

12 March 2020

JSC NC KazMunayGas announces 2019 FY financial results

Nur-Sultan, 12 March 2020 – Joint-stock (JSC) National Company (NC) KazMunayGas (“KMG” or “Company”), Kazakhstan's national vertically integrated oil and gas company, announces its financial results for 2019 according to International Financial Reporting Standards (IFRS).

Highlights for 2019¹:

- EBITDA² up 15.0% year-on-year to 1,963 bln tenge (USD 5,126 mln);
- FCF³ up 42.4% year-on-year to 592 bln tenge (USD 1,537 mln);
- Net debt up 8.6% and amounted to 2,361 bln tenge (USD 6,171 mln) compared to 31 December 2018 due to cash utilization for the advance settlement under TCO crude prepayment.

	UoM	2019	2018	%
Brent dated, average	\$/bbl	64.21	71.31	-10.0%
Exchange rate, average	KZT/USD	382.87	345.04	11.0%
Revenue	bln tenge	6,859	6,989	-1.9%
Share in profit of JVs and associates, net	bln tenge	828	697	18.7%
Net profit	bln tenge	1,158	694	67.0%
EBITDA ²	bln tenge	1,963	1,707	15.0%
FCF ³	bln tenge	592	416	42.4%
Net debt	bln tenge	2,361	2,175	8.6%

Operating results for 2019

- Oil and gas condensate production stable year-on-year and amounted to 23,618 thous. tonnes or 26% of total production in Kazakhstan;
- Oil and gas transportation segment relatively stable at 78,066 thous. tonnes of oil and 103,494 bln m³ of gas transported;

¹ 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 exchange rates for 2019 and 2018 were 382.87 and 345.04 KZT/USD, respectively; period-end exchange rates as at 31 December 2019 and 31 December 2018 were 382.59 and 384.20 KZT/USD, respectively).

² Starting from 2019, the Company revised calculation approach of Earnings before interest, taxes, depreciation and amortization (EBITDA), excluding the finance income from the methodology. In the reports for 2019, and for further periods, the Company calculates EBITDA as “Revenue + Share in profit of JVs and associates, net – Cost of purchased oil, gas petroleum products and refining costs – G&A expenses – Transportation and selling expenses – Taxes other than income tax. Financial metrics for prior periods were recalculated respectively.

³ Starting from 2019, the Company revised calculation approach of the Free cash flow (FCF), including proceeds from the loan previously provided to Caspian Pipeline Consortium. The Company calculates FCF as “CFO - TCO prepayments, net – Capex (cash basis) + Proceeds from the loan previously provided to Caspian Pipeline Consortium”. FCF metrics for prior periods were recalculated respectively.

- Domestic demand for light petroleum products fully covered and further volumes were exported to European and Central Asian markets.

	2019	2018	%
Oil production, thous. tonnes	23,618	23,606	0.1%
Gas production, mln m ³	8,455	8,137	3.9%
Oil transportation, thous. tonnes	78,066	75,038	4.0%
Gas transportation, mln m ³	103,494	111,567	-7.2%
Oil refining, thous. tonnes	20,588	19,715	4.4%

For further information, please see the Trading Update for 2019: <http://ir.kmq.kz/>

Financial results for 2019

Revenue and other income

During 2019, revenue decreased by 1.9% year-on-year to 6,859 bln tenge (USD 17,915 mln). The downtrend was mainly attributable to the decrease in average Brent prices by 10.0% and the decrease in KMG International's (KMG I) crude oil sales volumes, which was partially offset by increased gas exports to China and tenge depreciation against US Dollar by 11.0%. The crude oil sales of KMG I decreased by 13.2% year-on-year to 1,567 bln tenge (USD 4,092 mln). Gas export increased by 22.9% and amounted to 674 bln tenge (USD 1,761 mln).

The earnings from shares in the net profit of joint ventures and associates of KMG increased by 18.7% year-on-year to 828 bln tenge (USD 2,163 mln). The increase is mainly the result of a full recovery of accumulated unrecognized shares in the loss of Asia Gas Pipeline LLP⁴ to the amount of 168 bln tenge (USD 439 mln).

Finance income for 2019 increased by 49.6% year-on-year to 241 bln tenge (USD 629 mln). The increase was mainly driven by derecognition of loans from partners of the Pearls project for the total amount of 111 bln tenge (around USD 290 mln) due to the partners' decision to voluntarily relinquish the contract area under the Pearls PSA.

Costs and expenses

The cost of purchased oil, gas, petroleum products and refining costs amounted to 3,914 bln tenge (USD 10,222 mln), reflecting a decrease of 9.3% year-on-year due to lower cost of purchased crude oil and the lower global oil prices partially offset by increase in gas purchase volumes and tenge depreciation against US Dollar. Crude oil purchases decreased by 6.1% year-on-year to 2,448 bln tenge (USD 6,395 mln). KMG's cost of purchased gas increased by 53.3% year-on-year and amounted to 473 bln tenge (USD 1,235 mln).

Production expenses amounted to 722 bln tenge (USD 1,885 mln), reflecting an increase of 19.4% year-on-year due to increase of salary expenses, repair and maintenance and the lease expenses. Salary expenses for production employees for 2019 were up by 15.9% year-on-year and amounted to 338 bln tenge (USD 883 mln) due to the salary indexation by around 7% for the employees at KMG-operated assets and KMG. Repair and maintenance costs for 2019

⁴ AGP is a joint company of JSC KazTransGas JSC (100% KMG subsidiary) and Trans-Asia Gas Pipeline Company Limited (shareholder – CNODC, CNPC subsidiary).

amounted to 129 bln tenge (USD 338 mln), reflecting an increase of 31.5% year-on-year explained by the workover of the wells at oilfields of the JSC Ozenmunaigas and JSC Embamunaigas, scheduled overhauls at Karachaganak mega project and the service maintenance of processing equipment at the Atyrau refinery (ANPZ). Increase of the lease expenses can be explained by attraction of third-party ship-owners for providing oil transportation services in accordance with the agreement on oil transportation between Kazmortransflot (KMTF), KMG and KMG I.

Transportation and selling expenses for 2019 were up by 13.4% year-on-year to 420 bln tenge (USD 1,098 mln) mostly due to an increase of gas export volumes to China.

General and administrative expenses were almost stable year-on-year and amounted to 214 bln tenge (USD 559 mln). In 2019, KMG recognized a provision in the amount of 34 bln tenge (USD 90 mln) related to litigation issues between KMG Drilling & Services and the Consortium of companies Ersai Caspian Contractor LLP and Caspian Offshore and Marine Construction LLP on the issues arising from the contract for the purchase of integrated works on construction of a jack-up floating drilling rig. More detailed information is presented in the notes to the consolidated financial statement of KMG for 2019.

Finance costs were down by 25.8% year-on-year and amounted to 317 bln tenge (USD 829 mln) due to recognized interest for the early redemption of Eurobonds in 2018.

Net profit increased by 67.0% year-on-year and equaled 1,158 bln tenge (USD 3,026 mln). The growth is explained by full recovery of accumulated unrecognized shares in the loss of AGP, increased gas exports to China, a finance income increase and a decrease of finance costs for 2019.

Taxes and other obligatory payments amounted to 1,522 bln tenge (USD 3,975 mln), reflecting an increase of 5.4% year-on-year.

Debt load

Gross debt as of 31 December 2019 decreased by 316 bln tenge (USD 780 mln) or 7.6% to 3,838 bln tenge (USD 10,030 mln) compared to 31 December 2018. The decrease of gross debt mainly was attributable to derecognition of loan from partners of the Pearls project for the total amount of 111 bln tenge (USD 290 mln), a decrease of ANPZ debt in the amount of 62 bln tenge (around USD 163 mln), full repayment of the Eurobonds due in 2044 for the amount of 11.6 bln tenge (USD 30.1 mln), repayment of bonds held by the Development Bank of Kazakhstan (DBK) for the amount of 40.5 bln tenge (around USD 113 mln), decrease of a KMG I loan to the amount of 32 bln tenge (around USD 83 mln) and repayments of loans by other subsidiaries.

The cash and cash equivalents balance as of 31 December 2019 including cash in deposits decreased by 25.4% to 1,476 bln tenge (USD 3,859 mln), mainly due to the cash utilization for the acceleration of a prepayments settlement pursuant to the TCO Advanced Oil Sale⁵ transaction (USD 1,250 mln settlement ahead of the schedule).

⁵ 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 June and August 2021, respectively.

As a result of the above, KMG's net debt as of 31 December 2019 amounted to 2,361 bln tenge (USD 6,171 mln) reflecting an increase of 8.6% compared to 2,175 bln tenge (USD 5,661 mln) as of 31 December 2018.

Key corporate events:

- In January 2019, the Atyrau refinery refinanced the loan of the 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;
- On 28 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, 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;
- In July 2019, the Atyrau refinery 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;
- 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 the standalone rating of KMG has been upgraded from Ba3 to Ba2;
- 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;
- During 2019, KMG made a full repayment of indexed bonds to DBK for the amount of USD 113 mln;
- In 2019, under the TCO crude prepayment KMG fulfilled contractual obligations in the amount of USD 2,250 mln, which includes a USD 1,250 mln settlement ahead of the schedule;
- In December 2019, ANPZ entered into a loan agreement with DBK under KMG guarantee in tenge for the amount equivalent to USD 200 mln, that includes refinancing of foreign currency loan from Exim Bank of China in January 2020.

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.

KMG's significant assets are as follows:

Upstream: Tengizchevroil (TCO) - 20%, Karachaganak (KPO) - 10%, Kashagan - 8.44%⁶, Ozenmunaigas (OMG) - 100%, Mangistaumunaigas (MMG) - 50%, Embamunaigas (EMG) - 100%, Kazgermunai (KGM) - 50%, Petrokazakhstan Inc (PKI) - 33.0%, Karazhanbasmunai (KBM) - 50%, KazakhOil Aktobe (KOA) - 50%, KazakhTurkmunai (KTM) - 100%, KazMunayTeniz - 100%

Midstream: KazTransOil - 90% (Kazakhstan China Pipeline (KCP) - 50%, Munai Tas - 51%, Batumi Oil Terminal - 100%), CPC - 20.75%⁷, Kazmortransflot - 100%, KazTransGas - 100% (ICA - 100%, AGP - 50%, KTG Aimak - 100%, BSGP - 50%, KazRosGas - 50%).

Downstream: Pavlodar refinery - 100%, Atyrau refinery - 99.53%, Shymkent refinery - 49.72%, KMG International - 100% (Petromidia refinery - 54.63%, Vega refinery - 54.63%)

⁶ In October 2015, KMG sold 50% of its shares in Kashagan to Samruk-Kazyna with a call option to buy back all part of shares at any time between 2020 and 2022. KMG and Samruk-Kazyna own 16.88% in total.

⁷ 19% through the KMG itself and 1.75% through Kazakhstan Pipeline Ventures (KPV).