



KMG MANAGEMENT REPORT ON THE RESULTS OF FINANCIAL AND ECONOMIC ACTIVITIES

for the three months ended March 31, 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.

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1. GENERAL INFORMATION

JSC NC KazMunayGas is a vertically integrated company operating for exploration, production, transportation, refining and marketing of 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 the Decree No.811 of the President of the Republic of Kazakhstan dd. 20 February 2002 and by the Decree No. 248 of the Government of the Republic of Kazakhstan dd. 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 the 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% - 1 share) and the National Bank of the Republic of Kazakhstan (10% + 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 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%)

Significant events within the reporting period

An investment project for modernization of a jackup drilling rig 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 a jackup drilling rig – JUDR;

On 22 February 2019, KMG EP completed their preferred shares buyback program. In total, KMG EP 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, KMG-Retail LLP was sold for KZT 60.5 billion, the financial result of the disposal KZT 17.5 billion;

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;

In pursuance of the Decision of the Management Board of the Fund dated March 30, 2018 (Minutes No. 11/18), a construction project "Palace of Single Combats for 5,000 places in Astana" was transferred to the Corporate Fund "Company for Constructing Objects" under the free of charge transfer of property contract (total amount is KZT 20 billion, including construction in progress for KZT 10.6 billion and funds for KZT 7.4 billion);

In accordance with a Presidential decree, KMG will fund the construction of a 7,000-seat stadium and congress hall in Turkestan for KZT 21 billion;

In the first quarter of 2019 KMG fulfilled its obligations ahead of schedule in the framework of TCO oil advances in amount of USD 160 million over the planned adjusted schedule of obligations in the amount of USD 247 million.

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 3 months of 2019, which influenced the group's operations.

Item	Units	For 3 m. ended 31.03.2019	For 3 m. ended 31.03.2018	Change	
				abs.	%
End-of-period inflation (CPI, in % to the corresponding months of the preceding year)	%	104.8	106.6	-1.8	-1.7
Oil export customs duty	USD/ton	57.4	61.8	-4.4	-7.1
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/bar)	For 3 m. ended 31.03.2019	For 3 m. ended 31.03.2018	Δ, %
Brent	63.13	66.82	-5.6
Urals	63.43	65.22	-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 Kazakhstan dynamics of prices for oil products was determined by a number of factors, the most important of which are crude oil prices, correlation between petroleum products supply and demand, competition, remoteness of sales markets from enterprises, oil refining into end products or intermediate feedstock, seasonal deficit in oil products supplies, particularly in urban areas, because of seasonal agricultural works and associated redistribution of supplies from urban to agricultural areas.

Average world prices for oil products	Unit	For 3 m. ended 31.03.2019	For 3 m. ended 31.03.2018	Δ, %
Fuel oil	USD/ton	392.92	366.36	7.2
Naphtha	USD/ton	472.26	552.80	-14.6
Jet fuel	USD/ton	604.84	629.77	-4.0

Average retail prices for oil product in RK *	Unit	For 3 m. ended 31.03.2019	For 3 m. ended 31.03.2018	Δ, %
AI-95 Gasoline	KZT/ton	165,740	179,111	-7.5%
AI-92 Gasoline	KZT/ton	156,240	171,222	-8.7%
Diesel (summer)	KZT/ton	194,296	156,031	24.5%
Jet fuel	KZT/ton	224,296	202,333	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 in Quarter 1, 2019 exceeded the 2018 prices by more than 10%.

The decline of average annual wholesale prices for high-octane fuels in the internal market of Kazakhstan in Quarter 1, 2019 was about -8% versus 2018. The dynamics of wholesale prices was weakened by gasoline surplus in the domestic market by the end of 2018 and beginning of 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 3 months, as of 31 March 2019 (KZT per 1.00 USD)	378.04	380.04
For 3 months, as of 31 March 2018 (KZT per 1.00 USD)	323.15	318.31

Source: Kazakhstan Stock Exchange

2.3. Oil and gas transportation tariffs

Oil transportation by main pipeline

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

The Group transports high volumes of crude oil supplied for exports and domestic market by main pipelines in Kazakhstan owned by KazTransOil JSC - a subsidiary company. Furthermore, the Group owns 20.75% of share capital in Caspian Pipeline Consortium.

Crude oil is transported through the main pipeline by KazTransOil JSC Group of Companies 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 of Companies 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 (without 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 (without 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 cost of transporting Russian oil for 2019–2023 in the amount of 10 million tons per year 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 in Quarter 1, 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 in Quarter 1, 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 main pipelines of KazTransOil JSC subject to legislative regulations have been approved effective as of October 1, 2015 by the Committee on Regulation of Natural Monopolies and Protection of Competition (order No. 347-OD dated August 21, 2015) as follows:

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

Gas transportation

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

International transit and export tariffs

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

Effective tariffs for gas transportation for transit and export in Quarter 1, 2019 remained the same as in Quarter 1, 2018:

- 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 main and distribution pipelines

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

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

- Intergas Central Asia JSC from January 1, 2017 – KZT 2,212.7 per 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 commercial 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 (Atyrau Refinery, Pavlodar Refinery and Petrokazakhstan oil products) began to utilize 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 now lie with 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 of Companies. 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 business aspects, resulting in optimized refining operations and reduced costs.

In accordance with the Law “Concerning the introduction of amendments and additions to certain entrepreneurial regulatory acts of the Republic of Kazakhstan” 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 3 months of 2019 and the previous similar period are listed below:

Refinery	Unit of measurement	3 m. 2019	3 m. 2018	Δ, %
Atyrau Refinery	KZT/ton	37,436	31,473	19
Pavlodar Refinery	KZT/ton	19,805	17,250	15
Petrokazakhstan oil products	KZT/ton	22,500	16,302	38
CASPI BITUM	KZT/ton	20,022	18,006	11

2.5. Taxation

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

Tax	31.03.2019	31.03.2018	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 emission
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 producer's net income defined as a difference between 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	produced, sold crude oil and gas condensate

Excise rates for 1 ton (in KZT) and duties					
	31.03.2019		31.03.2018		Tax base
	Gasoline (except jet fuel) (EAEU FEACN code 2710 12 411 0-2710 12590 0)	Diesel fuel (EAEU FEACN code 2710 19310 0-2710 19 480 0)	Gasoline (except jet fuel) (EAEU FEACN code 2710 12 411 0-2710 12590 0)	Diesel fuel (EAEU FEACN code 2710 19310 0-2710 19 480 0)	
Oil products excise tax					produced, sold and imported 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 in kind, to pay mineral tax, rental export tax, royalties and share of the Republic of Kazakhstan under the production sharing to the beneficiary on behalf of the State, or if used for own operating needs, a 0.5 decreasing factor is applied to the established rates.

Mineral 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. Additionally, from March 1, 2016, export duties for residual oil were reduced to USD 30 per ton. Based on the oil prices scale, rate of export duties, given the world prices below USD 25 per barrel, is 0, while rate of export duties, given the world oil price above USD 25 per barrel, is determined in accordance with the scale. Rental export tax is calculated based on the rate scale, given the world oil price is above USD 40.

3. GROUP'S OPERATING PERFORMANCE

Operating results	For 3 m. ended 31.03.2019	For 3 m. ended 31.03.2018	Δ, (+/-)	Δ, %
Oil and condensate production, taking into account share in joint ventures (thousand tons)	5,939	5,862	77	1
Gas production, including share in joint ventures (million m ³)	2,173	2,076	97	5
Refining of crude hydrocarbons at own refineries and refineries of joint ventures (thousand tons)	4,901	4,846	55	1
Oil transportation by main pipelines (thousand tons)	16,804	16,711	93	1
Crude oil circulation (million tons* km)	15,659	15,587	72	0
Transportation of oil by sea (thousand tons)	2,856	1,713	1 143	67
Gas transportation by main gas pipelines (mln m ³)	25,881	26,837	-956	-4
Gas transportation operations (billion m ³ * km)	14,018	14,719	-701	-5

3.1. Production of crude oil and condensate

Consolidated oil and condensate production (th.tons)	For 3 m. ended 31.03.2019	For 3 m. ended 31.03.2018	Δ, (+/-)	Δ, %
	5,939	5,862	77	1
Tengizchevroil (20%)	1,521	1,486	35	2
Ozenmunaygas JSC (100%) + Kazakh Gas Refinery (100%)	1,360	1,352	8	1
MangistauMunaiGaz (50%)	783	785	-3	0
Embamunaygas JSC (100%)	715	695	20	3
Kazgermunai JV LLP (50%)	311	337	-25	-8
KMG Kashagan B.V. (50%)	297	237	59	25
Karachaganak Petroleum Operating b.v. (10%)	271	285	-14	-5
Karazhanbasmunai JSC (50%)	267	265	2	1
Petrokazakhstan, Inc (33%)	228	250	-22	-9
Kazakhturkmunai (100%)	101	92	8	9
Kazakhoil-Aktobe (50%)	81	70	10	15
KazTransGas (Amangeldy Gas-100%)	5	6	-1	-19

The consolidated volume of oil and condensate production for the reporting period amounted to 5,939 thousand tons, which is 77 thousand tons more than the same period last year.

The main reasons for growth of volume of oil and condensate production:

- Stabilization of the operation of Kashagan facilities and improving the reliability of working equipment;
- Fault-free operation of equipment of the sour gas injection plant, the second generation plant and the TCO process line complex;
- Hydraulic fracturing at the fields of Embamunaygas JSC;

This increase is partially offset by a decrease in production at the fields of Petrokazakhstan, Inc. and Kazgermunai JV LLP due to depletion of oil deposit, and at Karachaganak Petroleum Operating b.v. due to increased water content and higher gas-oil ratio.

3.2. Gas production

Group's consolidated production of gas (associated and natural) for the reporting period is 2,076 million m³. It is 98 million m³ or 5% more than for the same period of 2018.

Consolidated gas production (associated and natural), mln. m ³	For 3 m. ended 31.03.2019	For 3 m. ended 31.03.2018	Δ, (+/-)	Δ, %
	2,173	2,076	98	5
Tengizchevroil (20%)	829	815	14	2
Ozenmunaygas JSC (100%) + Kazakh Gas Refinery (100%)	164	146	18	13
Karachaganak Petroleum Operating b.v. (10%)	497	499	-2	0
KMG Kashagan B.V. (50%)	182	138	44	32

Consolidated gas production (associated and natural), mln. m ³	For 3 m. ended	For 3 m. ended	Δ, (+/-)	Δ, %
	31.03.2019	31.03.2018		
	2,173	2,076	98	5
MangistauMunaiGaz (50%)	99	101	-1	-1
KazTransGas (Amangeldy Gas-100%)	93	111	-18	-16
Kazakhoil-Aktobe (50%)	83	54	29	55
Kazgermunai JV LLP (50%)	70	75	-5	-7
Embamunaygas JSC (100%)	66	52	14	27
Petrokazakhstan, Inc (33%)	47	50	-2	-5
Kazakhturkmunai (100%)	35	30	5	18
Karazhanbasmunai JSC (50%)	7	5	1	24

Group's consolidated production of gas for the reporting period is 2,173 thousand tons which is 98 thousand tons more than for the same period of previous year.

The main reasons for growth of volume of oil and condensate production:

- Stabilization of the operation of Kashagan facilities and improving the reliability of working equipment;
- Commissioning of an integrated gas treatment unit - 40 at KOA;
- Fault-free operation of equipment of the sour gas injection plant, the second generation plant and the TCO process line complex.

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

3.3. Oil transportation by main pipelines

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

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

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

Consolidated oil transportation by main pipelines by companies (th.tons)	For 3 m. ended	For 3 m. ended	Δ, (+/-)	Δ, %
	31.03.2019	31.03.2018		
	16,804	16,711	93	0.6
KazTransOil CC JSC	11,044	11,138	-94	-0.8
MunaiTas North-West Pipeline Company JSC (51%)	420	472	-52	-11.1
Kazakhstan-China Pipeline LLP (50%)	1,983	1,999	-16	-0.8
Caspian Pipeline Consortium JSC (20.75%)	3,357	3,102	255	8.2
Crude oil circulation (Mt*km)	15,658	15,587	71	0.5
KazTransOil JSC CC	9,326	9,456	-130	-1.4
MunaiTas North-West Pipeline Company JSC (51%)	162	186	-24	-12.9
Kazakhstan-China Pipeline LLP (50%)	1,789	1,849	-61	-3.3
Caspian Pipeline Consortium JSC (20.75%)	4,382	4,095	287	7.0

Consolidated volume of oil transportation by main pipelines for the reporting period is 16,804 thousand tons which is 93 thousand tons more than for the same period of the last year.

The main reason for increase in volumes of oil transportation by main pipelines is an increase in the volumes of oil delivered from Kashagan field to the Caspian Pipeline Consortium pipeline.

At the same time, an insignificant decrease in the volume of oil transportation through the pipelines of KazTransOil JSC, Kazakhstan-China Pipeline LLP and NWPC Munaitas LLP due to: a decrease in production in the Kumkol region; a decrease in the transit of Russian oil in connection with the repair works in the PJSC oil pipeline system "Transneft" in the Russian Federation; there are redistribution of oil volumes through the pipelines of companies according to schedules of the Ministry of Energy of the Republic of Kazakhstan.

3.4. Oil transported by sea

The main operational routes for sea oil transportation are:

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

Consolidated volume of oil transportation by sea on areas (th.tons)	For 3 m. ended	For 3 m. ended	Δ, (+/-)	Δ, %
	31.03.2019	31.03.2018		
	2,856	1,713	1,143	67
Aktau-Makhachkala	185	487	-302	-62
Black Sea	805	325	480	147
Mediterranean Sea	1,866	409	1,457	357
Makhachkala-Baku	0	492	-492	-100

Consolidated volume of oil transportation by sea for the reporting period is 2,856 thousand tons which is 1,143 thousand tons more than for the same period of the last year.

The main reason for 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 Aktau-Makhachkala direction due to the fact that there were additional volumes from shippers for the same period last year. Also, oil transportation in the direction of Makhachkala-Baku was 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 export and gas transportation for domestic consumers.

Consolidated volume of gas transportation (million m ³)	For 3 m. ended	For 3 m. ended	Δ, (+/-)	Δ, %
	31.03.2019	31.03.2018		
	25,881	26,837	-956	-3.6
International transit	12,905	14,173	-1,267	-8.9
Gas export transportation	6,483	5,627	854	15.2
Gas transportation for domestic consumers	6,493	7,038	-545	-7.7
Consolidated volumes of gas transportation (million m³)	25,881	26,837	-956	-3.6
Intergas Central Asia JSC	17,722	18,943	-1,222	-6.4
KazTransGas-Aimак JSC	716	811	-95	-11.8
Asia Gas Pipeline LLP (50%)	5,903	5,938	-34	-0.6
Beineu-Shymkent Gas Pipeline LLP (50%)	1,540	1,145	395	34.5

Total volumes of gas transported decreased by 823 million m³ in the reporting period due to:

- PJSC Gazprom redirection of gas from the Soyuz-Orenburg-Novopskov gas pipeline to the northern regions of the Russian Federation;
- reduction of the transit of Uzbek gas on MG "SATS" by CAC GP;
- short supply of Uzbek gas;
- a decrease in volumes of gas transportation to the domestic market is caused by low gas consumption, due to weather conditions.

The increase in volume of gas transportation for export to the PRC is only partially offsetting the decline in the quarter.

3.6. Hydrocarbon crude refining

- Pavlodar Refinery (entirely owned by KMG): balanced refining capacity is 6 million tons per year, the oil conversion ratio was 83.01% in the reporting period;
- Atyrau Refinery (99.49% belongs to KMG): the designed refining capacity is 5.5 million tons per year, the oil conversion ratio was 73.35% in the reporting period;
- Shymkent Refinery (Petro Kazakhstan Oil Products, 49.72% owned by KMG): project capacity is 6 million tons per year, the oil conversion ratio was 76.52% in the reporting period;

- CaspiBitum (50% owned by KMG): a plant for the production of road bitumen from heavy Karazhanbas oil. The project capacity for refining is 1.0 million tons annually;
- KMG International N.V. (Rompetro Rafinare) includes two refineries, Petromidia and Vega, and the Petrochemicals petrochemical complex (PCC):
 - Petromidia Refinery - (100% share of Rompetrol Rafinare S.A.) The project capacity is 5.0 million tons of oil per year. The PCC is integrated with the Petromidia Refinery;
 - Vega Refinery - (100% share of Rompetrol Rafinare S.A.) project capacity - 500 thousand tons per year. The Vega Refinery is the only company in Romania which is specialized in processing of alternative raw materials (naphtha, heavy hydrocarbon fractions, fuel oil).

Consolidated volume of hydrocarbon raw materials refining taking into account the operating share (th. tons)	For 3 m. ended	For 3 m. ended	Δ, (+/-)	Δ, %
	31.03.2019	31.03.2018		
	4,901	4,846	55	1
Atyrau Refinery LLP	1,263	1,277	-14	-1
Pavlodar Petrochemical Plant LLP	1,381	1,314	67	5
PetroKazakhstan Oil Products LLP (50%)	622	597	26	4
CASPI BITUM (50%)	41	56	-15	-26
KMG International N.V. (Rompetro Rafinare)	1,595	1,603	-9	-1

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

- Atyrau Refinery LLP, Pavlodar Petrochemical Plant LLP, PetroKazakhstan Oil Products LLP - deviation of the actual indicators of Q1 2019 from the same period of 2018 is caused by completion of upgrading at the plants and change in a petroleum basket (increased production of light oils, reduced production of dark oils). The reduction in the Atyrau Refinery is caused by downtime of the catalyst cracker in February and March 2019 because of a lack of applications for shipment of finished motor gasoline from raw materials processors in connection with a gasoline surplus in the oil market;
- CASPI BITUM – scheduled preventive works in January 2019, as well as a reduction in actual applications of processors of Karazhanbasmunai JSC.

3.7. Sale of oil, refined products and gas

Sale of KMG produced oil, thousand tons

thousand tons	For 3 m. ended 31.03.2019			For 3 m. ended 31.03.2018		
	Export	Domestic market	Total	Export	Domestic market	Total
Operating assets*	2,200	1,600	3,800	2,165	1,612	3,777
Mega-projects**	2,122	0	2,122	2,040	0	2,040
Total	4,322	1,600	5,922	4,205	1,612	5,817

* OMG, EMG, Mangistaumunaigas, Karazhanbasmunai, Kazgermunai, PetroKazakhstan Inc., Kazakhoil Aktobe, KTM.

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

Volumes of oil sales for 3 months in 2019 increased by 105 thousand tons versus the same period in 2018. The main growth is observed in TCO, KMG Kashagan B.V., EMG due to an increase in volumes of oil production.

Sale of refined products

In the reporting period, KMG, KMG EP, KMG O, KMG Aero, PR and KMG International N.V. were the companies selling refined products.

thousand tons	For 3 m. ended	For 3 m. ended	Δ, (+/-)	Δ, %
	31.03.2019	31.03.2018		
Wholesale	2,263	2,054	209	10
Light oil products	1,367	1,042	326	31
Dark oil products	272	325	-53	-16
Petrochemicals	70	1	69	5,044
Liquefied gas	51	48	2	5
Misc	504	638	-134	-21
Retail sales	567	510	57	11

Light oil products	534	475	59	12
Liquefied gas	33	34	-1	-4
Misc	1	1	0	-14
Total volume of refined products sale	2,830	2,564	267	10

KMG's sale of refined products

thousand tons	For 3 m. ended 31.03.2019	For 3 m. ended 31.03.2018	Δ, (+/-)	Δ, %
Sale of domestic refined products	1,065	666	399	60
Wholesale distribution*	769	406	363	89
Retail sale	296	260	36	14
KMG's sale of refined products	1,765	1,898	-133	-7
Wholesale distribution	1,494	1,648	-154	-9
Retail sale	271	250	21	8
Total	2,830	2,564	266	10

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

Volumes of refined products sales increased due to wholesale trade of light oil products: gasoline and diesel fuel due to increased production at Kazakhstan refineries owing to completion of refineries modernization.

Gas sale

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

KTG gas sales*(mln.m ³ .)	For 3 m. ended 31.03.2019	For 3 m. ended 31.03.2018	Δ, (+/-)	Δ, %
Sale of gas for export	2,204	1,840	364	20
Sale of gas to the domestic market	5,264	5,421	-157	-3
Total of gas sale amount	7,468	7,261	207	3

The increased volume of gas sales for export is due to additional gas sales to PRC. This growth was partially offset by a decrease in a volume of gas sales to the domestic market due to a decrease in demand because of above average temperatures in Q1, 2019 in all regions of Kazakhstan.

4. GROUP'S FINANCIAL PERFORMANCE

Profit and loss statement

mln tenge	For 3 m. ended 31.03.2019	For 3 m. ended 31.03.2018	Δ, (+/-)	Δ, %
Income from sales of goods and rendering services	1,765,271	1,464,351	300,919	21
Cost of sold products and rendered services	-1,351,183	-1,126,404	-224,778	20
Gross profit	414,088	337,947	76,141	23
General and Administrative Expenses	-40,660	-43,344	2,684	-6
Transportation and selling expenses	-186,973	-148,083	-38,890	26
Depreciation of fixed assets, exploration assets and intangible assets, net	-368	-934	566	-61
Income / (loss) from fixed assets retirement, net	-266	-2,698	2,432	-90
Miscellaneous income/(expenses)	-1,030	2,919	-3,945	-135
Operating profit	184,791	145,807	38,988	27
Positive/(negative) foreign exchange loss, net	3,368	-21,332	24,700	-116
Financial income	29,606	30,309	-703	-2
Financial expenses	-85,393	-80,299	-5,093	6
Profit/(loss) from retirement of subsidiaries	17,481	-	17,481	-
Share of the profit/(losses) of the equity-accounted entities	219,022	164,694	54,327	33
Profit/(Loss) before taxes	368,875	239,179	129,696	54
Corporate income tax expenses	-59,681	-41,018	-18,662	45
Profit/(loss) from discontinuing activities	6	6,050	-6,044	-100
Net income/(loss)	309,200	204,211	104,990	51

4.1. Revenues

Consolidated revenues from sales of products and provision of services

mln tenge	For 3 m. ended 31.03.2019	For 3 m. ended 31.03.2018	Δ, (+/-)	Δ, %
Oil product sales	498,405	444,802	53,603	12.1
Crude oil sales (taking into account the crude oil quality bank)	821,126	673,332	147,794	21.9
Marketable gas sales	249,813	165,698	84,116	50.8
Oil transportation	41,931	39,517	2,413	6.1
Gas transportation	34,228	41,913	-7,686	-18.3
Refinery of oil and gas	50,950	42,313	8,637	20.4
Oilfield services	18,711	15,818	2,893	18.3
Other	50,108	40,958	9,150	22.3
Total revenues from sales of products and provision of services	1,765,271	1,464,352	300,920	20.5

Consolidated volumes of sales of products and provision of services

	Unit of measurement	For 3 m. ended 31.03.2019	For 3 m. ended 31.03.2018	Δ, (+/-)	Δ, %
Oil product sales	Th. tons	2,830	2,564	267	10
Sales of crude oil	Th. tons	4,579	4,178	401	10
Marketable gas sales	Mln. m ³	7,240	7,112	128	2
Oil transportation by trunk pipeline	Th.tons*km	6,154	9,406	-3,252	-35
Gas transportation	Mln. m ³ *km	12,158	14,016	-1,858	-13
Oil refining	Th. tons	1,914	1,854	60	3

Average Sales Prices

	Unit of measurement	For 3 m. ended 31.03.2019	For 3 m. ended 31.03.2018	Δ, (+/-)	Δ, %
Oil product sales	KZT per ton	176,097	173,496	2,601	1.5
Sales of crude oil	KZT per ton	179,319	161,148	18,171	11.3
Marketable gas sales	KZT per th. m ³	34,504	23,299	11,205	48.1
Oil transportation by trunk pipeline	KZT per ton	6,654	3,907	2,747	70.3
Gas transportation	KZT per th. m ³	2,815	2,990	-175	-5.9
Oil refining	KZT per ton	26,620	22,821	3,799	16.6

Crude sale revenues take up a significant share in a structure. The growth in revenues is due to larger volumes of sales and the depreciation of tenge against USD in the reporting period. The main reasons for changes in income from other activities:

- Refined products sales – increase of Platt's quotations for gasoline and diesel fuel and increased volumes of refined products owing to upgrading of the refineries;
- Commercial gas sales – increased gas export to China (by 933 mln. m³) and average selling price of gas for export, particularly to China from USD 173 to USD 234/1,000m³, to Uzbekistan from USD 78 to USD 112/1,000m³. Incomes from gas sales to the domestic market are reduced due to a decrease in gas sales volumes (by 235 mln. m³), as well as average selling price (by KZT 1,765/1,000m³);
- Oil transportation – 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));
- Oil refining – increased refining volumes in accordance with the production plans approved by the Ministry of Economy of the Republic of Kazakhstan and increased tariff for oil refining (Pavlodar Refinery – from KZT 17,289 per ton in 2018 to KZT 19,805 per ton in the reporting period; Atyrau Refinery – from KZT 31 473 per ton in 2018 to KZT 37,436 per ton in reporting period).

Revenues from gas transportation declined due to reduction of export through the contractors of Tengizchevroil and KazRosGas, volume of international transit, as well as volume and tariff of regional transportation.

4.2. Expenditures

Cost of sold products and rendered services

mln. KZT	For 3 m. ended 30.03.2019	For 3 m. ended 30.03.2018	Δ, (+/-)	Δ, %
Materials and supplies	323,349	336,490	-13,141	-4
Crude oil, gas and gas products	743,463	540,839	202,625	37
Payroll	78,599	74,791	3,808	5
Depreciation, depletion and amortization	73,867	57,506	16,361	28
Minerals extraction tax	30,713	25,606	5,108	20
Repair and maintenance	7,803	8,533	-730	-9
Electricity	22,387	20,018	2,369	12
Other taxes	16,892	17,562	-671	-4
Transportation costs	7,311	4,353	2,958	68
Other	46,799	40,706	6,093	15
Total	1,351,183	1,126,404	224,779	20

Consolidated costs for the reporting period have grown by 20% versus the last year. Growth was mainly in such items as "crude oil, gas and gas products", "Depreciation, depletion and amortization", "minerals extraction tax (MET)", "transportation costs" and "payroll".

- Increased rate for crude oil, gas and gas products were driven by larger purchases of crude oil for refining; increase in exchange rate (KZT 323.15 per USD in 2018 and KZT 378.04 per USD in 2019). This increase was partially offset by the cost of oil (Brent price for the reporting period was USD 63.13 per barrel, for 2018 it was USD 66.82 per barrel); The costs for gas purchases also increased as a result of an increase in the average price of gas purchase (KZT 15,652 per thousand m³ in 2019 and KZT 12,647 thousand m³ in 2018) and a slight increase in the volume of gas purchase (in Q1 2019 – 7,209 million m³, in Q1 2018 – 7,109 million m³);

- Depreciation, depletion and amortization were driven upwards by the new plants commissioned at the refineries (as plants were put from temporary shutdown and put back into operation after modernization); as a result of delivery of investment projects and acquisition of new assets; and due to introduction of IFRS 16 “Leases” since January 1, 2019, in accordance with new standard, the lessees shall recognize almost all lease contracts in the balance sheet in order to reflect their right to use an asset for a certain period of time and the corresponding payment obligation. As a result, the leasing costs are reduced and depreciation increases;
- Increase in costs for minerals extraction tax (MET) is mainly due to the increase in the US dollar rate (KZT 323.15 per USD in 2018 and KZT 378.04 per USD in 2019);
- Increase in transportation costs is associated with a transfer of transport divisions of the AtyrauNefteServis reorganized group of companies to trust management, as well as with an increase in the volume of transport services;
- Increase in payroll is caused by indexation of the basic salary of the production staff from January 1, 2019, and the production staff was also increased in view of the implementation of business initiatives and the commissioning of implemented investment projects (transfer from administrative and managerial staff);
- Increase in other expenses was mainly due to an increase in the cost of production works and services due to the maintenance of new installations of modernized refineries and the outsourcing of auxiliary units for non-core activities (water supply and water disposal, transportation services, cleaning and others).

However, there was a reduction in the costs for materials and supplies due to the drawdown of the current stock levels of production materials and polymers.

General and Administrative Expenses

mln. KZT	For 3 m. ended 30.03.2019	For 3 m. ended 30.03.2018	Δ, (+/-)	Δ, %
Payroll	16,775	16,433	342	2
Depreciation of VAT reclaimed	0	-27	27	0
Consulting services	4,193	4,414	-221	-5
Depreciation and amortization	5,307	5,624	-317	-6
Other taxes	3,256	2,111	1,145	54
Charity, donations and sponsorship	4	81	-77	0
Penalties, fines under contracts	24	23	1	0
Expenses for lease of fixed assets, intangible assets	0	1,110	-1,110	-100
Allowance for impairment of trade accounts receivable	1,383	734	650	89
Allowance for fines, penalties and tax provisions	342	377	-35	-9
Allowance for impairment of other current assets	-10	1,305	-1,315	-101
Allowance for depreciation of SMI	-2,667	510	-3,177	-623
VAT that cannot be offset (proportional method)	901	-725	1,626	0
Social payments	909	2,428	-1,519	-63
Other	10,243	8,947	1,297	14
Total	40,660	43,344	-2,684	-6

General administrative expenses for the reporting period amounted to KZT 41 billion, which is 6% less than the similar period of the last year. The main reduction was in the items:

- Allowance for depreciation of SMI – write-off of allowance for accounts receivable for oil products shipped in connection with their sale (fuel oil);
- Reduction of costs for social payments - reduction of administrative and managerial staff due to implementation of business initiatives and commissioning of implemented investment projects, an increase in production staff (transfer from administrative and managerial staff);
- Reduction of costs for lease of fixed assets and intangible assets – mainly due to introduction of IFRS 16 “Leases” since January 1, 2019.

At the same time, this reduction was partially offset by an increase in the following items:

- “VAT that cannot be offset” - in the reporting period of 2018, the amount for VAT adjustment was refunded for OMG ;
- “Other taxes” - property tax due to taking of gas pipelines from the Fund onto the books in the reporting period;
- “Other” - mainly due to the acquisition of emission certificates (environmental obligations).

Selling expenses

mn KZT	For 3 m. ended 30.03.2019	For 3 m. ended 30.03.2018	Δ, (+/-)	Δ, %
Rent tax on crude oil export	34,171	29,060	5,110	18
Customs duty	33,645	29,306	4,339	15
Transportation	100,946	74,316	26,630	36
Payroll	4,237	3,591	646	18
Depreciation and amortization	3,602	2,888	715	25
Other	10,372	8,922	1,450	16
Total	186,973	148,083	38,890	26

Consolidated transportation and sales expenses for the reporting period grew by 26%, in response to higher transportation costs. This growth was driven by a higher volume of gas shipped to China. Another factor for increase in sales expenses was increase in costs for rent tax and customs duty, mainly due to increase in dollar rate (KZT 323.15 per USD in 2018 and KZT 378.04 per USD in 2019) and a slight volumes increase of crude oil sales.

4.3. Share in JCEs' and associates' profits

mn KZT	For 3 m. ended 30.03.2019	For 3 m. ended 30.03.2018	Δ, (+/-)	Δ, %
TengizchevrOil	105,735	104,756	979	1
Asian Gas Pipeline	30,856	0	30,856	-
Mangystau Investments B.V.	23,269	21,342	1,927	9
Beineu-Shymkent Gas Pipeline	23,256	16,867	6,390	38
Caspian Pipeline Consortium	17,520	11,552	5,967	52
Kazgermunay	6,795	6,959	-164	-2
KMG Kashagan B.V.	5,175	9,603	-4,428	-46
Teniz Service	3,653	760	2,893	381
Other	2,244	1,356	889	66
PetroKazakhstan Inc.	1,877	3,585	-1,709	-48
Kazakhoil-Aktobe	1,650	1,600	50	3
KazRosGas	1,637	-5,985	7,622	-127
Ural Group Limited	-1,806	-9,016	7,210	-80
PetroKazakhstan Oil Products	-2,839	1,315	-4,154	-316
Total	219,022	164,694	54,328	33

According to the results of Q1 2019, the share of JVs' and associates' profit versus 2018 increased by KZT 54 billion, or 33%. The main reasons for increase:

- TCO - increase in dollar rate;
- MMG - increase in volumes and prices of oil sales to the domestic market;
- KRG - by reducing the volume of purchases of Russian gas, because implementation was carried out on the domestic market at a fixed price below the purchase price;
- UGL - reduction of loss due to adjustment of capitalized borrowing costs issued by the parent company in Q1 2018;
- Beineu-Shymkent Gas Pipeline – increase in gas sales for export to the PRC;
- AGP - a full recovery in 2018 of the accumulated unrecognized share in the loss and reflection of the AGP indicators in KMG's consolidated financial statements;
- CPC - increase in dollar rate;
- Teniz Service - commissioning of facilities under the Freight Transportation Route project and beginning of the provision of services, an increase in volume of other projects.

At the same time, there was a decrease in PetroKazakhstan and KazGerMunay due to the natural decline in oil production. There was also a decrease in PKOP due to reflection of expenses, mainly on depreciation of fixed assets and interest on loan secured to finance the upgrading project, due to the completion of the project. Decrease in net profit of KMG Kashagan B.V. compared to the same period associated with the write-off of a deferred tax asset in the amount of USD 33.77 million, recognized in the report according to the results of 2016.

For Q1 2019, KMG received KZT 1,696 million in dividends from joint ventures and associated companies, which is by KZT 13,600 million or by 89% less than the same period last year. The main reason for decrease is payment of dividends from KazRosGas for 2017 in Q1 2018 in amount KZT 14,181 million.

mln. KZT	For 3 m. ended 30.03.2019	For 3 m. ended 30.03.2018	Δ, (+/-)	Δ, %
Dividends received from JVs and Associates, net value	1,696	15,296	-13,600	-89

4.4. Income tax expenditure

mn KZT	For 3 m. ended 30.03.2019	For 3 m. ended 30.03.2018	Δ, (+/-)	Δ, %
Current income tax:				
Corporate income tax	28,042	26,689	1,353	5
Excess profits tax	86	-2,764	2,850	-103
Tax at source for dividends received	3,475	3,429	46	1
Deferred income tax:				
Corporate income tax	15,327	14,338	989	7
Excess profits tax	7	-7,590	7,597	-100
Tax at source for dividends received	12,744	6,916	5,828	84
Income tax expenses	59,681	41,018	18,663	45

For the period ended March 31, 2019, the income tax expense of the Company amounted to KZT 59.7 billion, which is 31% higher than in 2018. The growth was caused by increased taxable income due to rise in the exchange rate of national currency from KZT 323.15 per USD to KZT 378.04 per USD. In addition, the calculation of CIT made on advance payments, according to the Tax Legislation of the Republic of Kazakhstan, calculated as one-fourth of the total actual amount of advance payments for the previous year. In the reporting period, 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 allocation of the cost of fixed assets to KMG EP (EMG) 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 accumulated expenses against the income received, the deferred EPT was recalculated by KMG HO. KMG HO accrued and deducted the withholding tax from remuneration on current accounts, deposits, loans issued, and also the withholding tax from capital remuneration and additional tax on CPC-K. Due to effect of temporary differences, an amount of deferred withholding tax was changed from TCO dividends at the consolidation level.

4.5. Liquidity and capital expenditures

Debt liabilities

Group's net debt was KZT 2,356 billion as of March 31, 2019 versus KZT 2,166.5 billion as of December 31, 2018. The increase in net debt was due to a decrease in cash and their equivalents, mainly due to payment schedule of TCO oil advance obligations being accelerated.

Group's total debt on attracted credits and loans was KZT 4,059.6 billion at the end of the reporting period, versus KZT 4,153.3 billion as of the beginning of the reporting period. Total debt as of March 31, 2019 decreased by 2.3% 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) the repayment of loans by Atyrau Refinery is USD 194.1 million (net equivalent of KZT 73,769.9 million). Also, we note that against the background of debt reduction, KMG attracted a loan to replenish working capital within the current credit lines in the amount of about USD 109.5 million (net equivalent of KZT 41,603.4 million).

mln. KZT	As of 31.03.2019	As of 31.12.2018
Long term portion	3,711,336	3,822,648
Current portion	348,226	330,590
Total debts	4,059,562	4,153,238
Cash and cash equivalents	837,390	1,545,848
Short-term bank deposits and portion of long-term bank deposits	866,099	440,867
Net debt (Total debt – Cash and Short-Term financial Assets)	2,356,073	2,166,522

Liquidity

The Group's cash position decreased from KZT 1,978 billion (as of December 31, 2018) to KZT 1,703 billion (as of March 31, 2019). The main reason for decline in the balance of cash during the reporting period was the start of early repayment of obligations in the framework of TCO oil advance.

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 73 billion, which is KZT 8 billion less than in 2018.

Capital expenditures broken down by key business areas:

mn KZT	For 3 m. ended 30.03.2019	For 3 m. ended 30.03.2018	Δ, (+/-)	Δ, %
Oil and gas exploration and production	37,902	29,725	8,178	28
Oil transportation	5,122	16,935	-11,812	-70
Gas transportation	22,829	7,507	15,322	204
Processing and sales of crude oil and oil products	5,126	26,515	-21,389	-81
Miscellaneous	2,234	1,062	1,172	110
Total	73,213	81,744	-8,531	-10

- For Q1 2019, the capital expenditures related to oil and gas exploration and production amounted to KZT 38 billion, which is KZT 8 billion more than for the same period of 2018. Deviation of capital expenditures for the reporting period of 2019 compared to the same period of 2018 was due to increased costs for the projects of KMG Karachaganak: Removing the of production restrictions on gas of the processing complex; Upgrading of the oil treatment system of the processing complex; Upgrading of compressors of the gas plant-2 installation; 4th gas re-injection compressor. Also in the reporting period, cost overruns are related to the phased drilling of producing wells, and transferring volumes of the purchase of fixed assets from 2018;
- Increase in the capital expenditures in the reporting period under Gas Transportation is caused by reflection of KMG's expenses for the investment projects: "Construction of three compressor stations at main gas pipeline Beineu-Bozoi-Shymkent" and "Expansion of gas storage capacity in underground gas storage "Bozoi";
- Decrease in costs under Oil Transportation is caused by implementation of projects: Construction of Three Flat Top Barges of the MSV class for TCO FGP and Construction of Three Tugboats for TCO FGP by KMTF in 2018;
- The main reason for decrease of costs under Crude Oil and Refined Products Refining and Sales is a completion of the project on upgrading the Atyrau Refinery 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
KMG O - KMG-Onimderi JSC
KMTF - LLP “NMSK” Kazmotransflot”
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 CC - corporate centre, central office of JSC NC "KazMunayGas"
MGP – main gas pipeline
MMG – MangistauMunaiGaz LLP
TOP – trunk oil pipeline
RoK's MoE - Ministry of Energy of the Republic of Kazakhstan
MET - minerals 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
PPCP - Pavlodar 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 self-elevating 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