



**ҚазМұнайГаз**  
NATIONAL COMPANY ҰЛТТЫҚ КОМПАНИЯСЫ

# **JSC NC “KAZMUNAYGAS” MANAGEMENT REPORT ON FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*for the nine months ended September 30, 2019*



The objective of the following document is to assist in understanding and assessment of the trends and material changes in the Group's operating and financial results. This overview is based on the Group's audited consolidated financial statements and should be considered together with the audited consolidated financial statements and the related notes. All financial data and their discussion are based on the audited consolidated financial statements, prepared in accordance with the International Financial Reporting Standards (IFRS). In accordance with the Group's accounting policies, investments in joint ventures and associates are accounted for using the equity method and, therefore, are not consolidated line by line ("equity method treated enterprises").

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.

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## 1. GENERAL INFORMATION

JSC NC “KazMunayGas” is a vertically integrated company operating for exploration, production, transportation, refining and marketing of oil and gas, as well as selling crude oil, gas and refined products in Kazakhstan and abroad.

JSC NC “KazMunayGas” is a state-owned oil and gas enterprise of the Republic of Kazakhstan established by Decree No. 811 of the President of the Republic of Kazakhstan of 20 February 2002 and by Decree No. 248 of the Government of the Republic of Kazakhstan of 25 February 2005. JSC NC “KazMunayGas” was established by the merger of CJSC National Oil and Gas Company “Kazakhoil” and National Company “Oil and Gas Transportation”. As a result of the merger, KMG acquired all the assets and liabilities, including stakes in all businesses owned by these companies.

The shareholders of KMG are JSC NWF Samruk-Kazyna (90.42% - 1 share) and the National Bank of the Republic of Kazakhstan (9.58% + 1 share). The Group produces more than a quarter of Kazakhstan national market of oil and gas condensate and dominates in national oil and natural gas refining and transportation through trunk pipelines.

The Group’s largest and most important contributors to the consolidated business in the reporting period:

- JSC OzenMunayGas and JSC EmbaMunayGas (oil and gas exploration and production);
- JSC KazTransOil (oil transportation);
- JSC KazTransGas (gas transportation and sales);
- JSC KazMunayTeniz (offshore operations);
- Atyrau Refinery LLP (crude oil refining);
- Pavlodar Oil-Chemistry Refinery LLP (crude oil refining);
- KMG International N.V. (refining and marketing of crude oil and refined products in Romania and countries of the Black Sea and Mediterranean basin);
- important contributors:
  - North Caspian Operating Company B.V. (share – 8,44%);
  - Karachaganak Petroleum Operating B.V. (share - 10%);
  - Tengizchevroil LLP (share - 20%).

### Key corporate events:

- On 22 February 2019, KazMunayGas Exploration Production JSC (KMG EP) completed its preferred shares buyback programme. KMG EP repurchased preferred shares in the amount of 15.9 bln tenge, representing 65% of the outstanding float. As of 14 May 2019 preferred shares of KMG EP were delisted from the KASE official list;
- In February 2019, in accordance with its strategy and government plan, KMG completed the sale of its KazMunayGas-branded fueling station network for 60,512 mln tenge, thus exiting the retail petroleum stations business in Kazakhstan;
- On 28 March 2019, international rating agency Fitch confirmed KMG’s rating at the level “BBB-/Forecast stable”, while increasing the individual rating (stand-alone credit profile) from “b” to “bb-“;
- On 29 March, 2019, KMG obtained the consent of the holders of Eurobonds to be redeemed in 2022, 2023, 2027 and 2047. (Eurobonds issued before 2018) for (1) alignment of the covenant package with the terms of the issue of Eurobonds of 2018 and (2) early repayment of Eurobonds in the amount of USD 30.1 million due for repayment in 2044;
- On 29 April 2019, Mr. Luis Maria Viana Palha Da Silva was elected as Board Member – and Independent Director of KMG;
- On 20 May 2019, Mr. Anthony Espina was elected as Board Member of KMG representing core shareholder, Samruk-Kazyna;
- In accordance with a Presidential decree, KMG fully settled its commitments for the construction of new social facilities (a 7,000-seat stadium and congress hall) in Turkestan for a total amount of 21 bln tenge. Along with this, in August 2019, KMG financed the construction of 1,000-seat amphitheater worth 1.8 bln tenge in Turkestan;
- On 22 August 2019 rating agency Moody’s affirmed KMG’s long-term rating at “Baa3” with the outlook changed from “stable” to “positive”, whereas standalone rating of KMG has been upgraded from “Ba3” to “Ba2”.

### Production events

- On 16 February 2019, the implementation of an investment project for the modernisation of a Jack Up Drilling Rig (JUDR) for 21.6 bln tenge or USD 57 mln was approved for the participation in drilling projects in the Azerbaijani sector of the Caspian Sea. KMG and the State Oil Company of Azerbaijan Republic (SOCAR) signed an agreement on trust management of the JUDR;

- On 1 April 2019, the Ministry of Energy of the Republic of Kazakhstan, KMG and PJSC LUKOIL (LUKOIL) signed a contract for the exploration and production of hydrocarbons in the Zhenis site located in the Kazakh sector of the Caspian Sea. According to the joint assessment by KMG and LUKOIL, the extractable reserves (C3) of the project are 65.1 mln tons. The project operator is Zhenis Operating LLP (a 50:50 joint venture between KMG and LUKOIL);
- In April 2019, KMG launched the feeder transportation on the Trans-Caspian international transport route. The marine operator of this route is KMTF;
- On 17 May 2019, KMG and British Petroleum (BP) signed a Memorandum of Understanding for the joint study and research of the available technical data from existing KMG fields and third parties;
- In May 2019, the shareholders of the Caspian Pipeline Consortium (CPC) decided to implement a project to eliminate the bottlenecks of the CPC pipeline to increase its capacity in the Kazakhstan sector to 72.5 mln tonnes per year with a project implementation period from 2019 to 2023;
- On 7 June 2019, KMG and LUKOIL signed an agreement on the principles of the I-P-2 project, the site of the same name located in the Kazakh sector of the Caspian Sea. According to LUKOIL's estimates, the extractable reserves (C1) of the project are 15.1 mln tons;
- On July 26, 2019, the Ministry of Energy of the Republic of Kazakhstan, KMG and Eni S.p.A. (Eni) signed a contract for the exploration of hydrocarbons in the Abai field located in the Kazakh sector of the Caspian Sea. The project operator is Isatay Operating Company LLP (a 50:50 joint venture between KMG and Eni);
- The scheduled major overhaul took place at KTL-1 plant at Tengiz for 40 days – from August 1 to September 10;
- The scheduled major overhaul took place at KPO for 25 days – from September 16 to October 10;
- On 20 September 2019, KMG and LUKOIL signed an agreement on joint site explorations in the Republic of Kazakhstan (RK);
- On 24 September 2019, KMG and Equinor signed an agreement on joint site explorations which assume geological and geophysical surveys to identify the hydrocarbon potential of oil and gas sites in the Republic of Kazakhstan.

#### **Financial events**

- In January 2019, the Atyrau refinery refinanced the loan of the Development Bank of Kazakhstan (DBK) for the amount of USD 300 mln via (1) the issuance of bonds at Astana International Exchange and (2) a loan obtained from Halyk Bank in order to reduce funding cost.
- In April 2019, KMG fully repaid the Eurobonds due in 2044 for the amount of USD 30.1 mln.
- During the nine months of 2019, KMG fully repaid the indexed bonds due to DBK for the amount of USD 113 mln.
- In July 2019, Atyrau Refinery switched the currency of the loan due to DBK for the amount equivalent to USD 152 mln from “USD” to “KZT” for the purpose of mitigating the foreign exchange risk.
- In August 2019, KMG and KTG jointly issued a financial guarantee (each responsible for 50%) to refinance the loan raised by Beineu-Shymkent Gas Pipeline LLP from a syndicate of foreign banks for the amount of USD 720 mln in order to improve the terms of the financing.

## 2. KEY MACROECONOMIC FACTORS

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

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

Below are macroeconomic indicators for 9 months of 2019, which influenced the group's operations.

Item	Units	For 9 m. ended 30.09.2019	For 9 m. ended 30.09.2018	Change	
				abs	%
End-of-period inflation rate (CPI, in % to the corresponding months of the preceding year)	%	105.3	106.1	-0.8	-0.7
Oil export customs duty	USD/ton	63	65	-2	-3.1
Monthly calculation index (MCI)	KZT	2,525	2,405	120	5.0
Minimum wage amount (MWA)	KZT	42,500	28,285	14,215	50.3

### 2.1. Changes in crude oil and oil products market prices

International and domestic prices for crude oil and oil products have a significant impact on the Company's results.

Change in world prices for crude oil (USD/bbl)	For 9 m. ended 30.09.2019	For 9 m. ended 30.09.2018	Δ, %
Brent	64.65	72.13	-10.4
Urals	64.72	70.69	-8.4

Source: Thomson Reuters

Generally, the change in prices is dictated by a number of factors occurring in the world, including decisions made by the OPEC countries, the situation in Venezuela, Iran, market relations between the USA and China, USA and the EU anti-Russian sanctions, etc.

The global and Kazakh dynamics of prices for oil products was determined by a number of factors, the most important of which are crude oil prices, oil products supply and demand situation, competition, remoteness of the sales markets from the enterprises that refine oil into end products or petroleum intermediates, and the seasonal deficit/surplus in oil product supplies.

Average world prices of oil products	Unit	For 9 m. ended 30.09.2019	For 9 m. ended 30.09.2018	Δ, %
Fuel oil	USD/ton	375	393	-4.6
Naphtha	USD/ton	495	617	-19.8
Jet fuel	USD/ton	631	686	-8.0

Average retail prices of oil products in RK *	Unit	For 9 m. ended 30.09.2019	For 9 m. ended 30.09.2018	Δ, %
AI-95 Gasoline	KZT/ton	164,747	179,759	-8.4
AI-92 Gasoline	KZT/ton	154,191	169,491	-9.0
Diesel (summer)	KZT/ton	196,210	171,533	14.4
Jet fuel	KZT/ton	220,765	210,556	4.8

Source: Argus Caspian Markets for oil products produced at Kazakh refineries

The increase in the average annual wholesale prices of diesel and jet fuel in the Kazakh domestic market for the first nine months of 2019 exceeded the 2018 prices by more than 14% and 4%, respectively.

The decline in the average annual wholesale prices of high-octane fuels in the Kazakh domestic market for the first nine months of 2019 was about -9% from the same period of 2018. The dynamics of wholesale prices was negative due to gasoline surplus in the domestic market in early 2019.

### 2.2. Changes in the foreign exchange rate

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

	Average rate for the period	As of the end of the period
For 9 months, as of September 30, 2019 (KZT per 1.00 USD)	381.52	387.99
For 9 months, as of September 30, 2018 (KZT per 1.00 USD)	336.51	363.07

Source: Kazakhstan Stock Exchange

### 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 a considerable portion of crude oil volumes, to be sold for exports and to the domestic market. It is transported through the Kazakh trunk pipeline system, owned by KazTransOil JSC – a subsidiary company. Furthermore, the Group owns 20.75% of the share capital in the Caspian Pipeline Consortium.

Crude oil is transported through the trunk pipelines by KazTransOil JSC Group under oil transportation services contracts concluded by them with consumers in accordance with the standard contract approved by Order No. 266 of the Minister of National Economy of the Republic of Kazakhstan dated March 27, 2015. These contracts stipulate the rights and obligations of the parties when they engage in oil transportation. The Group's oil is transported through the trunk pipelines of KazTransOil JSC Group to the domestic market and is exported as a mixture with oil from other producers.

Pursuant to the amendments to the Law of the Republic of Kazakhstan *On Amendments to Certain Natural Monopolies and Regulated Markets Legislative Acts of the Republic of Kazakhstan* made in May 2015, transportation of oil, which is transited through the territory of the Republic of Kazakhstan and exported outside the Republic of Kazakhstan, is not anymore considered a natural monopoly. In February 2018, KazTransOil JSC approved (Order No. 46, Order No. 47) the following tariffs for oil transportation by trunk pipelines:

- export outside the Republic of Kazakhstan – KZT 6,398.92 per ton per 1,000 km (excluding VAT) effective as of April 1, 2018, with increasing from KZT 5,817.2 in Quarter 1, 2018 by KZT 581.72 per 1 ton per 1,000 km;
- 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, with increasing from KZT 1,727.1 in Quarter 1, 2018 by KZT 2,565.3 per 1 ton per 1,000 km.

In December 2018, the Minister of Energy of the Republic of Kazakhstan approved (order No. 545) the tariff for transporting Russian oil for 2019–2023 in the amount of 10 million tons annually through the territory of the Republic of Kazakhstan to the People's Republic of China along the transportation route: border of the Russian Federation – border of the Republic of Kazakhstan (Priirtyshk) – Atasu (Republic of Kazakhstan) – Alashankou (People's Republic of China) in the amount of USD 15 per ton (excluding VAT), including:

- on the section “the border of the Russian Federation – the border of the Republic of Kazakhstan (Priirtyshk) – Atasu (Republic of Kazakhstan)”, including the transshipment of oil to HOPS Atasu – USD 4.23 per 1 ton excluding VAT, while during the first nine months of 2018 the cost was USD 3.11 per ton excluding VAT;
- on the section “Atasu (Republic of Kazakhstan) – Alashankou (People's Republic of China)” – USD 10.77 per 1 ton excluding VAT, while during the first nine months of 2018 the cost was USD 8.25 per ton excluding VAT;

Cap tariffs 2015-2019 for oil transportation to the domestic market of the Republic of Kazakhstan by trunk pipelines of KazTransOil JSC 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).

Temporary compensative tariff for oil transportation to the domestic market of the Republic of Kazakhstan of KZT 4,716.62 per ton per 1,000 km (excluding VAT) subject to legislative regulations has been approved effective as of September 1, 2019 until August 31, 2019 by the Committee on Regulation of Natural Monopolies and Protection of Competition (Acting Chairman's Order No. 204-OD dated July 31, 2019).

## Gas transportation

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

### **International transit and export tariffs**

In accordance with the amendments to the Law on Natural Monopolies made in May 2015, gas transportation for exports 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 Competition and Consumer Protection of the Ministry of National Economy of the Republic of Kazakhstan.

Effective tariffs for gas transportation for transit and export in the first nine months of 2019 were as follows:

- Intergas Central Asia JSC:
  - gas transit USD 2 per 1,000 m<sup>3</sup> per 100 km excluding VAT for PJSC Gazprom and its subsidiaries; USD 2.9 per 1,000 m<sup>3</sup> per 100 km excluding VAT for JSC UztransGaz;
  - gas export USD 5 per 1,000 m<sup>3</sup> per 100 km excluding VAT for Tengizchevroil, JSC KazTransGas;
  - gas export USD 2 per 1,000 m<sup>3</sup> per 100 km excluding VAT for CJSC KazRosGas;
- Asia Gas Pipeline LLP – gas transit and exports: USD 3.58 per 1,000 m<sup>3</sup> per 100 km excluding VAT;
- Beineu-Shymkent Gas Pipeline – uniform tariff for gas transportation within the domestic market, gas transit and exports: KZT 18,071 per 1,000 m<sup>3</sup> (excluding VAT); KZT 16,574 per 1,000 m<sup>3</sup> (excluding VAT) from May 1, 2019.

### **Tariffs for domestic gas transportation by trunk and distribution gas pipelines**

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

Tariffs for marketable gas transportation by trunk pipelines to consumers of the Republic of Kazakhstan have been approved as follows:

- Intergas Central Asia JSC from January 1, 2017 – KZT 2,212.7 per 1,000 m<sup>3</sup> (excluding VAT);
- Asia Gas Pipeline LLP from March 1, 2016 – KZT 3,494.4 per 1,000 m<sup>3</sup> (excluding VAT). Cap tariffs 2020-2024 of KZT 555.5 per 1,000 m<sup>3</sup>/100 km have been approved effective as of January 1, 2020 by the Almaty Department of the Committee on Regulation of Natural Monopolies and Protection of Competition (order No. 159-OD dated August 23, 2019);
- Beineu-Shymkent Gas Pipeline from March 1, 2016 – KZT 18,071 per 1,000 m<sup>3</sup> (excluding VAT); from May 1, 2019 - KZT 16,574 per 1,000 m<sup>3</sup> (excluding VAT). Cap tariffs 2020-2024 of KZT 1,200.15 per 1,000 m<sup>3</sup>/100 km have been approved effective as of January 1, 2020 by the Almaty Department of the Committee on Regulation of Natural Monopolies and Protection of Competition (order No. 4-OD dated September 27, 2019).

Tariffs for marketable gas transportation by distribution pipelines of KazTransGas Aimak JSC for consumers of the Republic of Kazakhstan from October 1, 2019 are approved as follows:

No.	Area	Transportation tariff, KZT/th. m <sup>3</sup> excl. VAT
1.	South-Kazakhstan region	7,036.87
2.	Zhambyl region	6,443.38
3.	Kyzylorda region	9,083.51
4.	Kostanay region	4,922.51
5.	West Kazakhstan region	2,615.37
6.	Atyrau region	1,769.42
7.	Aktobe region	4,890.81
8.	Mangistau region	2,392.59
9.	East Kazakhstan region	1,550.00
10.	Almaty and Almaty region	4,380.06

## 2.4. Tariffs for refining

Starting from 2016, three local major oil refineries (AR, POCR and PKOP) began utilizing a new refining model, under which the refineries provide only oil refining services at established rates, and do not buy oil for refining and do not sell the refined products. These obligations are now owed by oil suppliers, which sell refined products independently. Thanks to the vertically integrated structure of the KMG Group and its new refining business model, each business segment is now able to focus on its specific area of expertise, which ultimately increases the operational efficiency of the entire KMG



Group. In light of KMG's transformation and its transition from a strategic manager of the assets to an operational manager, the refining business model helps refineries focus on the production aspects only, which results in optimized refining operations and reduced costs.

In accordance with Law *On the Introduction of Amendments to Certain Legislative Acts of the Republic of Kazakhstan on Entrepreneurship* No. 376-V dated October 29, 2015, governmental regulation of refining fees was cancelled on January 1, 2017.

Average weighted tariffs in force during 9 months of 2019 and the same period of the last year are listed below:

Refinery	Unit of measurement	9 months 2019	9 months 2018	Δ, %
AR	KZT/ton	37,436	32,827	14.0
POCR	KZT/ton	19,805	17,250	14.8
PKOP	KZT/ton	23,287	18,444	26.3
CASPI BITUM	KZT/ton	18,012	18,008	0.0

## 2.5. Taxation

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

Tax	30.09.2019	30.09.2018	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 environmental emissions
Export rent tax	0%-32% On a scale linked to the world oil price	0%-32%	Crude oil and oil products export volume
Mineral Extraction Tax (MET)	0%-18%	0%-18%	Value of produced crude oil, gas condensate and natural gas
Excess profits tax (EPT)	sliding scale of 0%-60% rates	sliding scale of 0%-60% rates	Portion of the subsurface user's net income defined as the difference between the total annual income and deductions (in the amount of actual CAPEX if related to fixed assets) and CIT exceeding an amount equal to 25% of the amount of these deductions. EPT is calculated for each individual license contract.
Crude oil and gas condensate excise	zero rated	zero rated	Amount of produced and sold crude oil and gas condensate

Excise rates for 1 ton (in KZT) and duties					
	30.09.2019		30.09.2018		Tax base
	Gasoline (except jet fuel) (EAEU FEACN code 2710 12 411 0-2710 12590 0)	Diesel fuel (EAEU FEACN code 2710 19310 0-2710 19 480 0)	Gasoline (except jet fuel) (EAEU FEACN code 2710 12 411 0-2710 12590 0)	Diesel fuel (EAEU FEACN code 2710 19310 0-2710 19 480 0)	
Oil products excise tax					Produced, sold and imported oil products
Wholesaling of own gasoline (except jet fuel) and diesel fuel by producers (July – November)	10,500	9,300	10,500	9,300	
Wholesaling of gasoline (except jet fuel) and diesel fuel by individuals and entities	0	0	0	0	
Retailing of own gasoline (except jet fuel) and diesel fuel by producers, utilization for own operating needs (July – November)	11,000	9,360	11,000	600	
Retailing of gasoline (except jet fuel) and diesel fuel by individuals and entities, utilization for own operating needs	500	60	500	60	
Imports	10,500	540	10,500	540	

Excise rates for 1 ton (in KZT) and duties					
	30.09.2019		30.09.2018		Tax base
Transfer of excisable goods specified in Article 279 (5) of the Tax Code, which are the product of toll refining (July – November)	10,500	9,300	10,500	9,300	
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 customs 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 sale/transfer in kind to pay the 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 the own operating needs, a 0.5 decreasing factor is applied to the established rates.

Mineral extraction tax rate for sour gas is 10 percent. When sour gas is sold in the domestic market, the mineral extraction tax is paid at the rates depending on the annual production (from 0.5% to 1.5%).

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. Based on the oil prices scale, given the world prices below USD 25 per barrel, the export duty rate is 0, and if the world oil price is above USD 25 per barrel, the export duty rate is to be 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.

### 3. GROUP'S OPERATING PERFORMANCE

Operating results	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
Oil and condensate production, taking into account share in joint ventures (thousand tons)	17,593	17,642	-49	-0.3
Gas production, including share in joint ventures (million m <sup>3</sup> )	6,227	6,067	160	2.6
Refining of crude hydrocarbons at the own refineries and refineries of joint ventures (thousand tons)	15,282	14,947	334	2.2
Oil transportation by trunk pipelines (thousand tons)	50,324	50,717	-393	-0.8
Crude oil circulation (million tons* km)	46,954	46,959	-5	0.0
Transportation of oil by sea (thousand tons)	8,372	4,958	3,414	68.9
Gas transportation by main gas pipelines (mln m <sup>3</sup> )	74,369	84,068	-9,700	-11.5
Gas transportation operations (billion m <sup>3</sup> * km)	41,832	42,144	-312	-0.7

#### 3.1. Production of crude oil and condensate

Consolidated oil and condensate production (th. tons)	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
	<b>17,593</b>	<b>17,642</b>	<b>-49</b>	<b>-0.3</b>
Ozenmunaygas JSC (100%) + Kazakh Gas Refinery (100%)	4,177	4,107	70	1.7
Embamunaygas JSC (100%)	2,165	2,143	20	1.0
Kazakhturkmunai LLP (100%)	299	282	17	5.7
KazTransGas JSC (Amangeldy Gas-100%)	13	15	-2	-7.1
Kazgermunai JV LLP (50%)	851	1,016	-165	-16.2
MangistauMunaiGaz LLP (50%)	2,395	2,384	9	0.4
Karazhanbasmunai JSC (50%)	809	809	0	0.0
Kazakhoil-Aktobe LLP (50%)	242	220	22	9.0
Petrokazakhstan, Inc (33%)	650	755	-105	-13.9
Tengizchevroil LLP (20%)	4,394	4,293	101	2.4
Karachaganak Petroleum Operating b.v. (10%)	760	827	-67	-8.1
KMG Kashagan B.V. (50%)	838	787	51	6.5

The consolidated amount of oil and condensate production over the reporting period amounted to 17,593 thousand tons, which is 49 thousand tons less than the amount of the same period last year.

The main reasons for reduced amounts of oil and condensate produced:

- natural decrease in the production level at the fields of Petrokazakhstan, Inc. and Kazgermunai JV LLP;
- increased water cut and higher gas-oil ratio at Karachaganak Petroleum Operating b.v.

The crude oil and condensate production rates have increased at TCO due to stable operation and higher reliability of the SGI/KTL/SGP (Sour Gas Injection / Complex Technology Lines / Second Generation Plant) plants.

#### 3.2. Gas production

Consolidated gas (associated and natural) production, mln. m <sup>3</sup>	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
	<b>6,227</b>	<b>6,067</b>	<b>160</b>	<b>2.6</b>
Ozenmunaygas JSC (100%) + Kazakh Gas Refinery (100%)	510	471	38	8.3
Embamunaygas JSC (100%)	195	164	31	18.9
Kazakhturkmunai LLP (100%)	106	122	-16	-13.1
KazTransGas JSC (Amangeldy Gas-100%)	256	261	-5	-1.9
Kazgermunai JV LLP (50%)	166	191	-25	-13.1

MangistauMunaiGaz LLP (50%)	293	293	0	0.0
Karazhanbasmunai JSC (50%)	20	16	4	25.0
Kazakhoil-Aktobe LLP (50%)	258	178	80	45.8
Petrokazakhstan, Inc (33%)	126	142	-16	-13.1
Tengizchevroil LLP (20%)	2,405	2,349	56	2.4
Karachaganak Petroleum Operating b.v. (10%)	1,391	1,422	-31	-2.2
KMG Kashagan B.V. (50%)	503	458	45	9.8

Group's consolidated gas production over the reporting period is 6,227 thousand tons which is 160 thousand tons more than for the same period of the previous year.

The main reasons for the growth:

- increased oil production volumes at OMG and EMG;
- commissioning of an integrated gas treatment unit – 40 at KOA;
- increased oil production volumes due to the growth in the average daily capacity of the TCO plants (fact for the first nine months of 2019 – 79,945 tons/day vs. fact for the first nine months of 2018 – 78,662 tons/day).

At the same time, gas production of KTM decreased because of downtime of wells Laktybai-34 and SE Saztobe-46 due to post-accident activities and decreased flow rate of gas condensate well E Saztobe-3; for KGM and PKI, due to natural depletion; and for Karachaganak, due to gas factor increase and wells water cut.

### 3.3. Oil transportation by trunk pipelines

The main export pipeline routes for Kazakh oil are as follows:

- Atyrau-Samara pipeline (KazTransOil JSC – 100%);
- Atasu-Alashankou pipeline (KazTransOil JSC – 50%);
- Caspian Pipeline Consortium pipeline (JSC NC “KazMunayGas” - 20.75%).

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

	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
<b>Consolidated oil transportation by trunk pipelines by companies (th. tons)</b>	<b>50,324</b>	<b>50,717</b>	<b>-393</b>	<b>-0.8</b>
KazTransOil JSC CC	33,340	33,911	-571	-1.7
MunaiTas North-West Pipeline Company JSC (51%)	1,267	1,545	-278	-17.9
Kazakhstan-China Pipeline LLP (50%)	6,075	5,953	122	2.0
Caspian Pipeline Consortium JSC (20.75%)	9,642	9,309	333	3.6
<b>Crude oil cargo turnover (Mt*km)</b>	<b>46,954</b>	<b>46,959</b>	<b>-5</b>	<b>0.0</b>
KazTransOil JSC CC	28,310	28,540	-230	-0.8
MunaiTas North-West Pipeline Company JSC (51%)	485	610	-125	-20.4
Kazakhstan-China Pipeline LLP (50%)	5,482	5,450	32	0.6
Caspian Pipeline Consortium JSC (20.75%)	12,677	12,360	317	2.6

Consolidated oil transportation by trunk pipelines over the reporting period is 50,324 thousand tons which is 393 thousand tons less than for the same period of the last year.

A decrease in the oil transportation through the pipelines of KazTransOil JSC is mainly due to a decrease in oil delivery by shippers in the Kyzylorda region. Besides, the volumes from the Kenkiyak-Atyrau oil pipeline (NWPC Munaitas LLP) to the Kenkiyak-Kumkol oil pipeline have been redistributed according to the schedules of the Ministry of Energy of the Republic of Kazakhstan.

### 3.4. Oil transported by sea

The main operational routes for marine oil transportation are:

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

Consolidated oil transportation by sea by direction (th. tons)	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
		<b>8,372</b>	<b>4,958</b>	<b>3,414</b>
Aktau-Makhachkala	500	1,443	-943	-65.3
Black Sea	2,623	1,287	1,336	103.8
Mediterranean Sea	5,249	1,365	3,884	284.5
Makhachkala-Baku	0	863	-863	-100.0

Consolidated oil transportation by sea over the reporting period is 8,372 thousand tons which is 3,414 thousand tons more than for the same period of the last year.

The main reason for the increase is the additional volumes of transportation and the increase in number of shipments in the Black and Mediterranean Seas in the reporting period. At the same time, volume in the Aktau-Makhachkala direction decreased due to the fact that there were additional volumes from shippers during the same period of the last year. Further, oil transportation in the direction of Makhachkala-Baku has been suspended from August 2018 because of bareboat chartering of five Caspian tankers.

### 3.5. Transportation of gas

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

Consolidated gas transportation (million m <sup>3</sup> )	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
		<b>74,369</b>	<b>84,068</b>	<b>-9,699</b>
International transit	43,465	52,736	-9,271	-17.6
Gas export transportation	18,972	19,254	-282	-1.5
Gas transportation to domestic consumers	11,933	12,079	-146	-1.2
<b>Consolidated volumes of gas transportation (million m<sup>3</sup>)</b>	<b>74,369</b>	<b>84,069</b>	<b>-9,700</b>	<b>-11.5</b>
Intergas Central Asia JSC	51,897	60,834	-8,937	-14.7
KazTransGas-Aimак JSC	1,821	1,955	-134	-6.9
Asia Gas Pipeline LLP (50%)	17,143	18,442	-1,299	-7.0
Beineu-Shymkent Gas Pipeline LLP (50%)	3,508	2,837	671	23.6
Volumes of gas commodity/transportation operations (billion m <sup>3</sup> *km)	41,832	42,144	-312	-0.7

Total gas transported decreased by 9,699 million m<sup>3</sup> in the reporting period due to:

- PJSC Gazprom redirecting the gas from the Soyuz-Orenburg-Novoposkov trunk gas pipeline to the northern regions of the Russian Federation;
- reduction in the transit of Uzbek gas through the Central Asia – Center trunk gas pipeline;
- short supply of Turkmen gas to the PRC;
- a decrease in the gas transportation to the domestic market, caused by low gas consumption.

### 3.6. Hydrocarbon crude refining

- Pavlodar Oil-Chemistry Refinery (wholly owned by JSC NC “KazMunayGas”): POCR can currently refine 5.1 million tons of crude oil annually, with no loss in the quality of oil products (K4, K5). The oil conversion ratio was 86% in the reporting period. With a certain deterioration in quality, POCR can refine 6 million tons;
- Atyrau Refinery (99.49% owned by KMG): the designed refining capacity is 5.5 million tons annually; the oil conversion ratio was 75.5% in the reporting period;
- Shymkent Refinery (Petro Kazakhstan Oil Products, 49.72% owned by KMG): project capacity is 6 million tons annually, the oil conversion ratio was 84% in the reporting period;
- CaspiBitum (50% owned by KMG): a plant for the production of road bitumens from the heavy Karazhanbas oil. The designed refining capacity is 1.0 million tons annually;

KMG International N.V. (Rompertrol Rafinare) includes two refineries, Petromidia and Vega, and *Petrochemicals* petrochemical complex (PCC):

- Petromidia Refinery – (100% share of Rompetrol Rafinare S.A.) The project capacity is 5.0 million tons of oil annually. The PCC is integrated with the Petromidia Refinery;
- Vega Refinery – (100% share of Rompetrol Rafinare S.A.) project capacity – 500 thousand tons annually. The Vega Refinery is the only enterprise in Romania which specializes in the processing of alternative raw materials (naphtha, heavy hydrocarbon fractions, fuel oil).

Consolidated hydrocarbon crude refining, taking into account the operating share (th. tons)	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
	<b>15,282</b>	<b>14,947</b>	<b>335</b>	<b>2.2</b>
Atyrau Refinery LLP	3,915	3,943	-28	-0.7
Pavlodar Oil-Chemistry Refinery LLP	3,931	3,911	20	0.5
PetroKazakhstan Oil Products LLP (50%)	2,023	1,714	309	18.0
CASPI BITUM (50%)	332	327	5	1.5
KMG International N.V. (Rompetrol Rafinare)	5,081	5,051	30	0.6

The main reasons why the refining volumes have increased are as follows:

- PKOP –increase in the processing capacity refinery after completion of its modernization;
- AR, POCR – regulation by Kazakh Ministry of Energy;
- KMG International N.V. (Rompetrol Rafinare) –improved crude diet that made it possible to reduce quality fluctuations and achieve the design capacity at the crude oil refining unit.

### 3.7. Sales of oil, refined products and gas

#### Sales of oil produced by KMG, thousand tons

thousand tons	For 9 months ended 30.09.2019			For 9 months ended 30.09.2018		
	Export	Domestic market	Total	Export	Domestic market	Total
Operating assets*	6,501	5,223	11,724	6,667	5,197	11,864
Megaprojects**	6,082	1	6,083	5,907	6	5,913
<b>Total</b>	<b>12,583</b>	<b>5,224</b>	<b>17,807</b>	<b>12,574</b>	<b>5,203</b>	<b>17,777</b>

\* OMG, EMG, Mangistaumunaigas, Karazhanbasmunay, Kazgermunay, PetroKazakhstan Inc., Kazakhoil Aktobe, KTM.

\*\* TCO, Karachaganak Petroleum Operating b.v., KMG Kashagan B.V.

Oil sales for 9 months of 2019 increased by 30 thousand tons in comparison with the same period in 2018.

The growth can be observed at TCO and Kashagan due to increased amounts of oil produced and is partially offset by a reduction at KGM and PKI due to the natural depletion of the Kumkol group of fields.

#### Sale of refined products

In the reporting period, oil products were sold by KMG, KMGO, KMG Aero, POCR and KMG International N.V.

thousand tons	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
<b>Wholesale</b>	<b>6,154</b>	<b>6,266</b>	<b>-112</b>	<b>-1.8</b>
Light oil products	4,136	3,160	976	30.9
Dark oil products	807	568	239	42.1
Petrochemicals	48	3	45	1,500.0
Liquefied gas	205	150	55	36.7
Miscellaneous	959	2,384	-1,425	-59.8
<b>Retail sales</b>	<b>1,213</b>	<b>1,921</b>	<b>-708</b>	<b>-36.9</b>
Light oil products	971	1,708	-737	-43.1
Liquefied gas	103	114	-11	-9.6
Miscellaneous	2	99	-97	-98.0
<b>Total refined product sales</b>	<b>7,368</b>	<b>8,187</b>	<b>-819</b>	<b>-10.0</b>

## KMG's sales of refined products

thousand tons	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
<b>Sale of domestic refined products</b>	<b>2,462</b>	<b>1,841</b>	<b>621</b>	<b>33.7</b>
Wholesale distribution*	2,199.2	888.5	1,311	147.5
Retail sale	262.5	952.1	-690	-72.4
<b>KMG's sales of refined products</b>	<b>4,905.8</b>	<b>6,346.4</b>	<b>-1,441</b>	<b>-22.7</b>
Wholesale distribution	3,955.3	5,378	-1,423	-26.5
Retail sale	950.6	969	-18	-1.9
<b>Total</b>	<b>7,368</b>	<b>8,187</b>	<b>-819</b>	<b>-10.0</b>

\* except for volumes sold in bulk to KMG's fuel stations

Refined product sales in the reporting period compared to the same period of 2018 reduced by 819 thousand tons, mainly, due to reduced trading operations.

Sales of domestic refined products increased by 621 thousand tons due to the growth in wholesale trade of gasoline and diesel fuel (light oil products), caused by increased production in Kazakh refineries after modernization of refineries.

Sales of KMG Int. refined products reduced due to a decline in demand for refined products on the Asian market that was partially offset by increased volumes sold to third parties (Petromidia) and increased retail sales.

## Gas sale

Natural gas is mainly sold by KazTransGas JSC. The company's functions include wholesale purchases 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 on the domestic market.

KTG gas sales*(mln. m <sup>3</sup> )	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
Gas export	6,515	7,177	-662	-9.0
Sales of gas on the domestic market	9,322	9,472	-150	-1.6
<b>Total gas sales</b>	<b>15,836</b>	<b>16,649</b>	<b>-813</b>	<b>-4.9</b>

The decreased gas export is due to the reduced sales to Russia, Kyrgyzstan and Uzbekistan following the agreements with other suppliers.

Gas sales on the domestic market decreased due to decreased demand in the reporting period in all regions of Kazakhstan.

## 4. GROUP FINANCIAL PERFORMANCE

### Profit and loss statement

Profit and loss (mln KZT)	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
Income from goods and services	5,127,951	5,225,317	-97,366	-1.9
Cost of products and services	-3,837,324	-3,988,124	150,800	-3.8
<b>Gross profit</b>	<b>1,290,627</b>	<b>1,237,193</b>	<b>53,434</b>	<b>4.3</b>
General and Administrative Expenses	-157,140	-177,486	20,346	-11.5
Transportation and selling expenses	-524,748	-481,706	-43,042	8.9
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets, other than goodwill	-149,810	-41,556	-108,254	260.5
Loss on disposal of property, plant and equipment, intangible assets and investment property, net	-5,993	-2,094	-3,899	186.2
Other income/(expenses)	3,370	-775	4,145	-534.8
<b>Operating profit</b>	<b>456,306</b>	<b>533,576</b>	<b>-77,270</b>	<b>-14.5</b>
Net foreign exchange loss	-1,502	-22,432	20,930	-93.3
Finance income	93,974	139,737	-45,763	-32.7
Finance expenses	-245,738	-352,740	107,002	-30.3
Gain on disposal of subsidiaries	17,481	18,359	-878	-4.8
<b>Share in profit of joint ventures and associates, net</b>	<b>638,505</b>	<b>532,917</b>	<b>105,588</b>	<b>19.8</b>
<b>Profit/(Loss) before taxes</b>	<b>959,026</b>	<b>849,417</b>	<b>109,609</b>	<b>12.9</b>
Corporate income tax expenses	-164,681	-204,284	39,603	-19.4
Profit/(loss) from discontinuing activities	6	3,094	-3,088	-99.8
<b>Net profit for the period</b>	<b>794,351</b>	<b>648,227</b>	<b>146,124</b>	<b>22.5</b>

#### 4.1. Revenues

### Consolidated revenues from products and services

mln KZT	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
Oil product sales	1,472,430	1,555,794	-83,364	-5.4
Crude oil sales (taking into account the crude oil quality bank)	2,337,686	2,493,923	-156,237	-6.3
Marketable gas sales	633,786	552,848	80,938	14.6
Oil transportation	127,510	124,163	3,347	2.7
Gas transportation	135,859	106,037	29,822	28.1
Oil and gas refining	144,343	128,619	15,724	12.2
Oilfield services	65,046	57,787	7,259	12.6
Other	211,290	206,145	5,145	2.5
<b>Total revenues from products and services</b>	<b>5,127,951</b>	<b>5,225,317</b>	<b>-97,366</b>	<b>-1.9</b>

### Consolidated revenues from products and services

	Unit of measurement	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
Oil product sales	Th. tons	7,368	8,187	-819	-10.0
Crude oil sales	Th. tons	12,766	13,835	-1,069	-7.7
Marketable gas sales	Mln. m <sup>3</sup>	15,836	16,649	-813	-4.9
Oil transportation by trunk pipeline	Th. tons*km	18,401	19,056	-655	-3.4
Gas transportation	Mln. m <sup>3</sup> *km	36,825	44,417	-7,592	-17.1
Oil refining	Th. tons	5,312	5,429	-117	-2.2



## Average established settling prices

Average established settling prices	Unit of measurement	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
Oil product sales	KZT per ton	199,852	190,032	9,820	5.2
Crude oil sales	KZT per ton	183,123	180,261	2,862	1.6
Marketable gas sales	KZT per th. m <sup>3</sup>	40,021	33,206	6,815	20.5
Oil transportation by trunk pipeline	KZT per ton	6,706	6,516	190	2.9
Gas transportation	KZT per th. m <sup>3</sup>	3,689	2,387	1,302	54.5
Oil refining	KZT per ton	27,175	23,690	3,485	14.7

Sale revenues in the reporting period amounted to KZT 5,127.9 billion and decreased by 1.9% compared to the same period of the last year. The revenue structure shows growth in the share of revenues from marketable gas sales, oil and gas transportation, oil refining and oilfield services.

The main reasons for changes in the income by type of activity:

- crude oil sales – a 6.3% reduction is due to a decrease in trading operations and average global oil prices;
- refined products sales – a 5.4% reduction is due to a decrease in the amounts of refined products sold due to the declining demand for refined oil products on the Asian market;
- marketable gas sales – a 14.6% increase is due to an increased average selling price of gas for exports (from USD 203.42/1,000 m<sup>3</sup> for 9 months of 2018 to USD 216.7/1,000 m<sup>3</sup> in the reporting period) and KZT-to-USD exchange rate;
- oil transportation – a 2.7% increase is due to increased transportation tariffs effective as of April 1, 2018 (export tariff increased from KZT 5,817.2 to KZT 6,398.9 per 1 ton per 1,000 km (excl. VAT), tariffs for transit through Kazakhstan along the Kazakh section of the Tuimazy-Omsk-Novosibirsk-2 trunk pipeline);
- gas transportation – a 28.1% increase is due to increased revenues from international and transportation for export due to increased KZT-to-USD exchange rate;
- oil refining – a 12.2% increase is due to increased tariff for oil refining (POCR – from KZT 17,289 per ton for 9 months of 2018 to KZT 19,805 per ton in the reporting period; AR – from KZT 31,473 per ton for 9 months of 2018 to KZT 37,437 per ton in reporting period).

## 4.2. Expenditures

### Cost of goods and services

mln. KZT	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
Materials and supplies	667,796	638,928	28,868	4.5
Crude oil, gas and gas products	2,168,115	2,259,431	-91,316	-4.0
Payroll	235,621	226,571	9,050	4.0
Depreciation, depletion and amortization	225,355	182,763	42,592	23.3
Refined products purchased for resale	102,110	344,161	-242,051	-70.3
Mineral extraction tax	75,504	85,539	-10,035	-11.7
Repair and maintenance	90,668	52,144	38,524	73.9
Electricity	63,364	45,711	17,653	38.6
Other taxes	56,938	52,436	4,502	8.6
Transportation costs	22,059	13,149	8,910	67.8
Other	129,794	87,291	42,503	48.7
<b>Total</b>	<b>3,837,324</b>	<b>3,988,124</b>	<b>-150,800</b>	<b>-3.8</b>

Consolidated costs for the reporting period have reduced by 4% or KZT 150.8 billion in comparison with the same period last year. The reduction was mainly by the following items:

- Crude Oil, Gas and Gas Products – mainly, as a result of a lower average Brent price (64.65 USD/bbl for 9M of 2019 vs 72.13 USD/bbl for 9M of 2018). The reduction is partially offset by a change in KZT-to-USD exchange rate (9M of 2019 actual – 381.52 KZT/USD vs. 9M of 2018 actual – 336.51 KZT/USD). In addition, expenditures reduced due to reduced amounts of oil purchased for resale as a result of non-renewal of the contract for the Geragai crude oil and reduced amount of oil purchased for refining due to changes in crude diet in KMG Int. Such reduction of

expenditures is partially offset by increased average gas price and therefore increased expenditures for purchase with reduced gas amounts purchased;

- Refined Products Purchased for Resale – a decrease was mainly at KMG Int. due to reduced amounts of refined products purchased from third parties for the Asian market due to the sanctions imposed on Venezuela;
- Mineral Production Tax – reduced expenditures due to a discount obtained after the Uzen field was recognized as a flooded field in June;

The above reduction is partially offset by growth in expenditures by the following items:

- Depreciation and Amortization – increased expenditures due to increased depreciation base as a result of investment projects being implemented (refinery modernization, construction of three compressor stations, etc.);
- Repair and Maintenance – increased expenditures due to delivery of investment projects and outsourcing of a part of service units;
- Materials and Supplies – increased expenditures for purchase of other raw materials and crude oil due to completed modernization of refineries, increased oil refining volumes and a change in the exchange rate;
- Electricity – increased expenditures due to delivery of investment projects; as for KMG Int. the increase resulted from increased tariffs in Romania and a change in KZT-to-USD exchange rate;
- Other Expenditures increased mainly in KMTF, which was a result of over-fulfilled production program in the Caspian Sea and Open Seas, as well as due to changes in the finished product balance.

## General and Administrative Expenses

mln KZT	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
Payroll	53,143	50,397	2,746	5.4
Allowance for VAT receivable	11,808	-795	12,603	-1,585.3
Consulting services	15,063	14,732	331	2.2
Depreciation and amortization	15,272	16,509	-1,237	-7.5
Other taxes	6,171	8,701	-2,530	-29.1
Charity	157	881	-724	-82.2
Allowance for fines, penalties and tax provisions	4,180	24,110	-19,930	-82.7
Rent of property, plant and equipment and intangible assets	1,739	4,368	-2,629	-60.2
Expected credit losses of trade accounts receivable	2,785	1,544	1,241	80.4
Impairment losses of other current assets	12,044	2,349	9,695	412.7
VAT receivable write-off	3,357	1,514	1,843	121.7
Social payments not included in the payroll	3,168	21,050	-17,882	-85.0
Other	28,253	32,126	-3,873	-12.1
<b>Total</b>	<b>157,140</b>	<b>177,486</b>	<b>-20,346</b>	<b>-11.5</b>

General and administrative expenses for the reporting period amounted to KZT 157.1 billion, which is 11% or KZT 20.3 billion less than in the same period of the last year. The decrease was primarily by the following expenditure items:

- allowance for fines and penalties due to formation of allowance for fines and penalties of EMG JSC in the reporting period of 2018 for environmental violations according to CoAO RK as a result of audit conducted by the Department of Ecology for the period from Nov 1, 2017 through Jun 12, 2018;
- social payments not included in the payroll due to reduction of administrative and management personnel owing to business initiatives (restructuring of ANS Group) implemented in 2018;
- reduced expenses for lease of fixed assets and intangible assets – mainly due to IFRS 16 *Lease* effective from January 1, 2019 and classification to the item *Depreciation and Amortization*.

This reduction is partially offset by an increase in the following general and administrative expense items:

- depreciation of VAT reclaimed – increased as a result of value-added tax charged, but not offset in the reporting period in 2019 at KTG and due to adjustment of repaid VAT at OMG JSC in the reporting period in 2018;
- allowance for impairment of other current assets – increased expenses in the reporting period as a result of allowance for the construction of the Palace of Martial Arts in progress and allowance for the accounts payable by UnionField Group Ltd. to KMG HO (payment for 50% interest in the authorized capital stock of KMG-Ustyurt LLP due on Mar 31, 2020).

## Selling expenses

mln KZT	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
Rent tax	103,591	111,464	-7,873	-7.1
Customs duty	101,768	94,480	7,288	7.7
Transportation	273,571	227,123	46,448	20.5
Payroll	10,818	11,821	-1,003	-8.5
Depreciation and amortization	10,204	8,949	1,255	14.0
Other	24,796	27,869	-3,073	-11.0
<b>Total</b>	<b>524,748</b>	<b>481,706</b>	<b>43,042</b>	<b>8.9</b>

Consolidated transportation and selling expenses for the reporting period grew by 9% or KZT 43 billion, primarily in response to higher transportation costs. This growth is due to a higher volume of gas shipped to China and due to a change in the exchange rates (9M of 2019 actual – 381.52 KZT/USD and 9M of 2018 actual – 336.51 KZT/USD). In addition, selling expenses increased due to increased expenses for tax duties of KMG HO as a result of increased export volumes of refined oil products. The increased expenses for tax duties is offset by reduced rent tax due to reduced average Brent price (9M of 2019 actual – 64.65 USD/bbl; 9M of 2018 actual – 72.13 USD/bbl) and reduced oil export volumes.

### 4.3. Share in profit of jointly controlled entities and associated companies

million KZT	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
TengizchevrOil	312,380	338,574	-26,194	-7.7
Mangystau Investments B.V.	65,079	72,878	-7,799	-10.7
Kazgermunay	14,383	21,788	-7,405	-34.0
PetroKazakhstan Inc.	2,060	13,045	-10,985	-84.2
KazRosGas	21,704	5,724	15,980	279.2
Kazakhoil-Aktobe	5,562	6,009	-447	-7.4
Ural Group Limited	-5,511	-12,020	6,509	-54.2
Beineu-Shymkent Gas Pipeline	38,488	6,744	31,744	470.7
Asian Gas Pipeline	110,455	0	110,455	-
Caspian Pipeline Consortium	52,932	36,871	16,061	43.6
KMG Kashagan B.V.	14,820	29,099	-14,279	-49.1
Valsera Holding B.V.	-11,239	-10,163	-1,076	10.6
Teniz Service	7,942	16,981	-9,039	-53.2
KMG Nabors Drilling Co	4,223	1,427	2,796	195.9
Other	5,227	5,960	-733	-12.3
<b>Total</b>	<b>638,505</b>	<b>532,917</b>	<b>105,588</b>	<b>19.8</b>

Following the results of the 9 months of 2019, the share of profit of jointly controlled and associated companies versus the same period in 2018 has increased by KZT 105.6 billion, or 20%.

The main reasons for increase are as follows:

- TCO – increased oil production due to increased average daily capacities at plants (9M of 2019 actual – 79,945 tons/day vs 9M of 2018 actual – 78,662 tons/day). Also due to a change in KZT-to-USD exchange rate (9M of 2019 actual – 381.52 KZT/USD, 9M of 2018 actual – 336.51 KZT/USD);
- KRG – increased gas sales price for swap deliveries since April 2019 (weighted average price in 2018 – 65 USD/1,000 m<sup>3</sup>, in 2019– 78 USD/1,000 m<sup>3</sup>) and no expenses for the above-limit sponsorship in 2019, since the general meeting of members as of July 17, 2015 included the above-limit sponsorship for 2014-2018;
- UGL – reduction in the loss due to the elimination of financial expenses capitalized for investment in UGL;
- Beineu-Shymkent Gas Pipeline – increase in the gas transportation for exports by 1,176.5 mln m<sup>3</sup>;
- as for AGP – full recovery of the accumulated unrecognized share in the loss and reflection of the AGP indicators in KMG's consolidated financial statements since March 2019;
- CPC – reduction in the interest expenses due to repayment of loans and depreciation expenses;
- Valsera Holding B.V. – additional charge of depreciation based on the results of audit for 2018;
- KMG Nabors Drilling Co – downtime of drilling rigs 708 and 707 and the resulting short income in the first nine months of 2018, as well as a stronger dollar.

At the same time, net profit of PetroKazakhstan Inc. and KazGerMunai LLP decreased due to the natural decline in oil production, reduced oil export sales and transfer pricing fines and penalties charged. There was also a decrease in KMG Kashagan B.V. due to deferred corporate income tax, increased operating expenses caused by a scheduled major overhaul, increased amortization caused by increased USD exchange rate and increased sales expenses due to increased amounts produced.

For 9M of 2019, KMG received KZT 88.6 billion in dividends from joint ventures and associated companies, which is by KZT 48.5 billion or 35% less than for the same period last year. The main reason for the decrease is dividends received from TCO and KazRosGas in the reporting period of 2018.

mIn KZT	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
Dividends received from JVs and associates, net value	88,577	137,058	-48,481	-35.4

#### 4.4. Income tax expenditure

mIn KZT	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
<b>Current income tax:</b>				
Corporate income tax	109,438	129,465	-20,027	-15.5
Excess profits tax	6,906	-3,405	10,311	-302.8
Tax at source for dividends received	9,825	21,149	-11,324	-53.5
<b>Deferred income tax:</b>				
Corporate income tax	-6,502	3,419	-9,921	-290.2
Excess profits tax	-1,843	-7,931	6,088	-76.8
Tax at source for dividends received	46,857	61,587	-14,730	-23.9
<b>Income tax expenses</b>	<b>164,681</b>	<b>204,284</b>	<b>-39,603</b>	<b>-19.4</b>

Over the first nine months of 2019, the Company's income tax expense amounted to KZT 164.7 billion, which is 19% less than in the same period in 2018. The reduction is mainly caused by lower global Brent price down to 64.65 USD/bbl with 72.13 USD/bbl in 2018, which is partially offset by an increased USD exchange rate (the average monthly KZT-to-USD exchange rate in the reporting period was 381.5 KZT/USD vs. 337 KZT/USD in the same period last year), export gas sales to the PRC.

In the reporting period, the Excess Profits Tax ("EPT") for the Beineu project and the pre-deferred tax liability for EPT for the Zhambyl project were accrued. In the same period last year, in connection with the inclusion by KMG EP (EMG) of the fixed assets value for deduction, the previously accrued EPT for 2017 was reversed due to the application of a new approach for calculating the EPT from 2018, which provides for offsetting the accumulated expenses against the income received; the deferred EPT on KMG HO was recalculated. Due to the effect of temporary differences, the amount of the deferred withholding tax on TCO's dividends at the consolidation level changed.

#### 4.5. Liquidity and capital expenditures

##### Debt obligations

The Group's total debt on the raised credits and loans was KZT 4,001 billion as at the end of the reporting period, versus KZT 4,153.2 billion as of the beginning of the reporting period. Total debt as of September 30, 2019 decreased by 3.7% versus the total debt as of December 31, 2018. The debt reduced primarily due to the redemption of USD 106.1 million (equivalent of KZT 40.5 billion) in favor of DBK, early redemption of KMG's Eurobonds for USD 30.1 million, and the repayment of loans by Atyrau Refinery in the amount USD 305 million (net equivalent of KZT million), repayment of KMG's loans within the current credit lines in the amount of about USD 61 million (net equivalent million KZT).

The Group's net debt was KZT 2,662.8 billion as of September 30, 2019 versus KZT 2,166.5 billion as of December 31, 2018. The increase in the net debt was due to a utilization of cash and their equivalents for the early settlement of prepayments pursuant to the TCO Advanced Oil Sale Transaction.

mIn KZT	As of 30.09.2019	As of 31.12.2018
Non-current portion	3,736,522	3,822,648
Current portion	264,487	330,590
<b>Total debt</b>	<b>4,001,009</b>	<b>4,153,238</b>
Cash and cash equivalents	786,715	1,539,453

Short-term bank deposits and portion of long-term bank deposits	551,515	438,756
<b>Net debt (Total debt – Cash and Short-Term Financial Assets)</b>	<b>2,662,779</b>	<b>2,175,029</b>

## Liquidity

The Group's cash position decreased over the reporting period from KZT 1,978.2 billion (as of December 31, 2018) to KZT 1,338.2 billion (as of September 30, 2019). The main reason for decline in the Group's cash position was the utilization of cash for the accelerated settlement of obligations as part of the TCO oil prepaid supply deal.

## Liquidity and trend outlooks

The company expects that the forecast consolidated liquidity will decrease by the end of 2019, but will still remain adequate to cover current expenses and liabilities. At the same time, if the price of oil is reduced significantly or decisions are made to deliver new investment projects and/or there are other significant events that are not foreseen in the Company's current plans, the forecast liquidity will be adjusted down.

## 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 289 billion, which is 6% or KZT 17 billion more than in the reporting period of 2018.

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

mIn KZT	For 9 months ended 30.09.2019	For 9 months ended 30.09.2018	Δ, (+/-)	Δ, %
Oil and gas exploration and production	147,718	111,945	35,773	32.0
Oil transportation	21,167	49,183	-28,016	-57.0
Gas transportation	56,008	21,777	34,231	157.2
Processing and sales of crude oil and oil products	54,280	63,098	-8,818	-14.0
Miscellaneous	9,689	26,132	-16,443	-62.9
<b>Total</b>	<b>288,862</b>	<b>272,135</b>	<b>16,727</b>	<b>6.1</b>

- For 9 months of 2019, the capital expenditures related to oil and gas exploration and production amounted to KZT 147.7 billion, which is KZT 35.8 billion more than for the same period of 2018. Increase in the capital expenditures was due to the increased costs for the projects of KMG Karachaganak LLP: Gas production debottlenecking at the processing complex; Upgrading the oil treatment system of the processing complex; Upgrading the gas processing facility-2 compressors; 4th gas re-injection compressor. In addition, increased capital expenditures of OMG JSC and EMG JSC over the reporting period are due to an extended scope of geological, geophysical, drilling, construction and installation operations related to the arrangement of operating wells and water wells with the existing infrastructure;
- The decrease in the costs of Oil Transportation is caused by the following projects: Construction of Three MCV Flat Top Barges for TCO's Future Growth Project and Construction of Three Tugboats for TCO's Future Growth Project by KMTF in 2018. In addition, a lot of pipes were replaced and the trunked radio connection network was upgraded at KTO in 2018;
- The increase in the capital expenditures for Gas Transportation is KZT 34.2 billion more than the actual figure for the same period in 2018. This capital cost overrun is caused by the implementation of the following projects: improving the capacity of the Beineu-Bozoy-Shymkent trunk gas pipeline to ensure gas exports to the PRC up to 10 bln m<sup>3</sup>/year; expanding the gas storage capacity in Bozoy underground gas storage; increasing the capacity of the Bukhara Gas-Bearing Area–Tashkent–Bishkek–Almaty trunk gas pipeline; and construction of a booster compressor station;
- The main reason for decreased costs on Crude Oil and Refined Products Refining and Sales is completion of the Atyrau Refinery modernization project in 2018;
- Reduced expenditures in the item "Miscellaneous" are caused by geotechnical surveys and appraisal drilling in the reporting period of 2018.

## GLOSSARY

KMG Int.– KMG International N.V., an integrated Romanian oil and gas company  
CASPI BITUM - CASPI BITUM JV  
AGP - Asia Gas Pipeline (trunk gas pipeline for transportation of the Central Asian gas to China)  
AR - Atyrau Refinery  
BBS – “Beineu-Bozoi-Shymkent” trunk line  
BSGP - Beineu-Shymkent Gas Pipeline  
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  
PRC – People's Republic of China  
KMG, the Company - JSC “National Company “KazMunayGas”  
KMG Aero - KazMunayGas-Aero LLP  
KMG Karachaganak - KMG Karachaganak LLP  
KMGO - KMG-Onimderi JSC  
KMTF - “Offshore Oil Company” Kazmotransflot” LLP  
CPAH – Complex for Production of Aromatic Hydrocarbons  
KPIs - key performance indicators  
KOA - KazakhOil Aktobe LLP  
KRG – KazRosGas LLP  
KTG – KazTransGas LLP  
CPC – Caspian Pipeline Consortium (trunk oil pipeline for oil transportation from the Tengiz field to the Novorossiysk port on the Black Sea)  
KTM - Kazakhturkmunay LLP  
KTO - JSC “KazTransOil”  
KMG's HO - head office of JSC NC "KazMunayGas"  
MGP – main gas pipeline  
MMG – MangistauMunaiGas LLP  
TOP – trunk oil pipeline  
RoK's MoE - Ministry of Energy of the Republic of Kazakhstan  
MET - mineral extraction tax  
OPEs – oil-producing entities  
Refineries – oil refineries  
EPT – excess profit tax  
OMG - OzenMunayGas  
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  
WPCP/FGP - well-head pressure control project/future growth project of the Tengiz field  
KMG EP - KazMunaiGas EP JSC  
JCE – jointly-controlled entity  
NCP - North-Caspian Project  
CAWs - construction-and-assembly works  
JV - joint venture  
JUDR - jack-up drilling rig  
PSA - production sharing agreement  
TCO – Tengizchevroil LLP  
HCs – hydrocarbons  
H/HC – hydrocarbons/hydrocarbon crude  
Fund - JSC “Sovereign Wealth Fund “Samruk-Kazyna”  
EMG - EmbaMunayGas JSC  
ECD – Export customs duty