



# MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL PERFORMANCE

*For the six months ended June 30, 2017*



The following document is intended to assist in understanding and assessing the trends and significant changes in the operating and financial performance of the Group. This review is based on the Interim Condensed Consolidated Financial Statements of the Group and should be read in conjunction with the Interim Condensed Consolidated Financial Statements and accompanying notes. All financial data and their discussion are based on Interim Condensed Consolidated Financial Statements, prepared in accordance with International Financial Reporting Standards ("IFRS").

In this report, the terms "KMG", "Company", "Group" denote National Company KazMunayGas JSC, its subsidiaries and proportionally consolidated. The term "Joint Ventures" means companies that are accounted for using the equity method. 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 ("entities, accounted for under the equity method").

The presented oil and gas reserves include a proportional share of the reserves of associates and joint ventures and a 100% share of the reserves of subsidiaries, unless otherwise indicated.

Tons of produced oil are converted into barrels using coefficients, that take into account the density of oil in each of the Group's fields.

The report may contain certain forward-looking statements. Such words as "believes", "expects", "supposes", "anticipates", "intends", "evaluates", "should", "will", "will continue", "may", "probably", "plans" or similar expressions, derived from them expressions, are not historical facts and guarantees of future results.

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## 1. GENERAL INFORMATION

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### 1H 2017 Highlights

Description of significant events that affected the results of the Group's activities during the 1H 2017:

On January 19, 2017 National Company KazMunayGas JSC (hereinafter referred to as the Company) made a partial repayment for issued bonds, of which Development Bank of Kazakhstan JSC is the holder. The repayment amount was 22,568,510 thousand tenge, including compensation in the amount of 5,006,615 thousand tenge.

On January 21, 2017 Company and its subsidiary companies (hereinafter - the Group) paid principal and interest on loans received from Development Bank of Kazakhstan JSC in the amount of 21,092,997 thousand tenge and 9,755,664 thousand tenge.

On January 27, 2017 KMG EP received a notification on the results of the appeal related to the comprehensive tax audit for 2009-2012 and the relevant decision of the State Revenue Committee regarding the reduction of the total tax debt and penalties to 11,483 million tenge. On January 31, 2017, KMG EP received a ruling of the Specialized Inter-District Administrative Court of Astana regarding the reduction of the administrative fine related to the comprehensive tax audit for 2009-2012 to 2,002 million tenge. Reserve funds for taxes included in these consolidated financial statements were reduced by 18,754 million tenge, taking into account this ruling.

On January 29 2017 Atyrau Refinery LLP (subsidiary of JSC NC "KazMunayGas") paid its principle debt and loan interest rate received from Development Bank of Kazakhstan JSC in the amount of 21 093 mln. tenge and 9 756 mln.tenge, respectively.

On February 17, 2017 the Company issued 1,296,788 ordinary shares in accordance with the established procedure. As a payment, the Company received gas pipelines and associated facilities for a total amount of 12,968 million tenge and cash funds in the amount of 1,3 thousand tenge (credited on February 21, 2017).

For the 1st six months ended June 30, 2017, the Company, in accordance with the decision of Samruk-Kazyna and National Bank of the Republic of Kazakhstan, accrued dividends for 2016 totaling to 6,670 million tenge and distributed dividends for 2013 totaling to 39,207 million tenge.

On April 19, 2017, the Company completed the process of placing Eurobond issues under the current program of issuing the medium-term global notes with a total value of USD 10,5 billion, issued by the Company and Kazmunaigaz Finance Sub B.V. (a subsidiary) with a total value of USD 2,75 billion (equivalent to 854 315 million tenge).

On April 18 and 27 , 2017, the Company provided an additional interest-free loan to Samruk-Kazyna totaling to 18,4 billion tenge.

During April-May 2017, the Company paid a remuneration on Eurobonds totaling to 35 042 mln. tenge.

On May 5, 2017, the tax authorities refunded the prepaid amounts of taxes of KMG EP totaling to 27 billion tenge in connection with the return of formerly declared advances on CIT for the results of 2016 and due to the appeal of results by a complex tax audit for 2009-2012.

On June 15, 2017, KMG EP acquired a 49% equity share in KS EP Investments BV ("KS EP") from MOL HungarianOil and Gas Plc. ("MOL") for 1 US dollar and currently owns 100% of shares in KS EP.

On June 30, 2017, at the Shymkent oil refinery (PetroKazakhstan Oil Products LLP), an isomerization unit for light gasoline fractions with a block of preliminary hydrotreatment of raw materials was put into operation, and the first certified batch of gasoline of K4 and K5 ecological classes was received. Thus, the 1st stage of the "Modernization and Reconstruction of Shymkent Oil Refinery" project was completed.

## 2. MAIN MACROECONOMIC FACTORS

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The main factors that have influenced the performance of the Company are as follows:

- fluctuations in prices for crude oil and petrochemical products and preliminary oil sales by the Company;
- the effect of changes in the exchange rate;
- changes in tariffs for oil and gas transportation services;
- taxation;

The macroeconomic indicators for the 1H 2017, which affected the Group's activities, are shown below:

Name	Unit of measurement	1H 2017	1H 2016	Change	
				abs	%
Inflation at the end of the period (CPI, in% to the corresponding month of the previous year)	%	107,5	117,3	-9,8	-8,4%
Exchange rate of tenge to dollar, average for the reporting period	Tenge per US dollars	318,7	346,1	-27,4	-7,9%
Export customs duty for oil	US dollars per ton	48,5	34,8	13,7	39,3%
Dated Brent crude oil	US dollars per barrel	51,8	39,7	12,0	30,4%
Monthly calculation index (MCI)	tenge	2 269	2 121	148	7,0%
Minimum salary	tenge	24 459	22 859	1600	7,0%

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

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

Change in the world oil prices (USD/barrel)	1H 2017	1H 2016	%
Brent oil	51,8	39,81	12,0
Oil Urals	50,5	38,18	12,3

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

The dynamics of prices for oil products on the international and Kazakhstan market is determined by a number of factors, the most important of which are crude oil prices, the ratio of supply and demand for petroleum products, competition, remoteness of sales markets from enterprises, processing oil into final or intermediate processed products, seasonal deficit in supplies of oil products, particularly in urban areas, in connection with seasonal agricultural work and the associated redistribution of supplies from urban to agricultural areas.

Average world prices for petroleum products	Unit of measurement	1H 2017	1H 2016	Δ, %
Mazut	USD/ton	298,9	173,7	72%
Naphtha	USD/ton	449,5	346,7	30%
Aviation fuel	USD/ton	488	380	28%
Vacuum gas oil	USD/ton	371,6	277,7	34%

Average retail prices for oil products in the Republic of Kazakhstan	Unit of measurement	1H 2017	1H 2016	Δ, %
Aviation fuel	KZT/ ton	199 800	129 000	55%
Gasoline of grade AI-95/96	KZT/ liter	155	138	12%
Gasoline of grade AI-92/93	KZT/ liter	142	123	15%
Gasoline of grade AI-80	KZT/ liter	89	89	0%
Diesel fuel, summer	KZT/ liter	133	97	37%

### 2.2. Change in the foreign exchange rate

The change of the exchange rate of tenge to US dollars has significantly affected, and will more 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 dollars, while a significant share of the Company's expenses is denominated in tenge. Also, the most of the Company's borrowings and accounts payable are denominated in US dollars.

	Average exchange rate for the period	At the end of the period
1st six months, as of June 30, 2017 (Kazakhstan tenge per 1.00 US dollar)	318,69	322,27
1st six months, as of June 30, 2016 (Kazakhstan tenge per 1.00 US dollar)	345,34	338,66

Source: National bank of the Republic of Kazakhstan

### 2.3. Tariffs for the transportation of oil and gas

### ***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 the degree of development of the transport infrastructure, as well as on the possibility of access to it.

The Group transports a significant portion of crude oil, which it sells for export and domestic market, through the system of main pipelines in Kazakhstan, owned by a subsidiary company KazTransOil JSC. In addition, the Group owns a part of share capital in the pipeline of Caspian Pipeline Consortium in the amount of 20.75%, incl. the Government of the Republic of Kazakhstan - 19% and Kazakhstan Pipeline Ventures KOO - 1.75%.

Transportation of crude oil through main pipeline is carried out by KazTransOil JSC and its subsidiaries and jointly controlled entities in accordance with contracts for the provision of oil transportation services, concluded by them with consumers (oil-and-gas production equipment, etc.), in accordance with a standard form of the contract №266 approved by the order of the Minister of National Economy of the Republic of Kazakhstan dated March 27, 2015. These contracts establish the rights and obligations of the parties in oil transportation, including qualitative characteristics of the oil being delivered/received. The Group's oil transportation through main pipeline of KazTransOil JSC and its subsidiaries and jointly controlled entities to the domestic market and for export is carried out in a mixture with oil from other producers.

With the adoption in May 2015 of amendments to the Law of the Republic of Kazakhstan "On Introduction of Amendments and Additions to some Legislative Acts of the Republic of Kazakhstan Concerning Natural Monopolies and Regulated Markets", oil transportation services for the purposes of transit through the territory of the Republic of Kazakhstan and export outside the Republic of Kazakhstan were excluded from the number of natural monopolies. In June 2015, KazTransOil JSC approved (Order No 64) the following tariffs for oil transfer services via main pipelines:

- for export outside the Republic of Kazakhstan - in the amount of 5,817.2 tenge per 1 ton per 1,000 km (excluding VAT) with the entry into force starting July 1, 2015;
- for transit through the territory of the Republic of Kazakhstan along the Kazakhstan section of the main pipeline Tuimazy-Omsk-Novosibirsk-2 - in the amount of 1,727.1 tenge per 1 ton per 1,000 km (excluding VAT) with the entry into force starting June 26, 2015.

Tariffs for the oil transportation inside the country have been approved by the Committee on Regulation of Natural Monopolies and Protection of Competition (order №347-OD dated August 21, 2015). The tariff limits and tariff estimates for the regulated service for oil transfer to the domestic market of the Republic of Kazakhstan through the system of main pipelines of KazTransOil JSC were set for 2015-2019, with the entry into force starting October 1, 2015, approved in the following amounts:

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

### ***Transportation of gas***

Transportation of gas through main gas pipelines and gas distribution systems is carried out by a group of companies of KazTransGas JSC. Gas transportation through main pipelines is carried out mainly by Intergas Central Asia JSC, as well as by joint ventures of Asian Gas Pipeline LLP, Beyneu-Shymkent Gas Pipeline LLP. Transportation of gas through gas distribution systems is carried out by KazTransGas Aimak JSC.

#### **Tariffs for the transportation of gas for international transit and export of gas**

In accordance with the amendments made in May 2015 to the Law on Natural Monopolies, services on transportation of gas for export are excluded from the state regulation. Tariffs for transit and export of gas are established on a contractual basis without approval of the Committee on Regulation of Natural Monopolies and Protection of Competition.

#### **Tariffs for transportation of gas through main gas pipelines and gas distribution pipelines within the country**

The Committee on Regulation of Natural Monopolies and Protection of Competition (CRNM&PC) regulates the tariffs for the transportation of gas within the country in the manner prescribed by law.

Tariffs of Intergas Central Asia JSC for transportation of commodity gas via main pipelines for consumers of the Republic of Kazakhstan have been approved in the following amounts:

- from 2014 - 1,380 tenge per thousand cubic meters (excluding VAT);
- from the 1<sup>st</sup> of January 2017 - 2,212.7 tenge per thousand cubic meters (excluding VAT).

#### 2.4. Tariffs for refining

Services for refining are provided by Atyrau Refinery and Pavlodar Petrochemical Plant and PetroKazakhstan Oil Products LLP. In accordance with the law "On Introduction of Amendments and Additions to Some Legislative Acts of the Republic of Kazakhstan on Entrepreneurship in the Republic of Kazakhstan" No 376-V dated October 29, 2015, starting January 1, 2017, state regulation of prices for refining is excluded. The tariffs, which were in force in 2016 and the 1H 2017, are given below:

	2016	As of April 1, 2017
AR	20 501,0	24 512
PPCP	14 895,2	14 895
PKOP	11 453,8	11 454

#### 2.5. Taxation

The following table sets forth the tax rates that the Group applies in the relevant periods:

Tax	1H 2017	1H 2016	Change,%	The 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 balance sheet 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		area of land plot
Charge for environment pollution	variable value, rate depending on the type of emissions	variable value, rate depending on the type of emissions		actual volume of emissions within and (or) in excess of the set standards for emissions into the environment
Rent tax on exports, average	0%-32% On a scale linked to the world oil price	0%-32%		crude oil and crude petroleum products export volume
Mineral extraction tax (MET), average	0%-18%	0%-18%		value of the volume of extracted crude oil, gas condensate and natural gas
Excess profits tax (EPT)	0%-60%	0%-60%		net income
Excise tax on crude oil and gas condensate	0 tenge per ton	0 tenge per ton		volume of produced, sold crude oil and gas condensate

Excise rates for 1 ton (in KZT) and duties						
	1H 2017		1H 2016		Change, %	The tax base
Excise on oil products	Gasoline (excluding aviation) (the code of EAEU FEACN 2710 12 411 0 - 2710 12590 0)	Diesel fuel (the code of EAEU FEACN 2710 19 310 0 - 2710 19 480 0)	Gasoline (excluding aviation) (the code of EAEU FEACN 2710 12 411 0 - 2710 12590 0)	Diesel fuel (the code of EAEU FEACN 2710 19 310 0 - 2710 19 480 0)		Volume of produced, sold petroleum products
Wholesale trade of gasoline (excluding aviation) and diesel fuel of own production by producers	10 500	April-October -9,300, March-November -	10 500	540		

Excise rates for 1 ton (in KZT) and duties						
	1H 2017		1H 2016		Change, %	The tax base
		540				
Wholesale trade of gasoline (excluding aviation) and diesel fuel by individuals and legal entities	-	-	-	-		
Retail trade of gasoline (excluding aviation) and diesel fuel by producers, use for own production needs	11 000	April-October -9,360, March-November-600	11 000	600		
Retail trade of gasoline (excluding aviation) and diesel fuel by individuals and legal entities, use for own production needs	500	60	500	60		
Import	4 500	540	4 500	540		
The transfer of excisable goods specified in subparagraph 5) of Article 279 of the Tax Code, which are the product of processing of customer-supplied raw materials	10 500	April-October -9,300, March-November -540	10 500	540		
Export customs duty	On a scale, tied to the world price of oil		On a scale, tied to the world price of oil			Export volume

The tax rates for mineral extraction, rental tax on exports and export duties on oil and oil products are tied to the world price of oil and change accordingly. In the case of sale and/or transfer of crude oil and gas condensate on the domestic market of the Republic of Kazakhstan, including in-kind for the payment of mineral extraction tax, rental tax on exports, royalties and shares of the Republic of Kazakhstan for the division of products to the recipient on behalf of the State, or use for own production needs to the established rates, a decreasing factor of 0.5 is applied.

The tax rate for the extraction of minerals for natural gas is 10 percent. When natural gas is sold on the domestic market, the mineral extraction tax is paid at rates, depending on the volume of annual production.

In February 2016, the Ministry of National Economy of the Republic of Kazakhstan introduced a progressive scale of export customs duties on crude oil. Under the new regime, export customs duties are calculated at the average market price of crude oil, formed on the world markets for crude oil of Brent and Urals grade. In addition, from March 1, 2016, the ECD for fuel oil was reduced to USD 30 per ton. On the scale for oil - at the world prices below USD 25 per barrel, the ECD rate is 0, at the world oil price above USD 25 per barrel, the ECD rate is determined in accordance with the scale. Rental tax on export is calculated on the scale for world oil price above 40 US dollars.

### 3. OPERATING RESULTS OF THE GROUP

<b>Operating results</b>	<b>1H 2017</b>	<b>1H 2016</b>	<b>Δ, (+/-)</b>	<b>Δ, %</b>
Production of oil and condensate, taking into account the share in joint ventures (million tons)	11 616	11 325	291	3%
Gas production, including the share in joint ventures (million cubic meters)	4 032	3 675	357	10%
Refining of oil and naphtha at its own refineries and refineries of joint ventures (million tons)	8 177	8 169	8	0%
Oil transportation by main pipelines (thousand tons)	28 893	28 278	615	2%
Crude oil turnover (million tons* km)	23 097	21 684	1 412	7%
Transportation of oil by the marine fleet (thousand tons)	3 096	3 383	-287	-8%
Gas transportation by main gas pipelines (mln m3)	47 667	44 892	2 775	6%
The volume of goods transportation operations for gas transportation (billion cubic meters* km)	21 784	20 468	1 316	6%

#### 3.1. Production of oil and condensate

<b>Consolidated volume of oil and condensate production (thousand tons)</b>	<b>1H 2017</b>	<b>1H 2016</b>	<b>Δ, (+/-)</b>	<b>Δ, %</b>
	<b>11 616</b>	<b>11 325</b>	<b>291</b>	<b>3%</b>



Consolidated volume of oil and condensate production (thousand tons)	1H 2017	1H 2016	Δ, (+/-)	Δ, %
KazMunaiGas Exploration Production (including KazGPZ)	5 887	6 082	-195	-3%
<i>Ozenmunaigas JSC</i>	2 703	2 780	-77	-3%
<i>Embamunaigas JSC</i>	1 398	1 407	-9	-1%
<i>Kazgermunai (50%+50%*33%)</i>	945	970	-25	-3%
<i>Turgai-Petroleum (50%*33%)</i>	47	57	-10	-18%
<i>PKI (100%*33%)</i>	262	337	-75	-22%
<i>Karazhanbasmunai (50%)</i>	528	526	2	0%
KazGPZ LLP	4	5	-1	-20%
Tengizchevroil (20%)	2 918	2 878	40	1%
Mangystaumunaigas (50%)	1 566	1 564	2	0%
Karachaganak Petroleum Operating B.V. (10%) *	566	485	81	17%
Kazakhoil-Aktobe (50%)	175	196	-21	-11%
Kazakhturkmunai (100%)	201	110	91	83%
KMG Kashagan B.V. (50%)	291	0	291	-
KazTransGas (Amangeldy Gas)	11	10	1	10%

Consolidated volume of oil and condensate production for the reporting period amounted to 11 616 thousand tons, which is 291 thousand tons more than the same period last year.

In the structure of the consolidated volume of oil and condensate production, 50.47% for the 1H 2017 and 53.7% for the 1H 2016 are accounted for KMG EP (including proportional shares of KMG EP in Kazgermunaigas, CCEL and PKI). The decrease in production at KMG EP was mainly in Ozenmunaigas JSC, primarily through a fewer number of drilled wells, as well as in PKI due to the natural depletion of reserves in some PKI fields.

The abovementioned decrease was offset by the renewal of production at the Kashagan field from September 28, 2016, as well as the increase in production volume of Kazakhturkmunai LLP, in connection with the completion in 2016 of works on transferring of wells to electrical centrifugal pumps.

### 3.2. Gas production

In the 1H 2017 Group's consolidated gas production amounted to 4 032 million cubic meters. The consolidated gas production increased by 357 million cubic meters or by 10% compared to the 1H 2016.

	1H 2017	1H 2016	Δ, (+/-)	Δ, %
<b>Consolidated volume of gas production, mln.cub.m.</b>	<b>4 032</b>	<b>3 675</b>	<b>357</b>	<b>10%</b>
KazMunaiGas Exploration Production JSC (consolidated)	673	684	-11	-2%
Tengizchevroil (20%)	1 627	1 572	55	3%
Kazakhoil-Aktobe (50%)	149	155	-6	-4%
Mangystaumunaigas (50%)	192	192	0	-
KMG Karachaganak (10%)	956	830	126	15%
KMG Kashagan B.V. (8.44%)	170	0	170	-
Others*	265	242	23	10%

The increase in Karachaganak Petroleum Operating B.V. was mainly due to the production shutdowns in 2016 and in KMG Kashagan B.V. - due to the resumption of gas production on September 28, 2016.

### 3.3. Oil transportation by main pipelines

The main export routes for Kazakh oil via pipelines are:

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

At the same time, oil transportation through main oil pipelines is done by a subsidiary organization KazTransOil JSC (total distance of 5.4 thousand km). KazTransOil JSC provides services for transportation of oil to the domestic market for export, as well as services for storage and transshipment of oil.

Consolidated volume of oil transportation by main pipelines in the context of companies (thousand tons)	1H 2017	1H 2016	Δ, (+/-)	Δ, %
	<b>28 893</b>	<b>28 278</b>	<b>615</b>	<b>2%</b>
KazTransOil JSC CC	22 732	21 923	809	4%
MunaiTas North-West Pipeline Company JSC	1 023	1 124	-101	-9%
Kazakhstan-China Pipeline LLP	3 992	3 613	379	10%
Batumi Industrial Holdings Limited	1 146	1 619	-473	-29%
<b>Volume of oil turnover (million tons * km)</b>	<b>23 097</b>	<b>21 684</b>	<b>1 413</b>	<b>7%</b>
KazTransOil JSC CC	18 958	17 836	1 122	6%
MunaiTas North-West Pipeline Company JSC	409	444	-35	-8%
Kazakhstan-China Pipeline LLP	3 730	3 404	326	10%

\* without deduction of intra-group transactions

The volume of oil transportation through main pipeline has increased by 615 thousand tons due to increase in KazTransOil JSC in connection with the conclusion of an additional agreement with Rosneft NC PJSC for the increase of oil transit, growth of oil delivery by a number of companies. Besides, in the end of September 2016, gas and oil production was renewed at the Kashagan field.

### 3.4. Transportation of oil by marine fleet

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 the marine fleet (thousand tons)	1H 2017	1H 2016	Δ, (+/-)	Δ, %
	<b>3 096</b>	<b>3 383</b>	<b>-287</b>	<b>-8%</b>
Aktau-Baku	182	19	163	858%
Aktau-Makhachkala	154	688	-534	-78%
Black sea	1 283	1 446	-163	-11%
Mediterranean sea	770	734	36	5%
Turkemenbashi-Baku	116	496	-380	-77%
Makhachkala-Baku	591	0	591	-

\* without deduction of intra-group transactions

The decrease in transportation volumes compared to the 1H 2016 is due to decrease in oil supplies to Atyrau port in connection with the changed requirements to the quality of oil of Transneft PJSC in the Makhachkala port. At the same time, oil supplies increased due to the Makhachkala Baku direction which from late 2016 transports oil from the oilfield 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.

#### Volumes of gas transportation:

Consolidated volume of gas transportation in directions (million cubic meters)	1H 2017	1H 2016	Δ, (+/-)	Δ, %
	<b>47 667</b>	<b>44 892</b>	<b>2 775</b>	<b>6%</b>
International transit	30 550	30 330	220	1%
Export gas transportation	7 906	6 301	1 605	25%
Transportation of gas for domestic consumers	9 211	8 261	950	11%
<b>Consolidated volumes of gas transportation by companies (million cubic meters)</b>	<b>47 667</b>	<b>44 892</b>	<b>2 775</b>	<b>6%</b>
Intergas Central Asia JSC	35 520	33 569	1 951	6%
KazTransGas-Aimak JSC	1 282	1 373	-91	-7%
Asia Gas Pipeline LLP	9 958	9 304	654	7%
Beyneu-Shymkent pipeline LLP (50%)	907	645	262	41%

\*without deduction of intra-group transactions

The increase in gas transportation volumes is mainly due to the growth in gas transportation volumes for export in connection with the increase in gas deliveries for export from the Republic of Kazakhstan's fields, and gas transportation for domestic consumers due to the growth in gas deliveries to the southern regions because of the increase in gas consumption.

### 3.6. Oil refining

The Group's refining segment include:

- Atyrau Refinery (99.49% of KazMunaiGas - Refining & Marketing JSC): the designed refining capacity is 5.0 million tons per year, the refining depth in the 1H 2017 was 65.6%;
- Shymkent Petroleum Refinery (PetroKazakhstan Oil Products, 49.73% share of participation of KazMunaiGas - Refining & Marketing JSC): design capacity is 6.0 million tons per year, the refining depth in the 1H 2017 was 75.3%;
- Pavlodar Petrochemical Plant (100% share of KazMunaiGas - Refining & Marketing JSC): the most technologically sophisticated oil refinery in Kazakhstan. The balanced refining capacity is 5.1 million tons per year, the refining depth in the 1H 2017 was 76.68%; The enterprise was designed for Western Siberia fields oil refining;
- CaspiBitum- (50% share of KazMunaiGas - Refining & Marketing JSC): a plant for the production of road bitumen from heavy Karazhanbas oil. The design capacity for refining is 1.0 million tons per year.
- KMG International N.V. (Romp petrol Rafinare) includes two refineries, "Petromidia" and "Vega", and petrochemical complex Petrochemicals (PCC):
  - Petromidia Refinery - (100% share of Rompetrol Rafinare S.A.) The design capacity is 5.0 million tons per year. The PCC is integrated with the Petromidia Refinery;
  - "Vega" Refinery - (100% share of Rompetrol Rafinare S.A.) design capacity - 500 thousand tons per year. The "Vega" Refinery is the only company in Romania specializing in the processing of alternative raw materials (naphtha, heavy hydrocarbon fractions, fuel oil).

Consolidated volume of raw hydrocarbon refining (thousand tons)	1H 2017	1H 2016	Δ, (+/-)	Δ, %
Atyrau Refinery LLP (AR)	2 509	2 098	411	20%
Pavlodar Petrochemical Plant LLP (PPP)	2 649	2 342	307	13%
PetroKazakhstan Oil Products LLP (50%) (PKOP)	948	1 182	-234	-20%
CASPI BITUM (50%)	143	78	65	83%
KMG International N.V. ("Petromidia" and "Vega")	1 929	2 468	-539	-22%

*\*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. The growth in the AR and PPP is associated with an increase in the supply of oil for processing from outside organizations and KMG EP.

The decrease in KMG International N.V. is due to unfavorable weather conditions in the Black Sea in the reporting period, in connection with which, Petromidia plant worked at its minimum capacity, as well as the plant's shutdown for repair in May 2017.

### 3.7. Sale of oil and gas

#### Sale of oil

The sale of oil in the reporting period was carried out by the following companies: Cooperative KazMunaiGas U.A., KMG Karachaganak LLP and KMG International N.V.

	1H 2017	1H 2016	Δ, (+/-)	Δ, %
<b>Cooperative KazMunaiGas U.A., KMG Karachaganak LLP, Kazakhturkmunai LLP</b>	<b>4 598</b>	<b>1 562</b>	<b>3 036</b>	<b>194%</b>
Sale of extracted oil (thousand tons)	102	91	11	12%
Oil trading (thousand tons)	4 496	1 470	3 026	206%
<b>KMG International N.V.*</b>	<b>5 527</b>	<b>4 519</b>	<b>1 008</b>	<b>22%</b>
Including sale of oil to KMG Sub. B.V.	1 471	505	966	191%
<b>Sales of KMG International N.V. at the level of the KMG Group*</b>	<b>4 056</b>	<b>4 014</b>	<b>42</b>	<b>1%</b>
<b>Total</b>	<b>8 654</b>	<b>5 576</b>	<b>3 078</b>	<b>55%</b>

\*corresponding revenues from the sale of 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 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 since May 2016. The volume of oil that is the subject of the transaction is attributable to the Group's participation in Tengizchevroil LLP, MangystauMunayGas JSC and Karazhanbasmunay JSC.

### Gas sale

The sale of natural gas is carried out mainly by KazTransGas JSC. The company's functions include 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. The delivery of gas for export is carried out at the expense of resources of Kazakh subsoil users in Russia and Kyrgyzstan.

Sales of gas by KazTransGas JSC (mln.cub.m.)*	1H 2017	1H 2016	Δ, (+/-)	Δ, %
Sale of gas for export	1 988	1 178	810	69%
Sale of gas to the domestic market	6 712	5 964	748	13%
<b>Total</b>	<b>8 700</b>	<b>7 142</b>	<b>1 558</b>	<b>22%</b>

\*without deduction of intra-group transactions

The volume of gas sales for the 1H 2017 is higher than in 1H 2016 mainly due to the growth of export gas volumes to Uzbekistan. In addition, the volume of gas sales to the domestic market has increased due to the growing number of consumers and cold weather conditions during the reporting period.

## 4. FINANCIAL RESULTS OF THE GROUP

(KZT million)	1H 2017	1H 2016	Δ, (+/-)	Δ, %
Revenue	1 143 864	693 756	450 108	65%
Cost of sales	(977 661)	(629 642)	(348 019)	55%
<b>Gross profit</b>	<b>166 203</b>	<b>64 115</b>	<b>102 089</b>	<b>159%</b>
General and administrative expenses	(32 269)	(64 970)	32 701	-50%
Transportation and distribution costs	(132 846)	(94 828)	(38 019)	40%
Other income/(expenses)	(12 344)	(7 349)	(4 996)	68%
<b>Operating profit</b>	<b>(11 257)</b>	<b>(103 032)</b>	<b>91 775</b>	<b>-89%</b>
Negative exchange rate difference, net	18 659	(2 803)	21 461	-766%
Financial income	56 694	50 511	6 184	12%
Financial expenses	(138 114)	(111 453)	(26 662)	24%
Depreciation of investments in joint ventures	14 686	0	14 686	-
Profit(loss) from the purchase of subsidiaries	(3 249)	0	(3 249)	-
<b>Share in income/(loss) of organizations, accounted for by the equity method</b>	<b>179 461</b>	<b>101 960</b>	<b>77 501</b>	<b>76%</b>
<b>Profit/(Loss) before taxes</b>	<b>116 879</b>	<b>(64 817)</b>	<b>181 696</b>	<b>-280%</b>
Corporate income tax expense	(90 845)	(67 224)	(23 621)	35%
Income/(loss) from discontinued operations	248 347	236 520	11 827	5%
<b>Net profit/(loss)</b>	<b>274 382</b>	<b>104 479</b>	<b>169 903</b>	<b>163%</b>

### 4.1. Revenues

(KZT million)	1H 2017	1H 2016	Δ, (+/-)	Δ, %
Sale of oil products	146 787	126 836	19 951	16%
Sale of crude oil*	527 841	170 106	357 735	210%
Sale of commercial gas	163 304	132 222	31 082	24%
Transportation of oil	82 927	80 324	2 603	3%

(KZT million)	1H 2017	1H 2016	Δ, (+/-)	Δ, %
Transportation of gas	73 219	76 748	-3 529	-5%
Oil and oil products refining	68 154	44 637	23 517	53%
Oilfield Services	33 121	28 369	4 752	17%
Other	48 512	34 516	13 997	41%
<b>Total</b>	<b>1 143 864</b>	<b>693 756</b>	<b>450 108</b>	<b>65%</b>

Products and services sales volumes	Unit of measurement	1H 2017	1H 2016	Δ, (+/-)	Δ, %
Sale of petroleum products	thousand tons	1 398	1 604	-206	-13%
Sale of crude oil	thousand tons	4 598	1 561	3 037	195%
Sale of commercial gas	million cubic meters	8 698	6 954	1 744	25%
Oil transportation by main pipeline	thousand tons*km	19 665	19 346	319	2%
Transportation of oil by marine fleet	thousand tons	1 524	1 923	-399	-21%
Transportation of gas	mIn m <sup>3</sup> *km	33 643	39 613	-5 970	-15%
Oil refining**	thousand tons	3 830	2 749	1 081	39%

Average Sales Prices	Unit of measurement	1H 2017	1H 2016	Δ, (+/-)	Δ, %
Sale of petroleum products	KZT per ton	104 169	79 063	25 106	32%
Sale of crude oil	KZT per ton	114 799	108 965	5 834	5%
Sale of commercial gas	KZT per thousand cubic meters	18 774	19 014	-240	-1%
Oil transportation by main pipeline	KZT per ton	4 000	3 845	155	4%
Transportation of oil by marine fleet	KZT per ton	2 800	2 533	267	11%
Transportation of gas	KZT per thousand cubic meters	2 176	1 937	239	12%
Oil refining**	KZT per ton	17 795	16 236	1 559	10%

\*taking into account the quality bank of crude oil

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

Income patterns showed a significant increase in income 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 Oil Preliminary Sale Transaction by TCO (see paragraph 3.7. of Oil and gas sales). In addition, revenue growth was related to higher world oil prices

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

## 4.2. Expenses

### Cost of sales

(KZT million)	1H 2017	1H 2016	Δ, (+/-)	Δ, %
Sales of crude oil, materials and supplies	545 055	266 509	278 546	105%
Payroll	138 360	123 901	14 459	12%
Depreciation, depletion and amortization	86 288	78 777	7 510	10%
Mineral extraction tax (MET)	42 380	32 832	9 547	29%
Transportation costs	40 598	24 107	16 491	68%
Electricity	20 304	19 021	1 284	7%
Repair and maintenance	14 457	12 787	1 670	13%
Other taxes	28 346	23 080	5 266	23%
Others	61 873	48 628	13 245	27%
<b>Total</b>	<b>977 661</b>	<b>629 642</b>	<b>348 019</b>	<b>55%</b>

The consolidated cost of sales for the reporting period increased by 55% compared to the 1H 2016. In general, the growth was based on the item "Sales of crude oil, materials and supplies", "transportation costs", "mineral extraction tax (MET)" and "payroll":

- The increase of costs for the purchase of raw materials is due to the growth of sale volumes of crude oil in the framework of the transaction on advancing the supply of oil to Tengizchevroil (see paragraph 3.7. of Oil and Gas Sales), an increase in the volume of gas purchases for sale in Russia, Kyrgyzstan and due to cold weather conditions in the region;

- The increase in transportation costs was caused by the growth of gas transportation volumes through the main gas pipeline "Beyneu-Shymkent";
- The increase in expenses for MET by 29% is due to an increase the average price for Brent crude oil, this effect was partially leveled by the decrease in the exchange rate of KZT to USD in the 1H 2017;
- The increase in employee payroll in the 1H 2017 is associated with 7% indexation of the base salary of production personnel starting January 1, 2017, according to the terms of the collective agreement, as well as the accrual of premium reserves during the 1H 2017;
- The cost of repairs and maintenance increased due to the higher volumes of underground repairs of wells and the increase in tariffs for hydraulic fracturing works in the 1H 2017.

### General and administrative expenses

(KZT million)	1H 2017	1H 2016	Δ, (+/-)	Δ, %
Payroll	25 180	23 283	1 897	8%
Depreciation of VAT reclaimed	(26 414)	6 936	(33 351)	-481%
Consulting services	3 519	4 725	(1 206)	-26%
Depreciation and amortization	6 225	3 244	2 981	92%
Other taxes	4 107	3 658	449	12%
Charitable donations and sponsorship	262	552	(290)	-53%
Penalties, fines and charges	22	15	6	41%
Allowance for impairment of trade accounts receivable	1 113	948	166	17%
Allowance for fines, penalties and tax provisions	(633)	2 525	(3 159)	-125%
Allowance for/(recovery of) impairment of other current assets	169	74	95	128%
Allowance for/(recovery of) provision for obsolete and slow-moving inventories	949	10	939	9587%
VAT that cannot be offset	1 078	379	699	185%
Social payments	2 340	3 335	(994)	-30%
Others	14 353	15 286	(933)	-6%
<b>Total</b>	<b>32 269</b>	<b>64 970</b>	<b>(32 701)</b>	<b>-50%</b>

The main decrease in general and administrative expenditures was formed under the item "Depreciation of VAT reclaimed" in connection with the application of KazMunaiGas Exploration Production JSC for VAT refunding for 2012-2015, as a result of which VAT was refunded for the amount of 30 billion tenge.

### Transportation and selling expenses

(KZT million)	1H 2017	1H 2016	Δ, (+/-)	Δ, %
Rent tax on crude oil export	31 657	9 818	21 839	222%
Customs duties, including ECD	51 612	39 629	11 983	30%
Transportation	36 761	32 755	4 006	12%
Payroll	3 220	2 933	287	10%
Depreciation and amortization	2 300	3 232	(932)	-29%
Others	7 297	6 461	836	13%
<b>Total</b>	<b>132 846</b>	<b>94 828</b>	<b>38 019</b>	<b>40%</b>

Consolidated transportation and selling expenses for the reporting period grew by 40% mainly due to an increase in rent tax and ECD due to the growth in sales volumes of oil and higher average price for oil, which was partially indemnified by the decrease in the exchange rate of KZT to USD.

In addition, there was an increase in transportation expenses as a result of the increase in export sales in the 1H 2017 and the increase in payroll due to 7% indexation of a basic salary of the staff since January 1, 2017, pursuant to the collective agreement.

### Share in (loss)/profit of joint ventures and associates, net

(KZT million)	1H 2017	1H 2016	Δ, (+/-)	Δ, %
Tengizchevroil LLP (20%)	140 054	93 859	46 195	49%

Mangystau Investments B.V. (50%)	21 604	17 256	4 348	25%
KazGerMunai LLP (50%)	11 903	3 010	8 893	295%
PetroKazakhstan Inc. (33%)	3 346	(6 909)	10 254	-148%
KazRosGas LLP (50%)	1 093	5 357	(4 263)	-80%
Kazakhoil Aktobe LLP (50%)	(2 707)	(2 268)	(439)	19%
Caspian Pipeline Consortium JSC (20.75%)	24 096	1 292	22 804	1765%
Beyneu-Shymkent LLP(50%)	(17 523)	(8 010)	(9 513)	119%
Valseira Holdings BV (50%)	4 633	4 902	(270)	-6%
KMG Kashagan B.V. (50%)	(9 522)	(10 205)	683	-7%
Others	2 483	3 674	(1 191)	-32%
<b>Total</b>	<b>179 461</b>	<b>101 960</b>	<b>77 501</b>	<b>76%</b>

In the 1H 2017 the share in (loss)/profit of joint ventures and associates increased by 77.5 billion tenge or 76% to 179.5 billion tenge from 101.9 billion tenge for the 1H 2016. The increase is mainly due to the growth in revenues of the oil production segment of the Group in the 1H 2017 as a result of the increase in the average price of oil.

Growth in revenues from Caspian Pipeline Consortium up to 24 billion tenge in the 1H 2017 is associated with the decrease in the accumulated loss and accounting for the entire share of ownership of CPC (20.75%) on the balance sheet of the Group since the end of 2016.

Decrease in the net loss in KazRosGas LLP is mainly related to the establishment of a reserve for sponsor and charitable donations in the 1H 2017.

Increase in loss in Beyneu-Shymkent LLP happened due to the depreciation of a financial guarantee.

#### **Income tax expenses**

(KZT million)	1H 2017	1H 2016	Δ, (+/-)	Δ, %
<b>Current income tax:</b>	<b>57 677</b>	<b>43 693</b>	<b>13 984</b>	<b>32%</b>
Corporate income tax	53 600	39 424	14 176	36%
Excess profit tax	147	65	81	125%
Withholding tax on dividends and interest income	3 930	4 204	(274)	-7%
<b>Deferred income tax</b>	<b>33 168</b>	<b>23 531</b>	<b>9 638</b>	<b>41%</b>
<b>Total</b>	<b>90 845</b>	<b>67 224</b>	<b>23 621</b>	<b>35%</b>

For the 1H 2017 ended on June 30, 2017, the Company's corporate income tax expenses amounted to 90,8 billion tenge, which is 23,6 billion tenge or 35% higher than the same period in 2016.

The growth is due to the increase in the CIT's tax base through the increase in the global oil price, transportation tariffs and sales volumes of oil, commercial gas, increased oil transportation volumes, and KazTransGas JSC's receipt of income from the provision of services under the trust management agreement with KazRosGas LLP. In the reporting period, the amount of deferred corporate income tax was increased due to the effect of temporary differences and changes in the price of assets/deferred assets, including due to the decrease of tax provisions of KMG EP following the results of a complex tax audit for 2009-2012.

#### **Profit after income tax for the period from discontinued operations**

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 the 1H 2017 amounted to 248,3 billion tenge compared to 236,5 billion tenge for the 1H 2016, reflecting the increase of 11,8 billion tenge or 5%. The main growth is accounted for the indicators of KMG International N.V. in connection with the decrease in volumes of oil purchase for resale from external parties due to the growth in oil purchase from KMG EP.

### **4.3. 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 265.6 billion tenge, which is 72 billion tenge less than in the 1H 2016.

In the 1H 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 capacity on the main gas pipelines, to gasify the settlements of the Aktobe region, upgrade and reconstruct of gas distribution networks of the settlements in the Mangistau region;
4. Projects "Zhambyl", "Satpayev".

(KZT million)	1H 2017	1H 2016	Δ, (+/-)	Δ, %
Exploration and production of oil and gas	47 113	89 607	-42 494	-47%
Transportation of oil	7 453	13 544	-6 091	-45%
Transportation of gas	62 602	24 476	38 126	156%
Refining and sale of crude oil and oil products	142 816	129 308	13 509	10%
Other	5 675	6 108	-432	-7%
<b>Total</b>	<b>265 660</b>	<b>263 042</b>	<b>2 618</b>	<b>1%</b>

In the 1H 2016 KMG Drilling & Services LLP purchased a drilling rig for 28,5 billion tenge as part of drilling services rendered to Tengizchevroil LLP. In addition, in the reporting period as compared with the 1H 2016 there is a decrease of the volume of drilling and construction and erection works in the "Exploration and production of oil and gas" segment, as well as the reduction of capital expenditures in the "Oil transportation" segment,.

At the same time, there is an increase in capital expenditures in modernization projects at Atyrau and Pavlodar refineries and in gas projects in connection with the implementation of the "Construction of AGDS Issyk" project at the main gas pipeline "BGR-TBA" and completion of capital repair of the 2<sup>nd</sup> line of the "Bukhara-Ural" main gas pipeline.



## 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  
ANS - AktaunefteSERVICE (ANS group: Oil Service Company LLP, Oil Construction Company LLP, Oil Transport Corporation LLP, Mangystauenergomonai 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  
NC KazMunayGas JSC, National Company KazMunayGas, KazMunayGas, KMG, Company - National Company KazMunayGas Joint-Stock Company  
BGA-TBA - Bukhara gas-bearing area -Tashkent-Bishkek-Almaty  
BBSH - Beyneu-Bozoi-Shymkent main pipeline  
SDE - subsidiary dependent entity  
SGI/SGP - sour gas injection/second generation plant  
ITD - innovative technological development  
KPO - Karachaganak Petroleum Operating B.V.  
IPL - integrated process line at the Tengiz field  
KMG RM - KazMunaiGas Refining & Marketing JSC  
AHPC - aromatic hydrocarbons production complex  
KPI - key performance indicators  
KTG - KazTransGas JSC  
CPC - Caspian Pipeline Consortium (trunk oil pipeline from transporting oil from the Tengiz field to the port of Novorossiysk on the Black Sea)  
KTO - KazTransOil JSC  
CC KMG - corporate center, central office of NC KazMunayGas JSC  
MP - main pipeline  
RoK's MoE - Ministry of Energy of the Republic of Kazakhstan  
EPT - excess profit tax  
WPCP/FGP - wellhead pressure control project/Tengiz field future growth project  
LC - launch complex  
PKOP - PetroKazakhstan Oil Products JSC, the owner of the Shymkent Refinery  
PPCP - Pavlodar Petrochemical Plant  
DED - design-and-estimate documentation  
KMG EP - KazMunaiGas Exploration Production JSC  
JCE - Jointly-controlled entity  
NCP - North Caspian project  
NCERB - North Caspian ecological response base for oil spills  
CAWs - construction-and-assembly works  
JV - joint venture  
JUR - jack-up self-elevating drilling rig  
PSA - production sharing agreement  
TCO - Tengizchevroil LLP  
HC - hydrocarbons  
CCED - Central Commission for the exploration and development of the Ministry of Energy of the Republic of Kazakhstan  
ECD - Export customs duty