

JSC NC KazMunayGas consolidated operating and financial results for the first quarter of 2019

Nur-Sultan, June 7, 2019 – JSC National Company KazMunayGas (“KMG” or “Company”), Kazakhstan's vertically integrated oil and gas company, announces its IFRS consolidated financial and operating results for the first quarter of 2019 according to IFRS (International Financial Reporting Standards).

Operating Highlights for 1Q 2019¹:

- Oil and gas condensate production was up 1.3% year-on-year to 5,939 thous. tonnes (495 thous. barrels of oil per day²);
- Natural and associated gas production was up 4.7% year-on-year to 2,173 mln m³;
- Oil transportation increased by 6.7% year-on-year to 19,660 thous. tonnes;
- Gas transportation was down 3.6% year-on-year to 25.9 bln m³;
- Refinery volume was up 1.1% year-on-year to 4,901 thous. tonnes. Volume includes refinery volume in Kazakhstan of 3,306 thous. tonnes and KMG International (“KMG I”) of 1,595 thous. tonnes. Total oil products production was up 0.9% year-on-year to 4,597 thous. tonnes;
- Sales volume of crude oil produced by KMG was up 1.8% year-on-year to 5,922 thous. tonnes.

Financial Highlights for 1Q 2019³:

- Revenue was up 20.5% year-on-year to 1,765 bln tenge (USD 4,673 mln);
- Net profit was up 51.4% year-on-year to 309 bln tenge (USD 819 mln);
- Capital expenditures were down 10.4% year-on-year to 73 bln tenge (USD 194 mln);
- EBITDA⁴ was up 27.1% year-on-year to 517 bln tenge (USD 1,370 mln);
- Net debt was up 8.7% as compared to 31 December 2018 and amounted to 2,356 bln tenge (USD 6,200 mln).

Key corporate events:

- On 22 February 2019, KMG EP completed their preferred shares buyback programme. In total, KMG EP repurchased preferred shares in the amount of 15.9 bln tenge, 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, the sale of KMG Retail LLP for 60,512 mln tenge was completed;
- In March 2019, international rating agency Fitch confirmed its rating at the level BBB-/Forecast stable”, while increasing the individual rating (stand-alone credit profile) from b to bb-;

¹ Operating highlights are represented as net of KMG's share in those respective assets.

² Average conversion rate of each asset was applied for information purposes only. The actual number of barrels may vary from the barrel equivalents of crude oil represented here.

³ For reader convenience, amounts in US Dollars throughout the press-release were converted at the average exchange rate for the applicable period for amounts taken from the consolidated statement of income and consolidated statement of cash flows and the period-end rates for amounts taken from the consolidated balance sheet (average rates 1Q 2019 and 1Q 2018 were 377.73 and 323.22 KZT/USD, respectively; period-end rates as at 31 March 2019 and 31 December 2018 were 380.04 and 384.20 KZT/USD, respectively).

⁴ The Company calculates EBITDA for any relevant period as “Revenue + Finance Income – Cost of sales – G&A expenses – Transportation and selling expenses + Depreciation, depletion and amortization + Share in profit of JVs and associates.

- 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 accordance with a Presidential decree, KMG will fund the construction of a 7,000-seat stadium and congress hall in Turkestan for KZT 21 bln;
- On 29 April 2019, Mr. Luis Maria Viana Palha Da Silva was elected as Board Member – Independent director of KMG;
- On 20 May 2019, Mr. Anthony Espina was elected as Board Member of KMG representing core shareholder, JSC Samruk-Kazyna.

Operating results of 1Q 2019

Hydrocarbon production

During the first quarter of 2019 KMG oil and condensate production increased by 1.3% year-on-year to 5,939 thous. tonnes. Natural and associated gas production increased by 4.7% to 2,173 mln m³.

In the first quarter of 2019 Kashagan oil production was up by 25% year-on-year to 3,583 thous. tonnes or 316 kbopd. KMG's share in Kashagan oil and gas production increased by 25% and 31.7% to 297 thous. tonnes of oil and 182 mln m³ of gas, respectively. The increase in oil production is with a result of the planned increase during the commercial development phase. From 14 April to 19 May 2019 Kashagan production was halted for planned total overhaul.

Oil production in Karachaganak decreased by 4.9% year-on-year to 271 thous.tonnes attributable to KMG's share. Gas production amounted to 271 mln m³. A decrease of production is mainly attributable to high gas-condensate factor and increasing water-cut.

KMG's share in the oil production of the Tengiz field increased by 2.4% year-on-year. KMG's share was 1,521 thous.tonnes. Tengiz gas production increased by 1.7% year-on-year with KMG's share amounting to 829 mln m³. The volumes were increased in line with production plan.

KMG's share in operating assets' production slightly decreased by 0.1% and amounted to 3,851 thous. tonnes. Decrease is primarily driven by natural decline of oil production.

Regarding participation in drilling projects in the Azerbaijani sector of the Caspian Sea, on 16 February 2019, the implementation of an investment project for the modernisation of a Jack Up Drilling Rig (JUDR) for 21.6 bln tenge or USD 57 mln. KMG and the State Oil Company of Azerbaijan Republic (SOCAR) signed an agreement on trust management of the JUDR.

On 1 April 2019, the Ministry of Energy of the Republic of Kazakhstan, KMG and LUKOIL Kazakhstan Upstream LLP signed a contract for the exploration and production of hydrocarbons in the Zhenis site located in the Kazakhstani sector of the Caspian Sea. The project operator is Zhenis Operating LLP (a 50/50 joint venture of KMG and LUKOIL).

Crude oil sales

During the first quarter of 2019, KMG's share sales of oil and condensate produced by KMG increased by 1.8% year-on-year to 5,922 thous. tonnes including 4,322 thous. tonnes export volumes.

Own produced crude oil sales to the domestic market slightly decreased by 0.7% year-on-year to 1,600 thous. tonnes, including 714 thous. tonnes of crude oil volumes to refineries for further oil products sale.

Oil and gas transportation

During the first quarter of 2019, KMG transported 19,660 thous. tonnes of oil (including KMG's share)⁵ by pipelines, reflecting an increase by 6,7% year-on-year.

The main growth of oil transportation volumes is attributable to an increase in sea transportation, which is carried out by NMSK Kazmotransflot LLP (KMTF). In the first quarter of 2019, the volume of KMTF transportation was 2,856 thous. tonnes, which is 66.7% higher year-on-year. The growth is mainly due to an increase in the volume of oil transportation in the Mediterranean and Black Seas, attributable to the agreement signed at the end of 2018 on supply and transportation between KMTF, KMG and KMG I.

KMG's share in Caspian Pipeline Consortium (CPC) oil transportation volumes increased by 8.2% year-on-year to 3,357 thous. tonnes due to the increase of the volumes at Kashagan field.

During the first quarter of 2019, gas transportation volumes decreased by 3.6% year-on-year to 25.9 bln m³ mainly due to a decline in transit gas volumes caused by the reduction in the supply of Uzbek gas and the redistribution of Russian gas flows of Gazprom. The decrease of Gazprom transit volumes has temporary nature because of unusual cold weather this winter in Russian regions that caused to redistribute Russian gas flows to supply increased demand in Russian domestic market.

Gas export volumes amounted to 6.5 bln m³, reflecting an increase of 15.2%, primarily due to gas export to China in line with the five-year gas sale five-year contract signed at the end of 2018 to double Kazakh natural gas exports to China from 5 bcm to 10 bcm per year.

On 16 April 2019, a ceremonial event was held at the Aktau seaport to open the feeder transportation on the Trans-Caspian international transport route and the first Kazakhstan feeder vessel called "Turkestan" was loaded with containers to the Baku seaport. The operator of this transportation is KMTF.

Refining

Refining volumes increased by 1.1% year-on-year to 4,901 thous. tonnes.

Refining volumes at Kazakhstan refineries increased by 2.0% year-on-year to 3,306 thous. tonnes in line with domestic supply obligations for oil producers:

- 1,263 thous. tonnes at the Atyrau Refinery, down 1.1%;
- 1,381 thous. tonnes at the Pavlodar Refinery, up 5.1%;
- 622 thous. tonnes (KMG's share - 50%) at the Shymkent Refinery, up 4.0%;
- 41 thous. tonnes (KMG's share – 50%) at Caspi Bitum, down 27.0%.

Refining at KMG I refineries slightly decreased by 0.5% year-on-year to 1,595 thous. tonnes:

- Petromidia refining (Romania) volumes were down 0.7% to 1,516 thous. tonnes;
- Vega refining (Romania) volumes were up 3.0% to 79 thous. tonnes.

In the first quarter of 2019 refining depth increased from 67% to 73% at Atyrau refinery, from 81% to 83% at Pavlodar refinery and from 74% to 77% at Shymkent refinery compared year-on-year⁶.

Oil products production increased by 0.9% year-on-year to 4,597 thous. tonnes.

Oil products production at Kazakhstan refineries increased by 1.7% year-on-year to 3,038 thous. tonnes in line with growth in refining volumes:

⁵ Oil transportation volume takes into account the transportation volume of each individual pipeline company, including the operating share of KMG. Part of the volume of oil can be transported by two or three pipeline companies, and correspondingly these volumes are counted more than once in the consolidated volume of oil transportation.

⁶ Starting from 2019 refining depth calculation methodology has been updated. Figures for 1Q2018 recalculated in accordance of new methodology.

- 745 thous. tonnes of gasoline, up 7.0%;
- 954 thous. tonnes diesel, up 10.1%;
- 128 thous. tonnes of jet fuel, up 234.7%;
- 1,212 thous. tonnes of other oil products, down 12.6%.

Oil products production at KMG I refineries decreased by 0.6% year-on-year to 1,559 thous. tonnes due to decrease in refining volumes:

- 402 thous. tonnes of gasoline, down 7.9%;
- 689 thous. tonnes diesel, down 0.2%;
- 93 thous. tonnes of jet fuel, up 38.9%;
- 375 thous. tonnes of other oil products, up 0.3%.

Financial results of 1Q 2019⁷

During the first quarter of 2019 revenue increased by 20.5% year-on-year to 1,765 bln tenge (USD 4,673 mln). The growth was mainly attributable to the increase in KMG I's sales volume of crude oil, tenge depreciation against US dollar, and increase in gas export sales volumes. KMG I's sale of crude oil amounted to 422 bln tenge (USD 1,118 mln). Sale of crude oil and LPG pursuant to Tengizchevroil (TCO)⁸ Advanced Oil Sale transaction amounted to 405 bln tenge (USD 1,073 mln). During the first quarter of 2019 KMG has accelerated settlement of undertakings under the TCO prepayment in the amount of USD 160 mln on top of the adjusted scheduled settlement in the amount USD 247 mln. Gas export to China increased by 117% and amounted to 179 bln tenge (USD 474 mln).

Cost of sales increased by 20% year-on-year to 1,351 bln tenge (USD 3,577 mln). The increase is mainly attributable to the increase of crude oil purchases and tenge depreciation against US dollar. Cost of crude oil purchased by KMG I increased to 160 bln tenge (USD 423 mln). Cost of crude oil attributable to the TCO Advanced Oil Sale transaction amounted to 405 bln tenge (USD 1,073 mln).

During the first quarter of 2019, KMG's operating profit increased by 26.7% year-on-year to 185 bln tenge (USD 489 mln).

KMG's earnings from shares in the net profit of joint ventures and associates increased by 33% year-on-year to 219 bln tenge (USD 580 mln). The increase is mainly the result of share in profit reported of the Asia Gas Pipeline LLP in the amount of 31 bln tenge (USD 82 mln).

Net profit increased by 51.4% year-on-year and equaled to 309 bln tenge (USD 818 mln).

Taxes and other obligatory payments amounted to 371 bln tenge (USD 983 mln), reflecting an increase by 28% year-on-year.

Capital expenditures were reduced by 10.4% year-on-year to 73 bln tenge (USD 194 mln).

As a result of the increase of accounts receivables of KMG I and KTG (gas export sales to China) and organic cash utilisation for working capital, for the first quarter of 2019 KMG reported negative free cash flow adjusted in the amount of 66 bln tenge (USD 175 mln).

⁷ As of June, the KMG ceased to classify KMGI as a discontinued operation as participants had not completed sale and purchase agreement (SPA) procedures to sell a 51% interest in KMGI and the transaction was terminated. Accordingly, KMGI assets and liabilities were transferred from discontinued operations to continuing operations; comparative figures were adjusted in accordance with IFRS requirements.

⁸ In 2016 KMG entered into long-term TCO crude oil and liquefied petroleum gas (LPG) supply agreement, which involve the prepayment. The total minimum delivery volume approximates 38 mln tonnes of crude oil and 1 mln tonne of LPG in the period from the date of the contract to March 2021.

Gross debt as of 31 March 2019 decreased by 2.3% to 4,060 bln tenge (USD 10,682 mln), compared to 31 December 2018.

Cash and cash equivalents balance as of 31 March 2019 including cash in deposits decreased by 14.3% to 1,703 bln tenge (USD 4,482 mln) as compared with 31 December 2019 mainly due to prepayments settlement pursuant to TCO Advanced Oil Sale transaction.

As a result of TCO prepayments settlement, KMG's net debt increased by 8.7% to 2,356 bln tenge (USD 6,200 mln).

During the subsequent period, in April 2019, KMG has paid around USD 62 mln to Eurobonds holders for alignment of the covenant package, out of which USD 30.1 mln represents early repayment of Notes 2044.

For further information, please visit <http://ir.kmg.kz/ru> or contact:

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About JSC National Company KazMunayGas:

JSC National Company KazMunayGas (KMG) is Kazakhstan's leading vertically integrated oil and gas company, operating assets across the entire production cycle from the exploration and production of hydrocarbons to transportation, refining and specialised services. Established in 2002, the company represents the government's interests in the national oil and gas industry.