

PRESS - RELEASE

JSC KazMunaiGas Exploration Production

1H 2012 financial results

Astana, 14 August 2012. JSC KazMunaiGas Exploration Production (“KMG EP” or “the Company”) announces its condensed consolidated interim financial statements for the six months ended June 30, 2012.

- Revenues amounted to 399bn Tenge (US\$2,690m), comparable to the revenues in the same period of 2011 on higher domestic prices fully offset by reduced export volumes.
- Net profit amounted to 121bn Tenge (US\$820m) and earnings per share – 1,740 Tenge (US\$2.0 per GDR), an increase of 6% and 10%, respectively, compared to the same period of 2011.

Production Highlights

In the first six months of 2012 KMG EP produced 6,057 thousand tonnes of crude oil (248 kbopd), including the Company’s stakes in Kazgermunai (KGM), CCEL and PetroKazakhstan Inc. (PKI) which is 4% less than in the same period of 2011.

JSC Uzenmunaigas (“UMG”) produced 2,467 thousand tonnes (100 kbopd), which is 266 thousand tonnes less than in the same period of 2011. JSC Embamunaigas (“EMG”) produced 1,376 thousand tonnes (56 kbopd), which is 7 thousand tonnes less than in the same period of 2011. In total this represents 7% less than in the same period of 2011.

The major reasons for low production levels at UMG were adverse weather conditions in first quarter, effect of wells idle time accumulated during labor action in 2011, as well as deteriorating infrastructure and equipment.

Taking into account recent production trend and the results of the first half of the year, the Company updates its annual production plan for UMG, initially set at 5,800 thousand tonnes. According to preliminary estimates it is expected that UMG will produce about 5,000 thousand tonnes in 2012 (101 kbopd). The Company expects that EMG will achieve initial plan of 2,815 thousand tonnes (57 kbopd). Thus, it is expected that the total volume of the oil produced at UMG and EMG in 2012 will be about the same as in 2011. The modernisation program, which the Company has started in 2012, is intended to lay a foundation for sustainable and efficient production in the future.

The Company’s share in the productions from KGM, CCEL and PKI for the six months of 2012 amounted to 2,215 thousand tonnes of crude oil (92 kbopd) or 1% more than in the same period of 2011. The 2012 Production plans of KGM, CCEL and PKI are not being revised.

Crude oil sales

In the first six months of 2012 the Company’s export and domestic sales from UMG and EMG were 3,011 thousand tonnes (122 kbopd) and 960 thousand tonnes (39 kbopd) respectively. Thus, total volume of sales from UMG and EMG amounted to 3,970 thousand tonnes (161 kbopd), 5% less than in the same period of 2011.

The Company’s shares in sales of crude oil from KGM, CCEL and PKI were 2,237 thousand tonnes (93 kbopd), including 1,530 thousand tonnes (64 kbopd) supplied to export. PKI sales volumes

include sales of oil products as well.

Net Profit for the Period

Profit after tax (net income) in the first six months of 2012 was 121bn Tenge (US\$820m), representing a 6% increase compared to the same period of 2011, mainly due to higher average sales prices for export and domestic supply and lower SG&A expenses, as well as foreign exchange gain partly offset by a decline in export volumes.

Revenues

The Company's revenues in the first six months of 2012 remained at similar levels to those of the same period of 2011, and amounted to 399bn Tenge (US\$2,690m). The effect of the 33% increase in domestic selling prices was partly offset by reduced export volumes. Domestic supply prices were higher, according to the agreement with Government on increase of oil prices in 2012 as partial compensation for the increased costs at Uzen.

Taxes other than on Income

Taxes, other than on income, in the first six months of 2012 were 144bn Tenge (US\$974m), which is 11% lower compared to the same period of 2011. The decrease is due to the reduced production and export volumes.

Production Expenses

Production expenses in the first six months of 2012 were 69bn Tenge (US\$467m), which is 10% higher compared to the same period of 2011. A significant part of the production costs increase is due to the annual salary indexation applied from January 1, 2012 and the decrease in crude oil balance, which were partly offset by a reduction in repairs and maintenance expenses due to reduction of the number of repaired wells.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in the first six months of 2012 were 47bn Tenge (US\$318m), which is 21% lower compared to the same period of 2011. The decrease is mainly due to lower expenses for penalties and fines, lower management fees to National Company Kazmunaigas as well as lower transportation expenses as a result of lower transportation volumes, partially offset by an increase in employee costs.

Fines and penalties

On July 12, 2012 the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan completed the 2006-2008 comprehensive tax audit of the Company. As a result of the tax audit, which was commenced in October 2011, the tax authorities provided a tax assessment to the Company of 16.9bn Tenge, including 5.8bn Tenge of principal, 7.2bn Tenge of administrative fines and 4.0bn Tenge of late payment interest. The Company has begun the process of preparing an appeal to the Court.

Cash Flows from Operating Activities

Operating cash flow in the first six months of 2012 was 91bn Tenge (US\$612m), which is 5% higher compared to the same period of 2011, this is mainly due to higher average sales prices for export and domestic supply and lower selling, general and administrative expenses, partly offset by a decline in export volumes.

Capex

Purchases of property, plant and equipment and intangible assets (as per Cash Flow Statement) in the first six months of 2012 were 46bn Tenge (US\$310m), which is 1% lower compared to the same period of 2011.

Cash and Debt

Cash and cash equivalents as at June 30, 2012 amounted to 114bn Tenge (US\$0,8bn) compared to 207bn Tenge (US\$1,4bn) as at December 31, 2011.

Other financial assets (current and non-current) at June 30, 2012 were 692bn Tenge (US\$4.6bn) compared to 511bn Tenge (US\$3.4bn) as at December 31, 2011. Other financial assets include the NC KMG Bond, deposits and additional financial instruments. As at June 30, 2012 the outstanding amount of the Bond was 189bn Tenge (US\$1.3bn).

77% of cash and financial assets (including the Bond) as at June 30, 2012 were denominated in foreign currencies and 23% were denominated in Tenge. Financial income accrued on cash and financial assets (including the Bond) in the first six months of 2012 was 16.9bn Tenge (US\$114m).

Borrowings as at June 30, 2012 were 90bn Tenge (US\$600m), representing a 2% increase compared to December 31, 2011. Borrowings include 82bn Tenge (US\$549m) of non-recourse debt of KMG PKI Finance B.V. related to the acquisition of the 33% interest in PKI, which the Company fully repaid on July 5, 2012.

The net cash position¹ as at 30 June 2012 amounted to 716bn Tenge (US\$4.8bn) compared to 629bn Tenge (US\$4.2bn) as at 31 December 2011.

Income from associates and joint ventures

In the first six months of 2012, KMG EP's share in associates and joint ventures was 41bn Tenge (US\$276m), 16% lower compared to the same period of 2011. This was mainly driven by decrease of export volumes and increase of tax payments, which was partially compensated by higher oil prices.

Kazgermunai

In the first six months of 2012 KMG EP recognised 21bn Tenge (US\$140m) of income from its share in KGM. This amount represents 50% of KGM's net profit of 24bn Tenge (US\$163m) and a 0.4bn Tenge (US\$3m) deferred income tax benefit net of 3.8 bn Tenge (US\$26m) from the effect of purchase price premium amortization.

KGM's net income decreased by 11% in the reported period compared to the same period of 2011 mainly due to decrease in the export volume and the growth of tax payments.

¹ Cash, cash equivalents and other financial assets (including the Bond) less borrowings.

PetroKazakhstan Inc.

In the first six months of 2012 KMG EP recognised 21bn Tenge (US\$140m) of income from its share in PKI. This amount represents 33% of PKI's net profit of 27bn Tenge (US\$180m) net of 6bn Tenge (US\$41m) from the effect of purchase price premium amortization.

PKI's net income increased by 13% in the reported period compared to the same period of 2011 mainly due to the decrease in the export volume.

CCEL

As of June 30, 2012 the Company has recognised 21bn Tenge (US\$141m) as a receivable from CCEL, a jointly controlled entity with CITIC Group. The Company has accrued 1.4bn Tenge (US\$10m) of interest income in the first six months of 2012 related to the US\$26.87m annual priority return from CCEL.

The condensed consolidated interim financial statements for the six months ended June 30, 2012, the notes thereto, and the operating and financial review for the period is available on the Company's website (www.kmgep.kz).

Appendix²

Consolidated Interim Statement of Comprehensive Income (unaudited)

Tenge million

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Revenue	191,690	208,534	398,543	400,058
Share of results of associates and joint ventures	15,158	26,889	40,905	48,579
Finance income	11,344	7,711	16,906	15,375
Total revenue and other income	218,192	243,134	456,354	464,012
Production expenses	(38,168)	(33,036)	(69,120)	(62,698)
Selling, general and administrative expenses	(26,952)	(33,880)	(47,091)	(59,264)
Exploration expenses	(3,028)	(629)	(4,326)	(678)
Depreciation, depletion and amortization	(13,022)	(10,811)	(25,592)	(21,584)
Taxes other than on income	(69,091)	(89,335)	(144,272)	(161,871)
Loss on disposal of property, plant and equipment	(248)	(1,513)	(400)	(2,128)
Finance costs	(1,470)	(2,079)	(2,973)	(3,789)
Foreign exchange gain / (loss)	6,774	2,323	4,256	(4,736)
Profit before tax	72,987	74,174	166,836	147,264
Income tax expense	(26,740)	(18,864)	(45,371)	(32,926)
Profit for the period	46,247	55,310	121,465	114,338
Exchange difference on translating foreign operations	2,089	800	1,504	(811)
Other comprehensive gain / (loss) for the period, net of tax	2,089	800	1,504	(811)
Total comprehensive income for the period, net of tax	48,336	56,110	122,969	113,527
EARNINGS PER SHARE – Tenge thousands				
Basic and diluted	0.67	0.77	1.74	1.58

² Rounding adjustments have been made in calculating some of the financial information included in the Appendix. As a result, figures shown as total in some tables may not be exact arithmetic aggregations of the figures that precede them.

Consolidated Interim Statement of Cash Flows (unaudited)

Tenge million

	Six months ended June 30,	
	2012	2011
Cash flows from operating activities		
Profit before tax	166,836	147,264
Adjustments to add / (deduct) non-cash items		
Depreciation, depletion and amortisation	25,592	21,584
Share of result of associates and joint ventures	(40,905)	(48,579)
Loss on disposal of property, plant and equipment (PPE)	400	2,128
Impairment of PPE and intangible assets	569	695
Dry well expense on exploration and evaluation assets	3,281	–
Recognition of share-based payments	177	205
Unrealised foreign exchange (gain) / loss on non-operating activities	(4,129)	2,667
Other non-cash income and expense	1,471	2,616
Add finance costs	2,973	3,789
Deduct finance income relating to investing activity	(16,906)	(15,375)
Working capital adjustments		
Change in other assets	346	6,480
Change in inventories	6,180	3,043
Change in taxes prepaid and VAT recoverable	(269)	10,804
Change in prepaid expenses	645	12,454
Change in trade and other receivables	(27,600)	(36,384)
Change in trade and other payables	4,492	(12,652)
Change in mineral extraction and rent tax payable	5,278	22,644
Change in provisions	6,092	1,471
Income tax paid	(43,799)	(38,491)
Net cash generated from operating activities	90,724	86,363
Cash flows from investing activities		
Purchases of PPE	(42,169)	(45,464)
Proceeds from sale of PPE	797	395
Purchases of intangible assets	(3,813)	(1,093)
Acquisition of share in a joint venture	–	(23,907)
Loans provided to a joint venture	(637)	(637)
Dividends received from joint ventures and associates	43,635	29,028
Interest received from investment in debt instruments of NC KMG	6,586	6,462
Purchase of financial assets held-to-maturity	(174,875)	(21,518)
Proceeds from sale of other financial assets	4,860	–
Deferred payment for acquisition of subsidiary	–	(416)
Interest received	1,522	2,734
Net cash used in investing activities	(164,094)	(54,416)
Cash flows from financing activities		
Share buy back	(17,945)	(10,199)
Repayment of borrowings	(831)	(541)
Dividends paid to Company's shareholders	(659)	(21,863)
Net cash used in financing activities	(19,435)	(32,603)
Net change in cash and cash equivalents	(92,805)	(656)
Cash and cash equivalents at beginning of the year	206,512	98,520
Exchange gains on cash and cash equivalents	110	107
Cash and cash equivalents at the end of the period	113,817	97,971

Consolidated Interim Statement of Financial Position

Tenge million

	June 30, 2012	December 31, 2011
	Unaudited	Audited
ASSETS		
Non-current assets		
Property, plant and equipment	359,738	338,860
Intangible assets	22,374	26,638
Investments in joint ventures	107,500	116,526
Investments in associates	140,782	133,228
Receivable from a jointly controlled entity	18,490	18,138
Loan receivable from a joint venture	9,517	8,494
Other financial assets	1,034	188,803
Deferred tax asset	13,963	9,450
Other assets	17,743	19,593
Total non-current assets	691,141	859,730
Current assets		
Inventories	16,638	22,651
Income taxes prepaid	6,876	9,971
Taxes prepaid and VAT recoverable	23,007	22,738
Prepaid expenses	11,410	12,054
Trade and other receivables	112,093	84,126
Receivable from a jointly controlled entity	2,574	1,361
Other financial assets	690,657	321,890
Cash and cash equivalents	113,817	206,512
Total current assets	977,072	681,303
Total assets	1,668,213	1,541,033
EQUITY		
Share capital	181,133	198,452
Other capital reserves	2,301	2,124
Retained earnings	1,114,977	1,083,749
Other components of equity	15,858	14,354
Total equity	1,314,269	1,298,679
LIABILITIES		
Non-current liabilities		
Borrowings	5,154	33,034
Deferred tax liability	1,392	2,049
Provisions	39,381	37,846
Total non-current liabilities	45,927	72,929
Current liabilities		
Borrowings	84,486	54,931
Mineral extraction tax and rent tax payable	56,187	50,908
Trade and other payables	143,220	48,680
Provisions	24,124	14,906
Total current liabilities	308,017	169,425
Total liabilities	353,944	242,354
Total liabilities and equity	1,668,213	1,541,033

The following tables show the Company's realised sales prices adjusted for oil and oil products transportation and other expenses for the first six months of 2012 and 2011.

1H 2012, (US\$/bbl)	UAS	CPC	Domestic
Benchmark end-market quote ³	113.64	113.64	-
Sales price	109.01	110.40	34.79
Quality bank	-	(7.59)	-
Premium of bbl difference	0.24	8.89	-
Realised price⁴	109.25	111.70	34.79
Rent tax	(24.39)	(24.42)	-
Export customs duty	(5.52)	(5.08)	-
Transportation	(7.64)	(7.04)	(1.11)
Sales commissions	(0.04)	(0.04)	-
Adjusted realised price	71.66	75.12	33.67

1H 2011, (US\$/bbl)	UAS	CPC	Domestic
Benchmark end-market quote ⁴	111.09	111.09	-
Sales price	105.34	109.50	26.48
Quality bank	-	(9.05)	-
Premium of bbl difference	(0.10)	9.18	-
Realised price⁵	105.24	109.63	26.48
Rental tax	24.47	24.43	-
Export customs duty	9.34	9.34	-
Transportation	7.66	7.62	1.45
Sales commissions	0.07	0.07	-
Adjusted realised price	63.69	68.17	25.03

Reference information	1H 2012	1H 2011
Average exchange US\$/KZT rate	148.16	146.00
End of period US\$/KZT rate	149.42	146.25
Coefficient barrels to tonnes for KMG EP crude		7.36
Coefficient barrels to tonnes for Kazgermunai crude		7.70
Coefficient barrels to tonnes for CCEL crude		6.68
Coefficient barrels to tonnes for PKI crude		7.75

³ The Brent (DTD) quoted price is used as benchmark

⁴ Average realized price converted at 7.23 barrels per tonne of crude oil

Notes to Editors

KMG EP is among the top three Kazakh oil and gas producers. The overall production in 2011 was 12.3mt (an average of 250 kbopd) of crude oil, including the Company's share in Kazgermunai, CCEL and PKI. The total volume of proved and probable reserves, as at the end of 2011 was 226mt (1.7bn bbl), including shares in the associates of about 2.1 bn barrels. 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. The International rating agency Standard & Poor's (S&P) confirmed KMG EP's "BBB-" corporate credit rating in December 2011.

For further details please contact us at:

KMG EP Public Relations (+7 7172 97 7887)
Bakdaulet Tolegen
E-mail: pr@kmgep.kz

KMG EP Investor Relations (+7 7172 97 5433)
Asel Kaliyeva
E-mail: ir@kmgep.kz

Pelham Bell Pottinger (+44207861 31 47)
Elena Dobson
E-mail: edobson@pelhambellpottinger.co.uk

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