KMG EP.

## Selling Expenses

(KZT mln)	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
Rent tax	67,348	31,657	35,690	113
Customs duties	58,208	51,612	6,596	13
Transportation	146,662	80,282	66,380	83
Payroll expenses	7,637	7,546	90	1
Ageing and amortization	5,524	6,552	(1,028)	(16)
Miscellaneous	18,546	15,380	3,166	21
<b>Total</b>	<b>303,924</b>	<b>193,030</b>	<b>110,894</b>	<b>57</b>

Consolidated transportation and sales expenses for the period increased by 57% mainly due to an increase in transportation costs, increase in the volume of gas transportation to China through the Beineu-Shymkent trunk gas pipeline and an increase in transportation costs of oil products, mainly in connection with the increase in railway tariffs from August 1, 2017. Besides, because of the costs of rental tax and ECD due to the growth in the oil world price (the Brent price for the reporting period - USD 71 per barrel, for the first half 2017 - USD 52 per barrel). According to the legislation of the Republic of Kazakhstan, the rates of ECD and rental tax vary depending on the Brent price. In addition, in the first half 2018 as a result of higher volumes of exported dark petroleum products, oil product ECD costs increased.

## Profit share in jointly-controlled organizations and associate companies

(KZT mln)	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
Tengizchevroil LLP	219,804	140,054	79,750	57
Mangistau Investments B.V.	47,517	21,604	25,913	120
KazGerMunay LLP	11,436	11,903	-466	-4
PetroKazakhstan Inc.	8,008	3,346	4,662	139
KazRosGas LLP	-403	1,093	-1,496	-137
Kazakhoil-Aktobe LLP	4,232	-2,707	6,938	-256
Ural Group Limited	-10,436	-762	-9,674	1,269
Beineu-Shymkent gas pipeline	11,564	-17,523	29,087	-166
Caspian Pipeline Consortium	24,487	24,096	391	2
KMG Kashagan B.V.	14,644	-9,522	24,165	-254
Valsera Holding B.V.	-6,302	4,633	-10,934	-236
Teniz Service LLP	8,198	968	7,230	747
Miscellaneous	4,570	2,498	2,072	83
<b>Total</b>	<b>337,319</b>	<b>179,682</b>	<b>157,637</b>	<b>88</b>

By the outcomes of the 1<sup>st</sup> half 2018, a share of profit in joint ventures and associated organizations has increased by KZT 158 billion or by 88 % from KZT 180 billion to KZT 337 billion compared to the same period 2017.

The growth in the profit share of Tengizchevroil LLP, Mangistau Investments B.V., Kazakhoil-Aktobe LLP was formed mainly as a result of an increase in the average price of oil in the first half 2018.

The increase in the profit share of the BSGP is connected with the full restoration of the accumulated unrecognized share in the BSGP loss in the amount of KZT 23,363 thousand as of 31.12.2016.

The increase in the KMG Kashagan B.V. profit share was caused by the project's output at a stable production level in the reporting period, while the same period last year was characterized by the beginning of production renewal.

The increase in the profit share of Teniz Service LLP is due to the commissioning of the facilities under the "Cargo Transportation Route" project and the beginning of service rendering, an increase in volumes for other projects.

The increase in the loss share of UGL and Valsera is related to the adjustment of capitalized borrowing costs issued by the parent company (KMG CC and EP).

In the first half 2018, KMG received dividends from joint ventures and associates in the amount of KZT 78,726 million, which is KZT 17,072 million, or 28% higher than the same period last year.

(KZT mln)	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
Dividends	78,726	61,655	17,072	28

### Income Tax Expenses

(KZT mln)	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
<b>Current income tax:</b>				
Corporate income tax	63,449	54,110	9,338	17%
Excess profits tax	-3,460	147	-3,607	-2,460%
Withholding tax on dividends and interest income	12,582	3,930	8,652	220%
<b>Deferred income tax:</b>				
Corporate income tax	10,491	15,426	-4,934	-32%
Excess profits tax	-7,887	792	-8,679	-1,096%
Withholding tax on dividends and interest income	33,638	15,432	18,206	118%
<b>Income tax expenses</b>	<b>108,812</b>	<b>89,836</b>	<b>18,975</b>	<b>21%</b>

For the 1<sup>st</sup> half 2017, the income tax expense of the Company amounted to KZT 108 billion, which is 21% higher than in the same period of 2017. The growth was caused by increased taxable income due to rise in the average world for Brent crude oil (the Brent price for the reporting period was USD 71 per barrel, for the first half 2017 - USD 52 per barrel), gas sales volumes. In connection with the classification of KMG EP (EMG) for the deduction of the value of fixed assets, the previously accrued EPT for 2017 was reversed. In addition, in the reporting year, the tax was deducted and withheld at the source of payment from dividends of JV Tengizchevroil LLP 3 times more compared to the same period, which is associated with a greater amount of dividends received.

### Profit/(loss) from discontinued activities

This item reflects the indicators of KMG Ustyurt LLP, Kazakh-British Technical University LLP and subsidiaries of KMG Service, net of intra-group transactions with the companies of the Group. The Company's profit from discontinued operations for the 1<sup>st</sup> half 2018 amounted to KZT 3.5 billion compared to KZT 0.7 billion for the 1<sup>st</sup> half 2017, reflecting the increase by KZT 4 billion. Most of the growth is due to the sale of a 50% of shares in the Authorized Capital of KMG Ustyurt LLP to Union Field Group Ltd (British Virgin Islands) in January 2018.

## 4.3. Liquidity and Capital Expenditures

### Debt Obligation

The net debt of the Group is KZT 2,169.1 billion as of the end of the first half 2018 compared with KZT 1,349.8 billion as of December 31, 2017. The increase in net debt is due to a decrease in the amount of cash due to the repurchase of KMG EP's own shares.

Total debt on loans raised and borrowings of the Group was KZT 4,527.7 billion as of the end of the reporting period compared to KZT 4,301.3 billion as of the beginning of the reporting period. Increase in total debt is due to refinancing of Eurobonds, attraction of a syndicated loan from KazTransGas JSC, development of existing credit lines for modernization projects of refineries and gasification of regions, as well as the exchange rate difference.

(KZT mln)	As of 30.06.2018	As of 31.12.2017
Long-term part	3,606,784	3,417,112
Current part	920,904	884,140
<b>Total debt</b>	<b>4,527,687</b>	<b>4,301,252</b>

Cash and cash equivalents	1,851,930	1,263,987
Short-term bank deposits and part of long-term bank deposits	506,618	1,687,464
Net debt (Total debt–cash– short-term financial assets)	<b>2,169,139</b>	<b>1,349,801</b>

### Liquidity

The Group's cash resources for the reporting period decreased from KZT 2,957 billion (as of December 31, 2017) to KZT 2,364 billion (as of June 30, 2018). The main reason was the redemption of KMG EP's own shares for a total of KZT 628 billion.

### Forecast Liquidity and Trends

The company expects that after the planned repayment of Eurobonds on July 2, 2018, for a total amount of USD 1.6 billion, the forecasted consolidated liquidity will not undergo significant changes by the end of this year. At the same time, in case of a significant reduction in oil price, making decisions on the implementation of new investment projects and/or emergence of other significant events not provided for in the Company's current plans, the forecast liquidity may tend to decline.

### Capital Expenditures

The Group's capital expenditures include investment projects, expenditures related to maintaining the current level of production and other expenditures (of an administrative and social nature). In the reporting period, capital expenditures amounted to KZT 177 billion, which is KZT 89 billion less than similar expenses for the 1<sup>st</sup> half 2017.

#### Capital expenditures broken down by key business areas:

(KZT mln)	For 6 months ended on 30.06.2018	For 6 months ended on 30.06.2017	Δ, (+/-)	Δ, %
Oil and gas exploration and production	78,987	50,144	28,842	58
Oil transportation	32,559	7,441	25,118	338
Gas transportation	13,161	62,602	-49,442	-79
Processing and sales of crude oil and oil products	47,722	142,816	-95,094	-67
Miscellaneous	4,657	2,656	2,001	75
<b>Total capital expenditures</b>	<b>177,085</b>	<b>265,660</b>	<b>-88,575</b>	<b>-33</b>

In the 1<sup>st</sup> half 2018, capital expenditures in the direction of oil and gas exploration and production amounted to KZT 79 billion, which is KZT 28 billion more than in the 1<sup>st</sup> half 2017. In general, the growth is related to the purchase of fixed assets, large volumes of production and exploration drilling for EMG and EMG in the 1<sup>st</sup> half 2018. Also there was an increase in expenses for maintenance of production assets, due to the increase in costs for projects to remove production restrictions on the gas of the Karachaganak Processing Complex (CPC), modernization of the oil treatment system for the CPC, modernization of the CGTP-2 compressors and the 4<sup>th</sup> Gas Reinjection Compressor.

The growth in the direction of Oil Transportation is due to the start of the project of "Construction of 3 (three) barge-sites of the MCV class for the Tengizchevroil LLP Future Growth Project and the project of "Construction of 3 (three) tugs for the TCO Future Growth Project" by KMTF. In addition, in the 1<sup>st</sup> half 2018, KTO partially replaced pipes on the Uzen-Atyrau-Samara trunk oil pipeline.

The decrease in capital expenditures in the direction of Gas Transportation is due to the overhaul of the UPG Kozhasay - KS12 Shalkar and trunk gas pipeline the Bukhara-Ural trunk gas pipeline, development ahead of the work schedule for the Issyk AGDS Construction project in the 1<sup>st</sup> half 2017.

The main reason for decreased expenses, in the direction of Crude Oil and Oil Product Refining and Sale is completion of the modernization projects for the Atyrau and Pavlodar refineries in connection with the main commissioning and construction-and-assembly works in 2017.

## GLOSSARY

KMG Int.–KMG International N.V., an integrated Romanian oil and gas company

Fund - JSC “Sovereign Wealth Fund “Samruk-Kazyna”

ANS - Aktaunefteservis (ANS group: Oil Service Company LLP, Oil Construction Company LLP, Oil Transport Corporation LLP, Mangistauenergomunai LLP, Munaitelcom LLP)

AGP - Asia Gas Pipeline (trunk gas pipeline for transportation of the Central Asian gas to China)

AR - Atyrau Refinery

BGR-TBA - Bukhara Gas-bearing Region–Tashkent–Bishkek–Almaty

BBS – “Beineu-Bozoi-Shymkent” trunkline

Group - JSC “National Company “KazMunayGas” and the legal entities, where fifty or more percent of the voting shares (interest) are directly or indirectly owned or beneficially owned by JSC “National Company “KazMunayGas”, and the legal entities whose operation KMG is entitled to control.

SDE - subsidiary dependent entity

SGI/SGP - Sour Gas Injection/Second Generation Plant

KTM - Kazakhturkmunay LLP

KRG - KazRosGas LLP

KMG, the Company - JSC “National Company “KazMunayGas”

KMG Karachaganak - KMG Karachaganak LLP

APC - aromatics production complex

KPIs - key performance indicators

KTG - JSC “KazTransGas”

CPC - Caspian Pipeline Consortium (trunk oil pipeline from transporting oil from the Tengiz field to the port of Novorossiysk on the Black Sea)

KTO - JSC “KazTransOil”

KMG O - KMG-Onimderi JSC

KMGAero - KazMunayGas-Aero LLP

KMG's CC - corporate centre, central office of JSC NC “KazMunayGas”

TOP – trunk oil pipeline

TGP – trunk gas pipeline

RoK's MoE - Ministry of Energy of the Republic of Kazakhstan

MET - minerals extraction tax

EPT – excess profit tax

Refineries – oil refineries

WPCP/FGP - well-head pressure control project/future growth project of the Tengiz field

SUC – start-up complex

PKOP - PetroKazakhstan Oil Products JSC, the owner of the Shymkent Refinery

POCR – Pavlodar Oil Chemistry Refinery

DED - design-and-estimate documentation

KMG EP - KazMunayGas Exploration Production JSC

JCE – jointly-controlled entity

NCP - North-Caspian Project

CAWs - construction-and-assembly works

JV - joint venture

JUR - jack-up self-elevating drilling rig

PSA - production sharing agreement

TCO – Tengizchevroil LLP

HCS - hydrocarbons

RH – raw hydrocarbons

ECD – Export customs duty