

22 November 2019

JSC NC KazMunayGas operating and financial results for the nine months ended 30 September 2019

Nur-Sultan, 22 November 2019 – Joint-stock (JSC) National Company (NC) KazMunayGas (“KMG” or “Company”), Kazakhstan's national vertically integrated oil and gas company, announces its operating and financial results for the nine months of 2019 according to International Financial Reporting Standards (IFRS).

Operating Highlights for the nine months of 2019¹:

- Oil and gas condensate production almost unchanged year-on-year and amounted to 17,593 thous. tonnes (483 thous. barrels of oil per day²);
- Natural and associated gas production up 2.6% year-on-year to 6,227 mln m³;
- Oil transportation up 5.4% year-on-year to 58,696 thous. tonnes;
- Gas transportation down 11.5% year-on-year to 74.4 bln m³;
- Refinery volume up 2.2% year-on-year to 15,282 thous. tonnes. Volume includes refinery volume of 10,201 thous. tonnes in Kazakhstan and 5,081 thous. tonnes in Romania (KMG International). Total oil products production up 2.7% year-on-year to 14,310 thous. tonnes;
- Sales volume of crude oil produced by KMG almost unchanged year-on-year at 17,807 thous. tonnes.

Financial Highlights for the nine months of 2019³:

- Revenue down 1.9% year-on-year to 5,128 bln tenge (USD 13,441 mln);
- Net profit up 22.5% year-on-year to 794 bln tenge (USD 2,082 mln);
- EBITDA⁴ up 9.1% year-on-year to 1,592 bln tenge (USD 4,173 mln);
- Net debt up 22.9% and amounted to 2,663 bln tenge (USD 6,863 mln) compared to 31 December 2018;
- FCF adjusted⁵ up 41.8% to 319 bln tenge (USD 835 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.

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 9M 2019 and 9M 2018 were 381.52 and 336.51 KZT/USD, respectively; period-end rates as at 30 September 2019 and 31 December 2018 were 387.99 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.

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

Key corporate events:

- On 22 February 2019, KazMunayGas Exploration Production JSC (KMG EP) completed its preferred shares buyback programme. KMG EP repurchased preferred shares in the amount of 15.9 bln tenge, representing 65% of the outstanding float. As of 14 May 2019 preferred shares of KMG EP were delisted from the KASE official list;
- In February 2019, in accordance with its strategy and government plan, KMG completed the sale of its KazMunayGas-branded fueling station network for 60,512 mln tenge, thus exiting the retail petroleum stations business in Kazakhstan;
- On 28 March 2019, international rating agency Fitch confirmed KMG's rating at the level "BBB-/Forecast stable", while increasing the individual rating (stand-alone credit profile) from "b" to "bb-";
- On 29 March 2019, KMG obtained the consent of the holders of Eurobonds to be redeemed in 2022, 2023, 2027, 2047 (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 mln due for repayment in 2044;
- On 29 April 2019, Mr. Luis Maria Viana Palha Da Silva was elected as Board Member – and Independent Director of KMG;
- On 20 May 2019, Mr. Anthony Espina was elected as Board Member of KMG representing core shareholder, Samruk-Kazyna;
- In accordance with a Presidential decree, KMG fully settled its commitments for the construction of new social facilities (a 7,000-seat stadium and congress hall) in Turkestan for a total amount of 21 bln tenge. Along with this, in August 2019, KMG financed the construction of 1,000-seat amphitheater worth 1.8 bln tenge in Turkestan;
- On 22 August 2019 rating agency Moody's affirmed KMG's long-term rating at "Baa3" with the outlook changed from "stable" to "positive", whereas standalone rating of KMG has been upgraded from "Ba3" to "Ba2".

Operating results for the nine months of 2019

Hydrocarbon production

During the nine months of 2019 KMG's oil and gas condensate production was almost unchanged year-on-year at 17,593 thous. tonnes (483 kbopd). Natural and associated gas production increased by 2.6% to 6,227 mln m³.

KMG's share in oil and gas production of mega fields (Tengiz, Kashagan, Karachaganak) amounted to 5,992 thous. tonnes (175 kbopd) and 4,298 mln m³, respectively.

KMG's share in oil and gas production of the Tengiz increased by 2.4% year-on-year, amounting to 4,394 thous. tonnes and to 2,405 mln m³, respectively. The main driver of oil and gas production growth was the stable operation and higher reliability of the SGI/KTL/SGP (Sour Gas Injection / Complex Technology Lines / Second Generation Plant) plants.

During the nine months of 2019 KMG's share in oil and gas production of the Kashagan increased by 6.5% and 9.7% to 838 thous. tonnes and 503 mln m³, respectively. The growth is primarily due to the scheduled overhaul of onshore and offshore complexes from 14 April to 19 May 2019 and an increase of the utilization ratio to 98.4%.

KMG's share in oil production of the Karachaganak decreased by 8.1% year-on-year to 760 thous. tonnes. Gas production decreased by 2.2% to 1,391 mln m³. The decline is mainly attributable to high gas factor and increasing water-cut.

During the nine months of 2019 KMG's share in production of operating assets was slightly down and amounted to 11,601 thous. tonnes (308 kbopd). The production decrease of operating assets is primarily driven by the natural decline of oil production at Kazgermunai and PetroKazakhstan Inc. by 16% year-on-year and 14% year-on-year, respectively.

Key events in Upstream

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 was approved for the participation in drilling projects in the Azerbaijani sector of the Caspian Sea. KMG and the State Oil Company of Azerbaijan Republic (SOCAR) signed an agreement on trust management of the JUDR.

On 1 April 2019, KMG, the Ministry of Energy of the Republic of Kazakhstan, KMG and PJSC "LUKOIL" (LUKOIL) signed a contract for the exploration and production of hydrocarbons in the Zhenis site located in the Kazakhstan sector of the Caspian Sea. In accordance with KMG and LUKOIL estimations, extractable reserves (C3) of the project are 65.1 mln tonnes. The project operator is Zhenis Operating LLP (a 50:50 joint venture between KMG and LUKOIL).

On 17 May 2019, KMG and British Petroleum (BP) signed a Memorandum of Understanding for the joint study and research of the available technical data from existing KMG fields and third parties.

On 7 June 2019, KMG and LUKOIL signed an agreement on the principles of the project "I-P-2", the site of the same name located in the Kazakhstan sector of the Caspian Sea. In accordance with LUKOIL estimations, extractable reserves (C1) of the project amounted to 15.1 mln tonnes.

On 26 July 2019, the Ministry of Energy of the Republic of Kazakhstan, KMG and Eni S.p.A. (Eni) signed a contract for the exploration of hydrocarbons in the Abai field located in the Kazakh sector of the Caspian Sea. The project operator is Isatay Operating Company LLP (a 50:50 joint venture between KMG and Eni).

From 1 August 2019 to 10 September 2019 (40 days), a scheduled plant overhaul at Tengiz's KTL-1 was conducted.

From 16 September 2019 to 10 October 2019 (25 days), a scheduled overhaul at Karachaganak was conducted.

On 20 September 2019, KMG and LUKOIL signed an agreement on joint site explorations in the Republic of Kazakhstan (RK).

On 24 September 2019, KMG and Equinor signed an agreement on joint site explorations which assume geological and geophysical surveys to identify the hydrocarbon potential of oil and gas sites in the Republic of Kazakhstan.

Crude oil sales

During the nine months of 2019 sales of oil and gas condensate produced by KMG were relatively stable and amounted to 17,807 thous. tonnes, 12,583 thous. tonnes of which were exported.

Own produced crude oil sales to the domestic market remained almost the same year-on-year and totaled 5,224 thous. tonnes (including 2,500 thous. tonnes of crude oil volumes under the processing scheme).

Oil and gas transportation

During the nine months of 2019 KMG transported 58,696 thous. tonnes of oil (including KMG's share⁶), reflecting an increase of 5.4% year-on-year. Increase in oil transportation volumes was mainly attributable to growth in offshore transportation, which is carried out by NMSK Kazmotransflot LLP (KMTF).

For the nine months of 2019 the volume of KMTF transportation increased by 68.9% year-on-year to 8,372 thous. tonnes. The growth was mainly due to the agreement signed at the end of 2018 on supply and transportation between KMTF, KMG and KMG I, resulting in increased volumes of oil transportation in the Mediterranean and Black Seas.

Oil pipeline transportation slightly decreased to 50,324 thous. tonnes mainly due to lower volumes supplied for transportation by the producers in Kyzylorda region.

During the nine months of 2019, gas transportation volumes decreased by 11.5% year-on-year to 74,369 mln m³ mainly due to the decline in transit gas volumes resulting from redistribution of Russian gas flows supplied by PJSC Gazprom and reduction in the volume of transit of Central Asian gas to China.

Key events in Midstream

In April 2019, KMG launched the feeder transportation on the Trans-Caspian international transport route. The operator of this route is KMTF.

In May 2019, the shareholders of the Caspian Pipeline Consortium (CPC) decided to implement a project to eliminate the bottlenecks of the CPC pipeline to increase its capacity in the Kazakhstan sector to 72.5 mln tonnes per year with a project implementation period from 2019 to 2023.

Refining

During the nine months of 2019 refining volumes increased by 2.2% year-on-year to 15,282 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.

Refining volumes of Kazakhstan refineries increased by 3.1% year-on-year to 10,201 thous. tonnes mainly due to an increase in refining volumes at the Shymkent refinery on the back of an increase in refining capacity after the completion of the modernisation programme:

- 3,915 thous. tonnes at the Atyrau Refinery, down 0.7%;
- 3,931 thous. tonnes at the Pavlodar Refinery, up 0.5%;
- 2,023 thous. tonnes (KMG's share - 50%) at the Shymkent Refinery, up 18.0%;
- 332 thous. tonnes (KMG's share – 50%) at Caspi Bitum, up 1.5%.

Refining at KMG I refineries increased by 0.6% year-on-year to 5,081 thous. tonnes:

- Petromidia (Romania) refining volumes were up 0.4% to 4,756 thous. tonnes;
- Vega (Romania) refining volumes were up 3.5% to 325 thous. tonnes.

Production of oil products at all refineries increased by 2.7% year-on-year to 14,310 thous. tonnes.

Production of oil products at Kazakhstan refineries (net to KMG) increased by 3.9% year-on-year to 9,333 thous. tonnes:

- 2,484 thous. tonnes of gasoline, up 4.3%;
- 3,051 thous. tonnes of diesel, up 6.7%;
- 361 thous. tonnes of jet fuel, up 137.2%;
- 3,437 thous. tonnes of other oil products, down 4.3%.

Oil products production at KMG I refineries increased by 0.6% year-on-year to 4,977 thous. tonnes:

- 1,204 thous. tonnes of gasoline, down 4.6%;
- 2,192 thous. tonnes of diesel, down 0.4%;
- 312 thous. tonnes of jet fuel, up 26.0%;
- 1,268 thous. tonnes of other oil products, up 2.6%.

Financial results for the nine months of 2019

During the nine months of 2019 revenue decreased by 1.9% year-on-year to 5,128 bln tenge (USD 13,441 mln). The downtrend was mainly attributable to the decrease in KMG I's crude oil sales volumes and the decrease in average Brent prices by 10.5%, which was partially offset by increased gas exports to China and tenge depreciation against US Dollar by 13.4%. The crude oil sales of KMG I decreased by 10% year-on-year to 1,201 bln tenge (USD 3,148 mln). Gas exports to China increased by 23.7% and amounted to 501 bln tenge (USD 1,313 mln). During the nine months of 2019, under the TCO crude prepayment⁷ KMG made an advance settlement in the amount of USD 1,846 mln which includes a USD 1,270 mln settlement ahead of the schedule.

Cost of sales amounted to 3,837 bln tenge (USD 10,058 mln), reflecting a decrease of 3.8% year-on-year due to lower costs of the purchased crude oil and a decline in global oil prices partially offset by increase in gas purchase volumes and tenge depreciation against US Dollar. Cost of purchased crude oil decreased by 6.7% year-on-year and amounted to 1,849 bln tenge

⁷ In 2016 KMG entered into a long-term TCO crude oil and liquefied petroleum gas (LPG) supply agreement, which included 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.

(USD 4,846 mln). KTG's cost of purchased gas increased by 29.3% year-on-year and amounted to 315 bln tenge (USD 827 mln).

During the nine months of 2019 the operating profit of KMG decreased by 14.5% year-on-year to 456 bln tenge (USD 1,196 mln).

The earnings from shares in the net profit of joint ventures and associates of KMG increased by 19.8% year-on-year to 639 bln tenge (USD 1,674 mln). The increase is mainly the result of a full recovery of accumulated unrecognized shares in the loss of Asia Gas Pipeline LLP to the amount of 110 bln tenge (USD 290 mln).

Net profit increased by 22.5% year-on-year and equaled 794 bln tenge (USD 2,082 mln).

Taxes and other obligatory payments amounted to 1,162 bln tenge (USD 3,044 mln), reflecting an increase of 11.1% year-on-year.

Gross debt as of 30 September 2019 decreased by 3.7% to 4,001 bln tenge (USD 10,312 mln) compared to 31 December 2018.

The consolidated cash and cash equivalents balance as of 30 September 2019 including cash in deposits decreased by 32.6% to 1,338 bln tenge (USD 3,449 mln), mainly due to the acceleration of prepayments settlement pursuant to the TCO Advanced Oil Sale transaction. KMG's net debt as of 30 September 2019 amounted to 2,663 bln tenge (USD 6,863 mln). Looking ahead, KMG plans to fully settle TCO crude oil prepayments until the end of November 2019.

Key events

In January 2019, the Atyrau refinery refinanced the loan of the Development Bank of Kazakhstan (DBK) for the amount of USD 300 mln via (1) the issuance of bonds at Astana International Exchange and (2) a loan obtained from Halyk Bank in order to reduce funding cost.

In April 2019, KMG fully repaid the Eurobonds due in 2044 for the amount of USD 30.1 mln.

During the nine months of 2019, KMG fully repaid the indexed bonds due to DBK for the amount of USD 113 mln.

In July 2019, the Atyrau refinery has switched the currency of the loan due to DBK for the amount equivalent to USD 152 mln from "USD" to "tenge" as a part of a foreign exchange risk mitigation measure.

In August 2019, KMG and KTG jointly issued a financial guarantee (each responsible for 50%) to refinance the loan obtained by Beineu-Shymkent Gas Pipeline LLP, for the amount of USD 720 mln in order to improve the terms of the financing.

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

Tel: +7 7172 78 62 27

Email: ir@kmg.kz

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.