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Economic environment overview

Kazakhstan is a huge and rapidly developing state. The area of the country exceeds 2.7 million km², and the population is 18 million people. Oil and gas areas occupy more than 60% of the country's territory. There are 172 oil fields in Kazakhstan, the oil reserves of which amount to about 1.8% of the world's proven reserves. More than 90% of Kazakh oil reserves are accumulated at 15 largest oil fields.

According to the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, the volume of the gross domestic product produced in January-December 2017 (according to recent reports) amounted to 51.6 trillion tenge and increased by 4% in real terms as compared to the corresponding period of the previous year.

The main macroeconomic factors that affect the Company's financial position include: the behavior of oil prices, inflation rates, exchange rate fluctuations, in particular, KZT/USD exchange rate.

| | 2015 | 2016 | 2017 | Deviation |
|---------------------------------|--------|--------|--------|-----------|
| Brent average price (DTD) | 52.39 | 43.73 | 54.192 | 24% |
| Inflation rate – Kazakhstan (%) | 13.60 | 8.50 | 7.10 | -16 |
| Average exchange rate (KZT/USD) | 222,25 | 341.76 | 326 | -5% |

In 2017, a positive situation was observed in world markets. The average price for Brent crude oil increased by 24% for the year. An important positive factor in the medium term was the agreement of OPEC countries for the limitation of production. Another important factor was the events in the Middle East.

According to the Ministry of Energy of the Republic of Kazakhstan, oil production in Kazakhstan in 2017 amounted to 86.2 million tons, or 110.5% to the level of 2016 and 102% against the plan. Data for three largest projects: Kashagan – 8.3 million tons, TCO – 28.7 million tons (104.1% to the level of 2016) and Karachaganak – 12.5 million tons (109.5% to the level of 2016). In 2018, it is planned to produce 87 million tons of oil.

Oil exports in 2017 reached the level of 69.8 million tons and increased by 12.4% against the level of 2016. The key destinations of Kazakh oil supply are given in the Table below.

Oil supply destinations in 2017

| Destination | Thousand tons | % to 2016 |
|-----------------------------------|---------------|-----------|
| Atyrau-Samara | 15,368.0 | 106.9 |
| Orenburg Gas Processing Plant | 624.20 | 83 |
| Caspian Pipeline Consortium (CPC) | 49,636.3 | 121.6 |
| Atasu – Alashankou | 2,291.0 | 74.6 |
| Sea Port | 1,192.3 | 54.3 |
| Railway | 670.0 | 75.4 |

In 2017, the volume of refining at refineries amounted to 14.9 million tons of oil or 102.8% to 2016 and 102.6% to the plan for the past year. In 2018, the volume of oil refining is planned at the level of 15.8 million tons.

The volume of gas production amounted to about 52.9 bcm, which is 114% to the level of 2016 or 110% to the plan for 2017. In 2018, the planned volume of gas production is 53.4 bcm.

Exports of the republican gas amounted to 17.3 bcm or 126.3% against the level of 2016. In 2017, Kazakhs gas was exported for the first time to China. The volume of supplies amounted to 1.1 bcm. In 2018, it is planned to expand economic cooperation between Kazakhstan and China and increase gas exports to 10 bcm.

Kazakhstan produced 2.9 million tons of liquefied gas (108.2% to 2016) and 31.6 bcm of commercial gas (110.9% to 2016).

Operating results

Oil production

EMG has eight contracts for oil exploration and production at 43 fields, of which 33 oil and gas fields are at the development stage and nine fields are yet to be developed (Tazhigali, Iskine, Dossor, Makat, Tyulyus, Komsomolsky, Sagiz, Bek-Beke, Tanatar), one field is under the pilot development.

The operating well stock as of January 1, 2018 amounted to 2,237 wells, including 2,107 operating wells, 65 non-operating wells, 60 wells waiting for physical abandonment and five wells at the stage of development. The operating injection well stock as of January 1, 2018 was composed of 455 wells, including 410 operating wells, 37 non-operating wells and eight wells waiting for physical abandonment.

The plan provides for the commissioning of 45 new oil wells. In fact, 41 oil wells were put into operation in full. As of January 1, 2018, two wells were under development (No. 534, No. 538 named after S. Nurzhanov), two wells were completed by drilling. Oil production at new wells for 2017 amounted to 51.96 thousand tons with a plan of 69.175 thousand tons. Non-fulfillment of the plan was due to the late start of operations and prolongation of the period of well development.

286 wells were overhauled. Well heads of 54 wells were re-equipped.

Most of the Company's fields are at a late stage of development, and a share of hard-to-recover deposit reserves is constantly growing. Stabilization of the oil production level in recent years has been achieved through the use of a set of measures: new well drilling, overhaul and current repair of wells, systemic operation of the well stock, increasing the operating factor, increasing a well workover interval, introduction of advanced technologies and optimization of the field development system.

Today, in order to increase the oil recovery factor, Embamunaygas JSC, along with traditional methods of increasing oil recovery, applies new technologies with the involvement of leading Kazakhstan research institutes. New technologies are actively introduced to increase a well workover interval.

Oil production within Embamunaygas JSC was planned for 2017 in the amount of 2,840,000 tons, and the actual production reached the level of 2,840,015 thousand tons (100% fulfillment). 0.015 thousand tons of oil were produced above the plan. At the same time, an average daily oil production rate amounted to 7.780 thousand tons/day. Oil delivery for 2017 was fulfilled by 100%: 2,805,867 tons of oil were delivered with the plan of 2,805,850 thousand tons. 0.017 thousand tons of oil were delivered above the plan.

