



ҚазМұнайГаз
NATIONAL COMPANY ҰЛТТЫҚ КОМПАНИЯСЫ

JSC NC “KAZMUNAYGAS” MANAGEMENT REPORT ON THE RESULTS OF FINANCIAL AND ECONOMIC ACTIVITIES

for the six months ended June 30, 2019



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 accordance with the Group's accounting policies, investments in joint ventures and associates are accounted for using the equity method and, therefore, are not consolidated line by line ("equity method treated enterprises").

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

TABLE OF CONTENTS

1.	GENERAL INFORMATION	4
2.	KEY MACROECONOMIC FACTORS	6
2.1.	Change in oil and oil products market price	6
2.2.	Changes in the foreign exchange rate	6
2.3.	Oil and gas transportation tariffs.....	7
2.4.	Tariffs for refining.....	8
2.5.	Taxation.....	9
3.	GROUP'S OPERATING PERFORMANCE	11
3.1.	Production of crude oil and condensate.....	11
3.2.	Gas production.....	11
3.3.	Oil transportation by main pipelines	12
3.4.	Oil transported by sea	12
3.5.	Transportation of gas	13
3.6.	Hydrocarbon crude refining	13
3.7.	Sale of oil, refined products and gas	14
4.	GROUP'S FINANCIAL PERFORMANCE	16
4.1.	Revenues	16
4.2.	Expenditures	17
4.3.	Profit share in jointly controlled and associated entities.....	19
4.4.	Income tax expenses.....	20
4.5.	Liquidity and capital expenditures	20

1. GENERAL INFORMATION

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

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

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

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

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

Key corporate events:

- On 22 February 2019, JSC KazMunayGas Exploration Production (KMG EP) completed their preferred shares buyback program. In total, KMG EP has repurchased preferred shares in the amount of KZT 15.9 billion, representing 65.0% of the outstanding shares. As of 14 May 2019, preferred shares of KMG EP were delisted from the KASE;
- In February 2019, a chain of KazMunayGas fuel stations was sold for KZT 60,5 billion according to the Company's Strategy and the Government Plan;
- On March 27, 2019, Fitch Ratings Inc. confirmed KMG's long-term rating at "BBB-"level, "Stable" / raised KMG's credit rating from "B" to "BB-" on an independent basis without taking into account the support from the Kazakhstan Government;
- On March 29, 2019, KMG obtained the consent of the holders of Eurobonds to be redeemed in 2022, 2023, 2027 and 2044. (Eurobonds issued before 2018) for (1) alignment of the covenant package with the terms of the issue of Eurobonds of 2018 and (2) early repayment of Eurobonds in the amount of USD 30.1 million due for repayment in 2044;
- On April 29, 2019, Luís Maria Viana Palha Da Silva was elected as a Member of KMG's Board of Directors – Non-Executive Director;
- On May 20, 2019, Anthony Espina was elected as a Member of KMG's Board of Directors – representative of "Samruk-Kazyna" JSC;
- In accordance with a Presidential decree, KMG will fund the construction of a 7,000-seat stadium and congress hall in Turkestan for an approximate amount of KZT 21 billion. Along with it, in August 2019, KMG funded the construction of a 1000-seat amphitheater in Turkestan for KZT 1.8 billion.

Production events

- On February 16, 2019, an investment project for modernization of a jackup drilling rig (JUDR) totaling KZT 21.6 billion or USD 57 million was approved for participating in drilling projects in the Azerbaijani sector of the Caspian Sea. NC KMG and SOCAR have signed a contract of trust management of the JUDR;
- KMG launched the feeder transportation on the Trans-Caspian international transport route. The marine operator of this route is KMTF.
- On April 1, 2019, the Ministry of Energy of the Republic of Kazakhstan, KMG and PJSC “LUKOIL” (LUKOIL) signed a contract for the exploration and production of hydrocarbons in the Zhenis site located in the Kazakh sector of the Caspian Sea. According to the joint assessment by KMG and LUKOIL, the forecasted recoverable reserves (C3) of the project are 65.1 mln tons. The project operator is Zhenis Operating LLP (a 50:50 joint venture between KMG and LUKOIL).
- On June 7, 2019, KMG and LUKOIL signed Heads of Agreement on the I-P-2 project, the site of the same name located in the Kazakh sector of the Caspian Sea. According to LUKOIL’s estimates, the recoverable reserves (C1) of the project are 15.1 mln tons.
- On July 26, 2019, the Ministry of Energy of the Republic of Kazakhstan, KMG and Eni S.p.A. (Eni) signed a contract for the exploration and production of hydrocarbons in the Abai site located in the Kazakh sector of the Caspian Sea. According to the 2013 exploration plan, the recoverable reserves (C3) of the project are 180.3 mln tons. The project operator is Isatay Operating Company LLP (a 50:50 joint venture between KMG and Eni).

Financial events

- In January 2019, in order to reduce the debt expense, Atyrau Refinery refinanced the loan from the Development Bank of Kazakhstan (DBK) for the amount of USD 300 mln via (1) the issuance of USD 150 mln. bonds at the Astana International Financial Center Exchange and (2) raising a loan from Halyk Bank in the amount of USD 150 mln.
- In April 2019, KMG paid about USD 62 mln. to Eurobond holders for their consent to unify a covenant package, which included early repayment of the Eurobonds due in 2044 for the amount of USD 30.1 mln.
- In July 2019, KMG made the final installment repayment of the bonds due to DBK, as the sole holder, for the amount of USD 53 mln.
- In July 2019, Atyrau Refinery switched the currency of the loan due to DBK for the amount equivalent to USD 152 mln from “USD” to “KZT” for the purpose of mitigating the foreign exchange risk.
- In August 2019, KMG and KTG jointly issued a financial guarantee to refinance the loan raised by Beineu-Shymkent Gas Pipeline LLP from a syndicate of foreign banks for the amount of USD 720 mln in order to improve the terms of the financing and loan documentation.

2. KEY MACROECONOMIC FACTORS

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

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

Below are macroeconomic indicators for 6 months of 2019, which influenced the group's operations.

Item	Units	For 6 m. ended 30.06.2019	For 6 m. ended 30.06.2018	Change	
				abs	%
End-of-period inflation (CPI, in % to the corresponding months of the preceding year)	%	105.4	105.9	-0.5	-0.5
Oil export customs duty	USD/ton	60	63	-3	-4.8
Monthly calculation index (MCI)	KZT	2,525	2,405	120	4.9
Minimum wage amount (MWA)	KZT	42,500	28,285	14,215	150

2.1. Change in oil and oil products market price

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

Change in world prices for crude oil (USD/bbl)	For 6 m. ended 30.06.2019	For 6 m. ended 30.06.2018	Δ, %
Brent	66.01	70.50	-4.5
Urals	66.12	68.82	-2.7

Source: Thomson Reuters

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

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

Average world prices for oil products	Unit	For 6 m. ended 30.06.2019	For 6 m. ended 30.06.2018	Δ, %
Fuel oil	USD/ton	385	378	2
Naphtha	USD/ton	508	601	-15
Jet fuel	USD/ton	587	643	-7

Average retail prices for oil product in RK *	Unit	For 6 m. ended 30.06.2019	For 6 m. ended 30.06.2018	Δ, %
AI-95 Gasoline	KZT/ton	164,370	179,556	-8.5
AI-92 Gasoline	KZT/ton	154,704	170,486	-9
Diesel (summer)	KZT/ton	194,481	162,882	18.7
Jet fuel	KZT/ton	221,648	207,667	10.9

Source: Argus Caspian Markets for oil products produced at the Kazakhstan Refinery

The increase in the average annual wholesale prices for diesel fuel and jet fuel in the internal market of Kazakhstan for the first six months of 2019 exceeded the 2018 prices by more than 10%.

The decline in the average annual wholesale prices for high-octane fuels in the Kazakh domestic market for the first six months of 2019 was about -8.5% from the comparable period of 2018. The dynamics of wholesale prices was weakened by gasoline surplus in the domestic market in late 2018 and early 2019.

2.2. Changes in the foreign exchange rate

The change of the exchange rate of KZT against the USD 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 USD, while a significant part of the Company's expenses is denominated in KZT. Also, the most of the Company's borrowings and accounts payable are denominated in USD.

	Average rate for the period	As of the end of the period
For 6 months, as of June 30, 2019 (KZT per 1.00 USD)	379.3	380.5
For 6 months, as of June 30, 2018 (KZT per 1.00 USD)	326.5	341.1

Source: Kazakhstan Stock Exchange

2.3. Oil and gas transportation tariffs

Oil transportation by trunk pipeline

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

The Group transports 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.

Crude oil is transported through the main pipeline by KazTransOil JSC Group 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 Group 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 rate as a natural monopoly. In February 2018, KazTransOil JSC approved (Order No.46, Order No.47) the following tariffs for oil transportation by main pipelines:

- export outside the Republic of Kazakhstan – KZT 6,398.92 per ton per 1,000 km (excluding VAT) effective as of April 1, 2018, with increasing from KZT 5,817.2 in Quarter 1, 2018 by KZT 581.72 per 1 ton per 1,000 km;
- transit through the territory of the Republic of Kazakhstan, by Kazakh section of the Tuimazy-Omsk-Novosibirsk-2 – KZT 4,292.4 per 1 ton per 1,000 km (excluding VAT) effective as of April 1, 2018, with increasing from KZT 1,727.1 in Quarter 1, 2018 by KZT 2,565.3 per 1 ton per 1,000 km.

In December 2018 the Minister of Energy of the Republic of Kazakhstan (order No. 545) approved the tariff of transporting Russian oil for 2019–2023 in the amount of 10 million tons annually through the territory of the Republic of Kazakhstan to the People's Republic of China along the transportation route: border of the Russian Federation - border of the Republic of Kazakhstan (Priirtyshk) Atasu (Republic of Kazakhstan) - Alashankou (People's Republic of China) in the amount of 15 USD per 1 ton excluding VAT, including:

- on the section "the border of the Russian Federation - the border of the Republic of Kazakhstan (Priirtyshk) – Atasu (Republic of Kazakhstan)", including the transshipment of oil to the GNPS Atasu - USD 4.23 per 1 ton excluding VAT, at the same time during the first six months of 2018 the cost was USD 3.11 per ton excluding VAT;
- on the section "Atasu (Republic of Kazakhstan) -Alashankou (People's Republic of China)" – USD 10.77 per 1 ton excluding VAT, at the same time during the first six months of 2018 the cost was USD 8.25 per ton excluding VAT;

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

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

Gas transportation

Gas is transported by trunk gas 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 gas pipelines is provided by KazTransGas Aimak JSC.

International transit and export tariffs

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

Effective tariffs for gas transportation for transit and export in the first six months of 2019:

- Intergas Central Asia JSC:
 - gas transit USD 2 per 1000 m³ per 100 km excluding VAT for PJSC Gazprom and its subsidiaries; USD 2.9 per 1000 m³ per 100 km excluding VAT for JSC UztransGaz;
 - gas export USD 5 per 1000 m³ per 100 km excluding VAT for Tengizchevroil, JSC KazTransGas;
 - gas export USD 2 per 1000 m³ per 100 km excluding VAT for CJSC KazRosGas;
- Asia Gas Pipeline LLP – gas transit and export USD 3.58 per 1000 m³ per 100 km excluding VAT;
- Beineu-Shymkent Gas Pipeline – uniform tariff for gas transportation in domestic market, gas transit and export KZT 18,071 per 1000 m³ excluding VAT.

Tariffs for domestic gas transportation by trunk and distribution gas pipelines

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

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

- Intergas Central Asia JSC from January 1, 2017 – KZT 2,212.7 per 1000 m³ (excluding VAT);
- Asia Gas Pipeline LLP from March 1, 2016 – KZT 3,494.4 per 1000 m³ (excluding VAT);
- Beineu-Shymkent Gas Pipeline from March 1, 2016 – KZT 18,071 per 1000 m³ (excluding VAT); from May 1, 2019 - KZT 16,574 per 1000 m³ (excluding VAT)

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

No.	Area	Transportation tariff, KZT/th. m ³ excl. VAT
1.	South-Kazakhstan region	7,036.87
2.	Zhambyl region	6,443.38
3.	Kyzylorda region	9,083.51
4.	Kostanai region	4,922.51
5.	West Kazakhstan region	2,615.37
6.	Atyrau region	1,721.26
7.	Aktobe region	4,890.81
8.	Mangistau region	2,392.59
9.	East Kazakhstan region	1,550.00
10.	Almaty and Almaty region	4,145.25

2.4. Tariffs for refining

Starting from 2016, three local major oil refineries (AR (Atyrau Refinery, POCR and PKOP) began utilizing a new refining model, under which the refineries provide only oil refining services at established rates, and do not buy oil for refining and do not sell the refined products. These obligations are now owed by oil suppliers, which sell refined products independently. With a vertically integrated structure of the KMG Group and its new refining business model, each business segment is now able to focus on its specific area of expertise, which ultimately increases the operational efficiency of the entire KMG Group. In light of KMG's transformation and its transition from a strategic manager of the assets to an operational manager, the refining business model helps refineries focus only on the production aspects, which results in optimized refining operations and reduced costs.

In accordance with the Law “Concerning the introduction of amendments and additions to certain legislative acts of the Republic of Kazakhstan on entrepreneurship” dated October 29, 2015 No. 376-V, governmental regulation of refining fees has been removed from January 1, 2017.

Average weighted tariffs in force during 6 months of 2019 and the same period of the last year are listed below:

Refinery	Unit of measurement	6 months 2019	6 months 2018	Δ, %
AR	KZT/ton	37,436	31,473	19%
POCR	KZT/ton	19,805	17,250	15%
PKOP	KZT/ton	22,500	16,302	38%
CASPI BITUM	KZT/ton	20,023	18,004	11%

2.5. Taxation

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

Tax	30.06.2019	30.06.2018	Tax base		
Corporate income tax (CIT)	20%	20%	Taxable income		
Value added tax (VAT)	12%	12%	Sale of goods, works, services		
Property tax	1.50%	1.50%	average annual book value of taxable items, determined by the accounting data		
Land tax	variable value, rate depending on the purpose and quality of the land plot	variable value, rate depending on the purpose and quality of the land plot	land plot area		
Environmental emissions fee	variable value, depending on the type of emissions	variable value, depending on the type of emissions	actual volume of emissions within and (or) exceeding the standard environmental emissions		
Export rent tax	0%-32% On a scale linked to the world oil price	0%-32%	crude oil and oil products export volume		
Mineral Extraction Tax (MET)	0%-18%	0%-18%	value of produced crude oil, gas condensate and natural gas		
Excess profits tax (EPT)	sliding scale of 0%-60% rates	sliding scale of 0%-60% rates	portion of the subsurface user's net income defined as the difference between the total annual income and deductions (in the amount of actual CAPEX if related to fixed assets) and CIT exceeding an amount equal to 25% of the amount of these deductions. EPT is calculated for each individual license contract.		
Crude oil and gas condensate excise	zero rated	zero rated	amount of produced and sold crude oil and gas condensate		
Excise rates for 1 ton (in KZT) and duties					
	30.06.2019		30.06.2018		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 19 480 0)	Gasoline (except jet fuel) (EAEU FEACN code 2710 12 411 0-2710 12590 0)	Diesel fuel (EAEU FEACN code 2710 19 480 0)	produced, sold and imported petroleum products
Wholesaling of own gasoline (except jet fuel) and diesel fuel by manufacturers (November – May)	10,500	540	10,500	540	
Wholesaling of gasoline (except jet fuel) and diesel fuel by individuals and entities	0	0	0	0	
Retailing of own gasoline (except jet fuel) and diesel fuel by manufacturers, utilization for own operating needs (November – May)	11,000	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 (November – May)	10,500	540	10,500	540	
Crude oil export duty	On a scale linked to the world oil price		On a scale linked to the world oil price		Export volume

Mineral extraction tax, rental export tax and export customs duty rates for oil and oil products depend on the world oil price and change accordingly. If crude oil and gas condensate is sold and (or) transferred within the domestic market of

the Republic of Kazakhstan, including sale/transfer in kind to pay the mineral extraction tax, rental export tax, royalties and share of the Republic of Kazakhstan under the production sharing to the beneficiary on behalf of the State, or if used for the own operating needs, a 0.5 decreasing factor is applied to the established rates.

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

In February 2016, the Ministry of National Economy of the Republic of Kazakhstan introduced a progressive scale for export duties on crude oil. According to the new scheme, export duties are calculated based on the average market price for crude oil established on the world Brent and Urals markets. Based on the oil prices scale, 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 USD 40.

3. GROUP'S OPERATING PERFORMANCE

Operating results	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
Oil and condensate production, taking into account share in joint ventures (thousand tons)	11,704	11,769	-65	-1
Gas production, including share in joint ventures (million m ³)	4,160	4,123	38	1
Refining of crude hydrocarbons at own refineries and refineries of joint ventures (thousand tons)	9,998	9,829	169	2
Oil transportation by main pipelines (thousand tons)	33,460	33,662	-202	-1
Crude oil circulation (million tons* km)	31,217	31,157	60	0
Transportation of oil by sea (thousand tons)	5,489	3,446	2,044	59
Gas transportation by main gas pipelines (mln m ³)	50,078	54,877	-4,799	-9
Gas transportation operations (billion m ³ * km)	27,705	28,283	-578	-2

3.1. Production of crude oil and condensate

Consolidated oil and condensate production (th. tons)	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
	11,704	11,769	-65	-0.5
Ozenmunaygas JSC (100%) + Kazakh Gas Refinery (100%)	2,751	2,728	23	0.8
Embamunaygas JSC (100%)	1,430	1,399	30	2.2
Kazakhturkmunai LLP (100%)	201	187	14	7.7
KazTransGas JSC (Amangeldy Gas-100%)	9	11	-2	-15.6
Kazgermunai JV LLP (50%)	593	665	-72	-10.9
MangistauMunaiGaz LLP (50%)	1,579	1,580	-1	-0.1
Karazhanbasmunai JSC (50%)	537	536	1	0.1
Kazakhoil-Aktobe LLP (50%)	162	141	21	14.7
Petrokazakhstan, Inc. (33%)	445	498	-53	-10.7
Tengizchevroil LLP (20%)	2,992	2,948	44	1.5
Karachaganak Petroleum Operating b.v. (10%)	535	565	-31	-5.4
KMG Kashagan B.V. (50%)	472	511	-39	-7.6

The consolidated amount of oil and condensate production for the reporting period amounted to 11,704 thousand tons, which is 65 thousand tons less than the amount of the same period last year.

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

- natural decrease in the production level at the fields of Petrokazakhstan, Inc. and Kazgermunai JV LLP;
- increased water cut and higher gas-oil ratio at Karachaganak Petroleum Operating b.v.;
- scheduled major overhaul at the offshore and onshore facilities with the complete production shutdown during 14 April - 19 May 2019 at KMG Kashagan B.V.

3.2. Gas production

Consolidated gas production (associated and natural), mln. m ³	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
	4,160	4,123	37	0.9
Ozenmunaygas JSC (100%) + Kazakh Gas Refinery (100%)	294	307	-13	-4.2
Embamunaygas JSC (100%)	130	105	25	23.9
Kazakhturkmunai LLP (100%)	70	73	-2	-3.3
KazTransGas JSC (Amangeldy Gas-100%)	182	204	-22	-10.9
Kazgermunai JV LLP (50%)	120	131	-12	-8.8
MangistauMunaiGaz LLP (50%)	196	197	-1	-0.5
Karazhanbasmunai JSC (50%)	13	11	3	23.6

	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
Consolidated gas production (associated and natural), mln. m³	4,160	4,123	37	0.9
Kazakhoil-Aktobe LLP (50%)	171	109	62	56.9
Petrokazakhstan, Inc (33%)	87	96	-9	-8.9
Tengizchevroil LLP (20%)	1,636	1,615	21	1.3
Karachaganak Petroleum Operating b.v. (10%)	982	978	5	0.5
KMG Kashagan B.V. (50%)	278	297	-19	-6.3

Group's consolidated production of gas for the reporting period is 4,160 thousand tons which is 37 thousand tons more than for the same period of previous year.

The main reasons for the increased amounts of oil and condensate produced:

- increased oil production volumes at EMG;
- commissioning of an integrated gas treatment unit - 40 at KOA;
- increased oil production volumes due to the growth in the average daily capacity of the plants (fact for the first six months of 2019 – 82,658 tons/day vs. fact for the first six months of 2018 – 81,412 tons/day).

At the same time, gas production of KazTransGas JSC (Amangeldy Gas) decreased because of failure to confirm the project indicators for the Ayrakty field.

3.3. Oil transportation by trunk pipelines

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

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

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

	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
Consolidated oil transportation by trunk pipelines by companies (th. tons)	33,460	33,662	-202	-0.6
KazTransOil JSC CC	22,198	22,427	-229	-1.0
MunaiTas North-West Pipeline Company JSC (51%)	889	1,079	-190	-17.6
Kazakhstan-China Pipeline LLP (50%)	4,044	3,864	180	4.6
Caspian Pipeline Consortium JSC (20.75%)	6,329	6,292	37	0.6
Crude oil circulation (Mt*km)	31,219	31,157	62	0.2
KazTransOil JSC CC	18,871	18,817	54	0.3
MunaiTas North-West Pipeline Company JSC (51%)	366	430	-65	-15.1
Kazakhstan-China Pipeline LLP (50%)	3,661	3,597	64	1.8
Caspian Pipeline Consortium JSC (20.75%)	8,320	8,313	7	0.1

Consolidated oil transportation by trunk pipelines for the reporting period is 33,460 thousand tons which is 202 thousand tons less than for the same period of the last year.

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

3.4. Oil transported by sea

The main operational routes for marine oil transportation are:

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

Consolidated oil transportation by sea by direction (th. tons)	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
		5,489	3,446	2,043
Aktau-Makhachkala	286	948	-662	-69.8
Black Sea	1,678	646	1,032	159.7
Mediterranean Sea	3,487	1,009	2,478	245.5
Makhachkala-Baku	0	842	-842	-100.0
Turkmenbashi-Baku/Makhachkala	38	0	38	-

Consolidated oil transportation by sea for the reporting period is 5,489 thousand tons which is 2,043 thousand tons more than for the same period of the last year.

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

3.5. Transportation of gas

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

Consolidated gas transportation (million m ³)	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
		50,078	54,877	-4,799
International transit	27,946	32,349	-4,404	-13.6
Gas export transportation	12,700	12,700	0	0.0
Gas transportation for domestic consumers	9,433	9,828	-395	-4.0
Consolidated volumes of gas transportation (million m³)	50,078	54,877	-4,799	-8.7
Intergas Central Asia JSC	34,582	39,171	-4,589	-11.7
KazTransGas-Aimak JSC	1,275	1,380	-105	-7.6
Asia Gas Pipeline LLP (50%)	11,653	12,335	-682	-5.5
Beineu-Shymkent Gas Pipeline LLP (50%)	2,568	1,990	577	29.0

Total gas transported decreased by 4,799 million m³ in the reporting period due to:

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

3.6. Hydrocarbon crude refining

- Pavlodar Oil-Chemistry Refinery (wholly-owned by JSC NC “KazMunayGas”): POCR can currently refine 5.1 million tons of crude oil annually, with no loss in the quality of oil products (K4, K5). The oil conversion ratio was 84.7% in the reporting period. With a certain deterioration in quality, POCT can refine 6 million tons;
- Atyrau Refinery (99.49% owned by KMG): the designed refining capacity is 5.5 million tons annually, the oil conversion ratio was 75.5% in the reporting period;
- Shymkent Refinery (Petro Kazakhstan Oil Products, 49.72% owned by KMG): project capacity is 6 million tons annually, the oil conversion ratio was 81.3% in the reporting period;
- CaspiBitum (50% owned by KMG): a plant for the production of road bitumens from heavy Karazhanbas oil. The project refining capacity is 1.0 million tons annually;
- KMG International N.V. (Romp petrol 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 annually. The PCC is integrated with the Petromidia Refinery;
- Vega Refinery - (100% share of Rompetrol Rafinare S.A.) project capacity - 500 thousand tons annually. The Vega Refinery is the only enterprise in Romania, specializing in the processing of alternative raw materials (naphtha, heavy hydrocarbon fractions, fuel oil).

Consolidated hydrocarbon crude refining, taking into account the operating share (th. tons)	For 6 months ended	For 6 months ended	Δ, (+/-)	Δ, %
	30.06.2019	30.06.2018		
	9,998	9,829	169	1.7
Ayrau Refinery LLP	2,699	2,604	95	3.6
Pavlodar Oil-Chemistry Refinery LLP	2,475	2,785	-310	-11.1
PetroKazakhstan Oil Products LLP (50%)	1,315	973	342	35.2
CASPI BITUM (50%)	181	186	-6	-3.0
KMG International N.V. (Rompetrol Rafinare)	3,328	3,281	47	1.4
<i>Petromidia</i>	3,126	3,087	39	1.3
<i>Vega</i>	202	194	8	4.0

The main reasons for increase in the refining volumes are as follows:

- AR, PKOV - deviation of the actual indicators of 1H 2019 from the same period of 2018 is caused by completion of upgrading at the plants and a change in the petroleum basket (increased production of light oils, reduced production of dark oils). The reduction in the POCR is caused by the scheduled preventive maintenance in May 2019;
- CASPI BITUM – scheduled preventive maintenance in January 2019, as well as a reduction in actual applications of the processor, Karazhanbasmunai JSC;
- KMG International N.V. (Rompetrol Rafinare) – as a result of the improved crude diet that made it possible to reduce quality fluctuations and achieve the design capacity at the crude oil refining unit.

3.7. Sales of oil, refined products and gas

Sales of oil produced by KMG, thousand tons

thousand tons	For 6 months ended 30.06.2019			For 6 months ended 30.06.2018		
	Export	Domestic market	Total	Export	Domestic market	Total
Operating assets*	4,373	3,416	7,788	4,372	3,449	7,821
Megaprojects**	3,853	0	3,853	3,758	0	3,758
Total	8,225	3,416	11,641	8,130	3,449	11,579

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

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

Volumes of oil sales for 6 months of 2019 increased by 62 thousand tons versus the same period of 2018. The growth is partially offset by a reduction in KGM and PKI due to the natural decline in crude oil production.

Sale of refined products

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

thousand tons	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
Wholesale	4,104	4,060	44	1
Light oil products	2,574	2,028	545	27
Dark oil products	498	532	-33	-6
Petrochemicals	126	80	46	57
Liquefied gas	148	106	42	39
Misc.	757	1,313	-555	-42
Retail sales	915	1,204	-289	-24
Light oil products	780	1,056	-277	-26
Liquefied gas	67	71	-4	-6
Misc.	69	77	-8	-11
Total refined product sales	5,019	5,264	-245	-5

KMG's sales of refined products

thousand tons	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
Sale of domestic refined products	1,624	1,372	252	18
Wholesale distribution*	1,362	786	576	73
Retail sale	262	586	-324	-55
KMGI's sales of refined products	3,395	3,892	-497	-13
Wholesale distribution	2,742	3,274	-532	-16
Retail sale	653	618	35	6
Total	5,019	5,264	-245	-5

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

Refined product sales in the reporting period compared to the same period of 2018 reduced by 245 thousand tons. Mainly, retail sales reduced with an increase in wholesale volume due to the reorganization of JSC "KMG-Onimderi".

An increase in the sales of domestic refined products by 541 thousand tons is due to the growth the wholesale trade of diesel fuel (light oil products), caused by increased production in Kazakhstan refineries owing to the completion of the refineries modernization. This increase is partially offset by reduced gasoline sales caused by the existing gasoline surplus in the domestic market and a failure to obtain an export sale permission.

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

Gas sale

Natural gas is mainly sold by KazTransGas JSC. The company's functions include wholesale purchases of natural gas for the domestic market, transportation of gas through regional gas distribution networks, operation of gas distribution facilities and networks and sale of natural gas on the domestic market.

KTG gas sales*(mln.m ³ .)	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
Sales of gas for exports	4,279	4,414	-135	-3
Sales of gas to the domestic market	7,346	7,586	-240	-3
Total gas sales	11,625	12,000	-375	-3

The decreased gas sales for exports are due to the limited acceptance of export gas in the PRC and reduced sales to Russia, Kyrgyzstan and Uzbekistan due to an arrangement with other suppliers.

A decrease the gas sales to the domestic market is due to a decrease in demand in 1H 2019 in all regions of Kazakhstan.

4. GROUP'S FINANCIAL PERFORMANCE

Profit and loss statement

Profit and loss (mln KZT)	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
Income from sales of goods and rendering services	3,402,580	3,356,260	46,320	1%
Cost of sold products and rendered services	-2,511,579	-2,614,525	102,946	-4%
Gross profit	891,001	741,735	149,266	20%
General and Administrative Expenses	-110,700	-109,023	-1,677	2%
Transportation and selling expenses	-358,123	-303,924	-54,199	18%
Depreciation of fixed assets, exploration assets and intangible assets, net	-25,240	-39,701	14,461	-36%
Income / (loss) from fixed assets retirement, net	-636	-1,463	827	-57%
Miscellaneous income/(expenses)	2,965	1,271	1,694	133%
Operating profit	399,267	288,895	110,372	38%
Positive/(negative) foreign exchange loss, net	2,185	1,665	520	31%
Financial income	61,796	111,354	-49,558	-45%
Financial expenses	-160,847	-277,526	116,679	-42%
Profit/(loss) from retirement of subsidiaries	17,481	3,249	14,232	438%
Share of the profit/(losses) of the equity-accounted entities	445,250	337,319	107,931	32%
Profit/(Loss) before taxes	765,132	464,956	300,174	65%
Corporate income tax expenses	-142,734	-108,812	-33,922	31%
Profit/(loss) from discontinuing activities	6	3,562	-3,556	-100%
Net income/(loss)	622,404	359,707	262,695	73%

4.1. Revenues

Consolidated revenues from sales of products and provision of services

mln KZT	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
Oil product sales	969,281	985,983	-16,702	-1.7
Crude oil sales (taking into account the crude oil quality bank)	1,551,191	1,611,807	-60,616	-3.8
Marketable gas sales	445,343	350,547	94,796	27.0
Oil transportation	84,500	82,456	2,043	2.5
Gas transportation	70,647	73,898	-3,251	-4.4
Oil and gas refining	96,298	86,696	9,603	11.1
Oilfield services	43,615	37,457	6,157	16.4
Other	141,705	127,415	14,290	11.2
Total revenues from sales of products and provision of services	3,402,580	3,356,260	46,320	1.4

Consolidated sales of products and provision of services

Sale of products and services	Unit of measurement	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
Oil product sales	Th. tons	5,019	5,264	-245	-4.7
Sales of crude oil	Th. tons	8,329	9,310	-981	-10.5
Marketable gas sales	Mln. m ³	11,834	11,791	44	0.4
Oil transportation by trunk pipeline	Th. tons*km	12,358	12,741	-383	-3.0
Gas transportation	Mln. m ³ *km	24,286	27,758	-3,472	-12.5
Oil refining	Th. tons	3,546	3,822	-276	-7.2

Average Settling Prices

Average settling prices	Unit of measurement	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
Oil product sales	KZT per ton	193,129	187,313	5,816	3.1
Crude oil sales	KZT per ton	186,250	173,131	13,120	7.6
Marketable gas sales	KZT per th. m ³	37,632	29,731	7,901	26.6
Oil transportation by trunk pipeline	KZT per ton	6,662	6,039	623	10.3
Gas transportation	KZT per th. m ³	2,909	2,662	247	9.3
Oil refining	KZT per ton	27,158	22,685	4,473	19.7

Sale revenues in the reporting period amount to KZT 3,402,580 mln and have increased by 1% compared to the same period of the last year. The revenue structure shows growth in the share of revenues from marketable gas sales, oil and gas transportation, oil refining and oilfield services.

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

- crude oil sales – a 4% reduction is due to a decrease in trading operations and average global oil prices;
- refined products sales – a 2% reduction is due to a decrease in the export prices due to the reduced global market price quotations, and declining demand on the Asian market;
- marketable gas sales – a 27% increase is due to an increased average selling price of gas for exports to the PRC (from USD 189/1,000m³ in 1H 2018 to USD 223/1,000m³ in the reporting period) and KZT-to-USD exchange rate;
- oil transportation – a 3% increase is due to increased transportation tariffs since April 1, 2018 (export tariff increase from KZT 5,817.2 to KZT 6,398.9 per 1 ton per 1,000 km (excl. VAT), tariffs for transit through Kazakhstan along the Kazakh section of the Tuimazy-Omsk-Novosibirsk-2 trunk pipeline), and increased cargo turnover;
- gas transportation – a 4% decrease is due to reduced volumes of Russian transit, reduced gas transportation to the domestic market, and reduced tariffs for regional gas transportation to the regions;
- oil refining – an 11% increase is due to increased tariff for oil refining (Pavlodar Oil-Chemistry Refinery – from KZT 17,289 per ton in 1H 2018 to KZT 19,805 per ton in the reporting period; Atyrau Refinery – from KZT 31 473 per ton in 1H 2018 to KZT 37,436 per ton in reporting period).

4.2. Expenditures

Cost of goods sold and services rendered

mln. KZT	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
Materials and supplies	546,224	416,670	129,556	31
Crude oil, gas and gas products	1,313,947	1,453,296	-139,349	-10
Payroll	151,107	146,221	4,886	3
Depreciation, depletion and amortization	148,406	117,056	31,350	27
Refined products purchased for resale	81,905	265,440	-183,535	-69
Mineral extraction tax	50,566	58,041	-7,475	-13
Repair and maintenance	18,993	15,286	3,707	24
Electricity	42,784	28,237	14,547	52
Other taxes	33,815	33,932	-117	0
Transportation costs	14,344	7,003	7,341	105
Other	109,487	73,343	36,144	49
Total	2,511,579	2,614,525	-102,946	-4

Consolidated costs for the reporting period have reduced by KZT 103 billion or 4% versus the last year. Reduction of expenditures was mainly in the following items:

- “refined products purchased for resale” and “crude oil, gas and gas products” – due to a reduced volume of trading in oil and refined oil products caused by a decline in consumer demand in the Asian market based on the latest sanctions introduced in Venezuela and due to the fact that the oil sales contract for Geragai field (Indonesia) has not been extended yet and is still under discussion. In addition, the expenditures have reduced as a result of a lower average Brent price in the reporting period (66.01 USD/bbl in 1H 2019 vs 70.50 USD/bbl in 1H 2018). The reduction is partially offset by a change in KZT-to-USD exchange rate (2019 1H actual – 379.3 KZT/USD vs. 2018 1H actual – 326.5 KZT/USD);
- “minerals extraction tax” – a discount obtained as a result that the Uzen field has been recognized as flooded;

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

- “materials and supplies” – due to completed refineries modernization and increased oil refining volumes and a rise in the USD exchange rate;
- “depreciation, depletion and amortization” – due to an increase in the depreciation base as a result of delivery of investment projects (refineries modernization, construction of three compressor stations, etc.);
- “electricity” – due to the plants re-commissioned at the refineries after modernization, as well as increased tariffs in Romania (KMG Int.) and a change in KZT-to-USD exchange rate;
- “other expenses” – mainly in KMTF due to an increase in the scope of works in the Caspian Sea and Open Seas; further, due to an increase in the cost of production works and services due to the maintenance of new units at the modernized refineries and the outsourcing of auxiliary sub-divisions for non-core activities (water supply and water disposal, cleaning and others).

General and Administrative Expenses

mln KZT	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
Payroll	36,736	33,272	3,464	10
Depreciation of VAT reclaimed	11,008	1,126	9,882	878
Consulting services	8,726	10,378	-1,652	-16
Depreciation and amortization	10,737	11,259	-522	-5
Other taxes	5,784	5,176	608	12
Expenses for lease of fixed assets, intangible assets	1,126	2,845	-1,719	-60
Allowance for impairment of trade accounts receivable	2,475	1,861	614	33
Allowance for fines, penalties and tax provisions	3,598	6,472	-2,874	-44
Allowance for impairment of other current assets	8,715	2,273	6,442	283
Social payments	1,965	11,544	-9,579	-83
Other	19,830	22,817	-2,987	-13
Total	110,700	109,023	1,677	2

General and administrative expenses for the reporting period amounted to KZT 110 billion, which is KZT 1.7 billion or 2% higher than in the same period of the last year. The increase was primarily in the following items:

- “payroll” – due to a change in the KZT-to-USD exchange rate (1H 2019 actual – 379.3 KZT/USD, 1H 2018 actual – 326.5 KZT/USD), since payroll of KMG Int. is assessed in foreign currency;
- “depreciation of VAT reclaimed” due to a sale of gas to the domestic market below cost;
- “allowance for impairment of other current assets” due to the expenses for impairment of the accounts receivable from the construction of the Palace of Martial Arts.

The above increase in the expenses was partially offset by a reduction in the expenses in the following items:

- “social payments” – due to expenses in the same period of the last year caused by the termination of employment contracts under the 5/50 program, since ANS group was restructured;
- “allowance for fines, penalties and tax provisions” – reduced mainly due to a revision of environmental damage coefficient for EMG under the resolution of the Committee for Environmental Regulation and Control;
- “expenses for lease” - due to the introduction of IFRS 16 standard on January 1, 2019, a portion of expenses was reclassified as “Depreciation and amortization”;
- “depreciation and amortization” – mainly because Paramax Complex for the Production of Aromatic Hydrocarbons and Deep Oil Conversion Complex were reactivated and put into operation in July 2018 and the relevant expenses for depreciation and amortization were disclosed in the price at cost. This reduction was partially offset by the recognition of a portion of expenses for lease in this item according to IFRS 16;
- “consulting services” – due to a payment of fees to consulting companies in the framework of KMG EP delisting from the London Stock Exchange and technical assessment of the reserves in 2018.

Selling expenses

mln. KZT	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
Rent tax on crude oil exports	68,969	67,348	1,621	2
Customs duty	66,645	58,208	8,436	14
Transportation	189,524	146,662	42,861	29
Payroll	8,200	7,637	564	7
Depreciation and amortization	6,886	5,524	1,362	25
Other	17,899	18,546	-647	-3
Total	358,123	303,924	54,199	18

Consolidated transportation and selling expenses for the reporting period grew by KZT 54 billion or 18%, primarily in response to higher transportation costs due to a higher volume of gas shipped to the PRC. Another factor was an increase in the rent tax and customs duty expenses, mainly due to a change in KZT-to-USD exchange rate (1H 2019 actual – 379.3 KZT/USD and 1H 2018 actual – 326.5 KZT/USD) and a slight increase in the crude oil exports (+38,000 tons).

4.3. Share in JCEs' and associates' profits

mln. KZT	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
TengizchevrOil	223,618	219,804	3,814	2
Mangystau Investments B.V.	46,242	47,517	-1,275	-3
Kazgermunay	11,862	11,436	426	4
PetroKazakhstan Inc.	2,948	8,008	-5,060	-63
KazRosGas	11,243	-403	11,646	-2 890
Kazakhoil-Aktobe	4,908	4,232	676	16
Ural Group Limited	-3,665	-10,436	6,771	-65
Beineu-Shymkent Gas Pipeline	33,840	11,564	22,276	193
Asian Gas Pipeline	67,518	0	67,518	-
Caspian Pipeline Consortium	33,396	24,487	8,909	0
KMG Kashagan B.V.	1,328	14,644	-13,316	-91
Valsera Holding B.V.	-3,389	-6,302	2,913	-46
Teniz Service	8,570	8,198	372	5
Other	6,831	4,570	2,261	49
Total	445,250	337,319	107,931	32

According to the results of the 1st half of 2019, the share of JVs' and associates' profit versus 2018 increased by KZT 108 billion, or 32%.

The main reasons for the increase are:

- TCO – increase in the oil production due to increased average daily capacities of the plants (1H 2019 actual – 82,658 tons/day vs 1H 2018 actual – 81,412 tons/day). Also due to a change in KZT-to-USD exchange rate (1H 2019 actual – 379.3 KZT/USD, 1H 2018 actual – 326.5 KZT/USD);
- KRG - increase in the gas selling price for swap deliveries from April 2019 (weighted average price in 2018 – 65 USD/1,000 m³, in 2019– 78 USD/1,000 m³) and no expenses for the above-limit sponsorship in 2019, since the resolution made by the general meeting of members on July 17, 2015 provided for the above-limit sponsorship for 2014-2018;
- UGL - reduction in the loss due to the elimination of financial expenses capitalized for investment in UGL;
- Beineu-Shymkent Gas Pipeline – increase in the gas transportation for exports by 1,176.5 mln m³;
- AGP - full recovery of the accumulated unrecognized share in the loss and reflection of the AGP indicators in KMG's consolidated financial statements since March 2019;
- CPC - reduction in the interest expenses due to repayment of loans and depreciation expenses;
- Valsera Holding B.V. - additional depreciation based on the results of the audit for 2018.

At the same time, there was a decrease in net profit of PetroKazakhstan Inc. due to the natural decline in oil production, reduced oil export sales and transfer pricing fines and penalties charged. There was also a decrease in KMG Kashagan B.V. due to reduced oil production caused by a scheduled major overhaul during April 15 – May 19, 2019.

For 1H 2019, KMG received KZT 42,306 million in dividends from joint ventures and associated companies, which is by KZT 36,420 million or by 46% less than the same period last year. The main reason for the decrease is payment of dividends from TCO and KazRosGas in 1H 2018.

mln KZT	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
Dividends received from JVs and associates, net value	42,306	78,726	-36,420	-46

4.4. Income tax expenditure

mln KZT	For 6 months ended 30.06.2019	For 6 months ended 30.06.2018	Δ, (+/-)	Δ, %
Current income tax:				
Corporate income tax	71,853	63,449	8,404	113
Excess profits tax	7,342	-3,460	10,802	-212
Tax at source for dividends received	6,485	12,582	-6,097	52
Deferred income tax:				
Corporate income tax	23,409	10,491	12,918	223
Excess profits tax	103	-7,887	7,990	-1
Tax at source for dividends received	33,543	33,638	-95	100
Income tax expenses	142,735	108,812	33,923	131

Over the first six months of 2019, the corporate income tax expense amounted to KZT 143 billion, which is KZT 8,404 billion more than in the same period in 2018. It was mainly caused by a change in the USD-to-KZT exchange rate (1H 2019 actual – 379.3 KZT/USD, 1H 2018 actual – 326.5 KZT/USD) and export gas sales to the PRC.

In the reporting period, the Excess Profits Tax (“EPT”) for the Beineu project and the pre-deferred tax liability for EPT for the Zhambyl project were accrued. In the same period last year, in connection with the inclusion by KMG EP (EMG) of the fixed assets value for deduction, the previously accrued EPT for 2017 was reversed, due to the application of a new approach for calculating the EPT from 2018, which provides for offsetting the accumulated expenses against the income received. Further, the deferred EPT on KMG HO was recalculated, and the withholding tax on the interest on current accounts, deposits, loans issued was accrued, as well as the withholding tax on the equity interests and additional tax on CPC-K. Due to the effect of temporary differences, the amount of the deferred withholding tax on TCO’s dividends at the consolidation level was changed.

4.5. Liquidity and capital expenditures

Debentures

The Group’s net debt was KZT 2,491.3 billion as of June 30, 2019 versus KZT 2,166.5 billion as of December 31, 2018. The increase in the net debt was due to a decrease in cash and their equivalents, mainly due to the discharge of TCO oil prepaid supply obligations.

The Group’s total debt on the raised credits and loans was KZT 3,995.3 billion as at the end of the reporting period, versus KZT 4,153.2 billion as of the beginning of the reporting period. Total debt as of June 30, 2019 decreased by 3.8% versus the figure as of December 31, 2018. Debt was reduced primarily due to the redemption of USD 53.3 million (net equivalent of KZT 20,278.9 million) in favor of DBK, early redemption of KMG’s Eurobonds for USD 30.1 million, and the repayment of loans by Atyrau Refinery in the amount USD 211 million (net equivalent of KZT 73,769.9 million). We also note that against the background of debt reduction, KMG has raised loans to finance working capital within the current credit lines in the amount of about USD 41 million (net equivalent million KZT).

mln KZT	As of 30.06.2019	As of 31.12.2018
Long term portion	3,709,471	3,822,648
Current portion	285,845	330,590
Total debt	3,995,316	4,153,238
Cash and cash equivalents	899,330	1,545,848

Short-term bank deposits and portion of long-term bank deposits	604,713	440,867
Net debt (Total debt – Cash and Short-Term financial Assets)	2,491,273	2,166,523

Liquidity

The Group's cash position decreased over the reporting period from KZT 1,986.7 billion (as of December 31, 2018) to KZT 1,504.0 billion (as of June 30, 2019). The main reason for decline in the cash position was the accelerated depreciation of obligations within the framework of TCO oil prepaid supply deal.

Liquidity and trend outlooks

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

Capital expenditures

The Group's capital expenditures include investment projects, expenditures related to maintaining the current level of production and other expenditures (of an administrative and social nature). In the reporting period, capital expenditures amounted to KZT 167 billion, which is KZT 10 billion less than in 2018.

Capital expenditures broken down by key business areas:

mln KZT	For 6 m. ended 30.06.2019	For 6 m. ended 30.06.2018	Δ, (+/-)	Δ, %
Oil and gas exploration and production	87,104	78,987	8,117	10
Oil transportation	14,348	32,559	-18,211	-56
Gas transportation	40,306	13,161	27,145	206
Processing and sales of crude oil and oil products	20,325	47,722	-27,397	-57
Miscellaneous	4,653	4,657	-5	-0
Total	166,735	177,085,	-10,350	-6

- For 1H 2019, the capital expenditures related to oil and gas exploration and production amounted to KZT 87 billion, which is KZT 8 billion more than for the same period of 2018. Increase in the capital expenditures for the reporting period of 2019 compared to the same period of 2018 was due to the increased costs for the projects of KMG Karachaganak: Removal of gas production bottlenecks of the processing complex; Upgrading of the oil treatment system of the processing complex; Upgrading of the gas processing facility-2 compressors; 4th gas re-injection compressor. Also in the reporting period, cost overruns are related to the increased scope of production drilling, and volumes of the purchase of fixed assets carried over from 2018;
- The decrease in the costs on Oil Transportation is caused by implementation of the following projects: Construction of Three MCV Flat Top Barges for TCO's Future Growth Project and Construction of Three Tugboats for TCO's Future Growth Project by KMTF in 2018. In addition, a lot of pipes were replaced and the trunked radio connection network was upgraded in KTO in 2018;
- The increase in the capital expenditures on Gas Transportation is KZT 27 billion more than the fact in the same period in 2018. This capital cost overrun is caused by the implementation of the following projects: increasing the capacity of the Beineu-Bozoy-Shymkent trunk gas pipeline to ensure gas exports to the PRC up to 10 bln m³/year; expanding the gas storage capacity in "Bozoi" underground gas storage; increasing the capacity of the Bukhara Gas-Bearing Area–Tashkent–Bishkek–Almaty trunk gas pipeline; and construction of a booster compressor station;
- The main reason for the decrease in the costs on Crude Oil and Refined Products Refining and Sales is completion of the Atyrau Refinery modernization project in 2018.

GLOSSARY

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