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JSC KazMunaiGas Exploration Production 2015 Full Year Financial Results

Astana, 26 February 2016. JSC KazMunaiGas Exploration Production ("KMG EP" or "the Company") announces its consolidated financial statements for the year ended 31 December 2015.

- Net profit in 2015 was 244bn Tenge (US\$1,096m^[1]) compared with 47bn Tenge (US\$263m) in 2014. The increase in net profit in 2015 was largely due to devaluation of the Tenge in the year, write-down of JSC Ozenmunaigas assets to nil in 2014, and lower taxes, other than on income, which offset a decline in revenue following the drop in oil price.
- Revenue in 2015 was 530bn Tenge (US\$2,384m), 37% lower compared to 2014. The lower revenue was the result of a 47% decline in Brent price and a 23% decline in average domestic realized price from 48 thousand Tenge per tonne in 2014 to 37 thousand Tenge per tonne in 2015, as well as lower export volumes, which were partially offset by a 24% increase in the average Tenge-US dollar exchange rate.
- The Company recognised a foreign exchange gain of 449bn Tenge (US\$2,020m). Net cash as at 31 December 2015 amounted to 1,093bn Tenge (US\$3.2bn) compared with 727bn Tenge (US\$4.0bn) as at 31 December 2014. The decline in net cash in US\$ terms by US\$0.8bn was primarily caused by dividends paid to shareholders, income taxes paid largely related to foreign exchange gain, oil fields capital expenditures, slightly offset by dividends and finance income received.
- Production expenses in 2015 were 225bn Tenge (US\$1,013m), a 6% increase compared with 2014, mainly due to increased employee benefit expenses relating to production personnel, which was partially offset by a decline in repairs and maintenance expenses.

Production Highlights

KMG EP, including its stakes in Kazgermunai (KGM), CCEL (Karazhanbasmunai) and PetroKazakhstan Inc. (PKI), produced 12,351 thousand tonnes of crude oil (251 kbopd) in 2015, which is broadly in line with 2014 volumes (12,328 thousand tonnes in 2014).

Ozenmunaigas JSC (OMG) produced 5,510 thousand tonnes (111 kbopd) in 2015, an increase of 182 thousand tonnes (4 kbopd) or 3% compared to 2014, largely due to ahead of plan production drilling during the year. Embamunaigas JSC (EMG) produced 2,823 thousand tonnes (57 kbopd), in line with 2014 levels. OMG and EMG production increased by 2% to 8,333 thousand tonnes (168 kbopd) compared to 2014.

The Company's share in production from CCEL, KGM and PKI for 2015 amounted to 4,018 thousand tonnes of crude oil (83 kbopd), 4% lower than in 2014, which primarily relates to the planned reduction of production at PKI.

Crude oil and oil products sales

In 2015, OMG and EMG sold a total of 8,305 thousand tonnes (165 kbopd) of crude oil and oil products, of which 4,647 thousand tonnes (92 kbopd) of crude oil for export and 2,742 thousand tonnes (54 kbopd) of crude oil and oil products for the domestic market. A further 916 thousand tonnes (18 kbopd) of crude oil were sold to Russia^[2].

Of the 2,742 thousand tonnes (54 kbopd) of OMG and EMG's domestic sales 2,420 thousand tonnes (48 kbopd) of crude oil were supplied to the Atyrau Refinery (ANPZ) and 260 thousand tonnes (5.2 kbopd) to the Pavlodar Petrochemical Plant (PNHZ). An additional 62 thousand tonnes (1.2 kbopd) of oil products were sold in the domestic market.

The Company's share in the sales from CCEL, KGM, and PKI was 3,944 thousand tonnes of crude oil (80 kbopd), including 1,707 thousand tonnes (34 kbopd), supplied to export markets, equivalent to 43% of total sales volume. Domestic sales amounted to 2,167 thousand tonnes of crude oil (45 kbopd), of which 1,471 thousand tonnes (31 kbopd) were supplied to the PNHZ, 506 thousand tonnes (11 kbopd) to the Shymkent Refinery, 53 thousand tonnes (1.0 kbopd) to the ANPZ, and 138 thousand tonnes (2.5 kbopd) to the Aktau Bitumen Plant. A further 70 thousand tonnes of crude oil (1.3 kbopd) were sold to Russia.

Net Profit for the Period

Net profit in 2015 was 244bn Tenge (US\$1,096m), compared with 47bn Tenge (US\$263m) in 2014. The increase in net profit in 2015 was largely due to devaluation of the Tenge in the year, write-down of JSC Ozenmunaigas assets to nil in 2014, and lower taxes, other than on income, which offset a decline in revenue following the fall in oil prices and significantly higher income tax due to foreign exchange gain and provisions.

Foreign exchange gain

On 20 August 2015 the Government and the National Bank of Kazakhstan decided to switch to a free-floating exchange rate regime of the Tenge, which led the Tenge

per US dollar rate to almost double in the six months period that followed as the rate at February 25 was 349 Tenge per US dollar. The Company recognised a foreign exchange gain of 449bn Tenge (US\$2,020m), as over 93% of cash and financial assets were denominated in foreign currencies at the time of the currency devaluation.

Revenue

The Company's revenue in 2015 was 530bn Tenge (US\$2,384m), a 37% decrease compared to 2014. This was mainly due to a 47% decline in Brent price and a 23% decline in average domestic realized price from 48 thousand Tenge per tonne in 2014 to 37 thousand Tenge per tonne in 2015, as well as lower export volumes, which were partially offset by a 24% increase in the average Tenge-US dollar exchange rate.

During 2015, JSC "KazMunaiGas – Refining and Marketing" (KMG RM) made payments at an average price per annum of 21 thousand tenge per tonne to ANPZ and 32 thousand tenge per tonne to PNHZ. These prices were not approved by the Independent Directors of KMG EP. In 4Q 2015 an agreement was reached to set the price for domestic supplies in 2015 at 37 thousand Tenge per Tonne to ANPZ and PNHZ. This price is approximately equal to the estimated cost plus 3%, in accordance with the terms of the Relationship Agreement entered into between KMG EP and KMG NC at the time of KMG EP's IPO.

The Company's revenue in the fourth quarter was adjusted to reflect the agreed price of 37 thousand tenge per tonne. The corresponding payments from KMG RM are expected during 2016.

Production Expenses

Production expenses in 2015 were 225bn Tenge (US\$1,013m), up 6% compared to 2014. This is mainly due to an increase in production personnel benefits, which was partially offset by a decline in repairs and maintenance expenses.

Expenses for employee benefits in 2015 increased by 18% compared to 2014. This was largely due to an indexation of salary for production personnel by 7% from January 2015 and due to the rise of employee benefit liabilities in the amount of 6.9 billion Tenge resulted from prolongation of OMG and EMG oilfield licenses.

Repairs and maintenance expenses were down 25% as expenses were optimized and work volumes were reallocated from third parties to KMG EP group companies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in 2015 were 119bn Tenge (US\$534m), which is up 16% compared to 2014. This was largely due to the accrual of fines and penalties, partly offset by lower management fees and commissions. In 2015, the Company accrued fines and penalties amounting to 24.7bn Tenge (US\$111m), of which 16.1bn Tenge (US\$72m) is related to the tax audit for 2009-2012 and 3.3bn Tenge (US\$15m) to possible future tax audit assessments for 2012-2015.

Management fees and commissions were nil in 2015. Management fees and commissions amounted to 4.5 bn Tenge (US\$25m) in 2014.

Taxes other than on Income

Taxes, other than on income, in 2015 were 182bn Tenge (US\$817m), which is 45% lower than in 2014. The decline in rent tax and mineral extraction tax (MET) was due to a 47% lower Brent price and lower export volumes in 2015 compared to 2014, which was partly offset by a 24% increase in the average Tenge-US dollar rate. Export customs duty (ECD) declined largely due to a decrease in export volumes and the reduction of ECD rate from US\$80 to US\$60 per tonne from 19 March 2015, which was partly offset by a 24% increase in the average Tenge/US dollar rate. From 1 January 2016 the ECD rate was reduced from US\$60 per tonne to US\$40 per tonne.

In the third quarter of 2015 the Company accrued MET of 12.8bn Tenge (US\$58m) related to the results of the tax audit for 2009-2012, including 6.1bn Tenge (US\$27m) accrued as tax provision (see below).

Allowance for Value-added-tax (VAT) recoverable

Recoverable VAT related to the Company's sale of assets to JSC "Ozenmunaigas" (OMG) and JSC "Embamunaigas" (EMG) in 2012 amounted to 46.6bn Tenge. The tax authorities have conducted various audits and have repeatedly denied the Company's requests to have these VAT amounts recognised as recoverable. During 9 months of 2015 the VAT receivable was discounted at 7.93% over the period ending December 31, 2016. As at 30 September 2015 the discounted amount comprised 42.3bn Tenge.

In the fourth quarter of 2015 the Company created the valuation allowance for the amount of 42.3bn Tenge in the profit and loss statement. In addition, during 2015 the Tax authorities carried out VAT tax audits of OMG and EMG covering the 2013 and 2014 periods. As a result of these audits, nonrecoverable VAT amounted to 4.4bn Tenge, and the valuation allowance was created for this amount as well.

The Company disagrees with the tax authorities' position and will continue to defend its interests and proceed to court, where necessary.

Tax Provision

In 2015 the Company accrued tax provision of 60.1bn Tenge, including 32.2 bn Tenge related to the results of complex tax audit for 2009-2012 (16.1bn Tenge of principal and 16.1bn Tenge of fines and penalties) and an additional provision of 27.8bn Tenge made from the period covered by the audit to the reporting date (31 December 2015) for amounts that are believed likely to be ultimately paid. This amount comprises of 22.4bn Tenge of principal and 5.4bn Tenge of penalties.

Cash Flows from Operating Activities

Net cash outflow from operating activities was 70bn Tenge (US\$316m) in 2015, compared with the 196bn Tenge (US\$1,096m) inflow in 2014, mainly due to the decrease in revenues.

Capital expenditure

Capital expenditure^[3] in 2015 was 98bn Tenge (US\$443m), 23% lower than in 2014. This is mainly due to lower investments in maintenance Capex as well as a decrease in both drilling activity and the cost of drilling, which was the result of a 15% discount obtained from the drilling contractor. In 2015, 283 wells were drilled at OMG and EMG, compared with 297 wells in 2014.

Cash and Debt

Cash and cash equivalents as at 31 December 2015 amounted to 237bn Tenge (US\$0.7bn) compared with 180bn Tenge (US\$1.0bn) as at 31 December 2014. Other financial assets as at 31 December 2015 were 868bn Tenge (US\$2.6bn), compared with 554bn Tenge (US\$3.0bn) as at 31 December 2014.

As at 31 December 2015, 99% of cash and financial assets were denominated in foreign currencies (mainly US\$) and 1% were denominated in Tenge. Finance income in 2015 was 26bn Tenge (US\$117m) compared with 21bn Tenge (US\$116m) in 2014.

Borrowings as at 31 December 2015 were 11.6bn Tenge (US\$34m), compared with 7.2bn Tenge (USD\$40m) as at 31 December 2014.

The net cash position^[4] as at 31 December 2015 amounted to 1,093bn Tenge (US\$3.2bn) compared with 727bn Tenge (US\$4.0bn) as at 31 December 2014.

Share of results of associate and joint ventures

In 2015, KMG EP's share in the loss of associate and joint ventures was 20.1bn Tenge (US\$90m) compared with the profit of 60,2bn Tenge (US\$336m) in 2014.

Kazgermunai

In 2015, KMG EP recognised income of 2.6bn Tenge (US\$12m) from its share in KGM. This amount represents 4.0bn Tenge (US\$18m) corresponding to 50% of KGM's net profit, with the effect of the 1.4bn Tenge (US\$6m) impact from amortization of the fair value of licenses, the related deferred tax and revised effective income tax rate used to calculate deferred tax.

KGM's net profit in US dollars in 2015 declined by 93% compared to 2014. This was largely due to a decline in the Brent and domestic prices as well as a decline of 18% in export sale volumes. KGM reassessed its income tax for previous years and accrued additional US\$49m in 2015. KGM also accrued US\$11m of fines and penalties as a result of the tax audit for 2009-2012.

In 2015, KGM accrued US\$100m as dividends payable to KMG EP, of which US\$62.5m was paid in 2015.

PetroKazakhstan Inc.

In 2015, KMG EP recognised loss of 17.8bn Tenge (US\$80m) from its share in PKI. This amount represents 10.5bn Tenge (US\$47m) corresponding to 33% of PKI's net loss, net of the 7.3bn Tenge (US\$33m) effect of amortization of the fair value of the licenses.

In 2015, PKI's net loss in US dollars was US\$194m compared with the net profit of US\$517m posted in 2014. This was largely due to a 10% drop in production, a 25% decline in export sales volumes as well as lower Brent and domestic prices.

CCEL

As of 31 December 2015, the Company had 30bn Tenge (US\$90m) as a receivable from CCEL, a jointly controlled entity with CITIC Resources Holdings Limited. The Company accrued 3.4bn Tenge (US\$15m) of interest income in 2015 related to the US\$26.87m annual priority return from CCEL.

The consolidated financial statements for the year ended December 31, 2015, the notes thereto, and the operating and financial review for the period is available on the Company's website (www.kmgp.kz).

[1] Amounts shown in US dollars ("US\$" or "\$") have been translated solely for the convenience of the reader at the average rate over the applicable period for information derived from the consolidated statements of income and consolidated statements of cashflows and the end of the period rate for information derived from the consolidated balance sheets (average rates for 2015 and 2014 were 222.25 and 179.12 Tenge/US\$, respectively; period-end rates at 31 December 2015 and 31 December 2014 were 339.47 and 182.35 Tenge/US\$, respectively).

[2] Supplies to Russia are carried out in fulfillment of obligations under the counter-oil supply agreement between the Government of Kazakhstan and the Russian Government. Sales volumes shipped to Russia are specified by the Ministry of Energy of Kazakhstan.

[3] The Company revised its approach to calculation of capital expenditure. Starting from 4Q 2013 the Capex represents amount of additions to property, plant and equipment and intangible assets. Formerly it represented purchases of property, plant and equipment and intangible assets according to the Cash Flow Statement.

[4] Cash, cash equivalents and other financial assets less borrowings as at the end of the reporting period.

Notes to editors

KMG EP is among the top three Kazakh oil producers. The overall production in 2015 was 12.4 million tonnes (251 kbopd) of crude oil, including the Company's share in Kazgermunai, CCEL and PKI. The Company's volume of proved and probable reserves excluding shares in the associates, as at the end of 2015 was 152 million tonnes (1,115 mmmbbl). The Company's shares are listed on the Kazakhstan Stock Exchange and the GDRs are listed on The London Stock Exchange. The Company raised over US\$2bn in its IPO in September 2006.

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