

22 August 2019

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

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

Operating Highlights for the first half of 2019¹:

- Oil and gas condensate production was down 0.5% year-on-year to 11,704 thous. tonnes (484 thous. barrels of oil per day²);
- Natural and associated gas production was up 0.9% year-on-year to 4,160 mln m³;
- Oil transportation increased by 5.0% year-on-year to 38,949 thous. tonnes;
- Gas transportation was down 8.7% year-on-year to 50.1 bln m³;
- Refinery volume was up 1.7% year-on-year to 9,998 thous. tonnes. Volume includes refinery volume in Kazakhstan of 6,670 thous. tonnes and KMG International (“KMG I”) of 3,328 thous. tonnes in Romania. Total oil products production was up 1.6% year-on-year to 9,360 thous. tonnes;
- Sales volume of crude oil produced by KMG was up 0.5% year-on-year to 11,641 thous. tonnes.

Financial Highlights for the first half of 2019³:

- Revenue was up 1.4% year-on-year to 3,403 bln tenge (USD 8,971 mln);
- Net profit was up 73.0% year-on-year to 622 bln tenge (USD 1,641 mln);
- Capital expenditure was down 5.8% year-on-year to 167 bln tenge (USD 440 mln);
- EBITDA⁴ was up 20.5% year-on-year to 1,095 bln tenge (USD 2,888 mln);
- Net debt was up 15.0% and amounted to 2,491 bln tenge (USD 6,547 mln) compared to 31 December 2018;
- FCF adjusted⁵ soared by 77.7% and amounted to 128 bln tenge (USD 339 mln).

Key corporate events:

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 1H 2019 and 1H 2018 were 379.29 and 326.53 KZT/USD, respectively; period-end rates as at 30 June 2019 and 31 December 2018 were 380.53 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.

- 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 65.0% 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 retail petroleum stations business in Kazakhstan;
- 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-;
- On 29 March 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 mln due for repayment in 2044;
- 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, the Samruk-Kazyna JSC;
- In accordance with a Presidential decree, KMG will fund 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.

Operating results for the first half of 2019

Hydrocarbon production

During the first half of 2019 KMG oil and gas condensate production decreased by 0.5% year-on-year to 11,704 thous. tonnes in line with KMG’s plan. Natural and associated gas production increased by 0.9% to 4,160 mln m³.

During the first half of 2019 Kashagan’s oil production was down by 7.6% year-on-year to 5,705 thous. tonnes or 250 kbopd. KMG’s share in Kashagan oil and gas production decreased by 7.6% and 6.3% to 472 thous. tonnes of oil and 278 mln m³ of gas, respectively. The decline in oil and gas production is due to the scheduled overhaul of onshore and offshore complexes and a production halt from 14 April to 19 May 2019.

KMG’s share in Karachaganak’s oil production decreased by 5.4% year-on-year to 535 thous.tonnes. Gas production decreased by 0.5% to 982 mln m³. The decrease in production is mainly attributable to high gas-condensate factor and increasing water-cut.

KMG’s share in Tengiz’s oil production increased by 1.5% year-on-year to 2,992 thous.tonnes. Tengiz gas production increased by 1.3% year-on-year with KMG’s share amounting to 1,636 mln m³ due to reliable operation of the SGI/KTL/SGP (Sour Gas Injection / Complex Technology Lines / Second Generation Plant) plants. On 1 August 2019, the KTL plant started its planned overhaul with a duration of 42 days.

KMG's share in operating assets' production slightly decreased by 0.5% and amounted to 7,707 thous. tonnes. The decrease is primarily driven by natural decline of oil production.

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 Kazakhstani 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 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 are 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 and production of hydrocarbons in field Abai located in the Kazakh sector of the Caspian Sea. In accordance with prospecting works in 2013 extractable reserves (C3) of the project are 180.3 mln tonnes. The project operator is Isatay Operating Company LLP (a 50:50 joint venture between KMG and Eni).

Crude oil sales

During the first half of 2019, KMG's share in sales of oil and gas condensate produced by KMG increased by 0.5% year-on-year to 11,641 thous. tonnes including 8,225 thous. tonnes of export volumes.

Own produced crude oil sales to the domestic market slightly decreased by 1.0% year-on-year to 3,416 thous. tonnes (including 1,634 thous. tonnes of crude oil volumes under the processing scheme).

Oil and gas transportation

During the first half of 2019, KMG transported 38,949 thous. tonnes of oil (including KMG's share⁶) by pipelines, reflecting an increase by 5.0% year-on-year.

Increase in oil transportation volumes is mainly attributable to growth in offshore transportation, which is carried out by NMSK Kazmotransflot LLP (KMTF). For the first half of 2019 the volume of KMTF transportation increased by 59.3% year-on-year to 5,489 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.

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.

Redistribution of transportation volumes from the Kenkiyak-Atyrau pipeline to Kenkiyak-Kumkol pipeline caused an increase of volumes (KMG's share) at Kazakhstan-China Pipeline (KCP) by 4.6% (180 thous. tonnes) and decrease (KMG's share) at MunayTas NWPC LLP (MT) by 17.6% (190 thous. tonnes).

Decrease in oil transportation volumes by 1.0% or in the amount of 229 thous. tonnes was reported by KazTransOil JSC (KTO), on the back of reduction in oil deliveries from third parties to KTO oil pipelines.

During the first half of 2019, gas transportation volumes decreased by 8.7% year-on-year to 50.1 bln m³ mainly due to a decline in transit gas volumes resulting from a redistribution of Russian gas flows of Gazprom and reduction in the gas supply from Uzbekistan and Turkmenistan to China.

The increase in export volumes of gas transportation to China offset the decline in export volumes of Tengiz gas to Russia.

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

Refining

Refining volumes increased by 1.7% year-on-year to 9,998 thous. tonnes.

Refining volumes of Kazakhstan refineries increased by 1.8% year-on-year to 6,670 thous. tonnes in line with domestic supply obligations for oil producers:

- 2,699 thous. tonnes at the Atyrau Refinery, up 3.6%;
- 2,475 thous. tonnes at the Pavlodar Refinery, down 11.1%;
- 1,315 thous. tonnes (KMG's share - 50%) at the Shymkent Refinery, up 35.2%;
- 181 thous. tonnes (KMG's share – 50%) at Caspi Bitum, down 3.0%.

Refining at KMG I refineries decreased by 1.4% year-on-year to 3,328 thous. tonnes:

- Petromidia refining (Romania) volumes were up 1.4% to 3,126 thous. tonnes;
- Vega refining (Romania) volumes were up 4.0% to 202 thous. tonnes.

During the first half of 2019 refining depths at Kazakh refineries changed from 73.8% to 73.5% at Atyrau refinery, increased from 84.1% to 84.7% at Pavlodar refinery and increased from 77.0% to 81.3% at Shymkent refinery, comparing to the first half of 2018⁷.

Oil products production increased by 1.6% year-on-year to 9,360 thous. tonnes.

Oil products production at Kazakhstan refineries increased by 1.9% year-on-year to 6,105 thous. tonnes:

- 1,530 thous. tonnes of gasoline, down 0.8%;
- 1,985 thous. tonnes diesel, up 6.0%;
- 231 thous. tonnes of jet fuel, up 224.6%;

⁷ Starting from 2019 the refining depth calculation methodology has been updated. Figures for the first half of 2018 were recalculated in accordance of new methodology.

- 2,359 thous. tonnes of other oil products, down 5.9%.

Oil products production at KMG I refineries increased by 1.2% year-on-year to 3,255 thous. tonnes:

- 802 thous. tonnes of gasoline, down 5.0%;
- 1,437 thous. tonnes diesel, up 1.2%;
- 200 thous. tonnes of jet fuel, up 34.4%;
- 816 thous. tonnes of other oil products, up 1.4%.

Financial results for the first half of 2019

During the first half of 2019 revenue increased by 1.4% year-on-year to 3,403 bln tenge (USD 8,971 mln). The growth was mainly attributable to the increase in gas export sales volumes and tenge depreciation against US Dollar. Gas exports to China increased by 46.7% and amounted to 340 bln tenge (USD 896 mln). During the first half of 2019, under the TCO crude prepayment⁸ KMG made an advance settlement in the amount of USD 1.2 bln, which includes a USD 750 mln settlement ahead of the schedule.

Cost of sales amounted to 2,512 bln tenge (USD 6,622 mln), reflecting a decrease of 3.9% year-on-year due to lower global oil prices partially offset by increase in gas purchase volumes and tenge depreciation against US Dollar. KMG I's cost of purchased crude oil decreased by 49.3% year-on-year and amounted to 201 bln tenge (USD 530 mln). KTG's cost of purchased gas increased by 23.1% year-on-year and amounted to 197 bln tenge (USD 519 mln).

During the first half of 2019 KMG's operating profit increased by 38.2% year-on-year to 399 bln tenge (USD 1,053 mln).

KMG's earnings from shares in the net profit of joint ventures and associates increased by 32.0% year-on-year to 445 bln tenge (USD 1,174 mln). The increase is mainly attributable to the results of a full recovery of accumulated unrecognized share in loss of Asia Gas Pipeline LLP in the amount of 46 bln tenge (USD 121 mln).

Net profit increased by 73.0% year-on-year and equaled 622 bln tenge (USD 1,641 mln).

Taxes and other obligatory payments amounted to 731 bln tenge (USD 1,928 mln), reflecting an increase by 16.1% year-on-year.

Capital expenditures were reduced by 5.8%, to 167 bln tenge (USD 440 mln) due to the completion of the Kazakh refineries modernisation programme.

Gross debt decreased by 3.8% to 3,995 bln tenge (USD 10,499 mln) compared to 31 December 2018.

Cash and cash equivalents balance as of 30 June 2019 including cash in deposits decreased by 24.3% to 1,504 bln tenge (USD 3,952 mln) mainly due to the acceleration of prepayments settlement pursuant to the TCO Advanced Oil Sale transaction.

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.

As a result of the TCO prepayments settlement acceleration, KMG's net debt increased by 15.0% to 2,491 bln tenge (USD 6,547 mln) compared to 31 December 2018. Looking ahead, as of 31 August 2019 KMG expects the decrease of outstanding balance of TCO prepayments to USD 606 mln.

In January 2019, the Atyrau refinery has 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 JSC in order to reduce funding cost.

In April 2019, KMG has paid around USD 62 mln to Eurobonds holders for alignment of the covenant package, which includes early repayment of the Notes due in 2044 for the amount of USD 30.1 mln.

In July 2019, KMG has made the final installment repayment of indexed bonds due to DBK for the amount of USD 53 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 terms of the financing.

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.