

## PRESS - RELEASE

### JSC KazMunaiGas Exploration Production 1Q 2014 financial results

**Astana, 30 April 2014.** JSC KazMunaiGas Exploration Production (“KMG EP” or “the Company”) announces condensed consolidated interim financial statements for the three months ended 31 March 2014.

- Revenue in the first three months of 2014 was 220.8bn Tenge (US\$1,301m)<sup>1</sup>, a 9% increase compared with the same period for 2013. The average price of Brent in the first three months of 2014 was 4% lower than in the same period of 2013, down from US\$112.6 per barrel to US\$108.2 per barrel.
- Net profit for the first three months of 2014 was 123.5bn Tenge (US\$727m) largely due to a before tax foreign exchange gain of 108bn Tenge (US\$635m) as a result of the Tenge devaluation in February 2014.
- Production expenses in the first three months of 2014 were 43.8bn Tenge (US\$258m), which is 2% higher compared with the same period of 2013 mainly due to increased expenses for employee benefits.

#### Production Highlights

In the first three months of 2014, KMG EP produced 3,048 thousand tonnes of crude oil (250kbopd), including the Company’s stakes in Kazgermunai (KGM), CCEL (CCEL) and PetroKazakhstan Inc. (PKI), which is 1% more than in the same period in 2013.

Ozenmunaigas JSC (OMG) produced 1,301 thousand tonnes (106kbopd), an increase of 5% compared with the same period of 2013. Embamunaigas JSC (EMG) produced 684 thousand tonnes (56kbopd), which is 1% less than in the same period of 2013. The total volume of oil produced at OMG and EMG in the first three months of 2014 was 1,985 thousand tonnes (162kbopd), which is 3% more than the same period for 2013.

The Company’s share in production from KGM, CCEL and PKI for the first three months of 2014 amounted to 1,063 thousand tonnes of crude oil (88kbopd), 1% lower than in the same period of 2013.

#### Crude oil sales

In the first three months of 2014 the Company’s combined export sales from OMG and EMG were 1,459 thousand tonnes (117kbopd), or 74% of the total sales volume from core assets. Domestic sales amounted to 519 thousand tonnes (42kbopd), or 26% of total sales volume.

The Company’s share in sales from KGM, CCEL and PKI was 1,051 thousand tonnes of crude oil (87kbopd), including 598 thousand tonnes (49kbopd), or 57% supplied to export markets.

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<sup>1</sup> 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 cash flows and the end of the period rate for information derived from the consolidated balance sheets (average rates for 1Q2014 and 1Q2013 was 169.77 and 150.67 Tenge/US\$, respectively; period-end rates at March 31, 2014 and December 31, 2013 was 182.04 and 153.61 Tenge/US\$, respectively).

## **Net Profit for the Period**

Net profit in the first three months of 2014 was 123.5bn Tenge (US\$727m) compared to a net loss of 0.7bn Tenge (US\$4m) in the same period of 2013. In 1Q 2014 the Company recognized a foreign exchange gain of 108bn Tenge (US\$637m) as a result of the Tenge devaluation in February 2014. In the first three months of 2014 KMG EP made an impairment charge of 27bn Tenge (US\$162m) of the recoverable amount of JSC “Ozenmunaigas”.

## **Revenues**

The Company’s revenues in the first three months of 2014 were 220.8bn Tenge (US\$1,301m), a 9% increase compared to the same period of 2013. This was mainly due to an increase in the average Tenge-US Dollar exchange rate by 13% as a result of Tenge devaluation in February 2014, and an increase of the average domestic sales price from 40,000 Tenge per tonne in 1Q2013 to 48,000 Tenge per tonne in 1Q2014.

## **Taxes other than on Income**

Taxes, other than on income, in the first three months of 2014 were 80.3bn Tenge (US\$473m), some 5% higher than the same period in 2013, largely because export customs duty was US\$60 per tonne as opposed to US\$40 per tonne in the first quarter of 2013 and because the average Tenge-US Dollar exchange rate was 13% higher as a result of Tenge devaluation in February 2014. Export customs duty was raised from US\$60 to US\$80 per tonne, effective 1 April 2014.

## **Production Expenses**

Production expenses in the first three months of 2014 were 43.8bn Tenge (US\$258m), which is 2% higher than in the same period of 2013 mainly due to higher expenses for employee benefits.

Expenses for employee benefits in the first three months of 2014 increased by 12% compared to the same period of 2013, largely due to an indexation of salary for production personnel by 7% in January 2014, and the introduction of mandatory professional pension contributions for production employees, fixed at 5% of monthly income.

As previously announced, the employee benefits expenses will increase further due to the implementation of a Unified System of Wages of production employees and a 10% increase of wages related to the devaluation of the Tenge from 1 April 2014 onwards.

## **Selling, General and Administrative Expenses**

Selling, general and administrative expenses in the first three months of 2014 were 22bn Tenge (US\$131m), which is 1% higher than in the same period of 2013, largely due to an increase in transportation expenses, which was offset by a decline in fines and penalties. Transportation costs increased by 7% due to the increase of domestic tariffs from 1 January 2014, higher transportation expenses on the CPC route resulting from the transportation of larger volumes and the increase in the average Tenge - US Dollar exchange rate, as the CPC tariff is denominated in US Dollars.

## **Impairment Charge**

In the first quarter of 2014 the management of the Company has updated its formal assessment of the recoverable amount of JSC “Ozenmunaigas”. As a result, a 27bn Tenge (US\$162m) impairment charge was made. The impairment charge relates to an increase in employee benefits and an

increase in export customs duty from US\$60 to US\$80 per tonne effective 1 April 2014.

### **Foreign Exchange Gain**

In the first quarter of 2014 a foreign exchange gain of 108bn Tenge (US\$637m) resulted from the 19% Tenge devaluation in February 2014.

On 11 February 2014, the National Bank of Kazakhstan (NBK) made a decision to abandon its support of the Tenge, reducing foreign exchange interventions and efforts to control the exchange rate of the Tenge. To prevent destabilisation of the financial markets and the economy as a whole, NBK established a Tenge-US Dollar fluctuation band at 185 Tenge per US Dollar plus or minus 3 Tenge, thus continuing the bank's policy of smoothing over exchange rate spikes and short-term volatility.

### **Cash Flows from Operating Activities**

Operating cash flow in the first three months of 2014 was 98bn Tenge (US\$579m) compared with 30bn Tenge (US\$200m) in the corresponding period of 2013, largely due to a foreign exchange gain seen in 1Q 2014.

### **Capex**

Capital expenditures<sup>2</sup> in the first three months of 2014 were 23bn Tenge (US\$134m), which is 3% higher than in the same period of 2013.

### **Cash distribution to stockholders**

On 18 March 2014 the Board of Directors of KMG EP recommended a dividend for 2013 financial year of 1,976 Tenge per ordinary and preferred share which is equivalent to about 135 billion Tenge<sup>3</sup> (approximately US\$730 million<sup>4</sup>). This proposal will be voted upon at the AGM.

### **Cash and Debt**

Cash and cash equivalents as at 31 March 2014 amounted to 283bn Tenge (US\$1.6bn) compared to 119bn Tenge (US\$0.8bn) as at 31 December 2013.

Other financial assets as at 31 March 2014 were 481bn Tenge (US\$2.6bn) compared to 504bn Tenge (US\$3.3bn) as at 31 December 2013.

As at 31 March 2014, 86% of cash and financial assets were denominated in US Dollars and 14% were denominated in Tenge and other foreign currencies. Finance income accrued on cash, financial, and other assets in the first three months of 2014 was 5.2bn Tenge (US\$31m).

Borrowings as at 31 March 2014 were 7.9bn Tenge (US\$43m), compared to 6.8bn Tenge (USD\$44m) as at 31 December 2013.

The net cash position<sup>5</sup> as at 31 March 2014 amounted to 756bn Tenge (US\$4.2bn) compared to 616bn Tenge (US\$4.0bn) as at 31 December 2013.

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<sup>2</sup> The Company revised its approach to calculation of Capex. Starting from 4Q 2013 the Capex represents amount of additions to property, plant and equipment. Formerly it represented purchases of property, plant and equipment and intangible assets according to the Cash Flow Statement.

<sup>3</sup> Calculated based on number of shares outstanding as at March 18, 2014

<sup>4</sup> Translated at the rate of 185 KZT/USD (a midpoint of the current indicative range established by the National Bank of Kazakhstan)

<sup>5</sup> Cash, cash equivalents and other financial assets less borrowings

## **Income from associates and joint ventures**

In the first three months of 2014, KMG EP's share of results of associates and joint ventures was 16bn Tenge (US\$95m) compared with 21bn Tenge (US\$137m) in the same period of 2013.

### *Kazgermunai*

In the first three months of 2014, KMG EP recognised 10.5bn Tenge (US\$62m) of income from its share in KGM. This amount represents 11.5bn Tenge (US\$68m) corresponding to 50% of KGM's net profit net of the 0.9bn Tenge (US\$5m) effect of amortization of the fair value of licenses and the related deferred tax.

KGM's net profit in the first three months of 2014 declined by 27% compared with the same period of 2013. This was mainly due to lower export volumes with corresponding volumes reallocated to the domestic market, and an increase in the export customs duty from US\$40 to US\$60 per tonne from April 2013.

On 25 April 2014, the Company received US\$100m as dividends from KGM in accordance with its ownership interest (50% share in KGM).

### *PetroKazakhstan Inc.*

In the first three months of 2014, KMG EP recognised 8.0bn Tenge (US\$47m) of income from its share in PKI. This amount represents 9.2bn Tenge (US\$54m) corresponding to 33% of PKI's net profit net of the 1.2bn Tenge (US\$7m) effect of amortization of the fair value of the licenses.

In the first three months of 2014, PKI's net profit declined by 27% compared with the same period of 2013. The decline is primarily due to lower export volumes with corresponding volumes reallocated to the domestic market, and an increase in export customs duty from US\$40 to US\$60 per tonne from April 2013.

### *CCEL*

As of 31 March 2014 the Company had 21.1bn Tenge (US\$116m) as a receivable from CCEL, a jointly controlled entity with CITIC Resources Holdings Limited. The Company has accrued 0.7bn Tenge (US\$4m) of interest income in the first three months of 2014 related to the US\$26.87m annual priority return from CCEL.

## **Tax and environmental audits**

As at 31 March 2014 the Company had several claims related to tax and environmental matters. More detailed information is provided in the consolidated financial statements for the three months ended 31 March 2014.

*Tax audit for 2006-2008.* During 2013-2014 the tax authorities' assessments of additional taxes payable were reduced from 16.9bn Tenge (US\$100m) to 12.2bn Tenge (US\$72m). As at 31 March 2014 existing tax provisions amounted to 14.8bn Tenge (US\$87m).

*PetroKazakhstanKumkolResources JSC (PKKR) tax audit.* As a result of the comprehensive tax audit for 2009-2012 of PKKR (100% subsidiary of PKI Inc.) the Tax Department concluded that there were additional taxes payable of 10.0bn Tenge (US\$54m). PKKR disagreed with the tax audit results and plan to file an appeal to the Tax Committee of the Ministry of Finance. No provision has been accrued for this matter as at March 31, 2014.

PKKR continues appealing a notification for environmental emissions for the total amount

(including fines and penalties) of 19.4bn Tenge (US\$105m). On 12 February 2014, the Tax Committee of the Ministry of Finance made a decision in favour of Kyzylorda Regional Tax Department. PKKR disagreed with the decision of the Tax Committee and on 20 February 2014 filed a claim to the Interregional Kyzylorda Economic Court.

*Ozenmunaigas environmental audit 2011-2012.* In February 2014 the Cassation Judicial Panel of the Mangystau Regional Court has fully cancelled a 59.3bn Tenge (US\$321m) fine for environmental damages but there remains the remote possibility that the Department of Ecology will file an appeal to the Supreme Court. No provision has been accrued for this claim as at 31 March 2014.

*Ozenmunaigas environmental audit 2012-2013.* In 2014 JSC “Ozenmunaigas” (OMG) has received a notification to pay a fine of 212.6bn Tenge (US\$1,249m) and an administrative fine for environmental damage of 327.9bn Tenge (US\$1,926m) caused by the disposal of excessive waste to the environment at 11 waste collection points from the Department of Ecology of the Mangystau Region.

As of to date there is no avenue for appeal from the Department of Ecology of Mangystau Region on 212.6bn Tenge (US\$1,249m) with the remote possibility that the Court's ruling can be revisited by the Prosecutor's office. In April 2014, the Court decision on the 327.9bn Tenge (US\$1,926m) fine upheld in favour of OMG by the Judicial Panel of Appeals of the Mangystau Regional Court. No provision has been accrued for this matter as at March 31, 2014.

*Embamunaigas gas flaring.* The Company is currently in the process of appealing a notification from the Department of Ecology of Atyrau Region in the amount of 37.2bn Tenge (US\$201m) in fines for environmental damage caused by violations of ecology law to the General Prosecutor's office of RK and the Specialized Interregional Economic Court of Atyrau Region. No provision has been made for this claim as at 31 March 2014.

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The condensed consolidated interim financial statements for the three months ended March 31, 2014, the notes thereto, and the operating and financial review for the period is available on the Company's website ([www.kmgep.kz](http://www.kmgep.kz)).

**APPENDIX****Consolidated Interim Statement of Comprehensive Income (unaudited)***Tenge million*

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Revenue	220,824	202,185
Share of results of associate and joint ventures	16,160	20,700
Finance income	5,236	5,813
<b>Total revenue and other income</b>	<b>242,220</b>	<b>228,698</b>
Production expenses	(43,793)	(42,801)
Selling, general and administrative expenses	(22,244)	(22,058)
Exploration expenses	(258)	(6,620)
Depreciation, depletion and amortization	(15,056)	(12,400)
Taxes other than on income	(80,280)	(76,239)
Impairment of property, plant and equipment	(27,448)	(57,164)
Loss on disposal of property, plant and equipment	(223)	(656)
Finance costs	(806)	(1,954)
Foreign exchange gain, net	108,113	876
<b>Profit before tax</b>	<b>160,225</b>	<b>9,682</b>
Income tax expense	(36,767)	(10,342)
<b>Profit / (loss) for the period</b>	<b>123,458</b>	<b>(660)</b>
Exchange difference on translating foreign operations	52,334	160
<b>Other comprehensive income for the period to be reclassified to profit and loss in subsequent periods</b>	<b>52,334</b>	<b>160</b>
<b>Total comprehensive income / (loss) for the period, net of tax</b>	<b>175,792</b>	<b>(500)</b>
EARNINGS / (LOSS) PER SHARE – Tenge thousands		
Basic and diluted	1.81	(0.01)

## Consolidated Interim Statement of Financial Position

Tenge million

	March 31, 2014	December 31, 2013
	Unaudited	Audited
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	330,540	350,675
Intangible assets	11,701	12,064
Investments in joint ventures	110,255	88,967
Investments in associate	131,769	107,095
Receivable from a jointly controlled entity	16,352	13,222
Loans receivable from joint ventures	22,555	18,402
Other financial assets	18,879	21,711
Deferred tax asset	38,071	34,356
Other assets	18,660	19,542
<b>Total non-current assets</b>	<b>698,782</b>	<b>666,034</b>
<b>Current assets</b>		
Inventories	25,147	27,422
Income taxes prepaid	35,032	43,684
Taxes prepaid and VAT recoverable	74,871	72,169
Mineral extraction tax prepaid	1,967	1,967
Prepaid expenses	22,290	22,067
Trade and other receivables	145,970	153,219
Receivable from a jointly controlled entity	4,704	3,969
Loans receivable from joint ventures	5,355	3,933
Other financial assets	462,306	482,006
Cash and cash equivalents	282,962	119,036
<b>Total current assets</b>	<b>1,060,604</b>	<b>929,472</b>
<b>Total assets</b>	<b>1,759,386</b>	<b>1,595,506</b>
<b>EQUITY</b>		
Share capital	162,969	162,969
Other capital reserves	2,482	2,482
Retained earnings	1,309,273	1,185,815
Other components of equity	74,843	22,509
<b>Total equity</b>	<b>1,549,567</b>	<b>1,373,775</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	4,896	4,291
Deferred tax liability	881	881
Provisions	34,968	34,203
<b>Total non-current liabilities</b>	<b>40,745</b>	<b>39,375</b>
<b>Current liabilities</b>		
Borrowings	2,994	2,503
Provisions	20,126	20,067
Income taxes payable	34,350	29,341
Mineral extraction tax and rent tax payable	60,895	61,956
Trade and other payables	50,709	68,489
<b>Total current liabilities</b>	<b>169,074</b>	<b>182,356</b>
<b>Total liabilities</b>	<b>209,819</b>	<b>221,731</b>
<b>Total liabilities and equity</b>	<b>1,759,386</b>	<b>1,595,506</b>

## Consolidated Interim Statement of Cash Flows (unaudited)

Tenge million

	Three months ended March 31,	
	2014	2013
<b>Cash flows from operating activities</b>		
Profit before tax	160,225	9,682
Adjustments to add / (deduct) non-cash items		
Depreciation, depletion and amortisation	15,056	12,400
Share of result of associate and joint ventures	(16,160)	(20,700)
Loss on disposal of property, plant and equipment (PPE)	223	656
Impairment of PPE	27,448	57,168
Dry well expense on exploration and evaluation assets	46	6,215
Recognition of share-based payments	–	54
Forfeiture of share-based payments	–	(8)
Unrealised foreign exchange gain on non-operating activities	(57,640)	(285)
Other non-cash income and expense	(136)	840
Add finance costs	806	1,954
Deduct finance income	(5,236)	(5,813)
Working capital adjustments		
Change in other assets	14	230
Change in inventories	2,665	7,089
Change in taxes prepaid and VAT recoverable	(2,702)	(3,799)
Change in prepaid expenses	(225)	205
Change in trade and other receivables	7,249	(14,250)
Change in trade and other payables	(6,376)	(14,540)
Change in mineral extraction and rent tax payable	(1,061)	10,163
Change in provisions	419	6,432
Income tax paid	(26,278)	(23,519)
<b>Net cash generated from operating activities</b>	<b>98,337</b>	<b>30,174</b>
<b>Cash flows from investing activities</b>		
Purchases of PPE	(33,017)	(34,279)
Proceeds from sale of PPE	247	10
Purchases of intangible assets	(515)	(2,634)
Loans provided to joint ventures	(519)	(2,711)
Sale of financial assets held to maturity	97,077	26,111
Interest received	2,635	2,692
<b>Net cash generated from / (used) in investing activities</b>	<b>65,908</b>	<b>(10,811)</b>
<b>Cash flows from financing activities</b>		
Repayment of borrowings	(267)	(267)
Dividends paid to Company's shareholders	(29)	(1)
<b>Net cash used in financing activities</b>	<b>(296)</b>	<b>(268)</b>
Net change in cash and cash equivalents	163,949	19,095
Cash and cash equivalents at beginning of the period	119,036	154,705
Exchange (losses) / gain on cash and cash equivalents	(23)	16
<b>Cash and cash equivalents at the end of the period</b>	<b>282,962</b>	<b>173,816</b>



The following tables show the Company's realised sales prices adjusted for oil transportation and other expenses for the three months ended March 31, 2014.

<b>1Q14</b> (US\$/bbl)	<b>UAS</b>	<b>CPC</b>	<b>Domestic</b>
Benchmark end-market quote	108,2	108,2	-
Quality bank	-	(6,9)	-
Price differential	(3,2)	(1,7)	-
<b>Realised price</b>	<b>105,0</b>	<b>99,6</b>	<b>39,3</b>
Rent tax	(23,1)	(21,0)	-
Export customs duty	(8,0)	(7,3)	-
Transportation	(8,5)	(7,2)	(2,1)
<b>Netback</b>	<b>65,4</b>	<b>64,1</b>	<b>37,2</b>
Premium of bbl difference	-	8,4	-
<b>Effective netback incl. premium of bbl. difference</b>	<b>65,4</b>	<b>72,5</b>	<b>37,2</b>

<b>1Q13</b> (US\$/bbl)	<b>UAS</b>	<b>CPC</b>	<b>Domestic</b>
Benchmark end-market quote	112,6	112,6	-
Quality bank	-	(7,8)	-
Price differential	(3,6)	(2,4)	-
<b>Realised price</b>	<b>109,0</b>	<b>102,4</b>	<b>37,2</b>
Rent tax	(24,8)	(24,8)	-
Export customs duty	(5,50)	(5,1)	-
Transportation	(9,0)	(7,6)	(1,8)
<b>Netback</b>	<b>69,7</b>	<b>64,9</b>	<b>35,4</b>
Premium of bbl difference	-	8,4	-
<b>Effective netback incl. premium of bbl. difference</b>	<b>69,7</b>	<b>73,3</b>	<b>35,4</b>

<b>Reference information</b>	<b>1Q2013</b>	<b>1Q2014</b>
Average exchange US\$/KZT rate	150,67	169,77
End of period US\$/KZT rate	150,84	182,04
Coefficient barrels to tonnes for KMG EP crude (production)		7.36
Coefficient barrels to tonnes for KMG EP crude (sales)		7.23
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

## Notes to editors

**KMG EP** is among the top three Kazakh oil and gas producers. The overall production in 2013 was 12.4 million tonnes (an average of 251 kbopd) of crude oil, including the Company's share in Kazgermunai, CCEL and PKI. The Company's total consolidated volume of proved and probable reserves including shares in the associates, as at the end of 2013 was 200 million tonnes (1.5 bn bbl), out of which 148.8 million tonnes (1.1 bn bbl) relates to Ozenmunaigas, Embamunaigas, and UOG (Rozhkovskoye field, Fyodorovski block). 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 May 2013.

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