

Competitive advantages and industry position

Competitive advantages and industry position

The largest oil and gas company in Kazakhstan with shares listed on LSE and KASE

National Company KazMunayGas (NC KMG) is the Company's majority shareholder, holding 57.9% of the common and preferred shares. Under the three share buyback programmes in 2009-2012 the Company repurchased 8.3% of the total common and preferred shares. China Investment Corporation (CIC), the state investment fund of the People's Republic of China, holds roughly 11% of the common shares (10.4% of common and preferred shares), while the remaining shares are held by institutional investors from the UK, continental Europe, the US, Asia, and Kazakhstan.

Pre-emptive access to Kazakhstan's onshore oil and gas assets

NC KMG has the right to enter into contracts for subsoil use at unlicensed areas without participating in competitive tenders, but on the basis of direct negotiations. NC KMG is entitled to purchase on behalf of the state both subsoil use rights, and the assets associated with these rights, in fields and associated sub-surface resources categorised as being of strategic importance. Operating as a subsidiary of NC KMG, KMG EP may avail itself of these rights should the economic interest be mutual.

In 2014 several amendments and additions were made to the law "on sub-surface reserves and sub-surface reserves usage", to establish procedures for the exercise of the government's priority rights through the participation of the sovereign wealth fund or the national company and to create a unified system of oil and gas production in Kazakhstan.

Corporate governance complies with international standards and protects the rights of minority shareholders

KMG EP has been a pioneer among Kazakh enterprises in its extensive application of corporate governance practice in conformity with international standards. Over the years, this system has been put to the test under various conditions and market circumstances. The Company has invariably received highest praise for the effectiveness of its corporate governance from credit rating agencies, analysts, and from parent company NC KMG and Samruk-Kazyna.

Successful partnerships and equity stakes in Kazakh oil and gas producers

At present, KMG EP holds 50% stakes in oil and gas production joint ventures Kazgermunai and CCEL (Karazhanbasmunai), as well as a 33% stake in PetroKazakhstan Inc. Each of these companies makes a tangible contribution to the development of Kazakhstan's petroleum sector and participates in the implementation of social programmes in its areas of operation. Relationships with these companies have proven successful and offer a strong foundation for the development of KMG EP.

Substantial cash balance

KMG EP is financially robust and has sufficient cash for investments and dividend payments. As a result, the Company is in a position to continue searching for acquisition opportunities, either independently or with strategic partners who possess the relevant expertise and technology.

Well-explored reserves base

The Company's core assets include a well-explored reserves base that is sufficient for long-term production.

The total amount of dividend for 2014

T 30 billion



Strategic Overview	04 – 71
Corporate Governance	72 – 85
Financial Statements	86 – 121
Information for Shareholders	122

Share listings

During 2014 the maximum and the minimum price per KMG EP GDR on the London Stock Exchange was US\$18.4 and US\$12.7, respectively. The average price per GDR in 2014 was US\$15.6.

During 2014 the maximum and the minimum price per KMG EP common share on the Kazakhstan Stock Exchange was KZT 20,000 and KZT 13,905, respectively. The average price per common share in 2014 was KZT 16,741.

During 2014 the maximum and minimum price of KMG EP preferred shares was KZT 17,101 and KZT 10,101, respectively. The average price per preferred share was KZT 13,353.

The Shareholders' Annual General Meeting approved a 2014 dividend of KZT 440 (for both common and preferred shares), including withholding taxes under Kazakhstan law. The total amount of dividend for 2014 was about 30 billion tenge⁴ (approximately US\$ 162 million)⁵.

In July 2014 KMG EP announced that NC KazMunayGaz (NC KMG), KMG EP's majority shareholder, had made a preliminary approach to the independent directors of KMG EP about a possible offer for the ordinary shares in the Company it did not already own, at a price of US\$18.5 per GDR. As of the date of the preliminary announcement the buyout price implied a 15% premium over KMG EP's GDR price.

Since the announcement of NC KMG's preliminary approach, the Independent Directors sought to engage with NC KMG and its advisers to achieve a satisfactory transaction. In December 2014 the Independent Directors of KMG EP indicated to NC KMG that they would recommend an offer of US\$ 18.5 per GDR. Given the period of time that had elapsed, the Independent Directors were however discussing with KMG NC the payment and level of a dividend in respect of the year ended 31st December 2014. In January 2015 NC KMG withdrew the proposal.

At the end of 2014 KMG EP's GDRs and share prices fell, mainly due to the decline in crude oil prices. Sell-side analysts noted that "despite the importance of oil prices for KMG EP's performance and share price, the Company remains in a stable and robust financial position".

Independent observer's assessments

In August 2013, Moody's assigned KMG EP a Baa3 rating with a positive outlook. Its baseline credit assessment of 11 (out of 21) reflects the sizeable scope of the Company's business, which is underpinned by its extensive resources and operational base, low debt, and solid cash flow figures. In 2014 the Company's rating remained unchanged. In March 2015, Moody's withdrew the long-term Baa3 rating with a positive outlook "for its own business reasons".

In 2013, Standard & Poor's assigned KMG EP a BBB- credit rating with a stable outlook. On a positive note, Standard & Poor's noted KMG EP's ability to generate free cash flows while maintaining a low debt load. In addition, Standard & Poor's highlighted "the stable profit margins maintained by KMG EP and its strong position as an oil and gas major controlled by the government via its major shareholder".

In February 2015, following the downgrading of Kazakhstan's sovereign credit rating from BBB+ to BBB, Standard & Poor's lowered the long-term credit rating of KMG EP's majority shareholder, NC KMG, and consequently of KMG EP, from BBB- to BB+, with a negative outlook. The downgrade is based on the fall in oil prices and the impact of the crisis in Russia on other Eurasian Economic Union states. "In line with our methodology we view KMG's role in the country's economy as 'critical', the agency's report says." In our view, if KMG were to default, this would have strong negative implications for the government of Kazakhstan and for other GREs in the country. KMG holds stakes in all of the significant oil operations in Kazakhstan. It is one of the country's largest exporters and taxpayers and has some social mandates, such as supplying the local market with fuel at fairly low prices and investing in socially important projects" – as S&P analysts note.

⁴ Calculated based on number of shares outstanding as of April 7, 2015.

⁵ Converted at the official National Bank of Kazakhstan rate as of April 7, 2015