



ҚазМұнайГаз
NATIONAL COMPANY ҰЛТТЫҚ КОМПАНИЯСЫ

National Company KazMunayGas

Operational and financial results

9M 2018



Disclaimer

Forward-looking statements

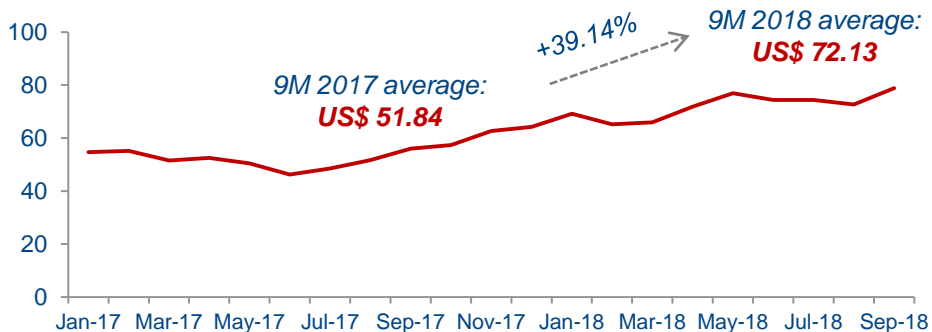
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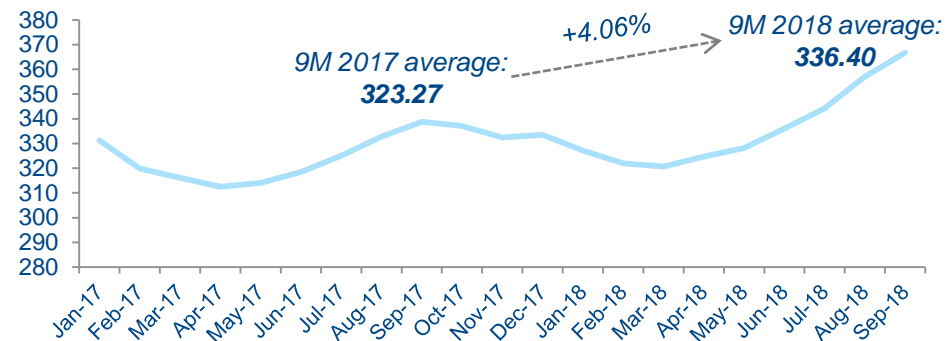
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Key factors impacting performance

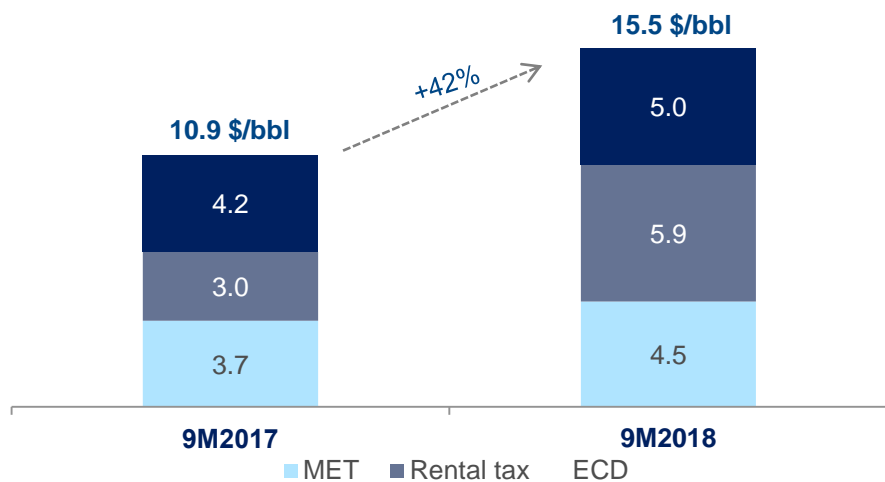
Brent price, US\$/bbl



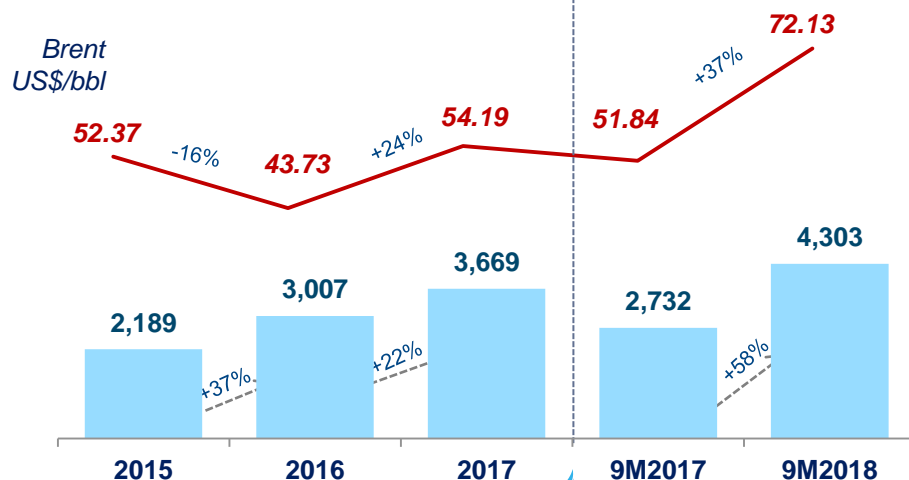
US\$/KZT rate



Upstream tax payments (\$/bbl)



EBITDA ⁽¹⁾, US\$ mln



9M 2018 key developments

Operational

- During 9M 2018, Kashagan's oil production significantly increased to 9,511 kt of oil (276 kbopd, 9M2018 average) or +64% YoY (KMG share - 787 kt). The growth was due to the commissioning of crude gas reinjection system at the end of August 2017, improvements in equipment reliability and production efficiency;
- In September 2018, partners of Karachaganak project signed an agreement sanctioning the Karachaganak Debottlenecking Project that is aimed to extend the duration of liquid production plateau. Project will enable the processing up to 4 bcm of additional gas that will be used for reinjection to maximize incremental liquids production by 10 mt;
- KazTransGaz and PetroChina International Company signed a five-year contract to double Kazakh natural gas exports to China to 10 bcm per year;
- Shymkent refinery modernisation is completed, bringing to an end Kazakh refineries modernisation programme.

Corporate

- KMG EP delisting occurred on 10 May 2018. KMG owns 99.6% of KMG EP's common equity;
- On 13 November 2018, KMG EP's board of directors extended the deadline for the repurchase of preferred stock until 31 January 2019. As at November 16, 2018, KMG EP repurchased 1,058,363 preferred shares in the amount of KZT 13.5 bln, representing 55.6% of outstanding preferred shares in free float;
- 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 November 2018, Alik Aidarbayev was appointed as a Chairman of the Management Board of KMG.

Financial

- In January and April 2018, in accordance with an amendment to TCO oil supply agreement signed in December 2017, KMG received an additional two prepayment tranches of USD 500 mln;
- In April and September 2018, KMG received dividends from TCO in the amount of US\$ 102 mln and US\$85 mln, respectively;
- In May 2018, KMG redeemed Eurobonds ahead of schedule with nominal value of US\$ 3.1 bln, which were financed by Eurobonds refinance in the amount of US\$ 3.25 bln;
- On July 2, 2018, KMG repaid bonds issued in 2008 in the amount of US\$ 1.6 bln;
- On August 6, 2018, KMG Kashagan B.V. received an additional tranche of USD 600 mln and repaid final debt tranche to consortium members for 8.44% stake in the North Caspian project in the amount of USD 844 mln;
- In October 2018, KMG made an advance repayment of loan obtained from PJSC Sberbank of Russia in the amount of US\$ 371.4 mln.

Macro

- In November 2018, Kazakh sovereign issued the first ever euro-denominated bond. The two tranches raised €525 million each.

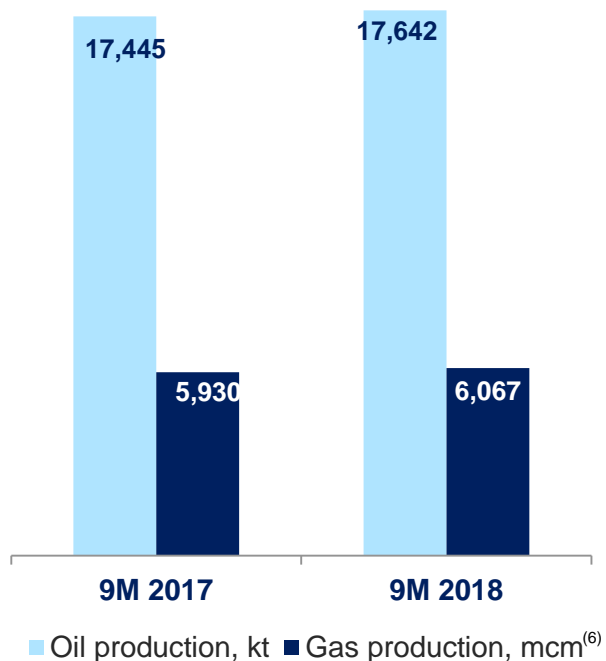
Financial results

Brent, average	US\$/bbl	72.13	51.84	+39.14%
X-rate, average	KZT/US\$	336.40	323.27	+4.06%

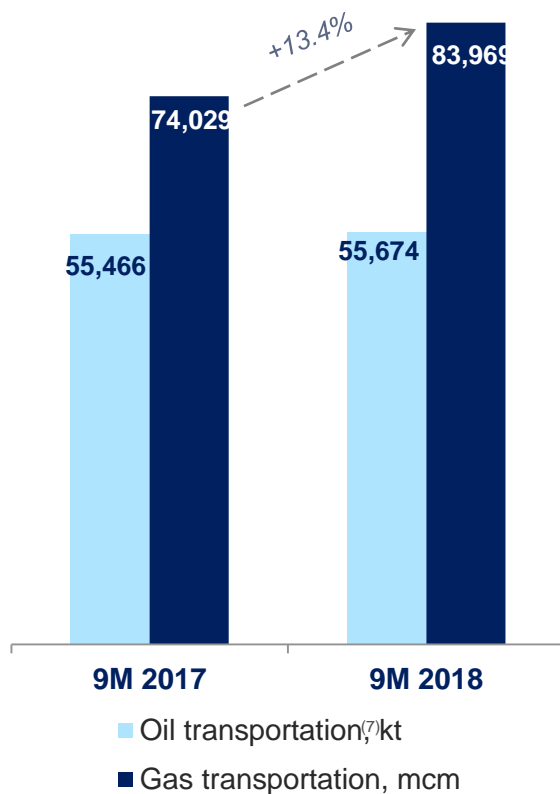
Item	Unit	9M 2018	9M 2017	% change
Revenue ⁽²⁾	KZT bln	5,207	3,214	+62.03%
	US\$ mln	15,478	9,941	+55.71%
Share in profit of JVs and ass.-s ⁽²⁾	KZT bln	533	285	+86.88%
	US\$ mln	1,584	882	+79.59%
EBITDA ⁽¹⁾⁽²⁾	KZT bln	1,447	919	+57.51%
	US\$ mln	4,303	2,732	+57.51%
Net Profit ⁽²⁾	KZT bln	648	454	+42.68%
	US\$ mln	1,927	1,405	+37.11%
Capex (on accrual basis) ⁽³⁾	KZT bln	272	449	-39.36%
	US\$ mln	809	1,388	-41.73%
Capex (on cash basis)	KZT bln	311	286	+8.55%
	US\$ mln	924	886	+4.32%
Dividends received from JVs and ass.-s	KZT bln	137	71	+94.19%
	US\$ mln	407	218	+86.61%
Prepayments for TCO crude oil, net	KZT bln	84	162	-47.90%
	US\$ mln	251	501	-49.94%
FCF ⁽⁴⁾	KZT bln	139	71	+94.91%
	US\$ mln	414	221	+87.31%
FCF adjusted ⁽⁵⁾	KZT bln	223	233	-4.21%
	US\$ mln	664	721	-7.94%
Net Debt ⁽⁵⁾⁽¹⁴⁾⁽¹⁵⁾	KZT bln	2,198	1,341	+63.91%
	US\$ mln	6,055	4,036	+50.02%
ROACE	%	7.2	5.7	+27.32%

Key operating results

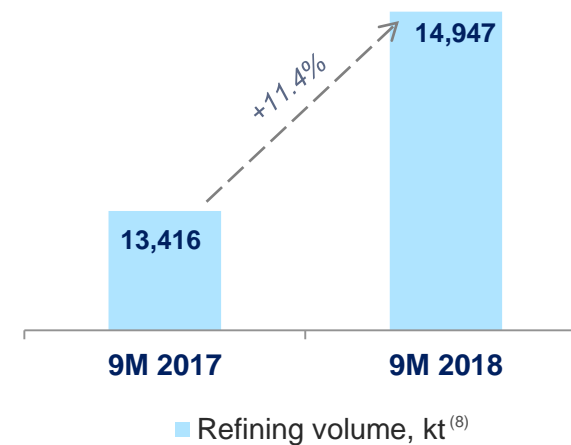
Upstream



Midstream

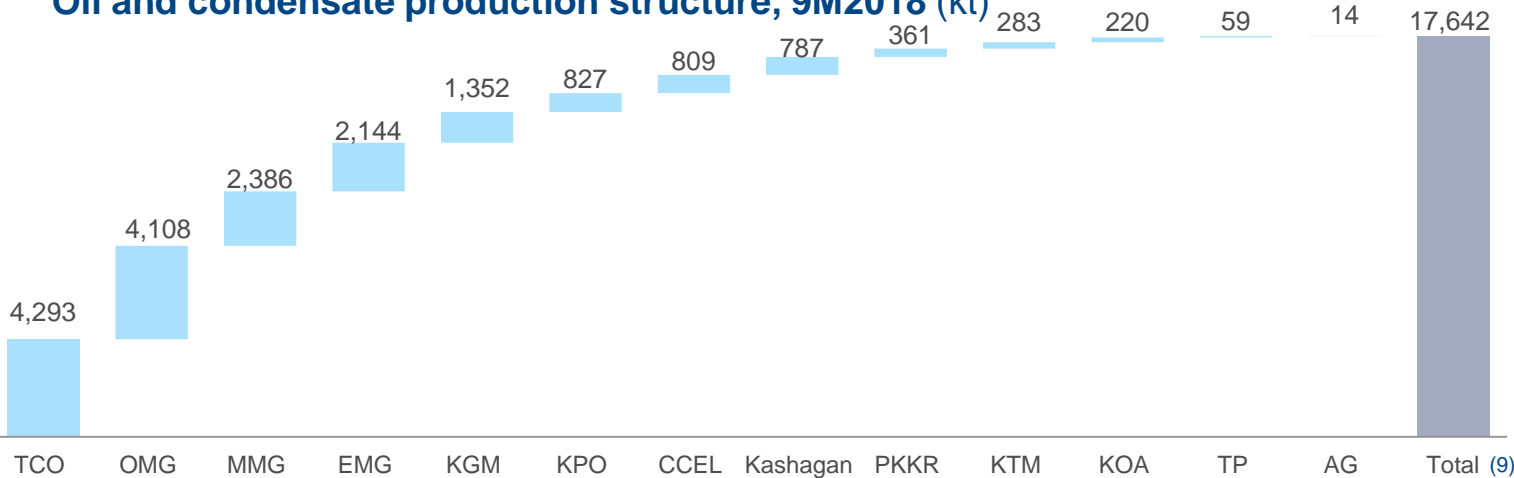


Downstream

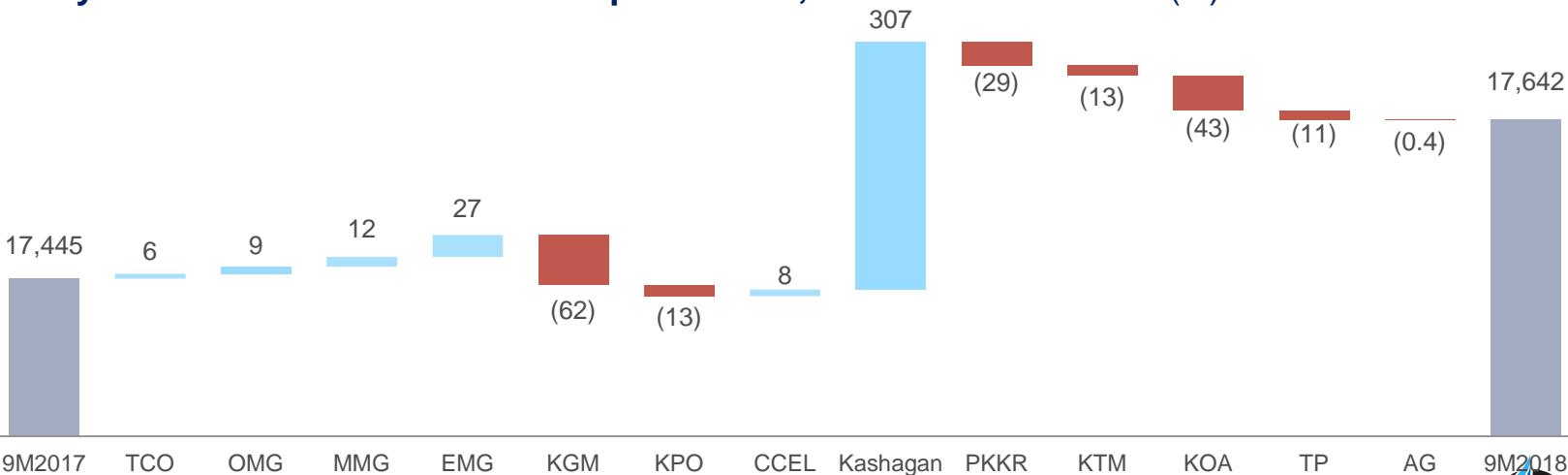


Upstream: Oil and gas condensate

Oil and condensate production structure, 9M2018 (kt)



Dynamics of oil and condensate production, 9M 2018 vs 9M 2017 (kt)

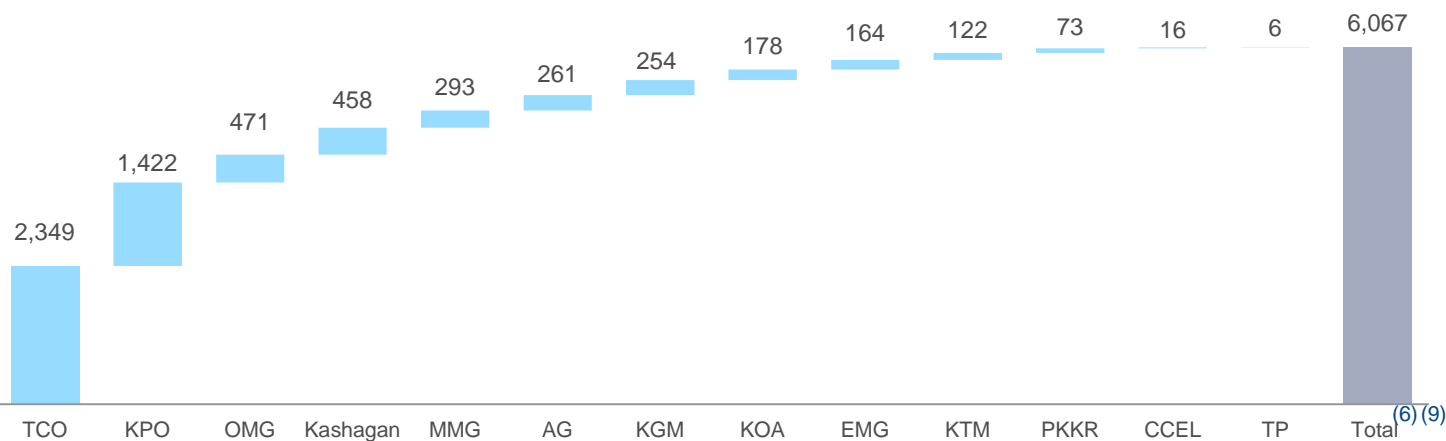


- In 9M 2018, total oil and condensate production of KMG reached to 17.6 mt (491 kbopd), which is +1% YoY.
- Kashagan's production growth by 64% YoY was the main driver of 9M 2018 total production increase. Average production in 9M 2018 is 276 kbopd.
- KGM, KOA, KTM, PKKR, TP decreased oil production due to natural decline of oil production and limitations on gas flaring at the fields.
- Oil and condensate production at KPO slightly decreased by 1.6% or 13 kt YoY (net to KMG) in the reason of temporary reduced performance of gas dehydration unit.



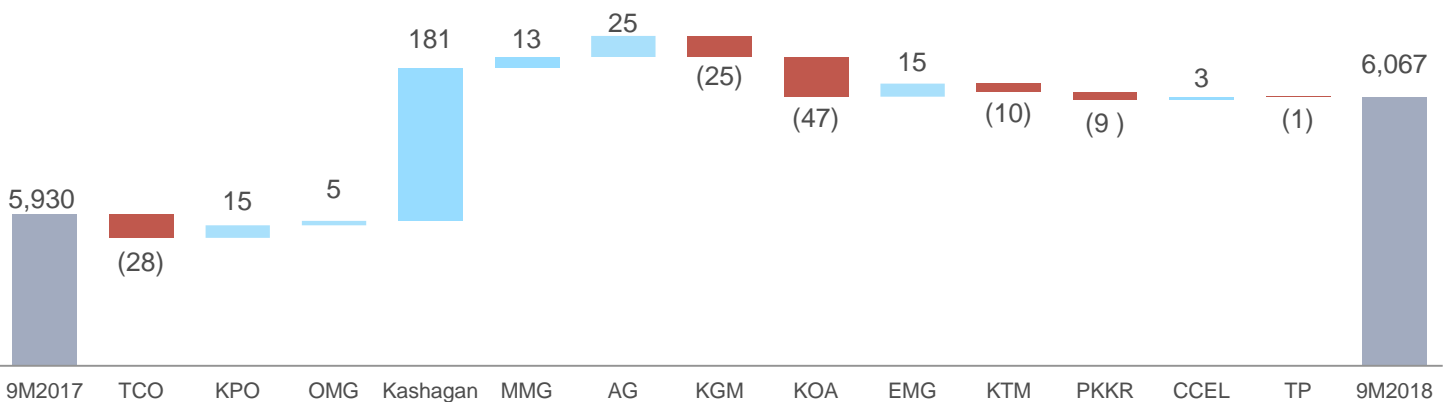
Upstream: Natural and associated gas

Gas production structure , 9M 2018 (mcm)

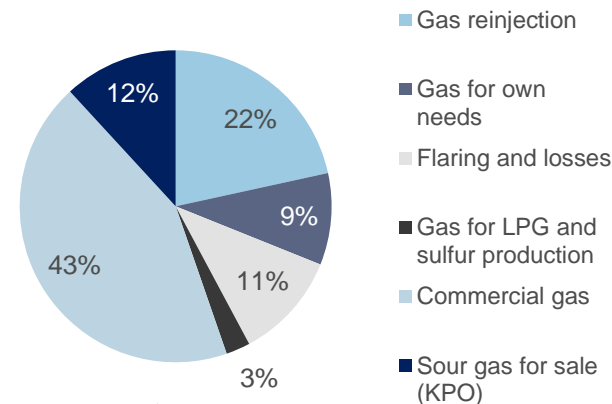


- Total production of natural and associated gas was 6,067 mcm or 2% higher YoY.
- Kashagan's gas production growth by 65% YoY was due to corresponding increase in oil production.
- TCO gas production reflected slight decrease by 1% YoY due to overhaul at gas processing plant.
- Reduction (net to KMG) in KOA by 47 mcm or -21% YoY and in KGM by 25 mcm or -9% YoY was due to corresponding decrease in oil production.

Dynamics of gas production, 9M 2018 vs 9M 2017 (mcm)

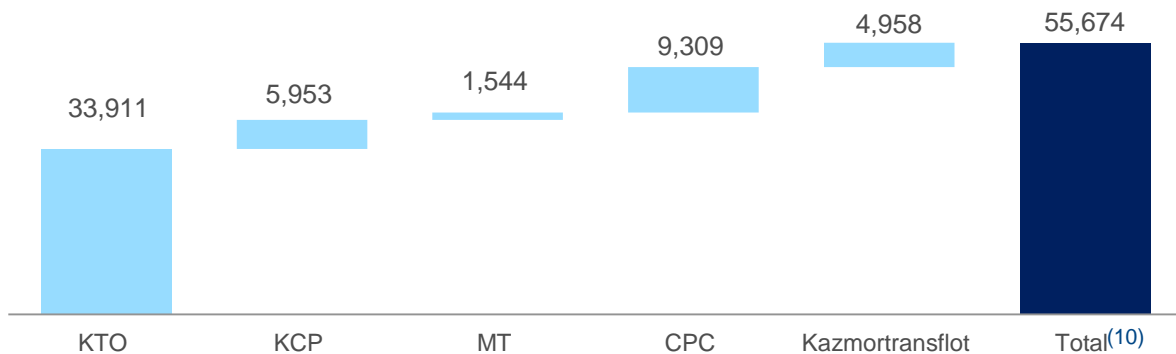


Natural and associated gas uses, 9M2018



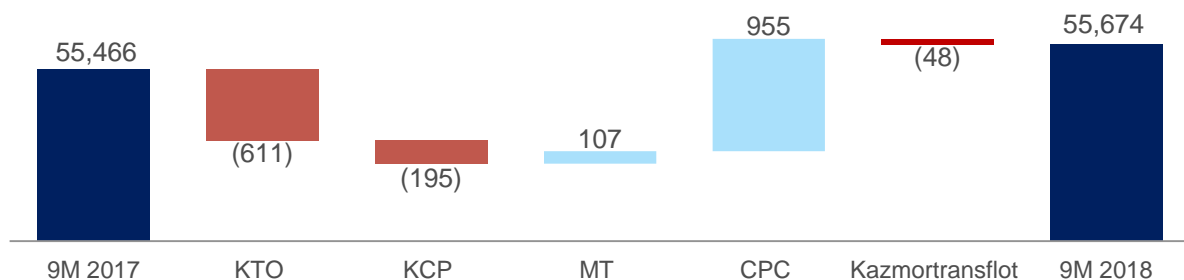
Midstream: Crude oil transportation

Oil transportation structure, 9M 2018 (kt)

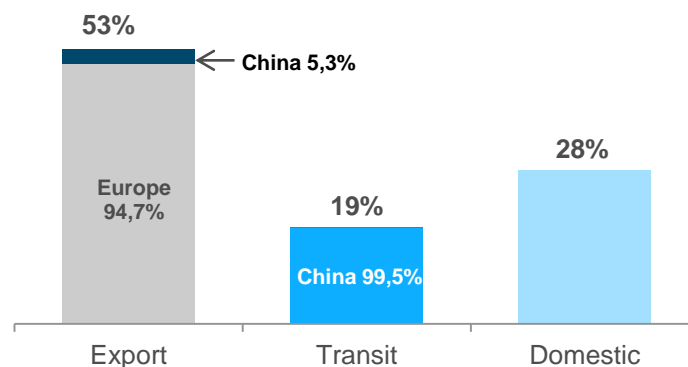


- Total volume of oil transportation reached 55.7 mt, posting +0.4% YoY growth.
- Increase of transportation volumes at CPC 8% (955 kt) was due to an increase in oil production at Kashagan.
- Decline of transportation volume at KTO by 2% (611 kt) occurred as a result of redistribution of Kashagan's oil to the CPC system.
- Transportation volume at KCP decreased by 3% (195 kt) due to redistribution of Aktobe fields oil to the MT system.

Dynamics of oil transportation, 9M 2018 vs 9M 2017 (kt)

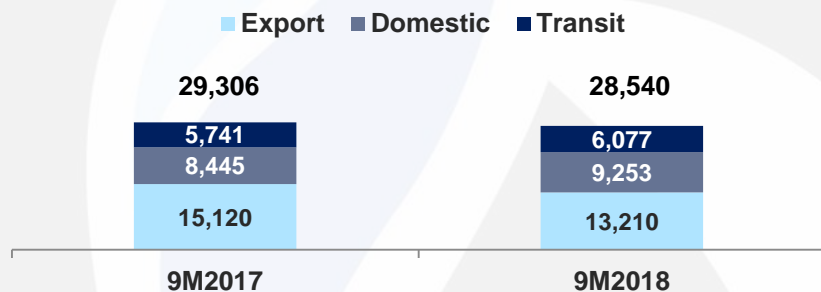


Oil pipeline throughput by direction, 9M 2018 (40,717 mt)



Midstream: Crude oil pipeline transportation

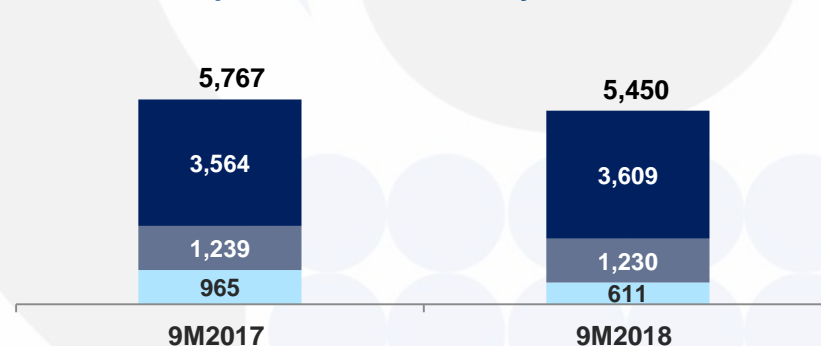
KTO oil transportation turnover by directions and tariffs, (mt*km)



CPC oil transportation volume by directions and tariffs, (mt)



KCP oil transportation turnover by directions and tariffs, (mt*km)



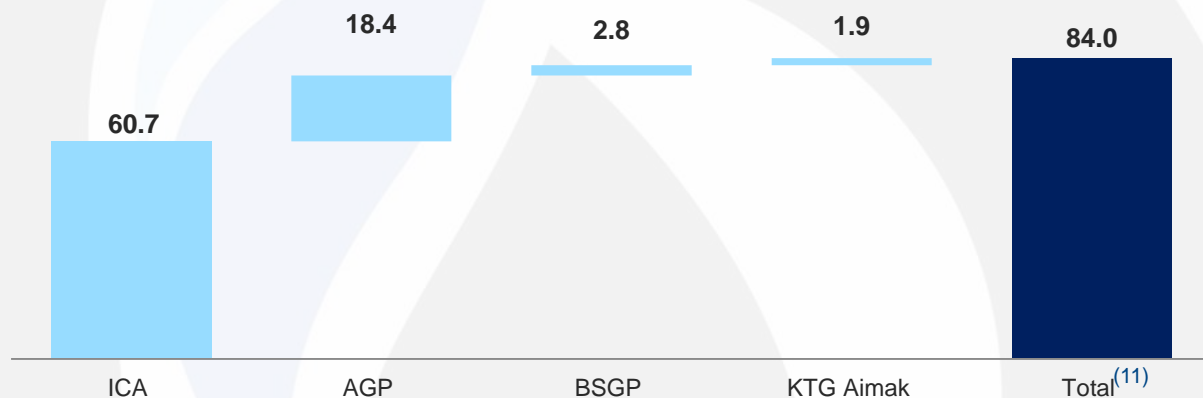
Direction	UoM	Average tariffs (KZT)	Average tariffs (USD)
Export	tn per 1000 km	6,399	19.02
Domestic	tn per 1000 km	4,292	12.76
Transit	tn per 1000 km	4,057	12.1

Direction	UoM	Average tariffs (KZT)	Average tariffs (USD)
Export	tn per tonne	12,783	38.00

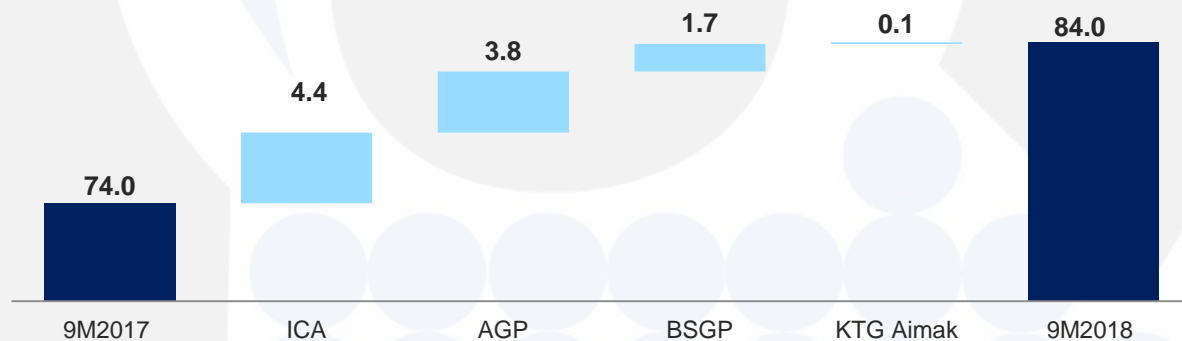
Direction	UoM	Average tariffs (KZT)	Average tariffs (USD)
Export	tn per 1000 km	6,799	20.22
Domestic	tn per 1000 km	6,507	19.35
Transit	tn per 1000 km	2,805	8.34

Midstream: Gas transportation

Gas transportation structure, 9M 2018 (bcm)

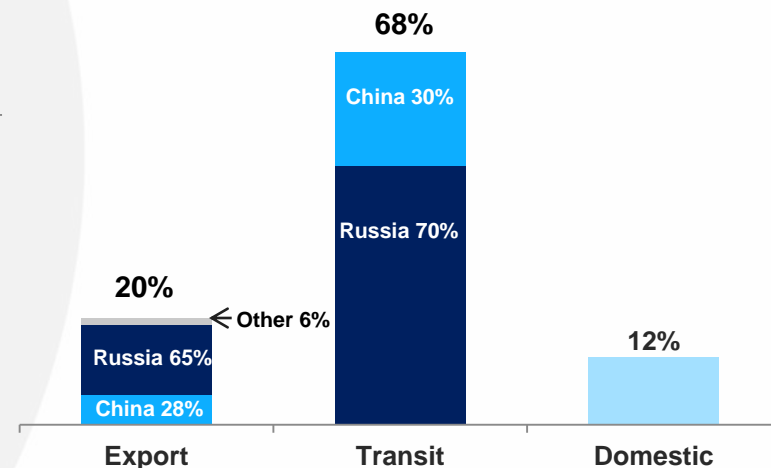


Dynamics of gas transportation, 9M 2018 vs 9M 2017 (bcm)



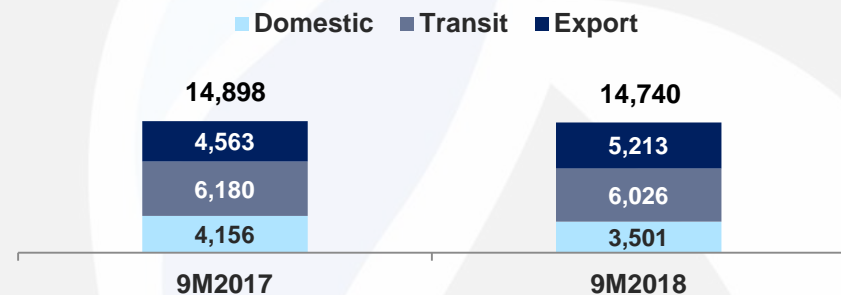
- Volume of gas transportation amounted to 84.0 bcm vs 74.0 bcm in 9M 2017.
- The volume of gas transported using KMG's main gas pipelines increased by 13% YoY (9.9 bcm) mainly due to the growth of export volumes.

Gas pipeline throughput by direction, 9M 2018 (77,3 bcm)



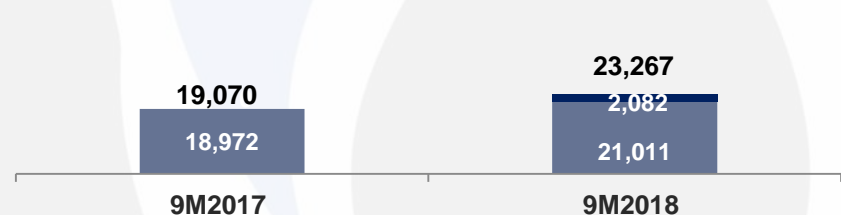
Midstream: Gas transportation

ICA gas transportation turnover by directions and tariffs, (mcm*km)



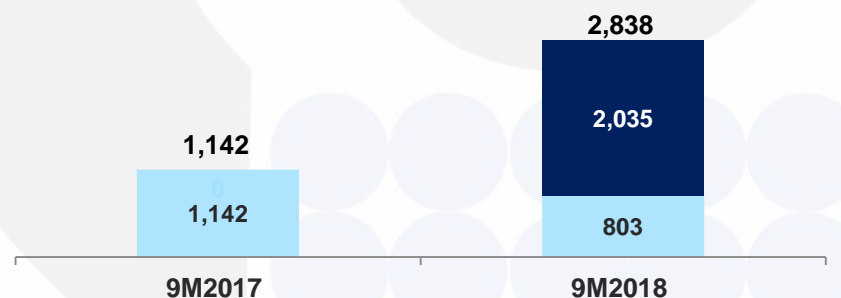
Direction	UoM	Average tariffs (KZT)	Average tariffs (USD)
Export	KZT/ 1000 m3 per 100 km	1,177	3.5
Domestic	KZT/ 1000 m3	2,213	6.58
Transit	KZT/ 1000 m3 per 100 km	673	2.00

AGP gas transportation turnover by directions and tariffs, (mcm*km)



Direction	UoM	Average tariffs (KZT)	Average tariffs (USD)
Export	KZT/ 1000 m3 per 100 km	1,204	3.58
Domestic	KZT/ 1000 m3	3,494	10.39
Transit	KZT/ 1000 m3 per 100 km	1,204	3.58

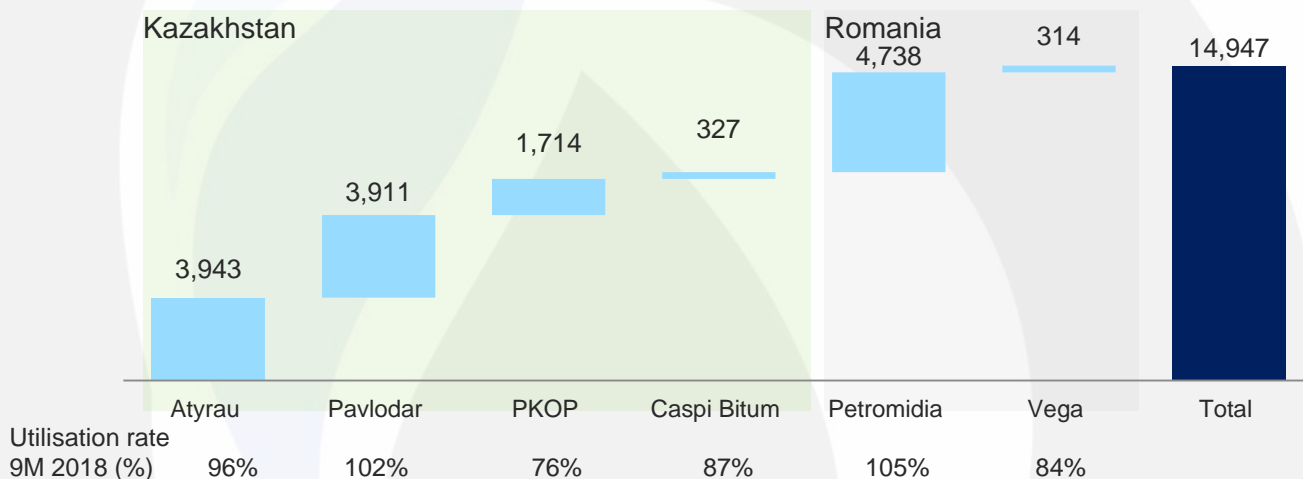
BSGP gas transportation volume by directions and tariffs, (mcm)



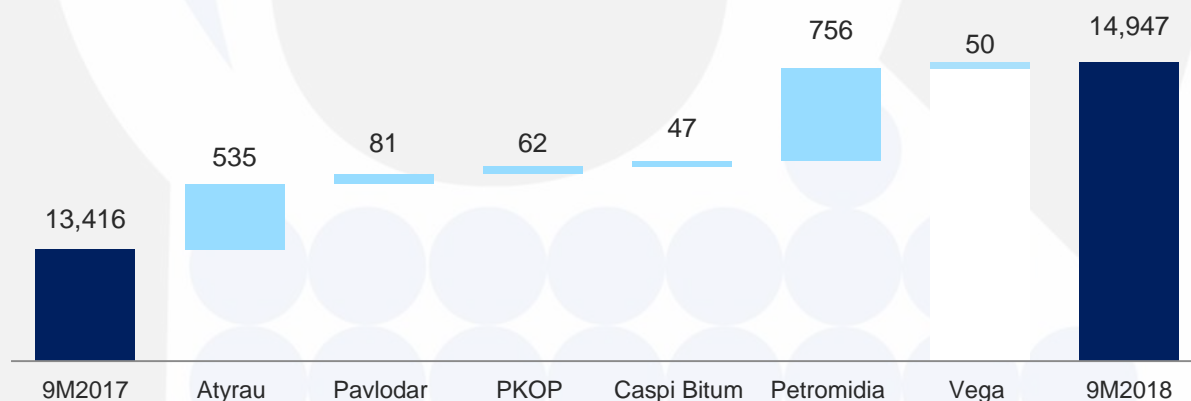
Direction	UoM	Average tariffs (KZT)	Average tariffs (USD)
Export	KZT/ 1000 m3	18,071	53.72
Domestic	KZT/ 1000 m3	18,071	53.72

Downstream: Refining volumes

Hydrocarbon refining volumes structure, 9M 2018 (kt)



Dynamics of hydrocarbon refining, 9M 2018 vs 9M 2017 (kt)

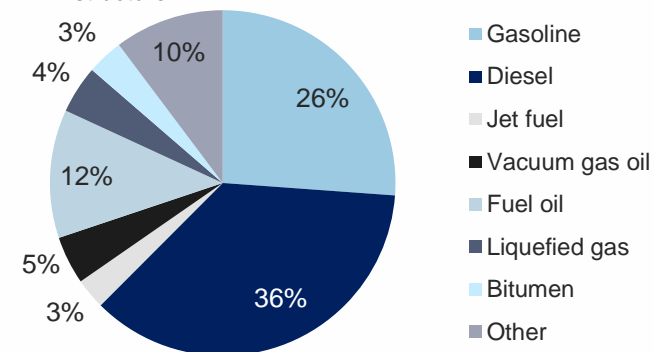


Average processing fee, KZT/tonne

Refinery	Average fee for 9M 2018
Atyrau	32,658
Pavlodar	17,250
PKOP	18,444
Caspi Bitum	18,000
Petromidia	n/a
Vega	n/a

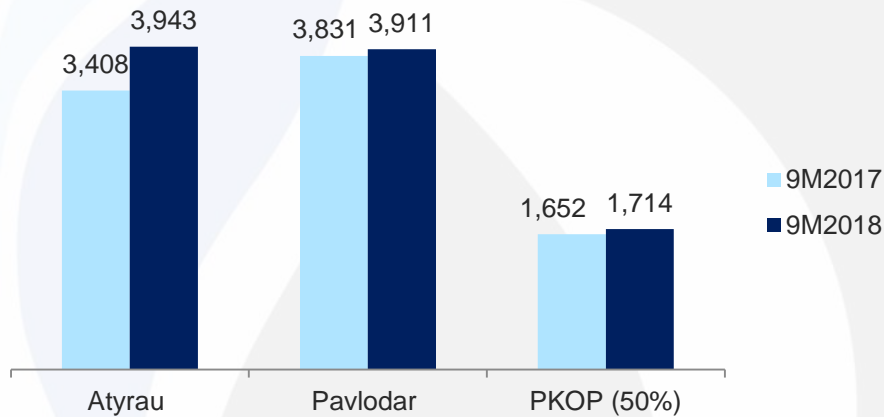
Oil products breakdown, %

In 9M2018 the share of gasoline and diesel fuel shifted from 60% to 62% in the KMG's refining products structure.

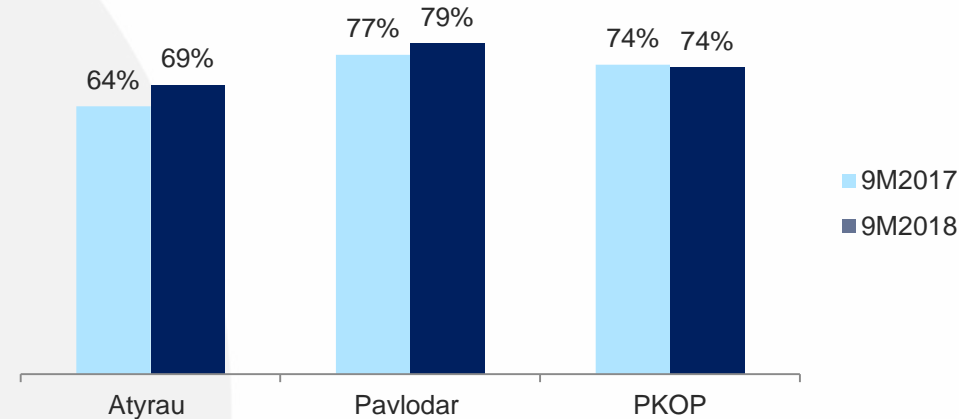


Downstream: Effects of modernisation

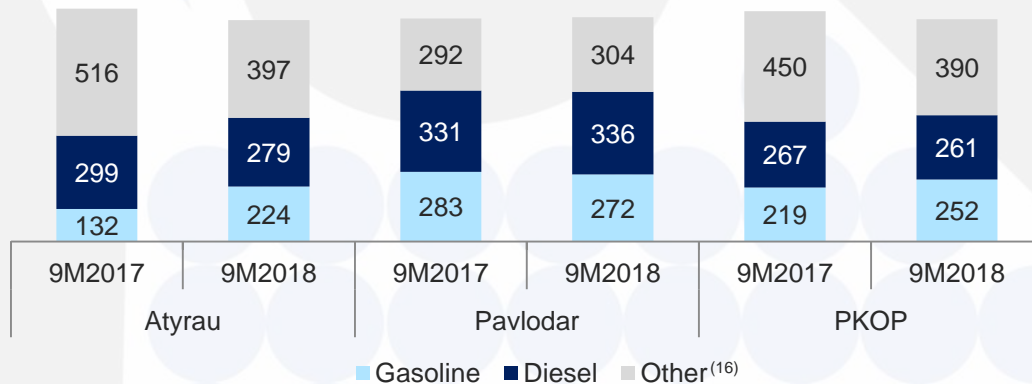
Refining volume 9M 2018 vs 9M 2017 (kt)



Processing depth 9M 2018 vs 9M 2017 (%)



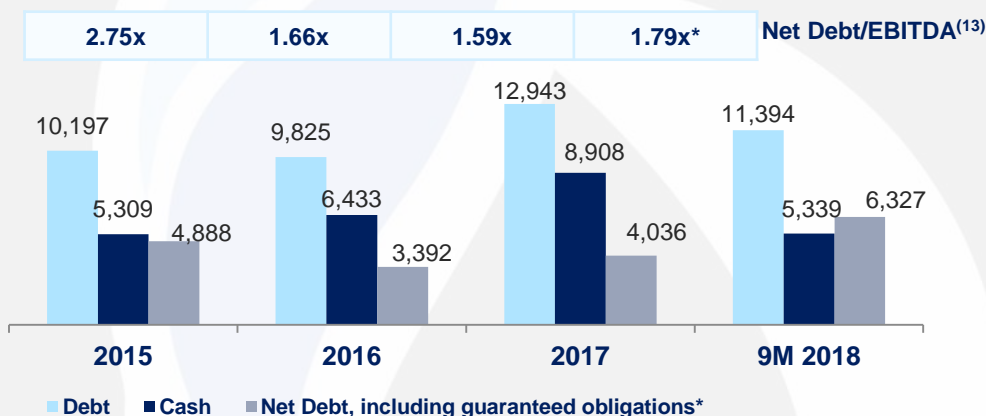
Production yield per 1000 kg of crude 9M 2018 vs 9M 2017 (kg)



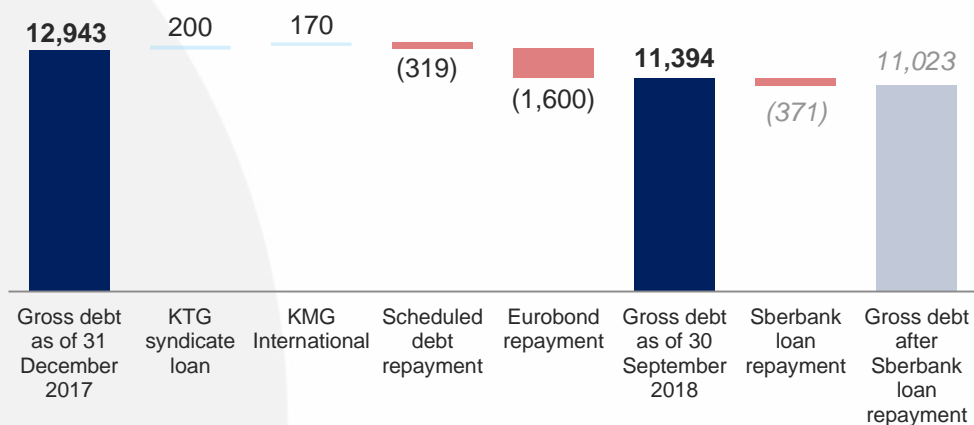
- Shymkent refinery modernisation is completed, meaning successful completion of Kazakh refineries modernisation programme.
- Modernisation completion reflects continuous quantitative and qualitative increase to designed parameters.
- The refining depth of 74% at PKOP remained stable over the period due to completion of PKOP modernisation in September 2018.

Financial position

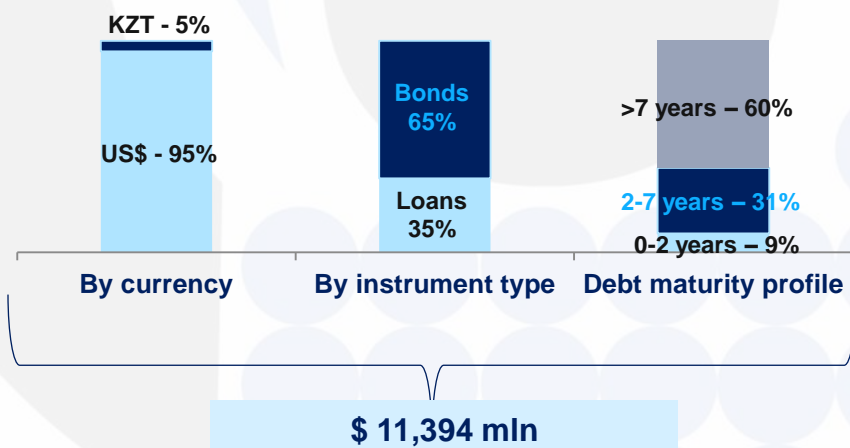
Debt ⁽¹⁴⁾, US\$ mln



Debt movement, US\$ mln



Debt structure, US\$ mln



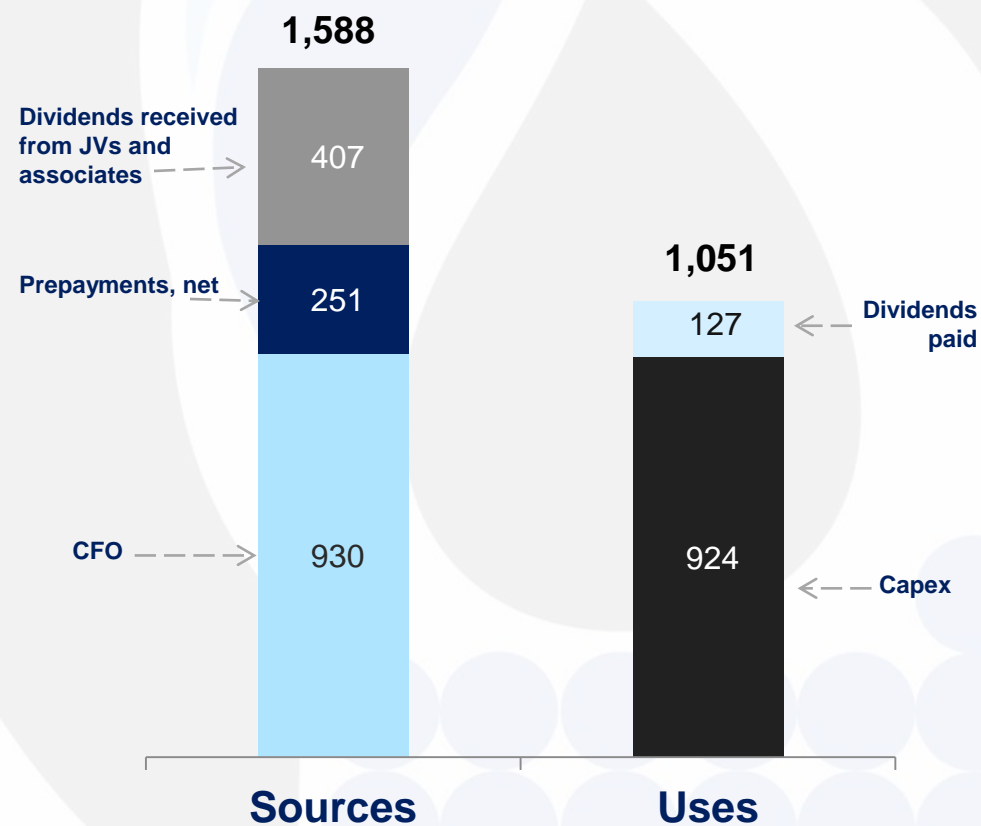
KMG rating

Moody's	S&P	Fitch
Baa3	BBB-	BBB-
Ba1	BB+	BB+
Ba2	BB	BB
Ba3	BB-	BB-

S&P upgraded its rating on KMG from 'BB-' to 'BB', with stable outlook, and assessed KMG's stand-alone credit profile at 'b+', compared with 'b' previously.

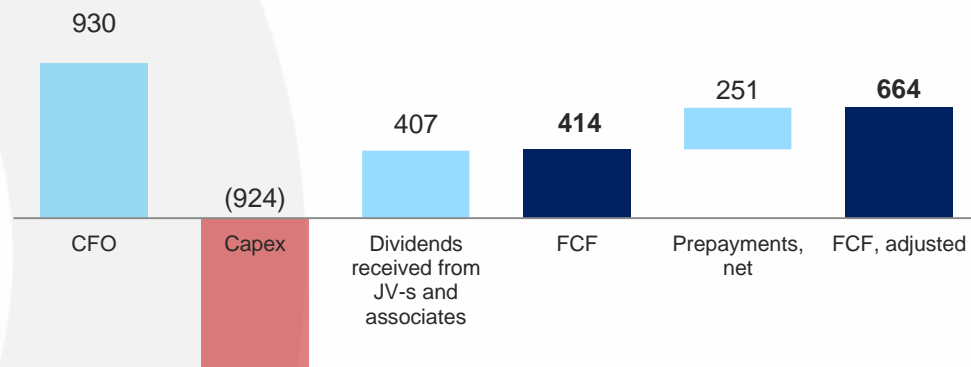
Free cash flow allocation

Cash Flow allocation 9M 2018, US\$ mln



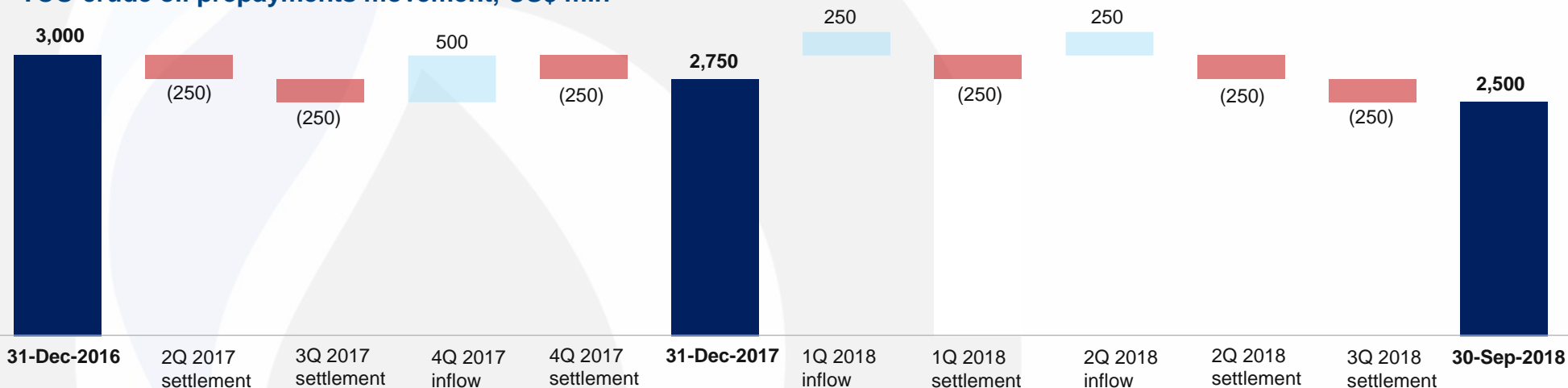
Free Cash Flow* 9M 2018, US\$ mln

by components

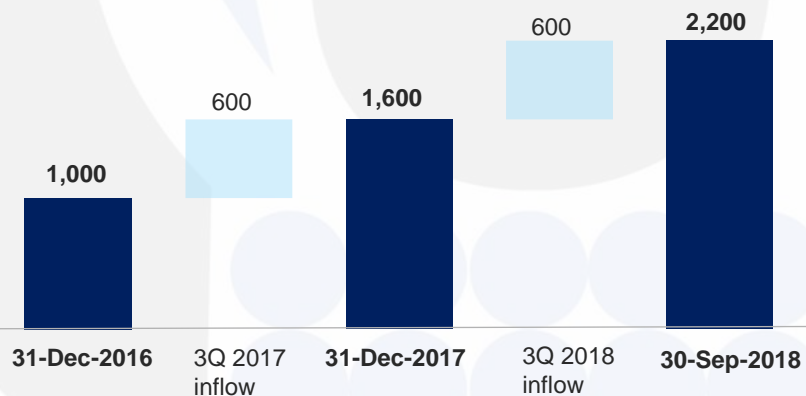


Prepayments overview

TCO crude oil prepayments movement, US\$ mln



Kashagan⁽¹⁷⁾ crude oil prepayments movement, US\$ mln



- **TCO crude oil deliveries:**

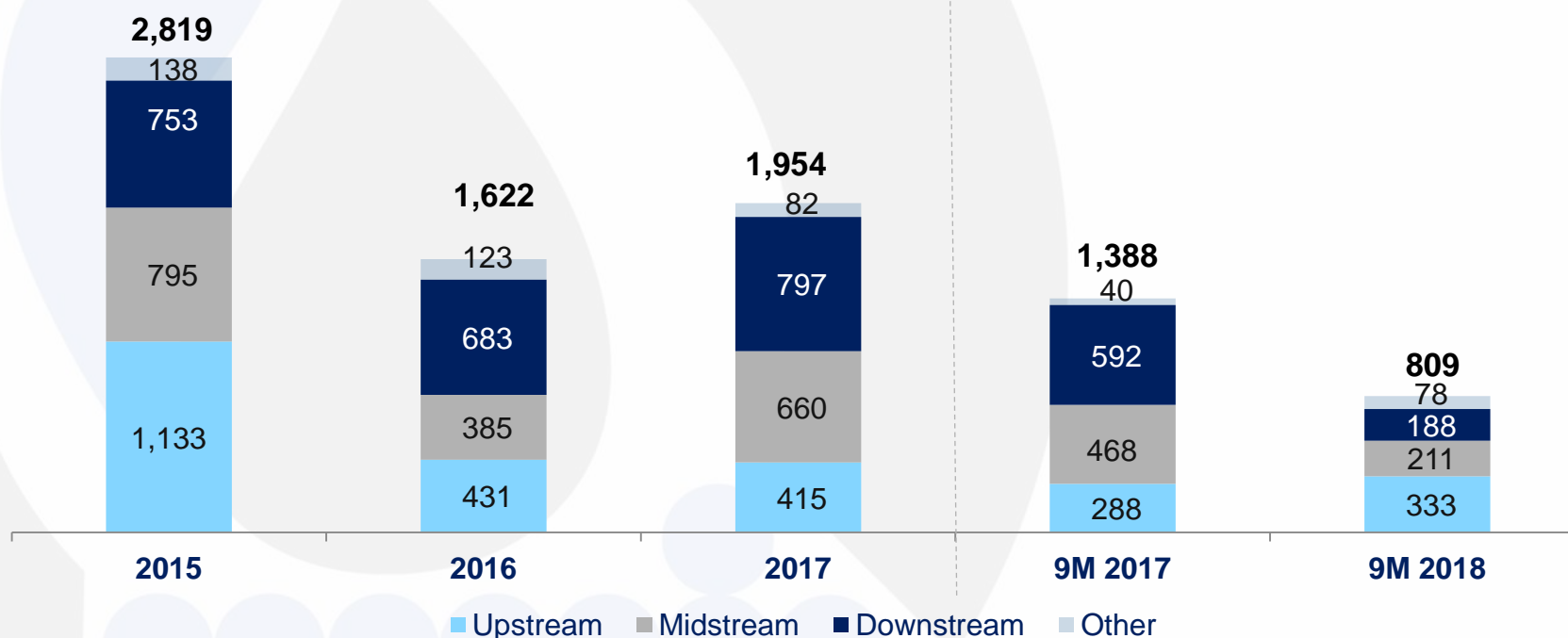
Total minimum delivery volume approximates 38 mt of crude oil and 1mt of LPG until March 2021.

- **Kashagan crude oil deliveries:**

Kashagan presales will be settled by crude oil supply within January 2019 - December 2025.

Capex, US\$ mln

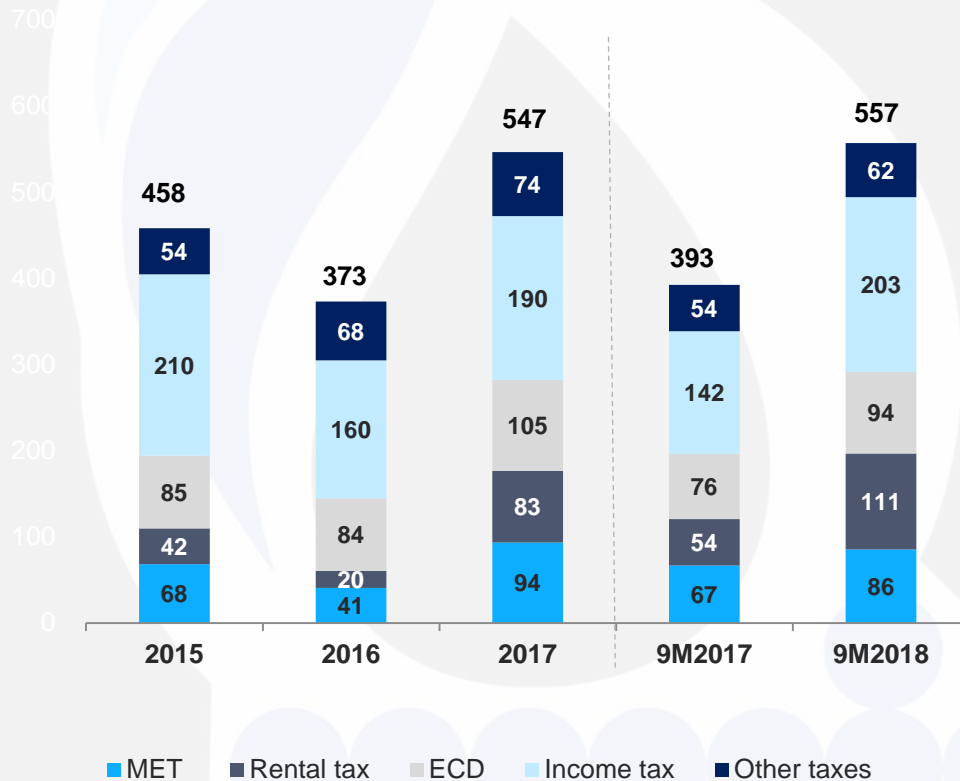
Brent, US\$/bbl	52.39	43.73	54.19	51.84	72.13
Production, mbbl	172.29	172.06	177.55	132.58	120.82



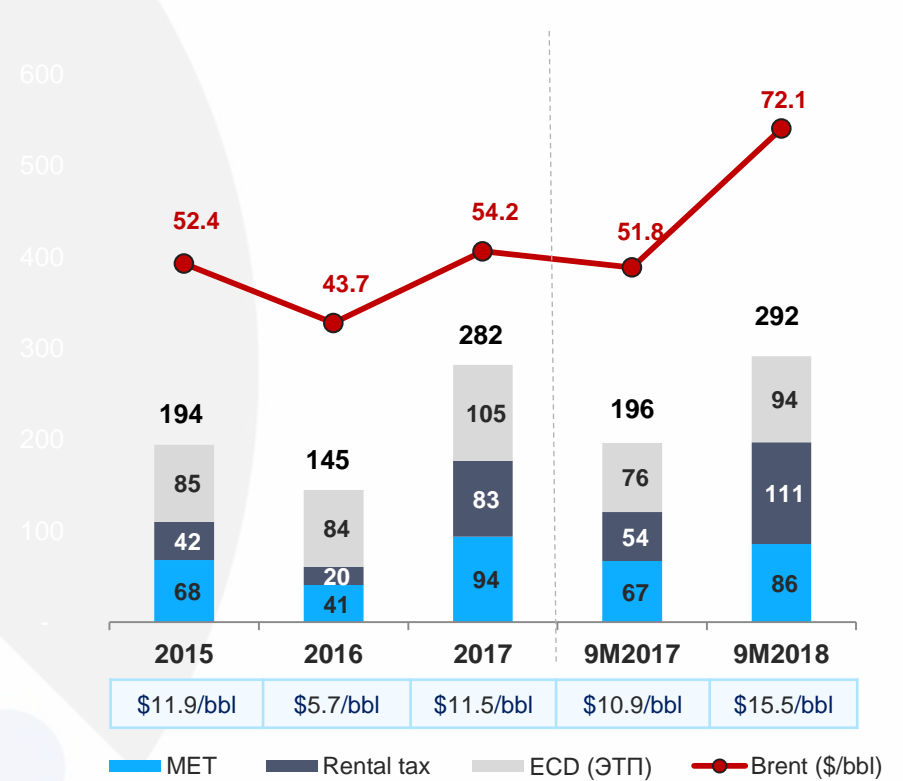
Cash capex, US\$ mln	2,508	1,360	1,424	886	924
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Tax components

KMG consolidated taxes* (KZT bln)



Upstream taxes* (KZT bln)



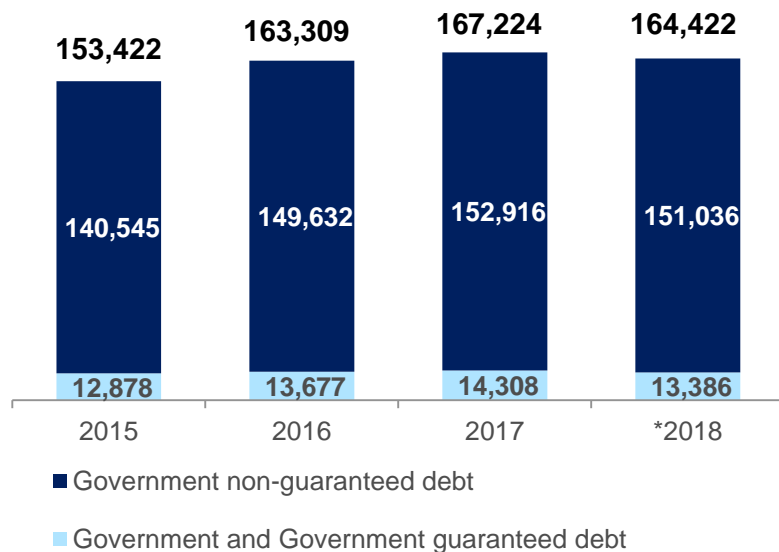
Appendix



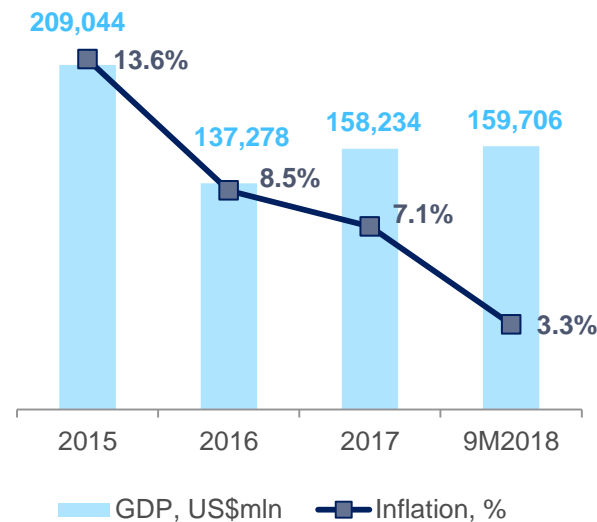
Appendix: Kazakhstan's macro indicators

Country ratings			UoM	2015	2016	2017	9M2018
Moody's	Baa3	National Fund size	US\$mIn	63,392	61,218	58,334	56,326
S&P	BBB-/A-3	Gold and foreign exchange reserves	US\$mIn	27,871	29,711	30,745	30,028
		Pension Fund size	US\$mIn	26,224	19,539	23,860	26,143
Fitch	BBB	Budget deficit / surplus	US\$mIn	(4,104)	(2,156)	(4,463)	(720)

External debt, US\$mIn



GDP and inflation



Interim condensed consolidated statement of cash flows (indirect) (not part of financial statements)

	(000s of KZT)	
	9M 2018	9M 2017
Cash flows from operating activities		
Profit before income tax from continuing operations	858,881,635	606,685,547
Profit before income tax from discontinued operations	(6,371,846)	(9,695,827)
Profit before income tax	852,509,789	596,989,720
Adjustments for:		
Depreciation, depletion and amortization	202,879,653	186,819,140
Depreciation, depletion and amortization of discontinued operation	7,700,967	0
Share in profit of joint ventures and associates, net	(532,916,863)	(285,169,236)
Finance costs	349,538,836	219,906,271
Finance costs from discontinued operation	2,474,175	123,628
Finance income	(139,227,062)	(90,346,823)
Finance income from discontinued operation	(509,744)	(389,580)
Unrealized gain/(losses) from derivatives on petroleum products	87,829	(557,804)
Realized gain from derivatives on petroleum products	2,360,281	2,479,075
Loss on disposal of property, plant and equipment, intangible assets and investment property, net	2,093,714	1,507,359
Impairment of property, plant and equipment, intangible assets	41,556,254	4,185,504
Impairment of property, plant and equipment, intangible assets of discontinued operation	46,776	1,355,560
Adjustment on the re-measurement to fair value less costs to sell	2,280,663	(596,914)
Impairment of investments in joint ventures	0	(14,686,162)
Impairment of VAT recoverable	(794,955)	(26,414,367)
(Profit)/ loss from sale of subsidiary	387,293	0
Revenue under oil supply agreement (settlement of advances)	(252,382,802)	(161,871,304)
Provisions	30,356,963	9,170,738
Allowance for impairment of trade accounts receivable and other current and non-current assets	3,665,923	716,048
(Reversal)/ Provision for obsolete and slow-moving inventories	940,206	1,860,842
Recognition of share based payments	0	(12,678)
Unrealized foreign exchange gain	17,694,045	(101,112,191)
Operating profit before working capital changes	590,741,941	343,956,826

Interim condensed consolidated statement of cash flows (indirect) (not part of financial statements)

	(000s of KZT)	
	9M 2018	9M 2017
Change in inventory	(26,215,690)	(20,278,936)
Change in VAT receivable	3,674,385	(1,995,671)
Change in trade accounts receivable and other assets	(272,296,955)	91,990,157
Change in other taxes payable	(4,025,042)	40,373,004
Change in trade accounts payable	65,204,569	(51,274,485)
Change in advances under oil supply agreement	168,062,180	0
Change in other liabilities	(51,436,764)	(24,877,261)
Cash generated from operations	473,708,624	377,893,634
Cash received from derivatives, net	(1,902,291)	257,035
Income taxes paid	(83,425,232)	(40,218,834)
Interest received	98,046,645	74,139,172
Interest paid	(173,551,081)	(124,944,352)
Net cash flow from operating activities	312,876,665	287,126,655
Cash flows from investing activities		
Withdrawal of bank deposits, net	1,323,352,390	(734,394,280)
Purchase of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets	(310,826,458)	(286,337,220)
Proceeds from sale of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets	8,053,620	690,875
Sale of subsidiary	17,967,179	0
Dividends received from joint ventures and associates	137,058,771	70,581,239
Proceeds from acquisition of subsidiaries	0	180,678
Acquisition of and contribution to joint ventures	(977,291)	1,714,856
Bonds repayment	172,053	0
Loans given to related parties	(50,829,294)	(164,377,697)
Repayment of loans and receivable due from related parties	30,409,110	454,283
Refund of contribution to joint ventures	1,999,889	(2,625)
Note receivable from a shareholder of a joint venture	24,113,396	0
Net cash flow from / (used in) investing activities	1,180,493,365	(1,111,489,891)

Interim condensed consolidated statement of cash flows (indirect) (not part of financial statements)

	(000s of KZT)	
	9M 2018	9M 2017
Cash flows from financing activities		
Proceeds from borrowings	1,266,750,499	1,461,048,047
Repayment of borrowings	(1,905,738,978)	(537,491,564)
Dividends paid to Samruk-Kazyna and National Bank of RK	(36,273,040)	(45,877,366)
Dividends paid to non-controlling interests	(6,334,007)	(12,383,659)
Acquisition of non-controlling interest	(634,209,525)	0
Issue of shares	7	1
Net cash flow used in financing activities	(1,315,805,044)	865,295,459
Effects of exchange rate changes on cash and cash equivalents	108,223,223	49,010,912
Changes in allowance of impairment	(40,474)	0
Net change in cash and cash equivalents	285,747,735	89,943,135
Cash and cash equivalents at the beginning of the year	1,266,604,815	905,452,511
Cash and cash equivalents at the end of the year	1,552,352,550	995,395,646

(1) The Group changed method of presentation of consolidated cash flow statement

Reconciliation and methodology

- (1) Starting from 1Q 2018, the Company calculates EBITDA for any relevant period as “Revenue + Finance income – Cost of sales – General and Administrative expenses – Transportation and selling expenses + Depreciation, depletion, amortisation + Profit in share of joint ventures and associates”. (Previous methodology: “PBT+Finance cost+DD&A+Impairment for long-lived assets”);
- (2) All figures were recalculated for 9M 2018 and 9M 2017. KMG ceased recognition of KMG International N.V. (KMGI) as a discontinued operation. KMGI's assets and liabilities have been transferred to continuing operations. All figures were calculated with relevant adjustments made for the assets classified as for sale;
- (3) Capital expenditure (accrual basis) as per segmented reporting of consolidated financial statements;
- (4) The Company calculates FCF for any relevant period as CFO– Capex (cash basis) + Dividends received from joint ventures and associates (cash basis).
- (5) Net Debt is shown as at 30-Sep-2018 and 31-Dec-2017;
- (6) Gas production includes the volumes of reinjected gas;
- (7) The volume includes KTO (100%) + MT (51%) + KCP (50%) + CPC (20.75%) + KMTF (100%);
- (8) Total volume includes KMG operating net volumes of Kazakh refineries (Atyrau - 100%, Pavlodar - 100%, Shymkent (PKOP) - 50%, Caspi Bitum – 50%) and KMG I (Petromidia - 100% + Vega - 100%);
- (9) Consolidated production volume of crude oil and gas condensate includes proportionate share of KMG in the respective associate companies and JVs;
- (10) Consolidated crude oil transportation volume includes crude oil transportation volume of each individual pipeline company in accordance with KMG operating share. Some volumes can be transported by two or three pipeline companies;
- (11) Consolidated gas transportation volume includes gas transportation volume of each individual gas pipeline company in accordance with KMG operating share. Some volumes can be transported by two or three pipeline companies;
- (13) Net Debt/EBITDA multiple is calculated in accordance with Bond definition for covenant testing. Tested on semiannual basis.
- (14) Calculated with relevant adjustments made for assets classified as for sale.
- (16) Other oil products include jet fuel, heating oil, fuel oil, vacuum gas oil, coke, liquefied gas, benzene, paraxylene, sulfur, bitumen.
- (17) Prepayments are at Kashagan B.V. level (50% owned by KMG).

All figures were converted from KZT to US\$ at the following average exchange rates (NBRK): for 9M 2018 – 336.40, for 9M 2017 – 323.27;

All figures were converted from KZT to US\$ at the following period-end exchange rates (NBRK): for 9M 2018 – 363.07, for 2017 – 332.33.

Abbreviations list

AG – CJSC Amangeldy Gas

AGP – Asia gas pipeline

bbl – barrel

bcm – billion cubic meters

bln – billion

BSGP – Beineu-Shymkent gas pipeline

Caspi – JSC “Caspi Bitum JV”

CCEL – CITIC Canada Energy Limited (JSC Karazhanbasmunai)

CEFC - China Energy Company Limited

CIS - Commonwealth of Independent States

CPC - Caspian pipeline consortium

DD&A - Depreciation, depletion and amortisation

EMG – JSC EmbaMunaiGas

ICA – JSC Intergas Central Asia

JV - Joint Venture

KazGPZ – Kazakhstan gas production plant

KCP – Kazakhstan-China pipeline

KCP - Kazakhstan-China Pipeline LLP

KGM – JV Kazgermunai LLP

KMG EP - JSC KazMunayGas Exploration Production

KMG I – KMG International

KMG RM - JSC KazMunayGas Refinery and Marketing

KOA - Kazakhoil Aktobe LLP

KPO - Karachaganak Petroleum Operating B.V.

kt – thousand tonnes

KTG – JSC KazTransGas

KTM - Kazakhturkmunai LLP

KTO – JSC KazTransOil

KZT –Tenge (national currency)

LPG – liquefied petroleum gas

mcm – million cubic meters

MET - mineral extraction tax

mIn - million

MMG – JSC Mangystaumunaigaz

mt – million tonnes

MT – LLPMunayTas North-West Pipeline Company

KMG – KazMunayGas Group

NCOC – North Caspian Operating Company N.V.

OMG – JSC OzenMunaiGas

PKKR – JSC PetroKazakhstan Kumkol Resources

PKOP – PetroKazakhstan Oil Products LLP

PSA - Purchase-sale agreement

TCO – Tengizchevroil LLP

TP - JSC Turgai Petroleum

US\$ - US dollars