

PRESS - RELEASE

JSC KazMunaiGas Exploration Production 1H 2014 financial results

Astana, 6 August 2014. Today JSC KazMunaiGas Exploration Production (“KMG EP” or “the Company”) announces its condensed consolidated interim financial statements for the six months ended 30 June 2014.

- Net profit for the first six months of 2014 was 210.3bn Tenge (US\$1,193m)¹ compared to 38.8bn Tenge (US\$257m) in the same period of 2013 largely due to a significant before tax foreign exchange gain as a result of the Tenge devaluation in February 2014.
- Revenue in the first six months of 2014 was 464.4bn Tenge (US\$2,635m), a 21% increase compared with the same period of 2013 largely due to an increase in the average Tenge-US Dollar exchange rate as a result of Tenge devaluation in February 2014. The average price of Brent in the first six months of 2014 was 1% higher than in the same period of 2013, up from US\$107.5 per barrel to US\$108.9 per barrel.
- Production expenses in the first six months of 2014 were 88.5bn Tenge (US\$502m), a 7% increase compared with the same period of 2013 mainly due to increased employee benefits expenses.

Production Highlights

In the first six months of 2014, KMG EP produced 6,106 thousand tonnes of crude oil (250kbopd), including the Company’s stakes in Kazgermunai (KGM), CCEL (CCEL) and PetroKazakhstan Inc. (PKI), almost unchanged compared with the same period of 2013.

Ozenmunaigas JSC (OMG) produced 2,627 thousand tonnes (107kbopd) during the period, which is 88 thousand tonnes (3.6 kbopd) or 3% more than in the same period of 2013. Embamunaigas JSC (EMG) produced 1,391 thousand tonnes (57kbopd), which is 1% less than in the same period of 2013 and in line with the production plan. The volume of oil produced at OMG and EMG in the first six months of 2014 totaled 4,018 thousand tonnes (164kbopd), which is 2% more than the same period of 2013.

The Company’s share in the production from KGM, CCEL and PKI for the first six months of 2014 amounted to 2,088 thousand tonnes of crude oil (86kbopd) which is 3% less compared with the same period in 2013 and in line with the production plan.

Crude oil sales

In the first six months of 2014 the Company’s export and domestic sales from OMG and EMG were 2,938 thousand tonnes (117kbopd) and 1,042 thousand tonnes (42kbopd), respectively.

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 cash flows and the end of the period rate for information derived from the consolidated balance sheets (average rates for 1H2014 and 1H2013 was 176.23 and 150.90 Tenge/US\$, respectively; period-end rates at June 30, 2014 and December 31, 2013 was 183.51 and 153.61 Tenge/US\$, respectively).

The Company's share in the sales from KGM, CCEL and PKI was 2,086 thousand tonnes of crude oil (86kbopd), including 1,084 thousand tonnes (44kbopd) or 52% supplied to export markets.

Net Profit for the Period

Net profit in the first six months of 2014 was 210.3bn Tenge (US\$1,193m) compared to 38.8bn Tenge (US\$257m) in the same period of 2013 largely due to a significant foreign exchange gain, higher realized export price in Tenge and lower impairment charges. 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 six months of 2014 KMG EP made an impairment charge of 27bn Tenge (US\$156m) of JSC "Ozenmunaigas" compared to 58bn Tenge (US\$388m) in 1H2013.

Revenues

The Company's revenues in the first six months of 2014 were 464.4bn Tenge (US\$2,635m), a 21% increase compared to the same period of 2013. This was mainly due to an increase in the average Tenge-US Dollar exchange rate by 17% 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 1H2013 to 48,000 Tenge per tonne in 1H2014.

Taxes other than on Income

Taxes, other than on income, in the first six months of 2014 were 178.2bn Tenge (US\$1,011m), which is 24% higher than the same period in 2013. This was largely due to an increase in export customs duty from US\$40 per tonne to US\$60 per tonne from April 2013 and from US\$60 per tonne to US\$80 per tonne from April 2014 and because the average Tenge-US Dollar exchange rate was 17% higher as a result of Tenge devaluation in February 2014.

Production Expenses

Production expenses in the first six months of 2014 were 88.5bn Tenge (US\$502m), which is 7% higher than in the same period of 2013 mainly due to higher expenses for employee benefits for production personnel.

Expenses for employee benefits in the first six months of 2014 increased by 20% compared to the same period of 2013, largely due to an indexation of salary for production personnel by 7% in January 2014, the introduction of a Unified System of Wages for production employees from April 2014 and a 10% increase of wages related to the devaluation of the Tenge from April 2014.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in the first six months of 2014 were 49.4bn Tenge (US\$280m), which is 7% higher than in the same period of 2013. This was largely due to an increase in transportation expenses and higher expenses for employee benefits which was partially offset by a decline in fines and penalties. Transportation costs increased by 16% due to the increase of Kaztransoil domestic and export tariffs, higher transportation expenses on the Caspian Pipeline Consortium route resulting from the transportation of larger volumes and the increase in the average Tenge and the US Dollar exchange rate, as the CPC tariff is denominated in US Dollars. KTO tariffs on domestic routes increased by 50% from January 2014 and on export routes by 20% on average from April 2014.

Impairment Charge

As previously announced, in the first quarter of 2014, the Company management team updated its formal assessment of the recoverable amount of JSC “Ozenmunaigas”. As a result, a 27bn Tenge (US\$156m) 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 April 2014.

Foreign Exchange Gain

As previously announced, in the first quarter of 2014 a foreign exchange gain of 108bn Tenge (US\$637m) resulted from the 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 six months of 2014 was 148.8bn Tenge (US\$844m) compared with 32.5bn Tenge (US\$216m) in the corresponding period of 2013, largely due to a significant realized foreign exchange gain in 1Q 2014 and higher realized export price in Tenge.

Capex

Capital expenditures² in the first six months of 2014 were 58bn Tenge (US\$329m), which is 12% higher than in the same period of 2013 mainly due to an increase in production drilling at OMG.

Cash and Debt

Cash and cash equivalents as at 30 June 2014 amounted to 156bn Tenge (US\$0.8bn) compared to 119bn Tenge (US\$0.8bn) as at 31 December 2013.

Other financial assets as at 30 June 2014 were 497bn Tenge (US\$2.7bn) compared to 504bn Tenge (US\$3.3bn) as at 31 December 2013.

As at 30 June 2014, 89% of cash and financial assets were denominated in US Dollars and 11% were denominated in Tenge and other foreign currencies. Finance income accrued on cash, financial, and other assets in the first six months of 2014 was 11.2bn Tenge (US\$63m).

Borrowings as at 30 June 2014 were 7.7bn Tenge (US\$42m), compared to 6.8bn Tenge (US\$44m) as at 31 December 2013.

The net cash position³ as at 30 June 2014 amounted to 645bn Tenge (US\$3.5bn) compared to 616bn Tenge (US\$4.0bn) as at 31 December 2013.

² 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.

³ Cash, cash equivalents and other financial assets less borrowings

Income from associate and joint ventures

In the first six months of 2014, KMG EP's share of results of associate and joint ventures was 38bn Tenge (US\$218m) compared with 29bn Tenge (US\$193m) in the same period of 2013.

Kazgermunai

In the first six months of 2014, KMG EP recognised 23.5bn Tenge (US\$133m) of income from its share in KGM. This amount represents 25.3bn Tenge (US\$144m) corresponding to 50% of KGM's net profit net of the 1.8bn Tenge (US\$10m) effect of amortization of the fair value of licenses and the related deferred tax.

KGM's net profit in US\$ in the first six months of 2014 increased by 1% compared with the same period of 2013. The decline in fines and penalties and an increase in foreign exchange gain recognized as a result of Tenge devaluation in February 2014 offset the decline of net income due to reallocation of export volumes to domestic market and because of an increase in export customs duty rate from US\$40 to US\$60 per tonne from April 2013 and from US\$60 to US\$80 per tonne from April 2014.

In July 2014 the partners of Kazgermunai agreed to distribute US\$100m as a dividend payment based on the results of 1Q2014. On July 14, 2014, the Company received US\$50m as a dividend from KGM in accordance with its ownership interest.

PetroKazakhstan Inc.

In the first six months of 2014, KMG EP recognised 17.6bn Tenge (US\$100m) of income from its share in PKI. This amount represents 20.3bn Tenge (US\$115m) corresponding to 33% of PKI's net profit net of the 2.7bn Tenge (US\$16m) effect of amortization of the fair value of the licenses.

In the first six months of 2014, PKI's net profit in US\$ increased by 6% compared with the same period of 2013. The increase in net income is mainly because of lower fines and penalties and the decline in DD&A expenses which offset the decline in net income due to reallocation of export volumes to domestic market and because of an increase in export customs duty rate from US\$40 to US\$60 per tonne from April 2013 and from US\$60 to US\$80 per tonne from April 2014.

CCEL

As of 30 June 2014, the Company had 19.8bn Tenge (US\$108m) as a receivable from CCEL, a jointly controlled entity with CITIC Resources Holdings Limited. The Company has accrued 1.6bn Tenge (US\$9m) of interest income in the first six months of 2014 related to the US\$26.87m annual priority return from CCEL.

Tax and environmental audits

As at 30 June 2014 the Company had several claims related to tax and environmental matters. More detailed information is provided in the condensed consolidated interim financial statements for the six months ended 30 June 2014.

Tax audit for 2006-2008. During 2013-2014 the tax authorities' assessments of additional taxes payable were reduced from 16.9bn Tenge (US\$92m) to 12.2bn Tenge (US\$66m). As at 30 June 2014 existing tax provisions amounted to 12.0bn Tenge (US\$65m).

Ozenmunaigas environmental audit 2012-2013. In June 2014 the Judicial Panel of Cassation of

Mangystau Regional Court upheld the previous court decisions in favor of OMG on 327.9bn Tenge (US\$1,787m) fine for environmental damage 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 matter as at 30 June 2014.

Embamunaigas gas flaring. Following the appeal of a notification from the Environmental Department of Atyrau Province in the General Prosecutor's office of Republic of Kazakhstan and the Specialized Interregional Economic Court of Atyrau Region, the amount of fines was reduced from 37.2bn Tenge (US\$202m) to 2.0bn Tenge (US\$11.0m) which was paid in June 2014.

PetroKazakhstanKumkolResources JSC (PKKR) tax audit. As a result of the comprehensive tax audit for 2009-2012 of PKKR (100% owned 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 filed an appeal to the Tax Committee of the Ministry of Finance. No provision has been accrued for this matter as at 30 June 2014.

PKKR has appealed a notification for environmental emissions for the total amount (including fines and penalties) of 19.4bn Tenge (US\$106m). After PKKR's appeal application was rejected by the Specialized Interdistrict Economic Court of Kyzylorda Region, PKKR filed a claim to the Judicial Panel of Appeals. The Judicial Panel of Appeals rejected the appeal of PKKR and the Court's decision was left without changes. PKI's management team concluded that an unfavourable outcome is most probable and recognized a provision for 19.4bn Tenge (US\$106m) (33% KMG EP share of 6.4bn Tenge (US\$35m) in its 2013 consolidated financial statements.

The condensed consolidated interim financial statements for the six months ended 30 June 2014, the notes thereto, and the operating and financial review for the period is available on the Company's website (www.kmgp.kz).

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenue	243,621	181,652	464,445	383,837
Share of results of associate and joint ventures	22,192	8,448	38,352	29,148
Finance income	5,922	5,734	11,158	11,547
Total revenue and other income	271,735	195,834	513,955	424,532
Production expenses	(44,691)	(39,527)	(88,484)	(82,328)
Selling, general and administrative expenses	(27,176)	(24,069)	(49,420)	(46,127)
Exploration expenses	(128)	(292)	(386)	(6,912)
Depreciation, depletion and amortization	(12,047)	(9,597)	(27,103)	(21,997)
Taxes other than on income	(97,897)	(66,905)	(178,177)	(143,144)
Impairment of property, plant and equipment	–	(1,328)	(27,448)	(58,492)
Loss on disposal of fixed assets	(585)	(1,260)	(808)	(1,916)
Finance costs	(1,166)	(2,158)	(1,972)	(4,112)
Foreign exchange gain, net	5,322	3,264	113,435	4,140
Profit before tax	93,367	53,962	253,592	63,644
Income tax expense	(6,521)	(14,499)	(43,288)	(24,841)
Profit for the period	86,846	39,463	210,304	38,803
Exchange difference on translating foreign operations	3,275	1,495	55,609	1,655
Other comprehensive income for the period to be reclassified to profit and loss in subsequent periods	3,275	1,495	55,609	1,655
Total comprehensive income for the period, net of tax	90,121	40,958	265,913	40,458
Basic and diluted	1.28	0.58	3.09	0.57

Consolidated Interim Statement of Financial Position

Tenge million

	June 30, 2014	December 31, 2013
	Unaudited	Audited
ASSETS		
Non-current assets		
Property, plant and equipment	352,940	350,675
Intangible assets	11,380	12,064
Investments in joint ventures	105,428	88,967
Investments in associate	142,646	107,095
Receivable from a jointly controlled entity	17,381	13,222
Loans receivable from joint ventures	24,033	18,402
Other financial assets	19,051	21,711
Deferred tax asset	45,881	34,356
Other assets	14,038	19,542
Total non-current assets	732,778	666,034
Current assets		
Inventories	26,635	27,422
Income taxes prepaid	32,126	43,684
Taxes prepaid and VAT recoverable	76,642	72,169
Mineral extraction tax and rent tax prepaid	2,581	1,967
Prepaid expenses	26,173	22,067
Trade and other receivables	176,817	153,219
Receivable from a jointly controlled entity	2,445	3,969
Loans receivable from joint ventures	5,985	3,933
Other financial assets	477,716	482,006
Cash and cash equivalents	155,540	119,036
Total current assets	982,660	929,472
Total assets	1,715,438	1,595,506
EQUITY		
Share capital	162,973	162,969
Other capital reserves	2,436	2,482
Retained earnings	1,261,436	1,185,815
Other components of equity	78,118	22,509
Total equity	1,504,963	1,373,775
LIABILITIES		
Non-current liabilities		
Borrowings	4,705	4,291
Deferred tax liability	544	881
Provisions	34,568	34,203
Total non-current liabilities	39,817	39,375
Current liabilities		
Borrowings	3,037	2,503
Provisions	17,066	20,067
Income taxes payable	19,944	29,341
Mineral extraction tax and rent tax payable	68,176	61,956
Trade and other payables	62,435	68,489
Total current liabilities	170,658	182,356
Total liabilities	210,475	221,731
Total liabilities and equity	1,715,438	1,595,506

Consolidated Interim Statement of Cash Flows (unaudited)

Tenge million

	Six months ended June 30,	
	2014	2013
Cash flows from operating activities		
Profit before tax	253,592	63,644
Adjustments to add / (deduct) non-cash items		
Depreciation, depletion and amortisation	27,103	21,997
Share of result of associate and joint ventures	(38,352)	(29,148)
Loss on disposal of property, plant and equipment (PPE)	808	1,916
Impairment of PPE and intangible assets	27,502	58,502
Dry well expense on exploration and evaluation assets	46	6,471
Recognition of share-based payments	–	140
Forfeiture of share-based payments	(46)	(136)
Unrealised foreign exchange gain on non-operating activities	(31,318)	(2,615)
Other non-cash income and expense	48	892
Add finance costs	1,972	4,112
Deduct finance income relating to investing activity	(11,158)	(11,547)
Working capital adjustments		
Change in other assets	9	245
Change in inventories	1,140	5,796
Change in taxes prepaid and VAT recoverable	(2,872)	(5,004)
Change in prepaid expenses	(4,109)	(4,536)
Change in trade and other receivables	(23,594)	(3,500)
Change in trade and other payables	(435)	(13,860)
Change in mineral extraction and rent tax payable	7,406	2,379
Change in provisions	(2,023)	1,810
Income tax paid	(56,932)	(65,032)
Net cash generated from operating activities	148,787	32,526
Cash flows from investing activities		
Purchases of PPE	(63,704)	(55,671)
Proceeds from sale of PPE	247	34
Purchases of intangible assets	(552)	(3,458)
Loans provided to the joint ventures	(1,807)	(5,190)
Dividends received from joint ventures and associate, net of withholding tax	18,201	19,450
Interest received from investment in Debt Instruments of NC KMG	–	4,734
Proceeds from repayment of investment in Debt Instruments of NC KMG	–	135,243
Sale / (purchase) of financial assets held-to-maturity	54,671	(8,733)
Repayments of loan receivable from related parties	2,206	–
Proceeds from sale of other financial assets	155	–
Interest received	7,241	4,622
Net cash generated from investing activities	16,658	91,031
Cash flows from financing activities		
Repayment of borrowings	(548)	(537)
Dividends paid to Company's shareholders	(128,393)	(7)
Net cash used in financing activities	(128,941)	(544)
Net change in cash and cash equivalents	36,504	123,013
Cash and cash equivalents at the beginning of the period	119,036	154,705
Exchange gain on cash and cash equivalents	–	137
Cash and cash equivalents at the end of the period	155,540	277,855

The following tables show the Company's realised sales prices adjusted for oil transportation and other expenses for the three months ended June 30, 2014.

1H14 (US\$/bbl)	UAS	CPC	Domestic
Benchmark end-market quote	108.9	108.9	-
Quality bank	-	(7.2)	-
Price differential	(2.9)	(1.0)	-
Realised price	106.0	100.7	37.9
Rent tax	(23.0)	(22.2)	-
Export customs duty	(9.6)	(8.7)	-
Transportation	(8.4)	(7.4)	(2.1)
Netback	65.0	62.4	35.8
Premium of bbl difference	-	8.5	-
Effective netback incl. premium of bbl. difference	65.0	70.9	35.8

1H13 (US\$/bbl)	UAS	CPC	Domestic
Benchmark end-market quote	107.5	107.5	-
Quality bank	-	(7.4)	-
Price differential	(2.6)	(2.6)	-
Realised price	104.9	97.5	37.0
Rent tax	(23.5)	(23.9)	-
Export customs duty	(6.4)	(5.9)	-
Transportation	(8.9)	(7.6)	(1.9)
Netback	66.1	60.1	35.1
Premium of bbl difference	-	8.2	-
Effective netback incl. premium of bbl. difference	66.1	68.3	35.1

Reference information	1H2013	1H2014
Average exchange US\$/KZT rate	150.90	176.23
End of period US\$/KZT rate	151.65	183.51
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.

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