

JSC “National Company “KazMunayGas”

Consolidated financial statements

*For the year ended December 31, 2019
with independent auditors' report*

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Independent auditor's report

To the Shareholders and Management of "National Company "KazMunayGas" JSC

Opinion

We have audited the consolidated financial statements of National Company "KazMunayGas" JSC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019 and 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and 2018 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide an opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

How our audit addressed the key audit matter

Impairment of non-current assets

We considered this matter to be one of most significance in the audit due to materiality of the balances of non-current assets, including upstream, exploration and evaluation, downstream assets and investments in upstream and midstream joint ventures and associates, to the consolidated financial statements, the high level of subjectivity in respect of assumptions underlying impairment analysis and significant judgements and estimates made by management. In addition, the combination of volatility in oil prices and Tenge, increased inflation and cost of debt and uncertainty about future economic growth affects the Group's business prospects and therefore triggers potential impairment of the Group's assets.

Significant assumptions included discount rates, oil and petroleum products prices forecasts and inflation and exchange rate forecasts. Significant estimates included production forecast, future capital expenditure and oil and gas reserves available for development and production.

Information on non-current assets and the impairment tests performed is disclosed in *Note 4* to the consolidated financial statements.

We involved our business valuation specialists in the testing of impairment analysis and calculation of recoverable amount performed by management. We analyzed the assumptions underlying management forecast. We compared oil and petroleum products prices used in the calculation of recoverable amounts to available market forecasts.

We compared the discount rates and long-term growth rates to general market indicators and other available evidence.

We tested the mathematical integrity of the impairment models and assessed the analysis of the sensitivity of the results of impairment tests to changes in assumptions.

We analysed disclosures on impairment test in the consolidated financial statements.

Compliance with debt covenants

In accordance with the terms of certain financing arrangements, the Group should comply with certain financial and non-financial covenants. There is a higher likelihood that covenants impacted by trading volumes, revenue and profit may be breached particularly in subsidiaries impacted by volatility of oil prices and higher operating expenses, therefore, we focused on this area during our audit. Breaching covenants could result in funding shortages. Cross default provisions are in place under the Group's financing arrangements. Compliance with the financing covenants is one of the matters of most significance in the audit since it can have a major impact on the going concern assumption used in the preparation of the consolidated financial statements, and on classification of interest-bearing liabilities in the consolidated statement of financial position.

Information on compliance with covenants is disclosed in *Note 25* to the consolidated financial statements.

Estimation of oil and gas reserves and resources

We considered this matter to be one of most significance in our audit due to the fact that the estimate of hydrocarbon reserves and resources has significant impact on the impairment test, depreciation, depletion and amortization and decommissioning provisions.

Reserves and resources are also a fundamental indicator of the future potential of the group's performance.

Information on estimation of oil and gas reserves and resources is disclosed in *Note 4* to the consolidated financial statements as part of significant accounting estimates.

We examined the terms of financing arrangements and analysed financial and non-financial covenants, terms of early repayment and events of default. We examined the presence of confirmations received from the banks related to compliance with financial covenants. We compared data used in the calculations with the financial statements. We tested arithmetic accuracy of financial covenants calculations.

We analysed the disclosures in respect of debt covenants compliance in the consolidated financial statements of the Group.

We performed procedures to assess competence, capabilities and objectivity of the external expert engaged by the Group to estimate volumes of oil and gas reserves and resources. We assessed the assumptions used by the external expert and compared the assumptions to the macroeconomic indicators, hydrocarbon production, operating costs, capital expenditures forecasts and other performance indicators, approved by the Group's management. We compared the estimates of reserves and resources to the estimates included in the consideration of impairment, depreciation, depletion and amortization and decommissioning provisions.

Other information included in the Group's 2019 annual report

Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Gulmira Turmagambetova.

Ernst & Young LLP



Gulmira Turmagambetova
Auditor / General Director
Ernst and Young LLP

Auditor qualification certificate
No. 0000374 dated 21 February 1998

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5 March 2020



State audit license for audit activities on
the territory of the Republic of Kazakhstan:
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Ministry of finance of the Republic of
Kazakhstan on July 15, 2005

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In millions of tenge</i>	Note	For the years ended December 31		
		2019	2018* (Reclassified)	2017* (Reclassified)
Revenue and other income				
Revenue	6	6,858,856	6,988,964	4,793,763
Share in profit of joint ventures and associates, net	7	827,979	697,326	414,950
Finance income	14	240,880	161,027	122,574
Gain on sale of subsidiaries	5	17,481	18,359	–
Other operating income		24,936	23,035	20,165
Total revenue and other income		7,970,132	7,888,711	5,351,452
Costs and expenses				
Cost of purchased oil, gas, petroleum products and other materials	8	(3,913,744)	(4,312,958)	(2,729,514)
Production expenses	9	(721,693)	(604,475)	(624,346)
Taxes other than income tax	10	(454,295)	(477,732)	(354,447)
Depreciation, depletion and amortization	35	(337,424)	(285,186)	(238,021)
Transportation and selling expenses	11	(420,402)	(370,777)	(238,063)
General and administrative expenses	12	(213,967)	(213,485)	(163,780)
Impairment of property, plant and equipment, intangible assets, exploration and evaluation assets	13	(207,819)	(165,522)	(24,660)
Reversal of impairment of investment in joint venture	19	–	–	14,845
Other expenses		(7,203)	(23,283)	(34,767)
Finance costs	14	(317,433)	(427,655)	(306,355)
Net foreign exchange gain/(loss)		8,479	(38,320)	67,055
Total costs and expenses		(6,585,501)	(6,919,393)	(4,632,053)
Profit before income tax		1,384,631	969,318	719,399
Income tax expenses	30	(226,180)	(279,260)	(190,285)
Profit for the year from continuing operations		1,158,451	690,058	529,114
Discontinued operations				
Profit/(loss) after income tax for the year from discontinued operations	5	6	3,453	(3,666)
Net profit for the year		1,158,457	693,511	525,448
Net profit/(loss) for the year attributable to:				
Equity holders of the Parent Company		1,197,157	695,864	443,408
Non-controlling interest		(38,700)	(2,353)	82,040
		1,158,457	693,511	525,448

The accounting policies and explanatory notes on pages 11 through 99 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

<i>In millions of tenge</i>	Note	For the years ended December 31		
		2019	2018* (Reclassified)	2017* (Reclassified)
Other comprehensive income				
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods</i>				
Exchange differences on translation of foreign operations		(32,072)	479,196	(75,011)
Tax effect		(1,240)	-	-
Reclassified differences on translation of disposal group		-	(476)	(424)
Net other comprehensive (loss)/income to be reclassified to profit or loss in the subsequent periods		(33,312)	478,720	(75,435)
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods</i>				
Actuarial loss on defined benefit plans of the Group		(5,688)	(3,658)	(1,148)
Actuarial loss on defined benefit plans of joint ventures		199	(160)	(173)
Other		-	-	(150)
Tax effect		1,179	(86)	8
Net other comprehensive loss not to be reclassified to profit or loss in the subsequent periods		(4,310)	(3,904)	(1,463)
Net other comprehensive (loss)/income for the year		(37,622)	474,816	(76,898)
Total comprehensive income for the year, net of tax		1,120,835	1,168,327	448,550
Total comprehensive income for the year attributable to:				
Equity holders of the Parent Company		1,159,447	1,161,007	366,949
Non-controlling interest		(38,612)	7,320	81,601
		1,120,835	1,168,327	448,550

* Certain numbers shown here do not correspond to the consolidated financial statements for the years ended December 31, 2018 and 2017, and reflect reclassifications made, refer to Note 3

Deputy Chairman of the Management Board – Chief Financial Officer




D.S. Karabayev

Managing director – financial controller



A.Zh. Beknazarova

Chief accountant



Y.A. Orynbayev

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>In millions of tenge</i>	Note	As at December 31		
		2019	2018* (Reclassified)	2017* (Reclassified)
Assets				
Non-current assets				
Property, plant and equipment	15	4,484,271	4,515,170	4,080,165
Right-of-use assets		38,379	–	–
Exploration and evaluation assets	16	179,897	189,800	253,326
Investment property		9,541	24,188	27,423
Intangible assets	17	171,172	173,077	185,205
Long-term bank deposits	18	52,526	52,297	48,523
Investments in joint ventures and associates	19	5,590,384	4,895,444	3,823,630
Deferred income tax asset	30	73,714	97,881	98,681
VAT receivable		133,557	113,073	96,666
Advances for non-current assets		73,367	27,176	124,907
Loans and receivables due from related parties	22	615,546	638,528	672,449
Other financial assets		2,488	4,753	4,161
Other non-current assets		17,162	16,942	17,401
		11,442,004	10,748,329	9,432,537
Current assets				
Inventories	20	281,215	312,299	250,369
VAT receivable		74,049	66,522	69,605
Income tax prepaid	30	54,517	53,143	36,135
Trade accounts receivable	21	397,757	493,977	467,867
Short-term bank deposits	18	359,504	386,459	1,638,941
Loans and receivables due from related parties	22	138,719	148,615	169,502
Other current assets	21	262,094	204,723	196,110
Cash and cash equivalents	23	1,064,452	1,539,453	1,263,987
		2,632,307	3,205,191	4,092,516
Assets classified as held for sale	5	7,604	61,760	24,905
		2,639,911	3,266,951	4,117,421
Total assets		14,081,915	14,015,280	13,549,958

The accounting policies and explanatory notes on pages 11 through 99 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

<i>In millions of tenge</i>	Note	As at December 31		
		2019	2018* (Reclassified)	2017* (Reclassified)
Equity and liabilities				
Equity				
Share capital	24	916,541	916,541	709,345
Additional paid-in capital	24	40,794	40,794	243,876
Other equity		83	83	83
Currency translation reserve		1,731,747	1,764,108	1,295,091
Retained earnings		5,469,236	4,341,063	3,665,192
Attributable to equity holders of the Parent Company		8,158,401	7,062,589	5,913,587
Non-controlling interest	24	38,255	80,480	870,018
Total equity		8,196,656	7,143,069	6,783,605
Non-current liabilities				
Borrowings	25	3,584,076	3,822,648	3,417,112
Provisions	26	273,589	229,797	203,775
Deferred income tax liabilities	30	509,462	479,598	380,738
Lease liabilities		35,996	6,550	5,314
Prepayment on oil supply agreements	27	—	480,250	581,578
Other non-current liabilities		43,694	45,213	51,879
		4,446,817	5,064,056	4,640,396
Current liabilities				
Borrowings	25	253,428	330,590	884,140
Provisions	26	103,538	98,471	78,812
Income tax payable	30	13,011	13,272	10,081
Trade accounts payable	28	667,861	632,739	513,851
Other taxes payable	29	86,666	105,026	101,198
Lease liabilities		10,922	2,656	1,676
Prepayment on oil supply agreements	27	—	384,199	332,330
Other current liabilities	28	303,016	236,163	201,940
		1,438,442	1,803,116	2,124,028
Liabilities directly associated with the assets classified as held for sale	5	—	5,039	1,929
Total liabilities		5,885,259	6,872,211	6,766,353
Total equity and liabilities		14,081,915	14,015,280	13,549,958
Book value per ordinary share	24	13.154	11.424	11.195

* Certain numbers shown here do not correspond to the consolidated financial statements for the years ended December 31, 2018 and 2017, and reflect reclassifications made, refer to Note 3.

Deputy Chairman of the Management Board – Chief Financial Officer


D.S. Karabayev

Managing director – financial controller


A.Zh. Beknazarova

Chief accountant


Y.Y. Orynbayev

The accounting policies and explanatory notes on pages 11 through 99 form an integral part of these consolidated financial statements.