

## Overview of financial performance

*This section is based on the audited financial statements of the Company.*

### Basic financial indicators, million tenge

Indicator	2013	2014	2015	2016	2017			
	Fact	Fact	Fact	Fact	Plan	Fact	Deviation	%
<b>Oil production, thousand tons</b>	2 841	2 823	2 823	2 832	2 840	2 840	0	0
<b>Revenue (income)</b>	330 098	344 675	198 113	243 517	274 016	309 747	35 731	13
Cost of sales	-96 443	-119 229	-94 991	-95 772	-119 333	-121 290	-1 957	2
<b>Gross income</b>	233 655	225 446	103 121	147 745	154 683	188 457	33 774	22
General and administrative expenses	-5 190	-15 738	-24 542	58	-10 391	-9 896	-794	8
Transportation and sales expenses	-120 443	-135 071	-75 869	-70 366	-95 171	-102 991	-8 120	9
<b>Profit (loss) from operating activities</b>	108 022	74 638	2 711	77 437	49 121	75 570	26 448	54
Net financial income/(expenses)	-1 045	-2 714	303	312	-2 446	461	-1985	-81
Other net income /(loss)	-135	20 538	62 905	-586	0	-482	-482	0
<b>Income/(loss) before tax</b>	106 841	92 462	65 919	77 164	46 675	75 548	28 873	62
Corporate income tax expenses	-31 854	-20 225	-20 457	-15 803	-11 698	-19 425	-7 727	66
<b>Income for the year</b>	74 987	72 237	45 462	61 360	34 977	56 123	21 146	60

In 2017, the Company's revenue grew by 27% against the level of 2016 or 13% to the planned figure. Overachievement of the revenue targets is mainly due to the growth of exports, which in turn is associated with an increase in world oil prices (compared to the target level, on average, by 20.4%). The revenue growth was observed despite a decline in the USD exchange rate by 9.4% against the indicator envisaged in the calculation of the planned values (326 tenge per US dollar with the planned figure of 360 tenge per US dollar).

At the same time, net profit exceeded the planned values by 60% and amounted to 56.1 billion tenge by the end of 2017.

## Sales

### Oil sales volume and sales prices

Indicator	2013	2014	2015	2016	2017
<b>Export oil sales</b>					
<i>KTO</i>					
Sales, million tenge	231,099.26	236,808.79	118,432.35	126,832.45	187,983.24
Volume, thousand tons	1,970.32	1,920.20	1,571.33	1,225.76	1,526.40
Average selling price, thousand tenge/ton	117.29	123.33	75.37	103.47	123.15
<i>CTC</i>					
Sales, million tenge	97,110.31	106,151.97	60,766.98	92,944.40	101,250.01
Volume, thousand tons	811.98	816.30	766.25	859.51	791.65
Average selling price, thousand tenge/ton	119.60	130.04	79.30	108.14	127.90
<b>Total oil exports, million tenge</b>	<b>328,209.57</b>	<b>342,960.76</b>	<b>179,199.33</b>	<b>219,776.85</b>	<b>289,233.25</b>
<b>Total oil exports, thousand tons</b>	<b>2,782.30</b>	<b>2,736.50</b>	<b>2,337.58</b>	<b>2,085.27</b>	<b>2,318.05</b>
<b>Oil sales to the domestic market</b>					
<i>PPCP</i>					
Sales, million tenge	-	-	7,783.32	18,549.09	13,582.94
Volume, thousand tons	-	-	210.36	609.05	357.96
Average selling price, thousand tenge/ton	-	-	37.00	30.46	37.95
<i>Atyrau Refinery</i>					
Sales, million tenge	-	-	9,805.00	3,731.72	4,601.52
Volume, thousand tons	-	-	265.00	117.00	121.00
Average selling price, thousand tenge/ton	-	-	37.00	31.90	38.03
<i>Crude oil</i>					
Sales, million tenge	38.84	12.21	5.52	8.99	6.39
Volume, thousand tons	0.86	0.26	0.10	0.10	0.10
Average selling price, thousand tenge/ton	45.21	47.09	58.00	58.00	62.00
<b>Total sales to the domestic market, million tenge</b>	<b>38.84</b>	<b>12.21</b>	<b>17,593.84</b>	<b>22,289.80</b>	<b>18,190.85</b>
<b>Total sales to the domestic market, thousand tons</b>	<b>0.86</b>	<b>0.26</b>	<b>475.46</b>	<b>726.21</b>	<b>479.06</b>
<b>All selling destinations, million tenge</b>	<b>328,248.41</b>	<b>342,972.97</b>	<b>196,793.17</b>	<b>242,066.65</b>	<b>307,424.10</b>
<b>All selling destinations, thousand tons</b>	<b>2,783.16</b>	<b>2,736.76</b>	<b>2,813.04</b>	<b>2,811.48</b>	<b>2,797.11</b>

Oil is sold both for the domestic market and for export. According to the Rules of the Ministry of Energy of the Republic of Kazakhstan, oil is primarily delivered to domestic refineries, namely Pavlodar and Atyrau Refineries. Oil is exported along two main routes: through the Caspian Pipeline Consortium and Uzen – Atyrau – Samara pipelines. These pipelines lead to Novorossiysk sea port, the Krasnodar Territory, the Russian Federation, while CPC transports



oil to the CPC sea terminal in South Ozereyevka village (Novorossiysk, RF), and Uzen – Atyrau – Samara pipeline leads to the Sheskharis transshipment complex (Novorossiysk, RF). Upon completion of transportation to the terminals, oil is loaded onto tankers for dispatch to customers.

In 2017, the volume of sales in all directions decreased by an insignificant 1% and amounted to 2.8 million tons. At the same time, the volume of sales in monetary terms increased by 27% due to the price factor and reached the level of 307 billion tons.

The volume of exports in physical terms increased by 11%, in monetary terms – by 32%. In the past year, 66% of exports accounted for KTO; the average selling price in this direction increased by 19% and amounted to 123.15 thousand tenge/ton. 34% of export sales accounted for CPC. The average cost of sales increased by 18% to 127.9 thousand tenge/ton.

In 2017, export deliveries were increased due to the improvement in the global market environment. The volume of sales in the domestic market in 2017 decreased by 34% in physical terms and by 18% in monetary terms.

## Commercial gas sales

Sales of commercial gas of EMG JSC are carried out in accordance with Article 15 of the Law of the Republic of Kazakhstan No. 532-IV dated January 9, 2012 “On Gas and Gas Supply”. The pre-emption right of the state is exercised through the national operator, KazTransGas JSC. In accordance with the Order of the Minister of Energy of the Republic of Kazakhstan No. 121 dated November 13, 2014 “On approval of the Rules for determining the price for sour and commercial gas acquired by the national operator under the pre-emption right of the state”, the Company sold commercial gas to the national operator at prices not exceeding the limit approved by the Ministry of Energy of the Republic of Kazakhstan. Embamunaygas JSC carries out gas treatment at two gas treatment plants and one complex gas treatment plant. Two gas treatment plants located at S. Balgimbayev and East Makat fields are used to treat commercial gas that meets the natural gas needs of the population of Isatay, Kzylkogy and Makat regions of Atyrau region. Commercial gas from Prorva gas treatment plant (Prorva group of fields) is transported to the Central Asia-Center main gas pipeline.

No.	Destination	Unit of measurement	2015	2016	2017	2018* plan
1	KazTransGas JSC	thous. m <sup>3</sup>	5,142.08	5,360.69	8,482.24	93 204,69

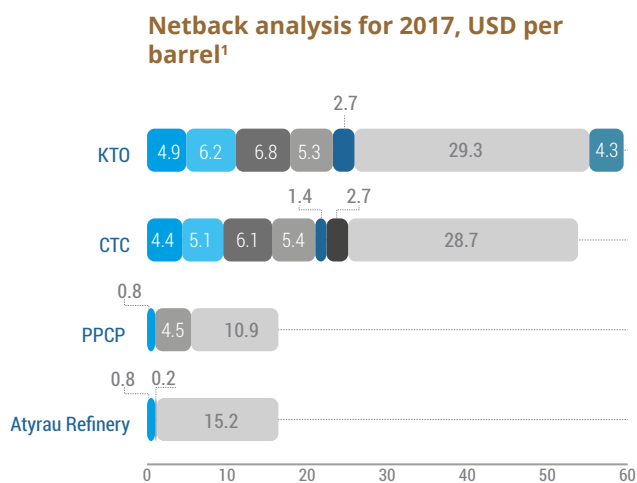
## Cost

### Cost analysis, million tenge

Indicator	2017	2016	Change, %
Employee benefits	45,474	42,572	7
Mineral extraction tax	27,544	18,871	46
Depreciation, depletion and amortization	16,987	16,879	1
Repair and maintenance services	10,622	9,140	16
Change in the provision for environmental obligation	6,270	-	-
Materials and inventories	3,393	3,150	8
Electric energy	2,705	2,705	0

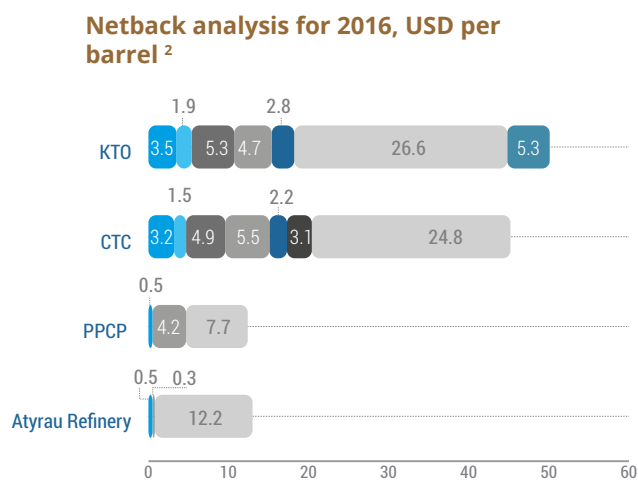
Indicator	2017	2016	Change, %
Transport expenses	1,810	1,392	30
Property tax	1,471	1,484	-1
Commercial discovery bonus	-49	-945	-95
Reduction in assets retirement obligations exceeding the capitalized asset amount	-778	-3,733	-79
Other	6,510	3,662	78
<b>Total cost</b>	<b>121,290</b>	<b>95,772</b>	<b>26,6</b>

The cost of sales in 2017 increased by 26.6% to the level of 2016 or by 25.5 billion tenge. The growth was caused by an increase in mineral extraction tax expenses by 8.7 billion tenge and an increase in employee benefits by 2.9 billion tenge. In addition, in 2017 the Company recognized an additional environmental obligation to clean oil contaminated areas at oil fields for a total amount of 6.3 billion tenge. The amount of provision is equal to the present value of estimated future expenses of 9.1 billion tenge with a discount rate of 10% and a term up to 2023. In general, the cost level in 2017 was practically within the planned values.



<sup>1</sup> Average price Brent 54.192

- MET
- Rental tax
- ECD
- Transportation



<sup>2</sup> Average price Brent 43.73

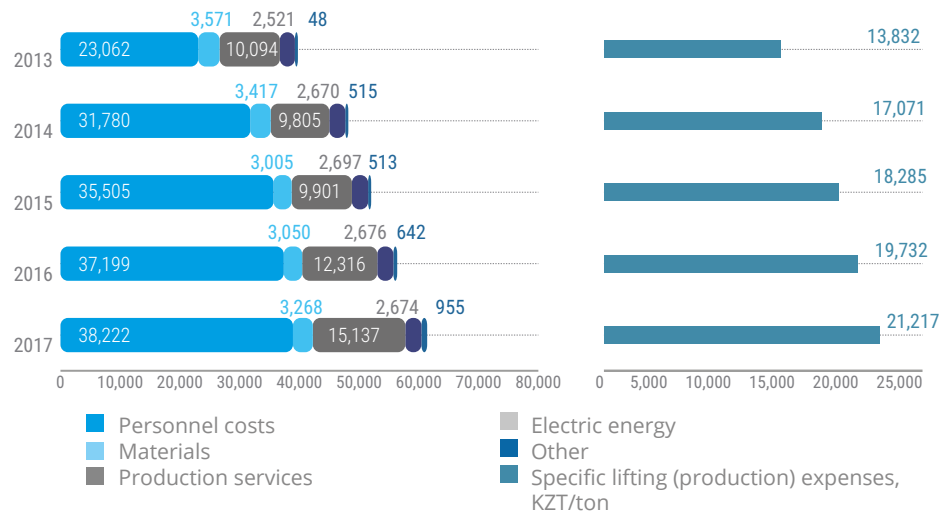
- Discounts
- Quality bank
- Netback
- Barrelization Prize

## Lifting

In 2017, specific lifting, which is calculated as a ratio of operating costs to production, amounted to 21.2 thousand tenge per ton and increased by about 7,5% to 2016. 63% of operating costs for 2017 are personnel costs, 25% – costs for production services, 5% – material costs, 4% – electricity costs.

The specific cost of one ton of oil in 2017 amounted to 41.9 thousand tenge and increased by 25% against the level of 2016.

### Lifting costs, mln tenge



## Selling expenses, general and administrative expenses

### Selling expenses, general and administrative expenses, million tenge

Indicator	2017	2016	Change, %
Export customs duty	36,586	27,573	33
Transport expenses	33,907	33,438	1
Rent tax	32,584	9,396	247
Employee benefits	4,018	3,858	4
Depreciation, depletion and amortization	3,048	1,016	200
Repair and maintenance services	432	364	19
Sponsorship	324	288	12
Agency fee for sales	214	232	-7
Consulting and auditing services	106	61	72
Fines and penalties	47	-165	-129
Property tax	39	40	-2
Reversal/provision for doubtful accounts receivable	-144	573	-125
Other	2,972	1,055	182
<b>Total expenses</b>	<b>114,132</b>	<b>77,730</b>	<b>47</b>

Selling and administrative expenses in 2017 increased by 47% or by 36.4 billion tenge. The growth was affected by an increase in rental tax by 23.2 billion tenge and the growth of export customs duties by 9 billion tenge. Transportation costs, which account for almost 30% of selling and administrative expenses, remained practically unchanged in 2017 having increased by 1%. Employee benefits increased by 4%.

## Taxation

### Tax expenses, except for income tax, million tenge

Indicator	2017	2016	Change, %
Rent tax	32,584	9,396	247
Export customs duty	36,586	27,573	33
Mineral extraction tax	27,544	18,871	46
Property tax	1,510	1,525	-1
Environmental pollution tax	708	613	15
Other taxes	201	-756	-127
<b>Total taxes, excluding corporate income tax</b>	<b>99,133</b>	<b>57,222</b>	<b>73</b>

### Income tax expenses, million tenge

Indicator	2017	2016	Change, %
Income before tax	75,548	77,164	-2
Income tax expenses	19,425	15,803	23
Effective tax rate	26%	21%	24

In 2017, the volume of taxes, except for corporate income tax, increased by 70% and exceeded 102 billion tenge. Rent tax increased more than three times and amounted to 32.6 billion tenge, export customs duty increased by 33% to 36.7 billion tenge, mineral extraction tax expenses increased by 46% to 27.5 billion tenge. The growth of taxes was affected by an increase in exports and rise in oil prices.

Income tax expenses in 2017 increased by 23% to 19.4 billion tenge. The growth was associated with income tax savings in 2016, while profit before tax in 2017 decreased by 2%. The effective tax rate reached the level of 26%.

## Capital and liquidity

### Statement of financial position, million tenge

Indicators	As of December 31, 2017	As of December 31, 2016	Change, %
<b>Assets</b>			
<b>Long-term assets</b>			
Fixed assets	<b>173,028.95</b>	164,010.87	5
Intangible assets	<b>15,045.69</b>	8,463.86	78
Other financial assets	<b>32,258.45</b>	33,599.22	-4
Deferred tax assets	<b>10,415.90</b>	6,875.62	51
Advances paid for long-term assets	<b>1,670.72</b>	421.48	296
<b>Total long-term assets</b>	<b>232,419.71</b>	213,371.04	9
<b>Current assets</b>			
Inventories	<b>7,272.09</b>	6,464.32	12
Income tax prepayment	<b>772.88</b>	11,635.16	-93
Prepayment for taxes and VAT recoverable	<b>12,244.84</b>	5,262.31	133
Advances paid and expenses of future periods	<b>2,819.25</b>	5,615.36	-50
Trade and other accounts receivable	<b>35,948.75</b>	33,336.07	8
Other financial assets	<b>31,884.02</b>	57,239.30	-44
Cash and cash equivalents	<b>73,423.07</b>	51,900.43	41
<b>Total current assets</b>	<b>164,364.90</b>	171,452.95	-4
<b>Total assets</b>	<b>396,784.61</b>	384,824.00	3



Indicators	As of December 31, 2017	As of December 31, 2016	Change, %
<b>Capital</b>			
Authorized capital	<b>162,399.82</b>	162,399.82	0
Retained earnings	<b>157,246.24</b>	162,758.74	-3
<b>Total capital</b>	<b>319,646.06</b>	325,158.56	-2
<b>Liabilities</b>			
Long-term liabilities			
Historical liabilities	<b>1,807.47</b>	3,844.38	-53
Reserves	<b>23,530.09</b>	16,971.54	39
<b>Total long-term liabilities</b>	<b>25,337.56</b>	20,815.92	22
<b>Current liabilities</b>			
Historical liabilities	<b>2,623.49</b>	2,428.82	8
Reserves	<b>8,413.48</b>	6,846.07	23
Mineral extraction tax and rent tax payable	<b>17,947.34</b>	8,570.50	109
Trade and other accounts payable	<b>22,816.67</b>	21,004.13	9
<b>Total current liabilities</b>	<b>51,800.99</b>	38,849.52	33
<b>Total liabilities</b>	<b>77,138.55</b>	59,665.43	29
<b>Total liabilities and capital</b>	<b>396,784.61</b>	384,824.00	3

In 2017, the Company's assets increased by 3% and amounted to 396.8 billion tenge. The volume of long-term assets is 59% of the total balance. In the structure of liabilities, equity accounts for 81%, while liabilities amount to 19% of the total balance, including current liabilities – 13%.

In 2017, the Company's financial assets were represented by accounts receivable (35.9 billion tenge), cash and cash equivalents (73.4 billion tenge) and other financial assets in the amount of 64.1 billion tenge. Financial liabilities were represented by historical obligations (5.4 billion tenge) and accounts payable (22.8 billion tenge). The Company needs financial resources for maintaining operating activities and making investments. To date, the Company has the necessary liquidity cushion and its financial position is assessed as sustainable.

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and amounted to **396.8 billion tenge.**

