



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

*for the twelve months ended 31 December 2017*



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 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 this report, the terms “KMG”, “Company”, “Group” mean JSC “National Company “KazMunayGas”, its subsidiaries and proportionally consolidated entities. The term “Joint Ventures” means entities accounted using the equity method. 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”). The presented oil and gas reserves include a pro rata share of reserves of the associated and joint ventures and the 100% share of reserves of the subsidiary entities, unless otherwise indicated.

The tons of produced oil are converted into barrels using the coefficients, which take into account the oil density at each of the Group's fields.

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

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### Accounting period milestone events

Description of highlights that became factors of Group's performance for the year 2017:

19 January 2017, JSC "National Company "KazMunayGas" (the Company) partially redeemed the outstanding bonds held by the Development Bank of Kazakhstan JSC. The redemption amount was KZT 22,568,510 thousand, including interest of KZT 5,006,615 thousand.

27 January 2017, KMG EP, following the result of the appeal related to the 2009-2012 comprehensive tax audit and the corresponding resolution of the State Revenue Committee, was notified that the total tax debt and late payment fine was reduced to KZT 11,483 million. 31 January 2017, according to the ruling of the Special Inter-district Administrative Court of Astana, KMG EP's administrative fine, related to the 2009-2012 comprehensive tax audit, was reduced to KZT 2,002 million. Therefore, tax reserves included into this consolidated financial statement have been reduced by KZT 18,754 million.

January 2017, Atyrau Refinery (subsidiary of JSC NC "KazMunayGas") paid KZT 21,093 million and 9,756 million of principle loan and interest, accordingly, to the Development Bank of Kazakhstan.

17 February 2017, the Company offered 1,296,788 ordinary shares in the prescribed order. In return, the Company was provided with the gas pipelines and complementary parts, totaling to KZT 12,968 million, and KZT 1.3 thousand by cash (credited 21.02.2017).

19 April 2017, the Company finished offering of issued Eurobonds under the current mid-term global notes issuance program with the total value of USD 10.5 billion issued by the Company and Kazmunaigaz Finance Sub B.V. (its subsidiary) in a total value of USD 2.75 billion.

5 May 2017, the tax authorities refunded the prepaid KZT 27 billion to KMG EP as the formerly declared CIT for 2016 paid in advance was refunded, following the appeal against results of the 2009-2012 comprehensive tax audit.

30 June 2017, Shymkent Refinery (PetroKazakhstan Oil Products LLP) put into operation the light naphtha isomerization unit with preliminary hydrotreating unit for raw materials and produced the first certified batch of gasoline K4 and K5. Thus, the 1st stage of the Modernization and Reconstruction of Shymkent Refinery Project was completed.

03 July 2017, the Karaozek high technological gas compression station was put into operation in Kyzylorda region.

3 August 2017, Moody's changed KMG's Baa3 rating from "negative" to "stable".

04 August 2017, the amount of the Prepaid Oil Supply Contract concluded November 29, 2016 between KMG, represented by Kashagan B.V. and the company Vitol S.A. was increased based on the additional agreement signed to raise funds for repayment of the second tranche under the Agreement of Sale and Purchase dated 31 October 2008 concluded to acquire 8.48% interest share in the North Caspian Sea Production Sharing Agreement (SPA 2008).

10 August 2017, KMG Kashagan B.V. was paid in advance an additional USD 600 mln and prematurely repaid the second tranche of liabilities under the SPC 2008 in the amount of USD 804.4 million (the principal loan and accrued interest).

31 August 2017, shareholders of JSC NC "KazMunayGas" were paid dividends for 2016: NWF Samryk-Kazyna JSC – KZT 41,330,045,547 and RK National Bank RSE – KZT 4,547,320,203.

11 September, Fitch Ratings International Agency upgraded long-term KazTransGas JSC (KTG) and its 100% subsidiaries – Intergas Central Asia JSC (ICA) and KazTransGas Aimak JSC – issuer default ratings (IDR) in the foreign and national currency from «BB+» to «BBB-»; ratings outlook – "stable". Short-term IDR is upgraded from the level "B" to "F3";

26 September, KazTransGas JSC successfully placed Eurobonds for a 10-year period with the total nominal value of USD 750 million and income rate - 4.4%. Target purpose is loan refunding.

In September 2017, Framework Agreement was signed between the Governments of the Republic of Uzbekistan the Republic of Kazakhstan, which provides for annual transportation of 5 Mt of oil to Uzbekistan through the territory of Kazakhstan and construction of the relevant pipeline facilities;

In October 2017, Caspian Pipeline Consortium finished all works under the Expansion of CPC on the Territory of Kazakhstan to 53.7 Mtpa.

In October 2017, KTG started oil transportation to China under the signed Sale and Purchase Agreement between KTG and PetroChina International Company Limited, which provides for 5 Bcm of gas to be supplied annually.

In November 2017, the Company sold Eurasia Air at KZT 11.9 billion as provided by the Privatization Plan 2016.

In December 2017 the option period for NC KMG to repurchase 50% of shares in KMG Kashagan B. V., Private Limited Liability Company, was extended from 2018-2020 to 2020-2022.

In 2017, transmission capacity of Kazakhstan-China and Beineu-Chymkent gas pipelines was raised to 52 and 10 Bcma, accordingly.

In 2017, modernization and reconstruction of Atyrau Refinery and Pavlodar Petrochemical Plant was completed. In June 2017, the 1<sup>st</sup> stage of Modernization and Reconstruction Project at Shymkent Refinery was completed. The second stage of Modernization and Reconstruction of Shymkent Refinery, focused on crude oil refining ratio and capacity increase from 5,2 to 6 Mtpa, will be completed in 2018.

## 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 and upfront sales of oil by the Company;
- effect of the exchange rate changes;
- changes in the tariffs for oil and gas transportation;
- taxation;

Below are macroeconomic indicators for 12 months of 2017, which influenced the group's operations.

Item	Units	for 12 months of 2017	for 12 months of 2016	Change	
				abs.	%
End-of-period inflation (CPI, in % to the corresponding months of the preceding year)	%	107.1	108.5	-1.4	-1.2%
Oil export customs duty	\$/ton	48.6	38.7	9.9	25.6%
Monthly calculation index (MCI)	KZT	2,269	2,121	148	7.0%
Minimum wage amount (MWA)	KZT	24,459	22,859	1600	7.0%

### 2.1. Change in oil and oil products market price

International and domestic prices for crude oil and refined products considerably predetermine the Company's performance.

Change in world prices for crude oil (USD/bar)	for 12 months of 2017	for 12 months of 2016	Δ, %
Brent	54.19	43.9	23%
Urals	63.5	42.1	50%

Source: PLATT'S

Generally, change in prices for commodities was caused by a number of reasons not depending on the Company, therefore, the Company's management was unable to predict the degree of volatility in oil prices.

The global and Kazakhstan dynamics of prices for oil products was determined by a number of factors, the most important of which are crude oil prices, correlation between petroleum products supply and demand, competition, remoteness of sales markets from enterprises, oil refining into end products or intermediate feedstock, seasonal deficit in oil products supplies, particularly in urban areas, because of seasonal agricultural works and associated redistribution of supplies from urban to agricultural areas.

Average world prices for oil products	Unit	for 12 months of 2017	for 12 months of 2016	Δ, %
Fuel oil	USD/t	380	205	85%
Naphtha	USD/t	571	384	49%

Jet fuel	USD/t	617	417	48%
Vacuum gas oil	USD/t	582	399	46%
Gasoil 0,1	USD/t	624	118	429%

Source: PLATT'S

Average retail prices for oil product in RK	Unit	for 12 months of 2017	for 12 months of 2016	Δ, %
AI-95/96 Gasoline	(KZT/l)	159.29	138.75	12.89%
AI -92/93 Gasoline	(KZT/l)	145.65	125.83	13.61%
AI -80 Gasoline	(KZT/l)	89	89	0%
Diesel	(KZT/l)	139.98	108.49	22.50%
Jet fuel	KZT/t	212,017	172,808	18%

## 2.2. Change in the foreign exchange rate

The change of the exchange rate of tenge 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 tenge. 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 12 months, as of 31 December 2017 (Kazakhstan tenge per 1.00 US dollar)	326,08	332,33
For 12 months, as of 31 December 2016 (Kazakhstan tenge per 1.00 US dollar)	341.7	333.29

Source: National Bank of the Republic of Kazakhstan

## 2.3. Oil and gas transportation tariffs

### Oil transportation by main 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 KazTransOil JSC - a subsidiary company. Furthermore, the Group owns 20.75% of share capital in Caspian Pipeline Consortium, of which 19% is owned by the Company and 1.75% by Kazakhstan Pipeline Ventures Ltd.

Crude oil is transported through the main pipeline by KazTransOil JSC and its subsidiaries and jointly-controlled entities in accordance with the oil transportation services contracts concluded by them with consumers in accordance with the standard contract approved by the order of the Minister of National Economy of the Republic of Kazakhstan dated March 27, 2015, №266. These contracts stipulate oil transportation rights and obligations of the parties. The Group's oil is transported through main pipeline of KazTransOil JSC and its subsidiaries and jointly-controlled entities to the domestic market and is exported together with oil from 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, KazTransOil JSC approved (Order No. 64) the following tariffs for oil transportation by main pipelines:

- export outside the Republic of Kazakhstan – KZT 5,817.2 per ton per 1,000 km (without VAT) effective as of July 1, 2015;
- transit through the territory of the Republic of Kazakhstan, by Kazakh section of the Tuimazy-Omsk-Novosibirsk-2 – KZT 1,727.1 per 1 ton per 1,000 km (without VAT) effective as of June 26, 2015.

Cap tariffs 2015-2019 for oil transportation within the domestic market of the Republic of Kazakhstan by main 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).

### Gas transportation

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

Tariffs for gas transportation within the country 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 main 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 thousand cubic meters (w/o VAT);
- Asia Gas Pipeline LLP from March 1, 2016 – KZT 3,494.4 per thousand cubic meters (w/o VAT);
- Beineu-Shymkent Gas Pipeline from March 1, 2016 – KZT 18,071 per thousand cubic meters (w/o VAT).

### 2.4. Tariffs for refining

Atyrau Refinery and Pavlodar Petrochemical Plant and PetroKazakhstan Oil Products LLP provide hydrocarbons refining services. 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 October 29, 2015, starting from January 1, 2017, refining prices are not subject to state regulation. Tariffs effective in 2016 and the 9 months of 2017, are given below:

Plant	Unit	for 12 months of 2017	for 12 months of 2016
Atyrau Refinery	KZT/ton	As of 1 April – 24,512	20,501
PPCP	KZT/ton	As of 1 August – 16,417	14,895
PKOP	KZT/ton	As of 6 October - 16,301.71	11,454

### 2.5. Taxation

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

Tax	for 12 months of 2017	for 12 months 2016	Change,%	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 on, average	0%-32% On a scale linked to the world oil price	0%-32%		crude oil and oil products export volume

Tax	for 12 months of 2017	for 12 months 2016	Change,%	Tax base
Mineral tax, average	0%-18%	0%-18%		value of produced crude oil, gas condensate and natural gas
Excess profits tax (EPT)	0%-60%	0%-60%		net profit
Crude oil and gas condensate excise tax	KZT 0 /ton	KZT 0 /ton		produced, sold crude oil and gas condensate

Excise rates per 1 ton (in KZT) and duties						
	for 12 months of 2017		for 12 months 2016		Change ,%	Tax base
Oil products excise tax	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)		produced, sold petroleum products
Wholesaling of own gasoline (except jet fuel) and diesel fuel by manufacturers	10,500	April-October - 9300, November-March - 540	10,500	540		
Wholesaling of gasoline (except jet fuel) and diesel fuel by individuals and entities	-	-	-	-		
Retailing of own gasoline (except jet fuel) and diesel fuel by manufacturers, utilization for own operating needs	11,000	April-October - 9,360, November - March - 600	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	4,500	540	4,500	540		
Transfer of excisable goods specified in Article 279 (5) of the Tax Code, which are the product of toll refining	10,500	April-October - 9,300, November - March -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 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 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 tax rate for natural gas is 10 percent. When natural gas is sold in the domestic market, the mineral 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 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 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 40 US dollars.



### 3. GROUP'S OPERATING PERFORMANCE

<i>Operating results</i>	for 12 m ended 31.12.2017	for 12 m ended 31.12.2016	Δ, (+/-)	Δ, %
Oil and condensate production, taking into account share in joint ventures (thousand tons)	23,362	22,638	724	3%
Gas production, including share in joint ventures (million cubic meters)	7,997	7,365	602	8%
Refining of crude hydrocarbons at own refineries and refineries of joint ventures, taking into account operating share (thousand tons)	18,207	17,675	532	3%
Oil transportation by main pipelines (thousand tons)	58,538	56,575	1,963	3%
Crude oil circulation (million tons* km)	48,360	43,130	5,229	12%
Transportation of oil by sea (thousand tons)	6,951	7,082	-130	-2%
Gas transportation by main gas pipelines (mln m3)	100,856	88,077	12,780	15%
Gas transportation operations (billion cubic meters* km)	21,784	20,468	1,316	6%

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

<b>Consolidated oil and condensate production (Kt)</b>	for 12 m ended 31.12.2017	for 12 m ended 31.12.2016	Δ, (+/-)	Δ, %
	<b>23,362</b>	<b>22,638</b>	<b>724</b>	<b>3%</b>
KazMunaiGas Exploration Production (including KazGPZ) (incl. KazGPZ)	11,876	12,163	-287	-2%
Ozenmunaygas JSC	5,480	5,555	-75	-1%
Embamunaygas JSC	2,840	2,832	8	0%
KazGPZ LLP (condensate) (100%)	8	9	-1	-11%
Karazhanbasmunai JSC (50%)	1,071	1,064	7	1%
Kazgermunai JV LLP(50%)	1,400	1,468	-68	-5%
PetroKazakhstanInc JSC (33%)	1,077	1,235	-158	-13%
Incl.: Kazgermunai JV LLP (50%*33)	462	484	-22	-5%
PetroKazakhstanKumkolResources JSC (100%*33)	524	640	-116	-18%
Turgai-Petroleum JSC (50%*33)	91	111	-20	-18%
Tengizchevroil (20%)	5,739	5,511	228	4%
MangistauMunaiGaz (50%)	3,178	3,145	33	1%
Karachaganak Petroleum Operating b.v. (10%) *	1,125	1,047	78	7%
Kazakhoil-Aktobe (50%)	351	381	-30	-8%
Kazakhturkmunai	387	292	95	33%
KMG Kashagan B.V. (50%)	686	79	607	768%
KazTransGas (Amangeldy Gas)	21	21	0	0%

Major share of consolidated crude oil and condensate is produced by KMG EP: 51% for 12 months of 2017 and 54.6% for 12 months of 2016 (including pro rata share of KMG EP in Kazgermunaigas, CCEL and PKI).

Consolidated oil and condensate production for the reporting period is totaling to 23,362 Kt, which is 724 Kt more than the last year, which is determined by recommencing of production operations at the Kashagan, starting from September 28, 2016, as well as growth of production in Tengizchevroil due to improved plant reliability and performance, and growth of production of Kazakhturkmunai due to GTA held in the reporting period. This growth, however, was partially neutralized mainly because of natural depletion of reserves. Such depletion was caused by raised water-cut following the production casing failure and extended wells idle time because of the downhole equipment failure. Reduced production share in PKI and KMG in the reporting period is because of natural reserves depletion in some PKI fields.

### 3.2. Gas production

Group's consolidated production of gas (associated and natural) for 12 months of 2017 is 7,997 Mcm. It is 602 Mcm or 8% more than for the same period of 2016.

Consolidated gas production (associated and natural), Mcm	for 12 m ended	for 12 m ended	Δ, (+/-)	Δ, %
	31.12.2017	31.12.2016		
	<b>7,997</b>	<b>7,395</b>	<b>602</b>	<b>8%</b>
KazMunaiGas Exploration Production JSC (incl. KazGPZ)	1,339	1,365	26	2
Ozenmunaygas JSC	320	301	19	6
Embamunaygas JSC	200	192	8	4
KazGPZ LLP (gas) (100%)	298	313	-15	-5
Karazhanbasmunai JSC (50%)	18	19	-1	-5
Kazgermunai JV LLP (50%)	280	299	-19	-6
<i>PetroKazakhstanKumkolResources JSC (33%)</i>	<i>223</i>	<i>241</i>	<i>-19</i>	<i>-8</i>
<i>Incl.: Kazgermunai JV LLP (50%*33)</i>	<i>92</i>	<i>99</i>	<i>-6</i>	<i>-6</i>
<i>    PetroKazakhstanKumkolResources JSC (33%)</i>	<i>122</i>	<i>132</i>	<i>-10</i>	<i>-8</i>
<i>    Turgai-Petroleum JSC (33%*50%)</i>	<i>9</i>	<i>11</i>	<i>-2</i>	<i>-19</i>
Tengizchevroil (20%)	3,171	3,016	155	5
MangistauMunaiGaz (50%)	378	378	-1	0
Karachaganak Petroleum Operating b.v. (10%) *	1,892	1,766	127	7
Kazakhoil-Aktobe (50%)	301	307	-6	-2
Kazakhturkmunai	175	187	-12	-6
KMG Kashagan B.V. (50%)	397	49	349	716
KazTransGas (Amangeldy Gas)	344	327	17	5

Growth was mainly determined by recommencing of Kashagan gas production on September 28, 2016, trouble-free and reliable operation of process units and successful scheduled overhaul in Karachaganak Petroleum Operating B.V. as well as due to the improved reliability and effectiveness of Tengizchevroil plants in the reporting period.

### 3.3. Oil transportation by main 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 pipeline (JSC NC "KazMunayGas" - 20.75%)\*.

Oil transportation by main pipelines is operated by a subsidiary organization KazTransOil JSC (total pipe range is 5.4 K km). KazTransOil JSC provides oil transportation to the domestic market, for export, as well as transit operations.

Consolidated oil transportation by main pipelines by companies (Kt)	for 12 m ended	for 12 m ended	Δ, (+/-)	Δ, %
	31.12.2017	31.12.2016		
	<b>58,538</b>	<b>56,575</b>	<b>1,963</b>	<b>3%</b>
KazTransOil JSC CC	46,293	43,797	2,496	6%
MunaiTas North-West Pipeline Company JSC	1,867	2,356	-489	-21%
Kazakhstan-China Pipeline LLP	8,269	7,044	1,225	17%
Batumi Industrial Holdings Limited	2,109	3,377	-1,269	-38%
<b>Crude oil circulation (Mt*km)</b>	<b>48,360</b>	<b>43,130</b>	<b>5,230</b>	<b>12%</b>
KazTransOil JSC CC	39,823	35,635	4,187	12%

MunaiTas North-West Pipeline Company JSC	733	940	-207	-22%
Kazakhstan-China Pipeline LLP	7,805	6,555	1,249	19%

\* without deduction of intra-group transactions

Oil transportation by main pipeline has increased by 1,963 Kt by virtue of escalated volumes in KazTransOil JSC implied by an additional agreement with Rosneft NC PJSC signed to increase oil transit, as well as growth of oil delivery by a number of companies, including recommenced production of Kashagan started on September 28, 2016.

\*In 2017, the CPC oil pipeline transported 55.1 Mt, including 49.6 Mt of Kazakh oil. One of the most significant events of 2017 in the field of oil transportation infrastructure was completion of CPC expansion on the territory of Kazakhstan to 53.7 Mtpa. Increased CPC capacity will enable export of increasing oil volumes produced in Kazakhstan (Kashagan and Tengiz) to the world markets.

### 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 on areas (thousand tons)	for 12 months ended 31.12.2017	for 12 months ended 31.12.2016	Δ, (+/-)	Δ, %
	6,951	7,082	-130	-2%
Aktau-Baku	234	33	201	615%
Aktau-Makhachkala	662	1,611	-949	-59%
Black Sea	3,024	2,968	56	2%
Mediterranean Sea	1,447	1,238	209	17%
Turkmenbashi-Baku	137	1,072	-935	-87%
Makhachkala-Baku	1,447	159	1,287	808%

\* without deduction of intra-group transactions

The decrease in transportation volumes for the reporting period as compared with this period of 2016 is driven by the decrease in oil supplies to the Atyrau port as a result of changes made to the quality requirements to Transneft PJSC oil in the Makhachkala port. At the same time, in 2017 there was a reorientation of tankers on the Makhachkala-Baku, Turmbekashi-Baku / Makhachkala route caused by the start of oil transportation in late 2016 from the oil and gas condensate field named after Yuri Korchagin, located in the Russian part of the Caspian Sea to the port of Baku.

### 3.5. Transportation of gas

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 (million cubic meters)	for 12 months ended 31.12.2017	for 12 months ended 31.12.2017	Δ, (+/-)	Δ, %
	100,857	88,077	12,781	15%
International transit	65,800	58,323	7,477	13%
Gas export transportation	17,713	13,251	4,462	34%
Gas transportation for domestic consumers	17,344	16,503	841	5%
<b>Consolidated volumes of gas transportation (million cubic meters)</b>	<b>100,857</b>	<b>88,077</b>	<b>12,781</b>	<b>15%</b>
Intergas Central Asia JSC	76,565	66,788	9,777	15%
KazTransGas-Aimak JSC	2,501	2,600	-99	-4%
Asia Gas Pipeline LLP (50%)	19,607	17,606	2,001	11%

Beineu-Shymkent Gas Pipeline LLP (50%)

2,185

1,083

1,101

102%

\* without deduction of intra-group transactions

-increased international transit relates to the revised volumes of transportation of the Russian gas by Soyuz-Orenburg-Novopskov and Bukhara-Ural main pipelines and Uzbek gas by Central Asia-Center main pipeline from Gazprom OJSC;

- increased gas transportation for export relates to the start of gas transportation to PRC and increased volume of gas supplies to Russia and Uzbekistan;

-transportation of gas for domestic consumers by ICA is associated with increased consumption in the southern regions and in the BBSH gas pipeline (Beineu-Bozoi-Shymkent) due to the need to supply the southern regions with gas supplies from the west due to limited supply of Uzbek gas.

### 3.6. Hydrocarbon crude refining

- Atyrau Refinery (99.49% of JSC NC “KazMunayGas”): the designed refining capacity is 5.5 million tons per year, the refining depth was 62.73% in 2017;

- Shymkent Petroleum Refinery (PetroKazakhstan Oil Products, 49.73% share of participation of JSC NC “KazMunayGas”): project capacity is 5.25 million tons per year, the refining depth was 73.03% in 2017;

- Pavlodar Petrochemical Plant (100% share of JSC NC “KazMunayGas”): the most technologically sophisticated oil refinery in Kazakhstan. The balanced refining capacity is 5.1 million tons per year, the refining depth in 2017 was 76.08%. The enterprise was designed for oil refining in the West Siberia fields;

- 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 million tons annually.

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

- Petromidia Refinery - (100% share of Rompetrol Rafinare S.A.) The project capacity is 5.0 million tons of oil per year. The PCC is integrated with the Petromidia Refinery;

- Vega Refinery - (100% share of Rompetrol Rafinare S.A.) project capacity - 500 thousand tons per year. 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 hydrocarbon raw materials refining taking into account the operating share (thousand tons)	for 12 months ended	for 12 months ended	Δ, (+/-)	Δ, %
	31.12.2017	31.12.2016		
	<b>18,207</b>	<b>17,675</b>	<b>532</b>	<b>3</b>
Atyrau Refinery LLP	4,724	4,761	-37	-1
Pavlodar Petrochemical Plant LLP	4,747	4,590	157	3
PetroKazakhstan Oil Products LLP (50%)	2,343	2,251	92	4
CASPI BITUM (50%)	358	312	46	15
KMG International N.V. (Rompetrol Rafinare)	6,035	5,762	273	5

\* without deduction of intra-group transactions

The volume of processing at the refineries of the Republic of Kazakhstan is regulated through the Production Program approved by the Ministry of Energy of the Republic of Kazakhstan. Increased refining of hydrocarbon raw materials in AR and PPP is associated with increased supply of oil for processing from outside organizations for the growth of production of motor gasoline, fuel oil, heating oil, etc.

Increased refining capacity in Petrokazakhstan Oil Products LLP is due to reduction in the period of plant overhaul and increase in the supply of oil companies.

Growth of processing at KMG International N.V. (Petromidia and Vega plants) is caused by increased processing of other hydrocarbon crude at Petromidia plant by 256,000 tons, while the oil refining volume remained almost at the level of 2016, as well as by increased supplies of 19,000 tons to the Vega plant.

### 3.7. Sale of oil and gas

Oil sales

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

	for 12 months ended 31.12. 2017	for 12 months ended 31.12. 2016	Δ, (+/-)	Δ, %
<b>Cooperative KazMunaiGaz U.A., KMG Karachaganak LLP, Kazakhturkmunay LLP</b>	<b>8,970</b>	<b>5,732</b>	<b>3,238</b>	<b>56%</b>
Sales of produced oil, (thous tons)	229	99	130	25%
Oil trading (thous tons)	8,741	5,633	3,108	206%
<b>KMG International N.V.*</b>	<b>11,786</b>	<b>9,156</b>	<b>2,630</b>	<b>29%</b>
incl. oil sales in KMG Sub. B.V.	3,016	1,987	1,029	52%
Sale by KMG International N.V. on the level of KMG group*	8,770	7,169	1,601	22%
<b>Total oil sale volume</b>	<b>20,756</b>	<b>14,888</b>	<b>5,868</b>	<b>39%</b>

\* corresponding revenues from sold crude oil in the consolidated statement on comprehensive income of the Company are reflected in the item "Profit after income tax for the period from discontinued operations"

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 3 billion US dollars over a 48-month period from May 2016. The volume of oil which is the subject of the transaction is attributable to the Group's participation in Tengizchevroil LLP, MangystauMunayGas JSC and Karazhanbasmunay JSC.

Also, due to increased volumes of oil sale for export of KMG EP according to the quotes of the Ministry of Energy and the increase in sales of crude oil from the Karachaganak field by the affiliated trader KMG Trading AG, under the terms of the Final Production Sharing Agreement for the Karachaganak project.

#### Gas sales

**Natural gas is mainly sold by KazTransGas JSC. 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.**

Sale of commercial gas (mln.cub.m.)*	for 12 months ended 31.12. 2017	for 12 months ended 31.12. 2016	Δ, (+/-)	Δ, %
Sale of gas for export	4,949	4,323	625	14%
Sale of gas to the domestic market	12,793	11,763	1,030	9%
<b>Total of gas sale amount</b>	<b>17,743</b>	<b>16,086</b>	<b>1,656</b>	<b>10%</b>

The increased volume of gas sales for export is due to additional gas sales to PRC (export agreement between KTG and PetroChina International Company Limited was signed on 30.09.2017) and additional gas sales to Uzbekistan and Russia. In addition, the volume of gas sales to the domestic market has increased due to the growing number of consumers and increased production at industrial facilities.

## 4. GROUP'S FINANCIAL PERFORMANCE

mn KZT	for 12 months ended 31.12. 2017	for 12 months ended 31.12. 2016	Δ, (+/-)	Δ, %
Income from sales of goods and rendering services	2,458,835	1,857,435	601,400	32%
Cost price of sold products and rendered services	(2,379,903)	(1,561,746)	(818,157)	52%
<b>Gross profit</b>	<b>78,932</b>	<b>295,689</b>	<b>(216,757)</b>	<b>-73%</b>
General and Administrative Expenses	(152,011)	(117,675)	(34,336)	29%
Transportation and selling expenses	(288,527)	(198,473)	(90,054)	45%
Depreciation of fixed assets, exploration assets and intangible assets, net	(25,642)	(3,283)	(22,359)	681%
Income / (loss) from fixed assets retirement, net	(3,815)	(5,621)	1,806	-32%
Miscellaneous income/(expenses)	(9,929)	4,608	(14,537)	-315%
<b>Operating profit</b>	<b>(400,991)</b>	<b>(24,754)</b>	<b>(376,237)</b>	<b>1520%</b>
Foreign exchange loss, net	67,183	(12,894)	80,077	-621%
Financial income	121,735	167,892	(46,156)	-27%
Financial expenses	(294,897)	(230,383)	(64,514)	28%
Depreciation of investment in JCEs	14,845	(5,503)	20,349	-370%
Depreciation of assets classified as intended for sale	(68)	(93)	25	-27%
Impairment of loans granted	0	(1,346)	1,346	-
<b>Share of the profit/(losses) of the equity-accounted entities</b>	<b>414,565</b>	<b>270,191</b>	<b>144,374</b>	<b>53%</b>
<b>Profit/(Loss) before taxes</b>	<b>(77,628)</b>	<b>163,108</b>	<b>(240,736)</b>	<b>-148%</b>
Corporate income tax expenses	(192,030)	(163,791)	(28,239)	17%

mn KZT	for 12 months ended 31.12. 2017	for 12 months ended 31.12. 2016	Δ, (+/-)	Δ, %
Profit/(loss) from discontinuing activities	789,183	360,854	428,329	119%
<b>Net income/(loss)</b>	<b>519,526</b>	<b>360,171</b>	<b>159,355</b>	<b>44%</b>

#### 4.1. Revenues

mn KZT	for 12 months ended 31.12.2017	for 12 months ended 31.12. 2016	Δ, (+/-)	Δ, %
Oil product sales	307,968	293,076	14,892	5
Crude oil sales (taking into account the crude oil quality bank)	1,153,376	686,120	467,256	68
Marketable gas sales	360,453	321,722	38,731	12
Oil transportation	169,370	158,319	11,051	7
Gas transportation	155,559	156,116	-557	0
Oil and gas processing	129,067	99,137	29,930	30
Oilfield services	72,641	62,360	10,281	16%
Miscellaneous	110,400	80,585	29,815	37%

Volumes of goods sold and services rendered	Unit	for 12 months ended 31.12. 2017	for 12 months ended 31.12. 2016	Δ, (+/-)	Δ, %
Oil product sales	Thou. tons	2,796	3,409	-613	-18%
Sales of crude oil	Thou.tons	8,970	5,732	3,238	56%
Marketable gas sales	MMcm	17,743	16,031	1,712	11%
Oil transportation by trunk pipeline	Thou.tons*km	39,952	38,621	1,331	3%
Oil transportation by sea	Thou.tons	3,783	3,591	192	5%
Gas transportation	mcm.*km	75,398	67,497	7,901	12%
Oil refining *	Thou. tons	6,929	6,026	903	15%

Average Sales Prices	Unit of measurement	for 12 months ended 31.12. 2017	for 12 months ended 31.12. 2016	Δ, (+/-)	Δ, %
Oil product sales	KZT per a ton	110,164	85,971	24,193	28%
Sales of crude oil	KZT per a ton	128,579	119,700	8,879	7%
Marketable gas sales	KZT per thousand cubic meters	20,316	20,069	247	1%
Oil transportation by trunk pipeline	KZT per a ton	4,028	3,845	183	5%
Oil Transportation by sea	KZT per a ton	2,227	2,730	-503	-18%
Gas transportation	KZT per thousand cubic meters	2,063	2,313	-250	-11%
Oil refining *	KZT per a ton	18,627	16,452	2,175	13%

\*taking into account the quality bank of crude oil

\*\* the average rate of processing (refining))

Income patterns showed a significant increase in fraction of incomes from the sale of crude oil. The Company increased its revenue from the sale of crude oil, as a result of the conclusion of the Preliminary Oil Sale Transaction (see paragraph

3.7. of Oil and Gas Sales). In addition, revenue growth was caused by increased sale volumes and world oil prices in the reporting period.

Income growth from sales of commercial gas was caused by additional sales of gas to PRC and Uzbekistan in the reporting period, as well as by increased number of consumers and production volumes of industrial enterprises.

The increase in revenues from oil and oil products refining is stipulated by increased oil delivery for refining from external delivers and KMG EP JSC and tariff increase by 19.5% in AR from April of this year and by 10% from August in PPCP.

The increase in revenues from oil service is due to the changes made to the industrial programs of customers – Mangystaumunaigas JSC with reduced contract sums in 2016.

The increase in other revenues is caused by reflection of return from gas products of Cooperative KazMunaiGaz U.A. in the amount of 20 billion tenge, leasing by KMG DS of 707 drilling rig from 10.2016, increased gas storage volume in KTG and increased tariff for the inflation factor of some KMG - Security customers.

## 4.2. Expenditures

### Cost price of sold products and rendered services

mn KZT	for 12 months ended 31.12. 2017	for 12 months ended 31.12. 2016	Δ, (+/-)	Δ, %
Materials and reserves	132,339	102,087	30,252	30%
Crude oil and gas	1,316,054	684,685	631,369	92%
Payroll expenses	293,259	281,673	11,586	4%
Ageing, depletion and amortization	161,529	167,172	(5,643)	-3%
Minerals extraction tax	93,569	40,677	52,892	130%
Repair and maintenance	38,343	32,547	5,796	18%
Electric power	39,835	37,924	1,911	5%
Other taxes	58,901	53,593	5,308	10%
Transportation expenses	107,145	47,655	59,490	125%
Miscellaneous	138,930	113,734	25,196	22%
<b>Total</b>	<b>2,379,903</b>	<b>1,561,746</b>	<b>818,157</b>	<b>52%</b>

The cost price for 12 months of 2017 has increased by KZT 818 billion or 52% compared to 12 months of 2016, mainly due to increased expenses for the following items: "crude oil and gas," "raw materials and materials," "transportation costs" , "mineral extraction tax (MET)" and "wage costs":

- increased expenses for the acquisition of oil, gas and other raw materials is due to increase in the:

A. volumes of sales of crude oil and gas products purchased from Tengizchevroil (TCO) under the long –term contract for supply of oil and liquefied gas and changes made to the oil procurement scheme;

B. volumes of gas sales to PRC and Uzbekistan, as well as increase in the number of consumers and production volumes at industrial enterprises;

C. Increased volumes of construction and installation works in Oil Construction Company LLP, Oil Services Company LLP and productive works and services in KazMunaiGas Exploration Production JSC.

- increased transportation costs were caused by the growth of gas transportation volumes through the Beineu-Shymkent and Kazakhstan –China main gas pipelines to export gas to PRC;

- increased MET expenses is due to the higher average price for Brent crude oil (,54,2 US dollars per 1 barrel compared to 43,7 US dollars per 1 barrel during 12 months of 2016); this effect was partially leveled by decrease exchange rate of KZT to USD in 12 months of 2017;

- increased employee payroll for 12 months of 2017 is associated with 7% indexation of the base salary of production personnel starting January 1, 2017, according to the terms of a collective agreement, as well as the accrual of premium reserves on annual remuneration for 2017;

- cost of repairs and maintenance has increased due to the higher volumes of underground well repairs done by third-parties and increased tariffs and work volumes for hydraulic fracturing works (HFW) in the reporting period.

Background: The operating profit excludes the proceeds of KMG I from sale of oil and oil products due to the fact that KMG I is in the process of sale and is classified in NC KMG's consolidated financial statements as discontinued operations in accordance with IFRS. However, a part of the production cost of purchasing the oil for KMG I trading, starting from Q3 2017, are recognized in the operating income of NC KMG due to the changes made to the oil procurement scheme in the



amount of KZT 280 billion. As a result, there is a decrease in operating profit in 2017 as compared to 2016. In turn, the net profit of KMG I is accounted for in the consolidated profit of NC KMG as profit from discontinued operations [item 4.5].

### General and Administrative Expenses

(KZT million)	for 12 months	for 12 months	Δ, (+/-)	Δ, %
	ended	ended		
	31.12. 2017	31.12. 2016		
Payroll	60,494	55,056	5,438	10%
Depreciation of VAT reclaimed	(24,158)	(3,418)	(20,740)	607%
Consulting services	14,190	11,969	2,221	19%
Depreciation and amortization	13,181	6,748	6,433	95%
Taxes	12,708	8,196	4,512	55%
Charity	1,086	1,545	(459)	-30%
Penalties, fines and charges	261	352	(91)	-26%
Allowance for impairment of trade accounts receivable	1,414	3,614	(2,200)	-61%
Allowance for fines, penalties and tax provisions	(4,212)	(10,850)	6,638	-61%
Allowance for/(recovery of) impairment of other current assets	(120)	1,868	(1,988)	-106%
Allowance for depreciation of SMI	1,499	1,059	440	42%
Allowance for depreciation of other long-term assets	1,188	2,000	(812)	-41%
VAT that cannot be offset (proportional method)	7,923	1,252	6,671	533%
Social payments, excluding LCF (including taxes and NPF contributions)	27,846	6,249	21,597	346%
Miscellaneous	38,712	32,034	6,678	21%
<b>Total</b>	<b>152,011</b>	<b>117,675</b>	<b>34,336</b>	<b>29%</b>

General administrative expenses for 12 months of 2017 amounted to 152 billion tenge, which is 29% more than for 12 months of 2016. Major increases was formed under the Social Payments not Included in WFP (including taxes and NPF contributions) due to reflection of actual costs on payment of compensations to ANS group employees owing to the termination of employment contracts with pre-retirement employees and under the 5/50 program as agreed by the parties. Also, there was an increase in wage costs owing to the annual indexation of employees' wages by 7% and taxes.

At the same time, the Depreciation of VAT Reclaimed Item has decreased due to filing by KazMunaiGas Exploration Production JSC of an application for VAT refund for 2012-2015, as a result of which VAT of 30 billion KZT was reversed.

### Selling expenses

mn KZT	for 12 months	for 12 months	Δ, (+/-)	Δ, %
	ended	ended		
	31.12. 2017	31.12. 2016		
Rent tax	83,183	19,981	63,202	316%
Customs duties	105,302	84,119	21,183	25%
Transportation	74,717	67,903	6,814	10%
Payroll expenses	6,365	6,835	(470)	-7%
Ageing and amortization	4,457	6,408	(1,951)	-30%
Miscellaneous	14,503	13,227	1,276	10%
<b>Total</b>	<b>288,527</b>	<b>198,473</b>	<b>90,054</b>	<b>45%</b>

Selling expenses for 12 months of 2017 amounted to KZT 288.5 billion, which is 45% more than for 12 months of 2016. The growth is mainly caused by increased costs on rental tax, ECT and transport costs, which is partially offset by a decrease in expenses for wages, depreciation and amortization.

The rise in taxes and payments to the subsoil users' budget, such as Rental Tax and ECT, is associated with a higher average price for Brent crude oil (\$ 54.2 per barrel compared to \$ 43.7 per barrel during 12 months of 2016) and increased sales volumes of oil and oil products for export, which was partially offset by depreciation of the tenge/dollar exchange rate during 12 months of 2017. In addition, there was an increase in transportation costs as a result of increased export sales in the reporting period.



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

mn KZT	for 12 months ended 31.12. 2017	for 12 months ended 31.12. 2016	Δ, (+/-)	Δ, %
TengizchevrOil LLP	289,980	147,910	142,069	96%
Mangistau Investments B.V.	49,605	29,766	19,839	67%
KazGerMunay LLP	17,713	5,130	12,584	245%
PetroKazakhstan Inc.	7,234	(15,810)	23,044	-146%
KazRosGas LLP	8,622	18,647	(10,025)	-54%
Kazakhoil-Aktobe LLP	(16,788)	(11,535)	(5,253)	46%
Ural Group Limited	(1,877)	(1,578)	(300)	19%
Beineu-Shymkent gas pipeline	(669)	(3,452)	2,784	-81%
Caspian Pipeline Consortium	54,666	74,909	(20,243)	-27%
KMG Kashagan B.V.	(10,208)	7,726	(17,934)	-232%
Valseira Holding B.V.	9,751	10,414	(663)	-6%
Miscellaneous	6,537	8,064	(1,527)	-19%
<b>Total</b>	<b>414,565</b>	<b>270,191</b>	<b>144,374</b>	<b>53%</b>

By the outcomes of 12 months of 2017, a share of profit in joint ventures and associated organizations has increased by 144 billion tenge or by 53 % to 414.6 billion tenge from 270.2 billion tenge by outcomes of 12 months of 2016. The increase is mainly caused by increased profit of Group' produced assets by outcomes of 12 months of 2017 as the result of increased average oil price. At the same time, the financial result of KMG Kashagan BV deteriorated in the reporting period due to the accrual of deferred tax asset on CIT in the previous period owing to the difference in accrual of depreciation.

The reduced income from the Caspian Pipeline Consortium (hereinafter - CPC) to 54.7 billion tenge by the results of 12 months of 2017 is caused by revised calculation of the CPC's share of revenue in 2016. Since 2010, CPC has changed its accounting policy with regard to accounting of fixed assets from the historical cost method to the "revalued value" method, on the basis of which in 2016 the recalculation was made and additional income of KZT31 billion was recognized.

Reduction of net profit in KazRosGas LLP is mainly caused by tariff escalation for gas processing, fall in exports, generation of reserve on Bank RBK bonds, and increased volumes of Russian gas purchased for the domestic market of the Republic of Kazakhstan.

Reduced losses of Beyneu-Shymkent LLP due to increased gas transit volume which was partially offset by increase in financial and production costs due to newly commissioned gas pipeline facilities.

### 4.4. Income tax expenses

mn KZT	for 12 months ended 31.12. 2017	for 12 months ended 31.12. 2016	Δ, (+/-)	Δ, %
<b>Current income tax:</b>				
Corporate income tax	110,916	80,090	30,826	38%
Excess profits tax	5,137	-1,128	6,265	-555%
Withholding tax on dividends and interest income	21,967	4,637	17,330	374%
<b>Deferred income tax:</b>	54,009	80,192	-26,182	-33%
<b>Income tax expenses</b>	<b>192,030</b>	<b>163,791</b>	<b>28,239</b>	<b>17%</b>

For the year ended December 31, 2017, the income tax expense of the Company amounted to KZT 192 billion, which is 17% higher than in 2016. The growth was caused by increased taxable income due to rise in the average world oil price (from 43.73 to 54.19 dollars per barrel), transportation tariffs and volumes of sales and transportation of oil and commercial gas. In the reporting period, the amount of deferred corporate income tax was changed due to the effect of temporary differences and changes in the price of assets/fixed assets, including due to reduction in tax provisions of KMG EP following the results of a complex tax audit for 2009-2012.

#### 4.5. Profit/(loss) from discontinued activities

This item reflects the indicators of KMG International N.V., Euro-Asia Air Air-company LLP, Kazakh-British Technical University LLP, net of intragroup transactions with Group's companies. The Company's profit from discontinued operations for 12 months of 2017 amounted to 789.1 billion tenge compared to 360,9 billion tenge for 12 months of 2016, reflecting the increase by 428 billion tenge or 119%. Most of the growth is accounted for the indicators of KMG International N.V. in connection with the elimination of intragroup operations, increased volumes of oil sale and increase in average cost of oil products and Brent oil.

#### 4.6. 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 637.2 billion tenge, which is 83 billion tenge more than for 12 months of 2016.

For 12 months ending on December 31, 2017, the most significant investment projects of the Group are:

1. Construction of the Advanced Oil Refining Complex and Complex for the Production of Aromatic Hydrocarbons at the Atyrau Refinery;
2. Modernization of Pavlodar Petrochemical Plant;
3. Projects to increase design capacity of main gas pipelines, construction of compressed-air plant and expansion of an underground gas storage facility.
4. Construction of the Caspian type barges for the TCO future expansion project.

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

mn KZT	for 12 months	for 12 months	Δ, (+/-)	Δ, %
	ended	ended		
	31.12. 2017	31.12. 2016		
Oil and gas exploration and production	135,199	147,285	-12,086	-8%
Oil transportation	74,873	42,612	32,261	76%
Gas transportation	140,487	88,851	51,636	58%
Processing and sales of crude oil and oil products	260,040	233,253	26,787	11%
Miscellaneous	26,594	42,141	-15,547	-37%
<b>Total capital expenditures</b>	<b>637,193</b>	<b>554,142</b>	<b>83,051</b>	<b>15%</b>

By the outcomes of 12 months of 2017 the increased capital investments are caused by implementation of the Construction Project of the Karaozek Compressor Station of Beineu-Bozoi-Shymkent Main Pipeline and works on Drilling and Installation of 36 Wells within the investment project on Increasing the Gas Storage Capacity in the Bozoi Underground Gas Storage Facility ahead of schedule. In addition, the Construction of Issyk AGDS in the BGA-TBA Main Pipeline Project and capital repairing of the second line of the Bukhara-Ural Main Gas Pipeline have also had an impact on this. There is an increase in capital expenditures in modernization projects at Atyrau and Pavlodar refineries due to basic commissioning and construction and installation works in 2017.

Increased capital expenditures in oil transportation was mainly caused by the start of the Construction Project of 3 (three) MCV barge-platforms for Tengizchevroil LLP Future Expansion Project and the Construction Project of 3 (three) tugs for the TCO Future Expansion Project by KMTF. Besides, KTO partially replaced the pipes at the Uzen-Atyrau-Samara MP and Tuymazy-Omsk-Novosibirsk MP and reconstructed the Kalamkas-Karazhanbas-Aktau MP.

In addition, as compared with 12 months of 2016, the reporting period has shown a decline in drilling volumes and construction and engineering works within the Oil and Gas Exploration and Production Direction, as well as reduction in capital expenditures in this period within the Miscellaneous Direction as in 2016 KMG Drilling & Services LLP acquired a drilling unit for 28.5 billion tenge under the drilling services for Tengizchevroil LLP.

## GLOSSARY

BTL - Batumi Terminal Limited  
EBITDA - analytical indicator presenting the amount of profit before tax, amortization costs and credit interest  
KMG Int.– KMG International N.V., an integrated Romanian oil and gas company  
Fund - JSC “Sovereign Wealth Fund “Samruk-Kazyna”  
ANS - Aktaunefteşervis (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)  
FFS - fuel filling station  
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  
ITD – innovation-and-technology development  
KPO - Karachaganak Petroleum Operating B.V.  
IPL - integrated process line at the Tengiz field  
KTM - Kazakhturkmunay LLP  
KRG - KazRosGas LLP  
KMG, the Company - JSC “National Company “KazMunayGas”  
KMG Karachaganak - KMG Karachaganak LLP  
KMG EP - KazMunaiGas EP JSC  
KMG RM - JSC “KazMunayGas - Refining & Marketing”  
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  
KMG Aero - 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  
PPCP - Pavlodar Refinery  
DED - design-and-estimate documentation  
KMG EP - KazMunaiGas Exploration Production JSC  
JCE – jointly-controlled entity  
NCP - North-Caspian Project  
NCERB – North-Caspian Oil Spills Response Environmental Base  
CAWs - construction-and-assembly works  
JV - joint venture  
JUR - jack-up self-elevating drilling rig  
PSA - production sharing agreement  
TCO – Tengizchevroil LLP  
HCs - hydrocarbons  
H/HC – hydrocarbons/hydrocarbon crude  
CCED - Central Commission for Exploration and Development of the RoK's Ministry of Energy

ECD – Export customs duty