

April 12, 2019

JSC NC KazMunayGas operating and financial results for 2018

Nur-Sultan, April 12, 2019 – JSC National Company KazMunayGas (“**KMG**” or the “**KMG Group**”), Kazakhstan's vertically integrated oil and gas company, announces its IFRS financial and operating results for 2018.

Alik Aidarbayev, Chairman of the Management Board of KMG: “In 2018 KMG significantly improved its financial performance, exceeded operational metrics plan and fulfilled a number of strategic tasks set by shareholder and the Government of the Republic of Kazakhstan. During 2018 we signed a contract to increase Kazakh gas export to China from 5 bln m³ to 10 bln m³ per year. Complex modernisation of refineries has been completed, bringing fuels production of Euro-4 and Euro-5 standards. KMG has taken a number of measures to strengthen financial sustainability. In 2018, KMG reduced its gross debt as a result of Eurobond redemption in the amount of USD 1.6 bln and prepayment of loan obtained from PJSC Sberbank of Russia in the amount of USD 400 mln. Now, we can proudly state that KMG results for 2018 fully met expectations of the main shareholder.”

Operating Highlights for 2018¹:

- Oil and gas condensate production was up 1.0% year-on-year to 23,606 thous. tonnes (484.2 thous. barrels of oil per day²);
- Natural and associated gas production was up 1.8% year-on-year to 8,137 mln m³;
- Oil transportation slightly increased by 0.3% year-on-year to 75,038 thous. tonnes;
- Gas transportation was up 10.6% year-on-year to 111.6 bln m³;
- Refinery volume was up 8.3% year-on-year to 19,715 thous. tonnes mainly due to refinery volumes increase at Kazakh refineries. Volume includes refinery volume in Kazakhstan of 13,384 thous. tonnes and KMG International (“KMG I”) of 6,331 thous. tonnes. Total oil products production was up 6.7% year-on-year to 18,337 thous. tonnes;
- Sales volume of crude oil produced by KMG were up 1,3% year-on-year to 23, 735 thous. tonnes.

Financial Highlights for 2018³:

- Revenue was up 45.8% year-on-year to 6,989 bln tenge (USD 20,275 mln);
- Net profit was up 32.0% year-on-year to 694 bln tenge (USD 2,012 mln);
- Capital expenditure was down 6.1% year-on-year to 628 bln tenge (USD 1,822 mln);
- EBITDA⁴ was up 53.2% year-on-year to 1,863 bln tenge (USD 5,404 mln);
- Net debt amounted to 2,167 bln tenge (USD 5,639 mln);
- FCF adjusted⁵ was up 23.3% year-on-year to 352 bln tenge (USD 1,022 mln).

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 2018 and 2017 were 344.71 and 326.08 KZT/USD, respectively; period-end rates as at 31 December 2018 and 31 December 2017 were 384.20 and 332.33 KZT/USD, respectively).

⁴ Earnings before interest, taxes, depreciation and amortisation (EBITDA) is a measure of profit before the deduction of interest expenses, taxes, depreciation and accrued amortisation

Key corporate events:

- KMG EP's LSE and KASE delisting occurred on May 10, 2018. KMG owns 99.6% of KMG EP's common equity;
- On 22 February 2019, KMG EP completed preferred shares buyback programme. Therefore, KMG EP repurchased preferred shares in the amount of 15.9 bln tenge;
- In November 2018, S&P Global Ratings upgraded its rating on KMG from BB-/kzA to BB/kzA+ with stable outlook and upgraded KMG's stand-alone credit profile to b+;
- In March 2019, the international rating agency Fitch confirmed its rating at the level BBB-/Forecast stable", noting the increase in the individual rating (stand-alone credit profile) from b to bb;
- In November 2018, Alik Aidarbayev was appointed as a Chairman of the Management Board of KMG. His working experience includes his appointments as a member of KMG's Board of Directors as a representative of Samruk-Kazyna, CEO of KMG EP and akim of Mangistau region, where an important role in the region development is attributable to Ozenmunaygas;
- On March 29, 2019, KMG obtained the consent of the holders of Eurobonds to be redeemed in 2022, 2023, 2027, 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;
- During 2018 within privatisation program KMG sold the following assets: KTG-Tbilisi in the amount of USD 40 million, Kazakh-British Technical University (KBTU) in the amount of 11,370 mln tenge and KMG Retail LLP in the amount of 60,512 mln tenge, KMG-Service Georgia in the amount of USD 10.3 million.

Operating results of 2018

Hydrocarbon production

During 2018 KMG oil and condensate production increased by 1% year-on-year to 23,606 thous. tonnes. Natural and associated gas production increased by 1.8% to 8,137 mln m³.

During 2018 Kashagan oil production was up by 59.5% year-on-year to 13,219 thous. tonnes or 287 kbopd. KMG's share in Kashagan oil and gas production increased by 59.5% and 60.3% to 1,094 thous. tonnes of oil and 637 mln m³ of gas, respectively. Kashagan oil production was positively impacted by commissioning of crude gas reinjection system in August 2017, reliability improvement of equipment and production efficiency increase. The operator of project is working on exploring options for expanding the capacity for gas re-injection for a subsequent production increase at the field.

Oil production in Karachaganak decreased by 2.7% year-on-year to 1,095 thous. tonnes attributable to KMG's share. Gas production amounted to 1,891 mln m³. Slight decrease in production is mainly attributable to high gas-condensate factor, wells water-cut, low performance of sour-gas drying unit and planned overhaul in October 2018. During the year partners of Karachaganak project signed an agreement sanctioning the Karachaganak Debottlenecking Project (KGDBN Project) that is aimed to extend the duration of liquid production plateau. KGDBN Project will enable the processing up to 4 bcm of additional raw gas that will be used for reinjection to maximize incremental liquids production by additional 10 million tonnes before the expiration date of FPSA. Project commissioning is scheduled for the end of 2021. Project investments will be equal to USD 1.1 bln and will be financed by cash generated from operating activities.

KMG's share in Tengiz oil production remained relatively stable over the period and amounted to 5,724 thous. tonnes. Tengiz gas production reflected slight decrease by 1.5% year-on-year and amounted to

⁵ Free Cash Flow adjusted is calculated as CFO adjusted to net prepayments + Dividends received from joint ventures and associates – Capex.

3,125 mln m³ due to overhaul at gas processing plant. In July 2016, Tengiz partners made a final investment decision to finance the Future Growth Project/ Wellhead Pressure Management Project to build a new 12 mln tonne/year refinery and crude gas reinjection facilities with capacity of 9.4 bcm. As at now, 53% of Project is realized and commissioning is planned for June 2022.

KMG's share in operating assets' production slightly decreased by 0.8% and amounted to 15,693 thous. tonnes. Decrease is primarily driven by natural decline of oil production and limitations of oil production with purpose of control over-limit gas flaring.

Crude oil sales

During 2018, KMG's sales of oil and condensate produced by KMG increased by 1.3% year-on-year to 23,735 thous. tonnes.

Own produced crude oil sales to domestic market increased by 13.2% year-on-year to 6,991 thous. tonnes. (including crude oil volumes to refineries for further oil products sale) in line with domestic supply obligations for oil producers and production capacity increase at the Kazakh refineries. Own produced crude oil sales to domestic market equaled to 29.5% in 2018 of total sales volume (26.4% in 2017).

Oil and gas transportation

During 2018, KMG transported 75,038 thous. tonnes of oil (including the KMG's share⁶) by pipelines, reflecting an increase by 0.3% year-on-year which is mainly attributable to oil production growth at Kashagan field.

KMG's share in Caspian Pipeline Consortium (CPC) oil transportation volumes increased by 10.8% year-on-year to 12,675 thous. tonnes due to of the volumes at Kashagan.

During 2018, gas transportation volumes increased by 10.6% year-on-year to 111.6 bln m³ due to increase in export volumes.

Gas export volumes amounted to 24.2 bln m³, reflecting an increase of 36.9%, primarily due to gas export to China started in October 2017 under an export agreement between KazTransGas and authorised organization of PetroChina International Company Limited. In October 2018, KTG and PetroChina International Company signed a five-year contract to double Kazakh natural gas exports to China from 5 bcm to 10 bcm per year.

Refining

Hydrocarbons refinery volumes increased by 8.3% year-on-year to 19,715 thous. tonnes.

Hydrocarbon refining volumes of Kazakhstan refineries increased by 10.0% year-on-year to 13,384 thous. tonnes in line production capacity increase at the refineries and domestic supply obligations for oil producers:

- 5,268 thous. tonnes at the Atyrau Refinery, up 11.5%;
- 5,340 thous. tonnes at the Pavlodar Refinery, up 12.5%;
- 2,366 thous. tonnes (KMG's share) at the Shymkent Refinery, up 1.0%;
- 409 thous. tonnes (KMG's share) at Caspi Bitum, up 14.0%.

Refining at KMG refineries increased by 4.9% year-on-year to 6,331 thous. tonnes:

⁶ 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.

- Petromidia refining (Romania) volumes were up 4.6% to 5,925 thous. tonnes. The increase is attributable to favourable weather conditions and the implementation of plant upgrade initiatives during nine months of 2018 as well as the suspension of production operations during 2017;
- Vega refining (Romania) volumes were up 8.9% to 406 thous. tonnes due to increased supplies of raw materials from Petromidia refinery.

Modernisation completion of Kazakhstan refineries reflects continuous increase of refining depth to designed parameters. During 2018 refining depth increased from 64% to 68% at Atyrau refinery and from 77% to 79% at Pavlodar refinery compared year-on-year. The refining depth of 74% at PKOP remained stable over the period due to completion of PKOP modernisation in September 2018.

Hydrocarbons production increased by 6.7% year-on-year to 18,337 thous. tonnes.

Hydrocarbons production at Kazakhstan refineries increased by 7.6% year-on-year to 12,152 thous. tonnes in line with growth in refining volumes:

- 3,288 thous. tonnes of gasoline, up 34.9%;
- 3,814 thous. tonnes diesel, up 13.0%;
- 253 thous. tonnes of jet fuel, up 57.4%;
- 4,796 thous. tonnes of other oil products, down 9.8%.

Oil products production at KMG I refineries increased by 4.9% year-on-year to 6,185 thous. tonnes due to increase in refining volumes:

- 1,567 thous. tonnes of gasoline, up 7.2%;
- 2,755 thous. tonnes diesel, up 0.6%;
- 317 thous. tonnes of jet fuel, up 26.4%;
- 1,547 thous. tonnes of other oil products, up 7.2%.

As a result of modernization completion, refining volume at Atyrau refinery equaled to 5,267 thous. tonnes. High-octane gasoline production soared by 89.4% to 1,180 thous. tonnes. Diesel production was up 7.6% to 1,459 thous. tonnes. According to the technical regulations of the Customs Union gasoline and diesel volume fully complied with K4 and K5 environmental classes (Euro-4 and Euro-5 standards).

In September 2018, commissioning works at Shymkent refinery within second stage (final stage) of modernization were completed. Refinery is on the stage of pilot operation.

Financial results of 2018⁷

During 2018 revenue increased by 45.8% year-on-year to 6,989 bln tenge (USD 20,275 mln). The growth was mainly attributable to higher global oil prices, increase in KMG I's sales volume of crude oil and oil products, tenge depreciation against US dollar, and increase in gas sales volumes. KMG I's sale of crude oil and oil products amounted to 1,806 bln tenge (USD 5,239 mln) and 2,203 bln tenge (USD 6,391 mln), respectively. Sale of crude oil and LPG pursuant to Tengizchevroil (TCO)⁸ Advanced Oil Sale transaction amounted to 1,573 bln tenge (USD 4,564 mln). During 2018, in accordance with an amendment to TCO oil supply agreement signed in December 2017, KMG received two additional prepayment tranches totalled USD 500 mln. Gas export to China started in October 2017 (under export agreement between KTG and PetroChina International Company Limited) reflected an increase of gas sales during 2018, and amounted to 549 bln tenge (USD 1,592 mln).

⁷ As at June, the Group 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.

Cost of sales increased by 44.5% year-on-year to 5,353 bln tenge (USD 15,530 mln). Growth was mainly due to higher global oil prices and tenge depreciation against US dollar. Cost of crude oil attributable to the TCO Advanced Oil Sale transaction increased by 36.0% year-on-year to 1,088 bln tenge (USD 3,157 mln). KMG I's cost of crude oil increased by 57.1% year-on-year and amounted to 844 bln tenge (USD 2,449 mln).

During 2018 KMG's operating profit increased by 37.5% year-on-year to 559 bln tenge (USD 1,621 mln).

KMG's earnings from shares in the net profit of joint ventures and associates increased by 68.2% year-on-year to 697 bln tenge (USD 2,023 mln). Increase is mainly attributable to TCO's profit increase by 51.4% year-on-year. KMG's share amounted to 439 bln tenge (USD 1,274 mln).

Net profit increased by 32.0% year-on-year and equalled to 694 bln tenge (USD 2,012 mln).

Taxes and other obligatory payments amounted to 1,444 bln tenge (USD 4,188 mln), reflecting an increase by 40.6% year-on-year.

Capital expenditures were reduced by 6.1%, to 628 bln tenge (USD 1,822 mln) due to completion of capital intensive period.

As a result of Eurobond redemption in the amount of USD 1.6 bln and full repayment of loan obtained from PJSC Sberbank of Russia in the amount of USD 400 mln, KMG's gross debt decreased by 3.4% to 4,153 bln tenge (USD 10,810 mln).

In May 2018, KMG made an early redemption of Eurobonds with nominal value of USD 3.137 bln by issuing Eurobonds in the amount of USD 3.25 bln.

Eurobond redemption in the amount of USD 1,600 mln, Sberbank loan repayment in the amount of USD 400 mln and KMG EP shares buyback reflected net debt increase by 61.2% to 2,167 bln tenge (USD 5,639 mln), compared to 31 December 2017.

Cash and cash equivalents balance as of 31 December 2018 including cash in deposits decreased by 32.8% to 1,987 bln tenge (USD 5,171 mln) mainly due to KMG EP's shares buyback.

During the subsequent period, in January 2019, in order to reduce debt servicing costs, Atyrau refinery refinanced the debt in KDB in the amount of USD 300 million by (1) placing USD 150 million bonds on the Astana International Financial Center, the purchaser of which was Samruk-Kazyna (2) raising a loan from Halyk Bank in the amount of USD 150 million.

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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.