03

MANAGEMENT REPORT

BUSINESS ENVIRONMENT REVIEW

The main macroeconomic factors affecting the financial position of the Company include the dynamics of oil prices, inflation rates, fluctuations in exchange rates, in particular, the KZT-to-USD exchange rate.

	2016	2017	2018	Variance
Average dated Brent price (DTD)	43.73	54.19	71.31	32 %
Inflation rate – Kazakhstan (%)	8.50 %	7.10 %	5.3 %	−2.1 bp
Average exchange rate (KZT to USD)	342.16	326.00	344.85	6 %

In 2018, oil quotes continued growing, as a result, the average dated Brent price increased by 32 %. The factors driving up the prices for most of 2018 were sanctions against Iran, an OPEC-plus agreement to cut production rates, and increased global oil demand. However, oversupply and lowered forecasts for oil demand due to a slowdown in the global economy led to a decrease in quotations by the end of the year. It is expected that the pressure on oil quotes will remain the same in 2019.

According to the Ministry of Energy, Kazakhstan produced 90,360 thous. tonnes of oil in 2018, which is 4.8 % more than in 2017 and is a historical maximum. The growth was secured by an increase in production at the three largest fields: Kashagan, Tengiz and Karachaganak. Oil production from the three large projects amounted to approximately 54 million tonnes, including 13.2 million tonnes at the Kashagan Field (120 % of the 2018 plan), 28.6 million tonnes at Tengiz, and 12.2 million tonnes at Karachaganak. In 2019, the production rates are expected to amount to 89 million tonnes of oil, which is mainly due to the reduced production at the old fields, and the expected overhaul of large fields.

In 2018, some legislative reforms took place to improve the appeal of investment in the oil and gas sector and increase the resource base. Changes in the Tax Code and the Code on Subsoil and Subsoil Use have already been put into effect and are yielding results.

OPERATING RESULTS

Oil Production

Hydrocarbon prospecting and exploration, field development and oil production are carried out under eight of the following subsoil use contracts: Kenbay Field (Contract No. 37), Novobogatinsk South-East Field (Contract No. 61), 22 fields (Contract No. 211), three fields of the Taisoigan Block (Contract No. 327), Liman Block (Contract No. 406), 14 fields (Contract No. 413), Novobogatinsk West Field (Contract No. 992), Karaton-Sarkamys Block (Contract No. 3577).

As of January 1, 2019, Embamunaigas JSC had 45 fields with oil reserves in categories A+B+C_1 totaling:

- original oil-in-place – 619,518 thous. tonnes,
- original recoverable oil reserves – 254,912 thous. tonnes,
- remaining recoverable oil reserves – 74,304 thous. tonnes;
- cumulative production – 180,608 thous. tonnes;
- current ORF – 29.2%.

including from 33 fields under development:

- original oil-in-place – 572,664 thous. tonnes;
- original recoverable oil reserves – 236,108 thous. tonnes;
- remaining recoverable oil reserves – 70,936 thous. tonnes;
- cumulative production – 165,172 thous. tonnes;
- current ORF – 28.8%.

Nine fields are temporary abandoned, they are Dossor, Iskine, Tanatar, Komsomolsk, Bek-Beke, Sagiz, Makat, Tyulyus, Tazhigali. Three fields are under exploration, they are Novobogatinsk Central, S. Nurzhanov (northwestern wing), Uaz North.

In QI 2018, the State Commission on Mineral Reserves of the Republic of Kazakhstan (SCMR RK) recorded the preliminarily estimated reserves from the S. Nurzhanov (northwestern wing), Novobogatinsk Central Fields on the state register of reserves, and Uaz North in QIII 2018, which were put into trial operation.

By the end of the reporting year, the cumulative production at the 33 fields under development amounted to more than 165 million tonnes of oil and about 71 million tonnes of remaining recoverable oil reserves, i.e. 70% of the recoverable oil reserves have been produced today.

However, more than 40% of remaining recoverable oil reserves (about 32 million tonnes) are hard-to-recover reserves, concentrated mainly in reservoirs with high-viscosity oil of Cretaceous deposits, such as Kenbay (Moldabek East Site), Karsak, Teren Uzyuk, etc., as well as in low-permeable Triassic deposits (S. Nurzhanov Field, etc.).

The rest 60% of remaining oil reserves, the so-called "active reserves", are mainly in the fields that are in the final stages of development and are characterized by a high degree of depletion (more than 85%) and high water content.

At the operating fields, the Company produces oil and intensifies production through the introduction of new technologies to increase the oil recovery factor.

As of January 1, 2019, the operating stock of injection wells amounted to 454 wells, of which 427 active wells, 23 inactive wells and 4 wells to be abandoned.

Oil Production in 2018

2,895.332

thous. tonnes

As of January 1, 2019, there were 7,490 wells drilled at the fields, of which 4,221 abandoned wells, 50 intake wells. There are 236 monitoring wells. The operating stock consists of 2,217 producing wells and 454 injection wells. There are 2,144 oil wells and 427 injection wells in the operating fund. There are 57 inactive oil wells, 11 wells to be abandoned, five wells under development. There are 23 inactive injection wells and four inactive wells to be abandoned.

Since the share of hard-to-recover reserves of fields is steadily growing, one of the main tasks is to stabilize the oil production rates, which is achieved by applying a set of measures, such as drilling new wells, major and current well overhauls, systematic work with the well stock, increasing the operating rate, extending the time between overhauls, implementing advanced technologies and optimizing the field development system.

In order to increase the oil recovery factor, along with conventional methods to improve the oil recovery, Embamunaigas JSC currently applies new technologies with the involvement of leading research institutes of Kazakhstan. New technologies are being actively introduced to extend the time between overhauls (TBO) of well operation.

The expected volume of oil production for 2018 was exceeded by about 332 tonnes, and the total production amounted to 2,895,300 tonnes. The average daily oil production was 7,932 tonnes per day. The plan for 2019 has been maintained at 2,895 thous. tonnes.

Oil Production within Embamunaigas JSC, tonnes

Company	2016	2017	2018			2019
	Actual	actual	Plan	Actual	Var.	Plan
Embamunaigas JSC	**2,832.008**	**2,840.015**	**2,895.000**	**2,895.332**	**0.332**	**2,895.000**
Including at OGPO of:						
Zhaiykmunaigas	954.171	953.679	944.063	944.153	0.090	935.142
Zhylyoimunaigas	989.14	1,034.925	1,109.707	1,109.859	0.152	1,123.595
Dossormunaigas	404.283	371.531	366.430	366.473	0.043	362.224
Kainarmunaigas	484.414	479.880	474.800	474.847	0.047	474.039

Associated Petroleum Gas Production

Associated petroleum gas is produced at 25 fields of Embamunaigas JSC.

Associated Petroleum Gas Production, mln m^3

Indicators	2016	2017	2018		
	Actual	Actual	Plan	Actual	Var.
Production	191.649	199.756	219.845	221.228	1.4

Geological Exploration

Considering the fact that 60% of the remaining recoverable oil reserves are in the fields that are in the final stages of development, it becomes more and more difficult for the Company from year to year to keep the annual level of oil production in the amount of 2.9 million tonnes and, in particular, to increase it; in order to solve this task, an expanded replenishment of oil reserves through the intensified geological exploration is required. In this regard, the Company has recently intensified geological exploration, both within the developed fields, and within the promising structures of the pre-salt and inter-salt (subsalt) sediment complexes within the exploration blocks.

In the reporting year, 2D CDPM seismic surveys were conducted at the Emba-5 Site in Aktyubinsk Region, data processing and interpretation of the results of the work performed is currently being carried out, and if the Site is promising, it will be decided to study it further.

In 2018, 3D CDPM field seismic exploration began at the Karaton-Sarkamys (Contract No. 3577) and Taisoigan (Contract No. 327) Exploration Blocks, the work to be completed in 2019. Re-processing, reinterpretation of 3D CDPM data at the Karaton-Sarkamys Block is underway in order to identify new promising sites in the super-salt complex and clarify the distribution of reservoir deposits.

In order to clarify the geological structure and search for oil and gas deposits, six exploration wells were drilled in the supra-salt and subsalt deposits – Botakhan No. 301, Novobogatinsk West No. 22, No. 24, Karaton 601, Zhanatalap 305, Teren-Uzek East G-1; the planned surveys are in progress.

There are three wells under drilling – G-1 in Tazhigali, G-1 in Aktobe West, G-10 in Baytobetaral.

NEN-33 and NNE-3 were drilled and tested, and inventory of 2017 was verified.

Mining allotments were obtained for subsoil use operations at the S. Balgimbayev, Zhanatalap, Kamyshitov Southeast, Kamyshitov Southwest Fields (Reg. No. 319-D-UVS dated March 14, 2018), Novobogatinsk Southeast (supra-salt) (Reg. No. 321 D-UVS dated April 24, 2018), Novobogatinsk West (Reg. No. 330 D-UVS dated November 20, 2018). The increment of recoverable oil reserves, taking into account the expansion of mining allotments of deposits, amounted to 4,295 thous. tonnes.

In 2018, the fulfillment of valid long-term contracts continued: Geochemical Studies of Oil and Core Samples; Programs for the Development of Associated Gas Processing at Fields during Trial Operation; Seismic Data Storage, Data Bank and Technical Services for Embamunaigas JSC; Storage and Transportation of Core Material at Embamunaigas JSC; Research and Study, Analysis of Core Material at Embamunaigas JSC.

In addition, within the competence of the Exploration Department and the New Project and Subsoil Use Department, a great deal of work was done on negotiations with the sole shareholder in terms of obtaining the approval of the Investment Committee for exploration volumes, coordination and approval of changes in contractual obligations (Addenda to the Contracts) with the Committee of Geology and Subsoil Use of the Ministry of Investment and Development of the Republic of Kazakhstan (Notifying Authority), Ministry of Energy of the Republic of Kazakhstan (Competent Authority).

Conducting exploration operations under existing and new contracts will contribute to the formation of a long-term resource base.

CAPITAL EXPENDITURES

Capital Expenditures in 2018

44,201

mln KZT

In 2018, the Company's capital expenditures amounted to 44.2 billion KZT, and grew by 16% vs. 2017. 31% of expenditures were taken by construction work due to the implementation of large investment projects. 28% accounted for the acquisition of fixed assets. A bit more than 20% of capital expenditures (9.3 billion KZT) were taken by development drilling; expenditures for exploration drilling amounted to approximately 8.2 billion KZT, or 18% of CAPEX.

Capital Expenditures, mln KZT

Investment items	2014	2015	2016	2017	2018
Construction operations	12,333	10,685	30,989	12,618	13,920
FA and IA purchase	4,556	5,564	3,536	8,375	12,175
Production drilling	13,279	9,213	8,253	8,632	9,306
Prospecting and exploration drilling	3,225	2,163	4,620	8,118	8,158
Other	15,606	549	1,271	304	641
Total CAPEX	**48,999**	**28,174**	**48,669**	**38,047**	**44,201**

INNOVATIONS

In order to implement the tasks set in the strategy, a wide range of technological innovations has been introduced. The Company develops and supports advanced solutions that ensure higher efficiency and transparency of the business due to improved employee performance and reduced costs.

Smart Field

In 2016, Embamunaigas JSC implemented a pilot project ***Smart Field*** at the Uaz Field. The technical solution was developed by the Company's employees together with domestic IT and new technologies experts. As a result, the field operates in a digital development mode. Having achieved positive results at the Uaz Field, it was decided to replicate the system to other fields, which was in progress in 2017–2018 and will continue until 2023.

The Smart Field is an automated system designed to control the oil and gas field, which allows achieving its maximum performance by integrating disparate systems into a single information system. The main goal of introducing the concept of a smart field is to improve the process of management decision-making support in relation to mature assets, determining the feasibility of extra costs to extend the depletion period and reduce risks.

Combining various sensors, mobile devices, etc. into a single system makes it possible to analyze the data acquired and control the system from a single operational center and respond almost instantly to changing system parameters. The benefits of implementation include reduced operating costs for equipment operation, increased operating rate of the existing well stock, saving energy, reduced downtime of wells, optimizing the development mode of a field, minimizing risks to health, environment and safety, etc.

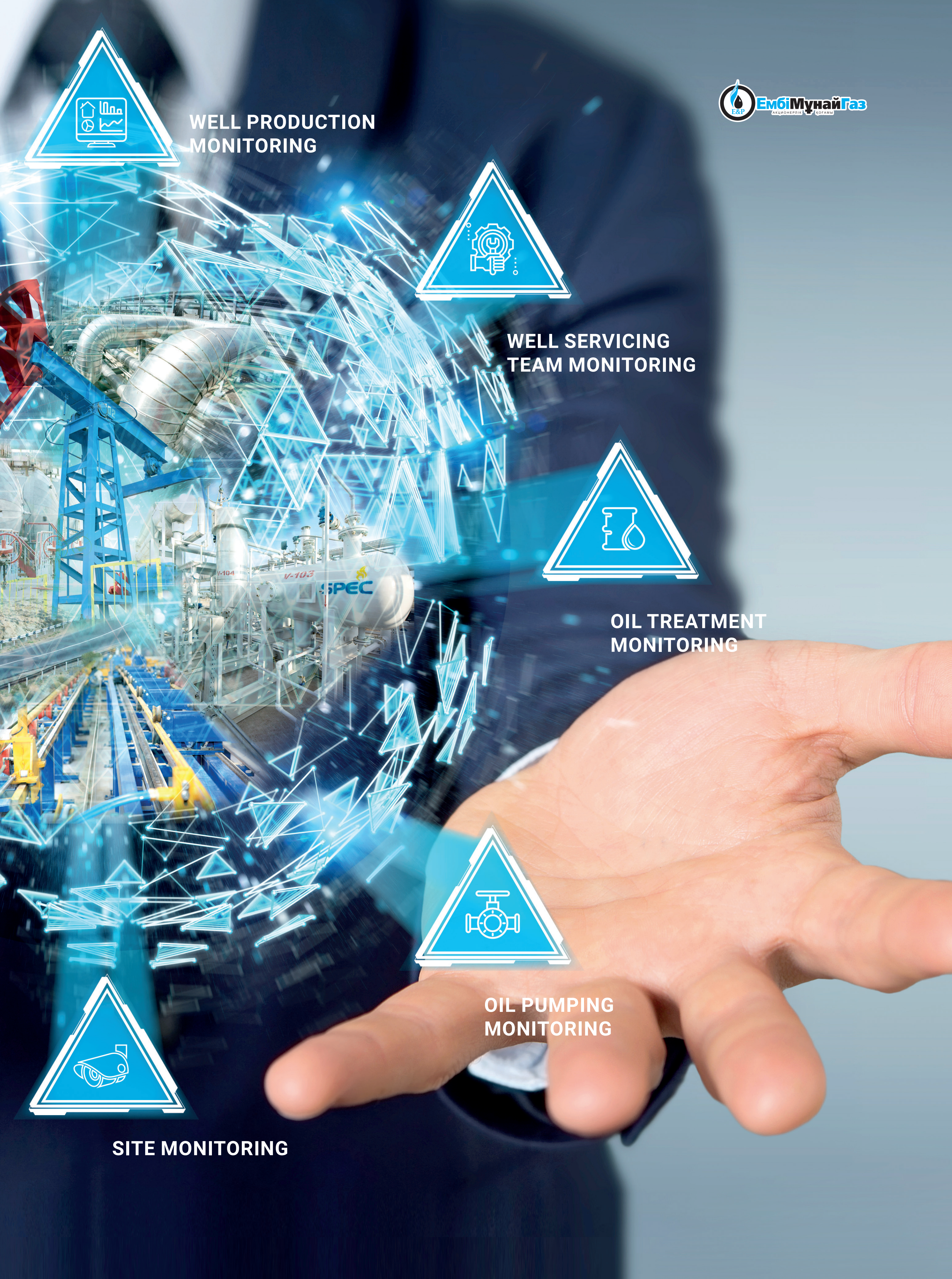
The technologies for the development of smart fields do not stand still and constant work is required to update the project. In this connection, in 2018, Embamunaigas JSC established a working group that studies new technologies and solutions implemented by international oil and gas companies in order to expand the existing project *Smart Field.*

Maintenance and Repair Project

In 2018, the Embamunaigas Prospective Development Department introduced a new maintenance and repair (M&R) management model. The project is aimed at improving the accuracy of planning, reducing the amount of unscheduled repairs, reducing accident rates and costs, a number of downtime events and equipment failures. In addition, the new model contributes to increasing the turnover of inventories for repairs, improves the transparency of operations and the quality of accounting, and also contributes to the formation of a new culture of lean production.

SMART FIELD SYSTEM CAPABILITIES

The *Smart Field* project is one of the key projects for the oil and gas industry and is included in the list of activities of the state program *DIGITAL KAZAKHSTAN*. The Smart Field is an automated system to manage an oil and gas field, which allows achieving its maximum efficiency by integrating disparate systems into a single information system.


WELL PRODUCTION
MONITORING
WELL SERVICING
TEAM MONITORING
OIL TREATMENT
MONITORING
OIL PUMPING
MONITORING
SITE MONITORING
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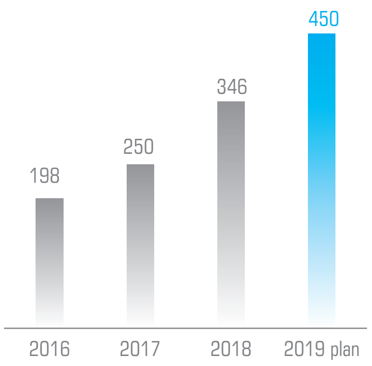
Accounting System Development

Growing Number of SAP System Users, ppl



The Prospective Development Department is currently working on automating business processes based on the SAP ERP system. The goal of the Company's IT strategy is to effectively support existing business processes and introduce and automate new business processes in order to optimize costs. The introduction of new SAP modules can improve the quality of management of production and financial functions. The main task of the SAP ERP system is to build correct and actual reporting for making timely management decisions.

The introduction of new SAP ERP modules allows covering an increasing number of business processes. The more users of different departments will be covered by the SAP system, the more transparent the business processes will be. The SAP system shows "bottlenecks" and thereby helps to make management decisions.

In 2018, in particular, automation of works and services was introduced. The system generates a request for a certain piece of work/service and it goes through the chain until the work is completed in full, i.e. invoice accepted. Accordingly, user-friendly reports were developed. The SAP Solution Manager user support system was implemented, which automates the registration of the requests received from users. The Tax Accounting module was implemented in accordance with the changes in the Tax Code of the Republic of Kazakhstan. The SAP system was integrated with the ECF website (digital invoices). A WMS (Warehouse Management System) was implemented. The module allows automating warehouse accounting online, producing transparent warehouse accounting, improving the performance of the warehouse complex, and also monitoring the status of warehouse stock.

The projects for the introduction of new technologies contribute to an increased oil recovery factor, which makes it possible to increase reserves and improve production.

New Technologies

In order to ensure sustainable growth in production, it is necessary to introduce new methods of work, new production and well-drilling technologies for mature fields, invest time and effort in upgrading onshore facilities. A lot of what is used in the Company to solve specific process problems and problematic issues that arise as the fields are exploited has been introduced in the Department of New Engineering and Technology (DNE&T). First introduced at Embamunaigas JSC technologies with high technical and economic characteristics and well-proven in operation under conditions similar to those existing at the Company's fields, whether the results of applied research of research organizations, legal entities and individuals, mass types of machinery and equipment or the introduction of innovative technologies, are handled in this Department.

All pilot tests (PT) of prototypes of machinery, technical devices and innovation proposals are carried out according to the test program, which is based on the technical conditions developed by the inventors. A total of nine PT were conducted in 2018. Three PT provided a negative result, and three are currently being monitored. Positive results were obtained from three PT: the UDS-Techno-101 device allows extending the time between treatments (TBT) and time between overhauls (TBO) at the blowing wells, and the BHH (bottomhole heater) allows this to be achieved at the wells operating in a mechanized way; in addition, for the period from Nov 6, 2018 to Jan 11, 2019, there were pilot tests of the well drilling and overhaul online reporting platform DDR-Pro at the Embamunaigas JSC facilities, which also proved the technology to be a success.

Engineers and geologists from oil and gas departments, specialists from Embamunaigas JSC and KazMunayGas Research and Development Institute of Production and Drilling Technologies work together to improve water-flooding technologies, improve the well capacity, reduce idle well stock and extend TBO, TBT, mean time between failures of mechanized production systems.

PROCUREMENT ACTIVITIES

The Company conducts procurement activities in accordance with the Rules for the Procurement of Goods, Works and Services by Samruk-Kazyna National Welfare Fund Joint-Stock Company and organizations with fifty and more percent of voting shares (interest) owned whether directly or indirectly by Samruk-Kazyna JSC, whether as a property or upon trust management. The Rules determine the procedure for customers to purchase goods, works or services at their own expense.

The procurement procedure includes the development and approval of the procurement plan (s); supplier selection; execution and performance of the procurement contract.

The Company is working on the development of local content in the structure of purchased goods and services in order to support domestic suppliers.

Procurement Volume, mln KZT (net of VAT)

Description	Amount	Performance %	
Total procurement plan for 2018	**89,898.58**	**100**	
including			
Goods	*11,984.46*	*13.3*	
Works	*51,890.56*	*57.7*	
Services	*26,023.56*	*28.9*	
Total procurement with suppliers assigned	**89,895.82**	**100**	**LC share**
including			
Goods	*11,981.70*	*99.98*	*42.0*
Works	*51,890.56*	*100.0*	*94.0*
Services	*26,023.56*	*100.0*	*94.0*
Savings under the contracts	**7,116.00**	**8**	
including			
Goods	*1,461.00*	*12.2*	
Works	*2,444.00*	*4.7*	
Services	*3,211.00*	*12.3*	

FINANCIAL REVIEW

This Section is based on the audited financial statements of the Company.

Key Financial Indicators, mln KZT

	2014	2015	2016	2017	2018			
	Actual	Actual	Actual	Actual	Plan	Actual	Var.	%
Oil production, thous. tonnes	2,823	2,823	2,832	2,840	2,895	2,895	0	0
Receipts (income)	344,675	198,113	243,517	309,747	332,627	433,436	100,809	30
Cost of sales	−119,229	−94,991	−95,772	−121,290	−134,703	−137,184	−2,481	2
Gross income	225,446	103,121	147,745	188,457	197,924	296,252	98,328	50
General and administrative expenses	−15,738	−24,542	58	−9,896	−12,934	−47,840	−34,906	270
Transport and selling costs	−135,071	−75,869	−70,366	−102,991	−119,674	−155,497	−35,823	30
Operating income (loss)	74,638	2,711	77,437	75,570	65,315	92,915	27,600	42
Financial income /(expenses), net	−2,714	303	312	461	−2,650	−1,176	1,474	−56
Other profit /(loss) net	20,538	62,905	−586	−482	0	21,216	21,216	0
Profit/(loss) before tax	92,462	65,919	77,164	75,548	62,665	112,955	50,290	80
Corporate income tax payable	−20,225	−20,457	−15,803	−19,425	−15,847	−29,566	−13,720	87
Annual profit	72,237	45,462	61,360	56,123	46,819	83,389	36,570	78

The growth of oil production in 2018 was within the target values and exceeded the 2017 values by 2%. The revenue increased by 40% vs. 2017 and exceeded the target values by 30%. The overfulfilment of the revenue plan was caused by an increase in the global oil prices compared to the target average of 29.7% (plan was $55 per barrel; the average price in 2018 was $71.31 per barrel), as well as a slight increase in the dollar exchange rate (plan was 340 KZT/USD, the average exchange rate of 2018 was 344.71 KZT/USD). As a result, net profit increased by 49% vs. 2017 and amounted to 83.4 billion KZT, significantly exceeding the target values.

Sales

Volume of Sales and Oil Selling Prices

	2014	2015	2016	2017	2018
Oil export sales					
KTO					
Sales, mln KZT	236,809	118,432	126,832	187,983	262,216
Volume, thous. tonnes	1,920	1,571	1,226	1,526	1,546
Average selling price, thous. KZT/tonne	123	75	103	123	170
CPC					
Sales, mln KZT	106,152	60,767	92,944	101,250	143,444
Volume, thous. tonnes	816	766	860	792	811
Average selling price, thous. KZT/tonne	130	79	108	128	177
Total oil exports, mln KZT	**342,961**	**179,199**	**219,777**	**289,233**	**405,660**
Total oil exports, thous. tonnes	**2,737**	**2,338**	**2,085**	**2,318**	**2,357**
Domestic oil sales					
POCR					
Sales, mln KZT	–	7,783	18,549	13,583	24,234
Volume, thous. tonnes	–	210	609	358	459
Average selling price, thous. KZT/tonne	–	37	30	38	53
AR					
Sales, mln KZT	–	9,805	3,732	4,602	1,864
Volume, thous. tonnes	–	265	117	121	33
Average selling price, thous. KZT/tonne	–	37	32	38	56
Crude oil					
Sales, mln KZT	12	6	9	6	3
Volume, thous. tonnes	0.26	0.10	0.16	0.10	0.05
Average selling price, thous. KZT/tonne	47	58	58	62	53
Total domestic sales, mln KZT	**12**	**17,594**	**22,290**	**18,191**	**26,101**
Total domestic sales, thous. tonnes	**0**	**475**	**726**	**479**	**492**
Total sales, mln KZT	**342,973**	**196,793**	**242,067**	**307,424**	**431,761**
Total sales, thous. tonnes	**2,737**	**2,813**	**2,811**	**2,797**	**2,849**

Oil is sold both to the domestic market and for export. According to the applicable laws, the oil is primarily supplied to domestic refineries, such as Pavlodar and Atyrau refineries. The export direction consists in selling oil along two main routes: through the Caspian Pipeline Consortium (CPC) and Uzen – Atyrau – Samara (UAS) pipelines. These pipelines lead to the seaport of Novorossiysk, Krasnodar Krai, Russia, while CPC transports oil to the CPC sea terminal in the village of Yuzhnaya Ozereyevka (Novorossiysk, Russia), and the UAS pipeline leads to the transshipment complex Sheskharis (Novorossiysk, Russia). After the oil transported to the terminals, it is loaded into tankers to be shipped to customers.

The volume of oil sales in all areas in 2018 increased by 2% in size and by 40% in value, which was due to the improved pricing environment in foreign markets.

Oil exports in 2018 amounted to 2,357 thous. tonnes, the selling costs reached 405.7 billion KZT, with the volume of sales of 1,546 thous. tonnes by the trunk pipeline through KazTransOil, and 811 thous. tonnes through CPC. The average cost of export sales in 2018 was 172,100 KZT per tonne, which is 38% higher than in 2017. The volume of domestic sales in 2018 grew by 3% and reached 492 thous. tonnes.

Sales of Marketable Gas

The implementation of business initiatives for the development of gas infrastructure is associated with the utilization of associated petroleum gas and is aimed at the production both for its own needs and for sale in the local market (power, marketable gas, methanol).

Marketable gas is treated at two gas treatment facilities at S. Balgimbayev, East Makat Fields. The sale of marketable gas is regulated by Article 15 of Law of the Republic of Kazakhstan No. 532-IV dated January 9, 2012 *On Gas and Gas Supply*. The preemption right of the state is exercised through a national operator – KazTransGas JSC. In accordance with 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 of Raw and Marketable Gas Purchased by the National Operator under the Preemption Right of the State*, the Company sold the marketable gas to the national operator for the price not higher than that approved by the Ministry of Energy of the Republic of Kazakhstan.

Embamunaigas JSC treats gas at two gas treatment plants and a gas treatment unit. The two gas treatment plants located at the S. Balgimbayev and East Makat Fields are used to treat the marketable gas, which satisfies the natural gas needs of the population in Issatay, Kzylkok and Makat Districts of Atyrau Region. The marketable gas treated at the Prorva gas treatment unit (Prorva Group of Fields) is sent to the Central Asia – Center gas pipeline.

In 2018, Prorva gas treatment unit reached full capacity, which contributed to the supply of gas to the national operator of a record volume of more than 100.3 million m^3 from the resources of Embamunaigas JSC – this is a significant contribution to the development of the gasification of the industry. The Company plans to improve the capacity of Prorva gas treatment unit and will continue working in this direction.

Sales of Marketable Gas

Direction	UoM	2016	2017	2018	2019 Plan
KazTransGas JSC	units, m^3	5,360.690	8,482.240	100,358.450	116,571.603

Cost

Cost Analysis, mln KZT

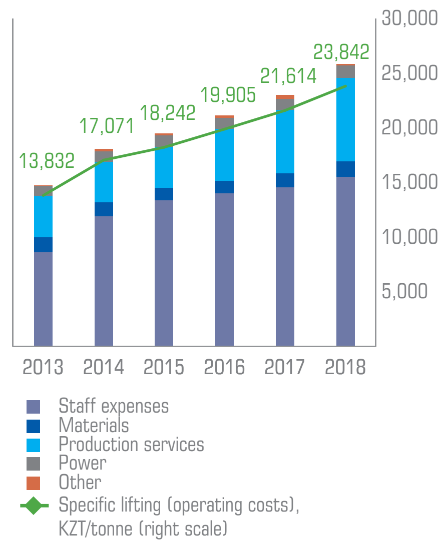
	2018	2017	Var., %
Staff remuneration	48,321	45,474	6
Mineral tax	38,383	27,544	39
Depreciation, depletion and amortization	19,584	16,987	15
Maintenance and repair	14,308	10,622	35
Taxes, other than income tax	4,519	2,073	118
Materials and stock	3,727	3,393	10
Power consumption	2,992	2,705	11
Transportation costs	2,723	1,810	50
Changes in provision for environmental liability	−109	6,270	−102
Reduced liabilities for asset retirement exceeding total capitalized asset	−821	−778	6
Other	5,899	5,858	1
	139,525	**121,959**	14
Changes in oil residue	(2,341)	(670)	250
Total cost	**137,184**	**121,290**	**13**

In 2018, the cost increased by 13% and amounted to 137.2 billion KZT. The increase in cost is mainly due to an increased mineral tax. As for production costs, there is a 6% increase in staff remuneration, a 35% increase in repair and maintenance costs, an 11% increase in electricity costs, a 10% increase in materials, and a 50% increase in transportation costs.

Lifting

Specific lifting (the ratio of operating costs to production) in 2018 amounted to 23,800 KZT per tonne and increased by 10% vs. 2017. The major volume of operating expenses (52%) is staff remuneration and expenses. About 30% of expenses in 2018 fell on production services, 5% on materials, 4% on power. The unit cost of a tonne of oil in 2018 was 47,400 KZT, which is 11% higher than in 2017.

Lifting Costs, mln KZT



Selling Costs and General and Administrative Expenses

Selling costs, mln KZT	2018	2017
Rent tax	**63,900.1**	32,583.6
Export customs duty	**53,889.7**	36,585.8
Transportation costs	**37,489.2**	33,607.7
Selling fees	**218.0**	214.4
	155,497.0	102,991.4

General and administrative expenses, mln KZT	2018	2017
Fines and penalties	**35,456.90**	47.2
Staff remuneration	**4,900.30**	4,017.90
Depreciation, depletion and amortization	**2,150.40**	3,047.60
Maintenance and repair	**485.3**	432
Transportation costs	**445.1**	299.4
Taxes, other than income tax	**292.1**	207.6
Sponsorship	**207**	323.9
Consulting and auditing fees	**130.6**	105.7
Reversal/accrual of provision for accounts receivable	**33.3**	−144.3
Other	**997.1**	2,803.3
	45,098.2	11,140.2

In 2018, selling costs increased by 51% and amounted to 155.5 billion KZT. The increase in such costs is primarily due to the excess of the export customs duty and rent tax due to a higher rate caused by the increase in the global price of Brent crude oil. Transportation costs increased by 12%.

A significant increase in general and administrative expenses was largely due to environmental charges as required by the Department of Ecology of Atyrau Region. The staff remuneration increased by 22% – to 4.9 billion KZT.

Taxation

Tax Expenses other than Income Tax, mln KZT

	2018	2017	Var., %
Rent tax	63,900	32,584	96
Export customs duty	53,890	36,586	47
Mineral tax	38,383	27,544	39
Social tax	3,091	3,246	–5
Pollution tax	1,969	708	178
Property tax	1,785	1,510	18
Other taxes	1,057	201	425
Total taxes other than CIT	**164,074**	**102,379**	**60**

	2018	2017	Var.,%
Profit before tax	112,955	75,548	50
Income tax expenses	29,566	19,425	52
Effective tax rate	26%	26%	0

A 50% increase in profit before tax due to the favorable financial performance in 2018 led to a corresponding increase in CIT. Income tax expenses in 2018 amounted to 29.57 billion KZT. The effective tax rate remained at 26%.

Total taxes other than CIT increased by 60% in 2018. The rent tax rate and export customs duty increased due to the rise in oil prices in foreign markets. The mineral tax increased due to an increase in the level of production and sales.

Capital and Liquidity

The Statement of Financial Position, mln KZT

	As of December 31, 2018	As of December 31, 2017
Assets		
Long-term assets		
Fixed assets	187,656.19	173,028.95
Intangible assets	20,686.19	15,045.69
Other financial assets	38,005.43	32,258.45
Deferred tax assets	10,380.02	10,415.90
Advances paid for long-term assets	2,154.10	1,670.72
Total long-term assets	258,881.94	232,419.71
Current assets		
Inventory	10,944.11	7,272.09
Prepaid income tax	3,968.34	0.77
Prepaid taxes and VAT receivable	15,899.35	12,244.84
Advances paid and deferred expenses	3,507.44	2,819.25
Trade and other accounts receivable	30,838.85	35,948.75
Other financial assets	–	31,884.02
Cash and cash equivalents	111,445.89	73,423.07
Total current assets	176,603.98	164,364.90
Total assets	435,485.92	396,784.61
Capital		
Authorized capital stock	162,399.82	162,399.82
Retained earnings	153,032.64	157,246.24
Total capital	315,432.46	319,646.06
Liabilities		
Long-term liabilities		
Historical liabilities	5,806.81	1,807.47
Provisions	24,151.25	23,530.09
Total long-term liabilities	29,958.06	25,337.56

	As of December 31, 2018	As of December 31, 2017
Current liabilities		
Historical liabilities	1,573.57	2,623.49
Provisions	36,329.09	8,413.48
Mineral tax and rent tax payable	23,287.08	17,947.34
Trade and other accounts payable	28,905.67	22,816.67
Total current liabilities	90,095.41	51,800.99
Total liabilities	120,053.47	77,138.55
Total liabilities and capital	435,485.92	396,784.61

In 2018, the Company's assets increased by 10% and amounted to 435.5 billion KZT. 41% are long-term assets and 59% are short-term assets. Asset growth is associated with an increase in fixed assets by 8% and intangible assets by 37%. Assets increased mainly due to the commissioning of oil and gas assets and exploration and evaluation assets from the assets under construction in the amount of 20.1 billion KZT and an increase in cash of 6.1 billion KZT.

The Company's financial assets include accounts receivable in the amount of 30.8 billion KZT (85% of accounts receivable are expressed in USD), as well as cash in accounts and deposits of second-tier banks in the amount of 111.4 billion KZT. Long-term financial assets consist of contributions to abandonment fund opened under the subsoil use contract separately for each contract until the expiration of each contract. As of December 31, 2018, total abandonment fund contributions amounted to 38 billion KZT.

The Company has the necessary liquidity cushion and has a stable financial position.

The capital remained almost the same and amounted to 315.4 billion KZT. 51% of the capital is the authorized stock capital, 49% is retained earnings.

As of December 31, 2018, the Company's liabilities amounted to 120.1 billion KZT and increased by 56% compared to the same period of 2017. The liabilities increased due to an increase in provisions for an environmental penalty as prescribed by the Department of Ecology of Atyrau Region for environmental violations in accordance with the Code of Administrative Offenses of the Republic of Kazakhstan, as well as an increase in actuarial liabilities of 4.5 billion KZT. 75% are short-term liabilities: 40% of provisions, 26% of taxes payable, and 32% of accounts payable.